PO-CH/NL/0083

PART B

Part B.

CONFIDENTIAL

(Circulate under cover and notify REGISTRY of movement)

Begins: 8/12/87.

Ends: 29/1/88.

PO -CH /NL/0083

PART B

Chancellor's (Lawson) Papers:

THE NATIONAL ECONOMIC DEVELOPMENT COUNCIL

Disposal Directions: 25 Years

[signature]

28/7/95

PO -CH /NL/0083

PART B

ph:8

I think there is advantage, on balance, in circulating a set of charts. Of last year's set we could drop No 11 (the 'frog chart'), but 13 and 14 may be worth adding.

FROM: PETER CURWEN
DATE: 8 DECEMBER 1987

1. MR ~~PICKFORD~~ SPickford 8/12
2. CHANCELLOR

cc Sir P Middleton
Sir T Burns
Mr Monck
Mr Odling-Smee
Mr Sedgwick
Mr R I G Allen
Mr Gray
Mr Wynn Owen

This will be a very different occasion from the post-Budget mtgs of the past @ wh. I distributed the charts. On this occasion, I will do more than usual on the world outlook, esp on the [illegible] of recent upheavals, & rather of these charts wd like a number of tables showing various aspects of UK performance alongside the other G7 countries: it might be useful to have a mtg next week to discuss. NL.

ECONOMIC PRESENTATION TO NEDC: 13 JANUARY 1988

You are chairing the January meeting of NEDC, the only one you will chair in 1988. Discussion at the meeting will focus on prospects for the UK economy on the basis of the Autumn Statement, copies of which you might like to circulate to Council members in advance. The CBI and TUC are also likely to put in macro-economic papers of their own.

2. In previous years the main macro-economic discussion at NEDC has been in April, after the Budget. At these April meetings you have circulated a set of charts, illustrating bull points about the economy. You may wish to do so again at the January meeting. Although the TUC have predictably always been very critical of your charts, you may feel it provides a useful speaking aide and a counter in case the TUC decide to produce some hand-outs themselves (as in April). In case you do wish to circulate them, a variety of charts are attached from which you might make a selection. As in recent years the CSO will draw them up for us professionally once you have made your choice.

CURWEN → CHEX 8/12

3. The charts in Annex A are updated and revised versions of all those circulated at the April 1987 NEDC:

(1) Inflation since 1970: for 1987 and 1988 it shows unpublished calendar year forecasts consistent with the published Q4.

(2) Total national output.

(3) and (5) Growth league tables: data revisions have changed the league positions of other countries since April's NEDC but the UK's positions, and hence the message, are unchanged.

(4) Total fixed investment.

(6) Manufactured export volumes: For 1987 and 1988 unpublished, but favourable, forecasts are used.

(7) UK export market share (manufactures, volume): as in chart 1.5 of the Autumn Statement.

(8) Change in employment (1983-86): data for 1987 are not available for Italy and France.

(9) Change in unemployment (1983Q2-1987Q3): based on national definitions of unemployment.

(10) Unit labour costs in manufacturing: identical to chart 1.11 in the Autumn Statement.

(11) Public and private sector borrowing: a revised version of the chart in the 1987 FSBR.

(12) PSBR as per cent of GDP.

4. In Annex B there is a further selection of charts that you may wish to use:

(13) Profitability: identical to chart 1.9 in the Autumn Statement. The manufacturing series could be graphed to 1986 but we do not forecast manufacturing profitability.

(14) Money GDP and Output: money GDP forecasts for calendar years 1987 and 1988 are unpublished but are consistent with the published financial year forecasts.

(15) Manufacturing productivity: forecasts for 1987 unpublished but shows the recent pick-up in growth.

(16) UK and EC unemployment rates: a similar chart was included in October's EPR.

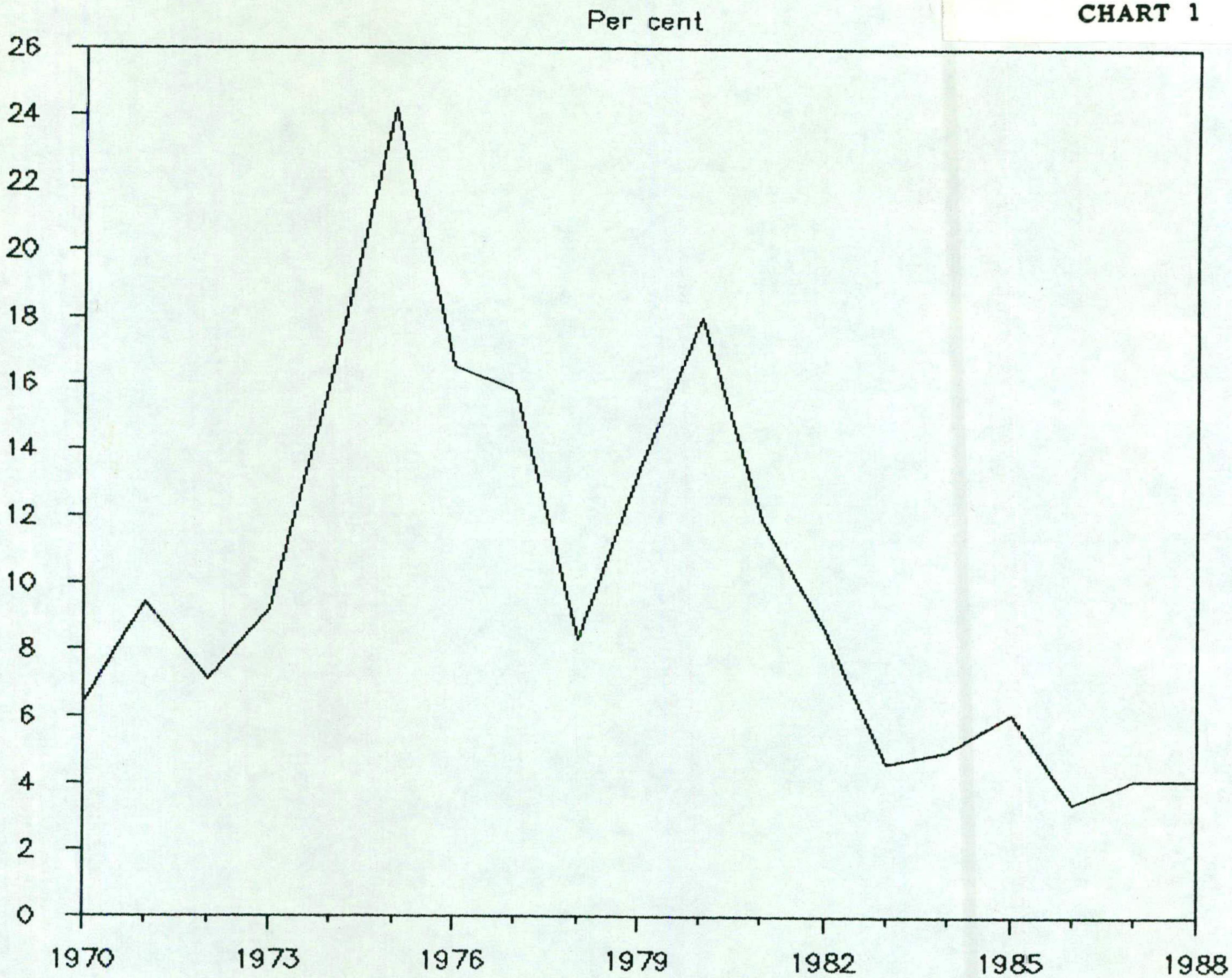
5. Because of the time taken in preparation and production of the charts it would be helpful to have your preliminary reactions by the end of this week.

Peter. S. Curwen

PETER CURWEN

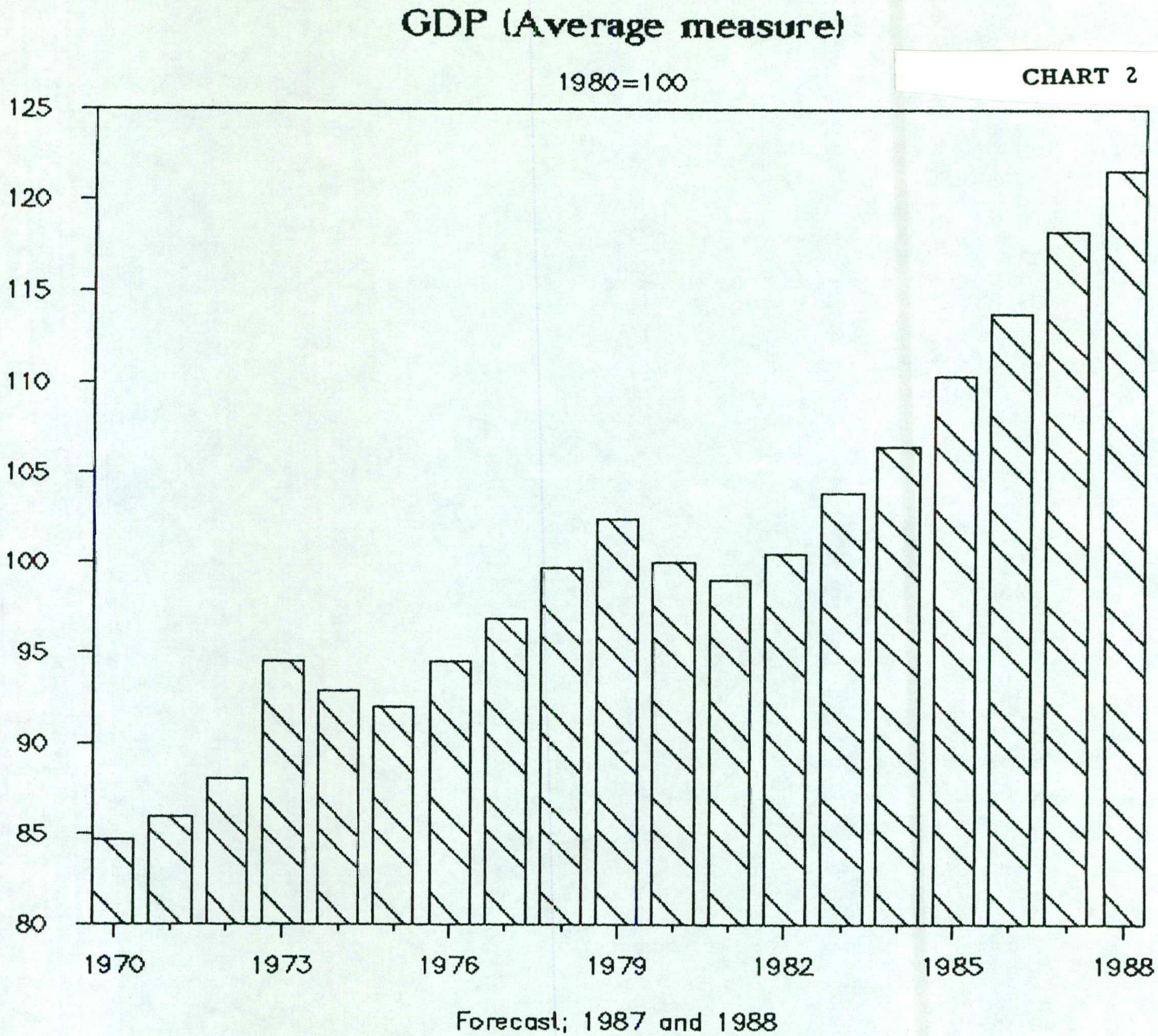
CHART 1

Inflation



Forecast—1987 and 1988

CHART 2


GDP (Average measure)
1980=100
125
120
115
110
105
100
95
90
85
80
1970
1973
1976
1979
1982
1985
1988
Forecast; 1987 and 1988

EUROPEAN LEAGUE TABLES

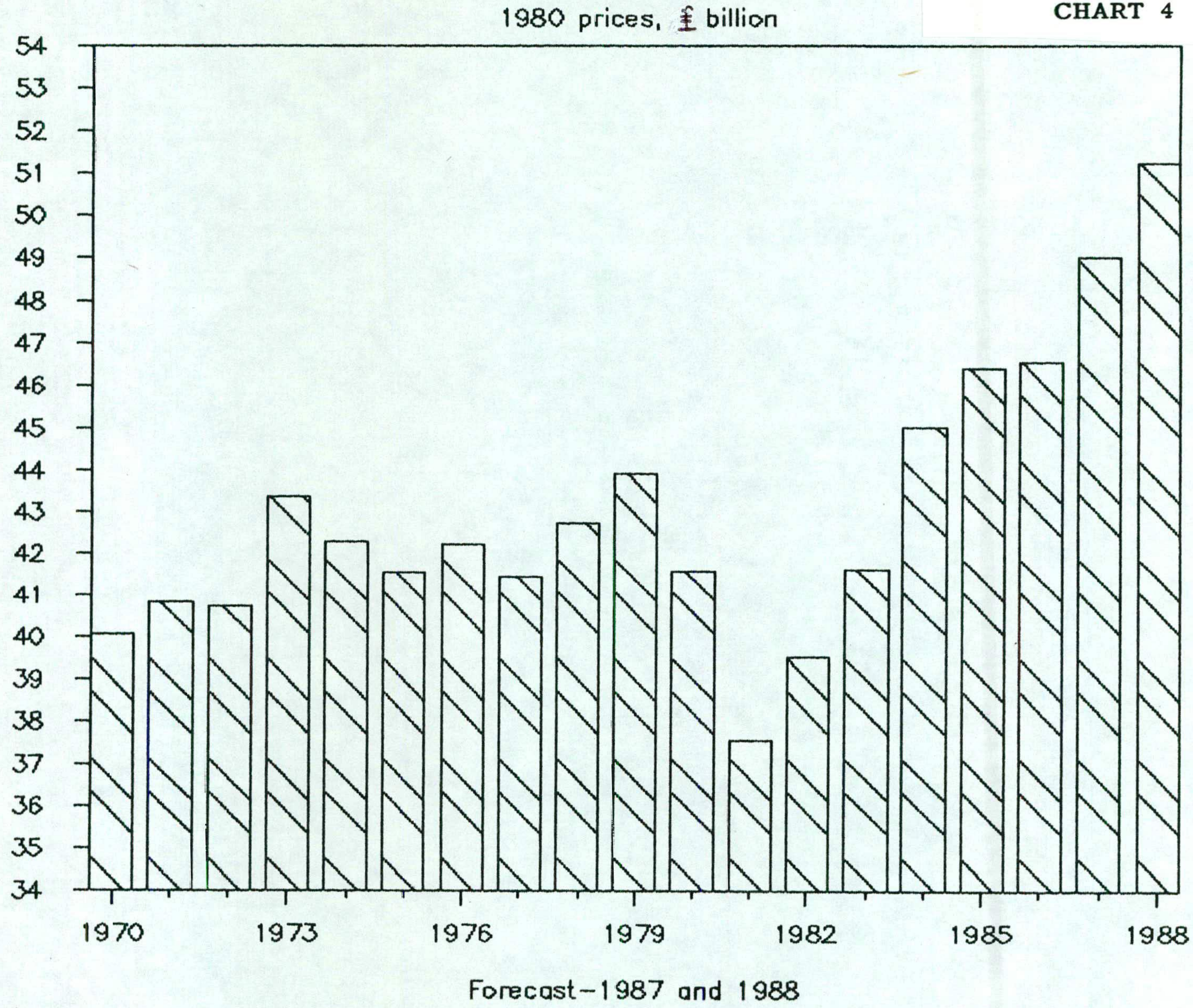
CHART 3

Output Growth

1960-1970	1970-1980	1980-1986
Italy	France	**UK**
France	Belgium	Italy
Belgium	Netherlands	France
Netherlands	Italy	West Germany
West Germany	West Germany	Belgium
UK	**UK**	Netherlands

Total fixed investment

CHART 4



WORLD LEAGUE TABLES

CHART 5

Manufacturing Productivity

1960-1970	1970-1980	1980-1986
Japan	Japan	**UK**
Italy	West Germany	USA
France	Canada	Canada
West Germany	Italy	France
Canada	USA	Germany
USA	France	Japan
UK	**UK**	Italy

CHART 6

Manufactured exports

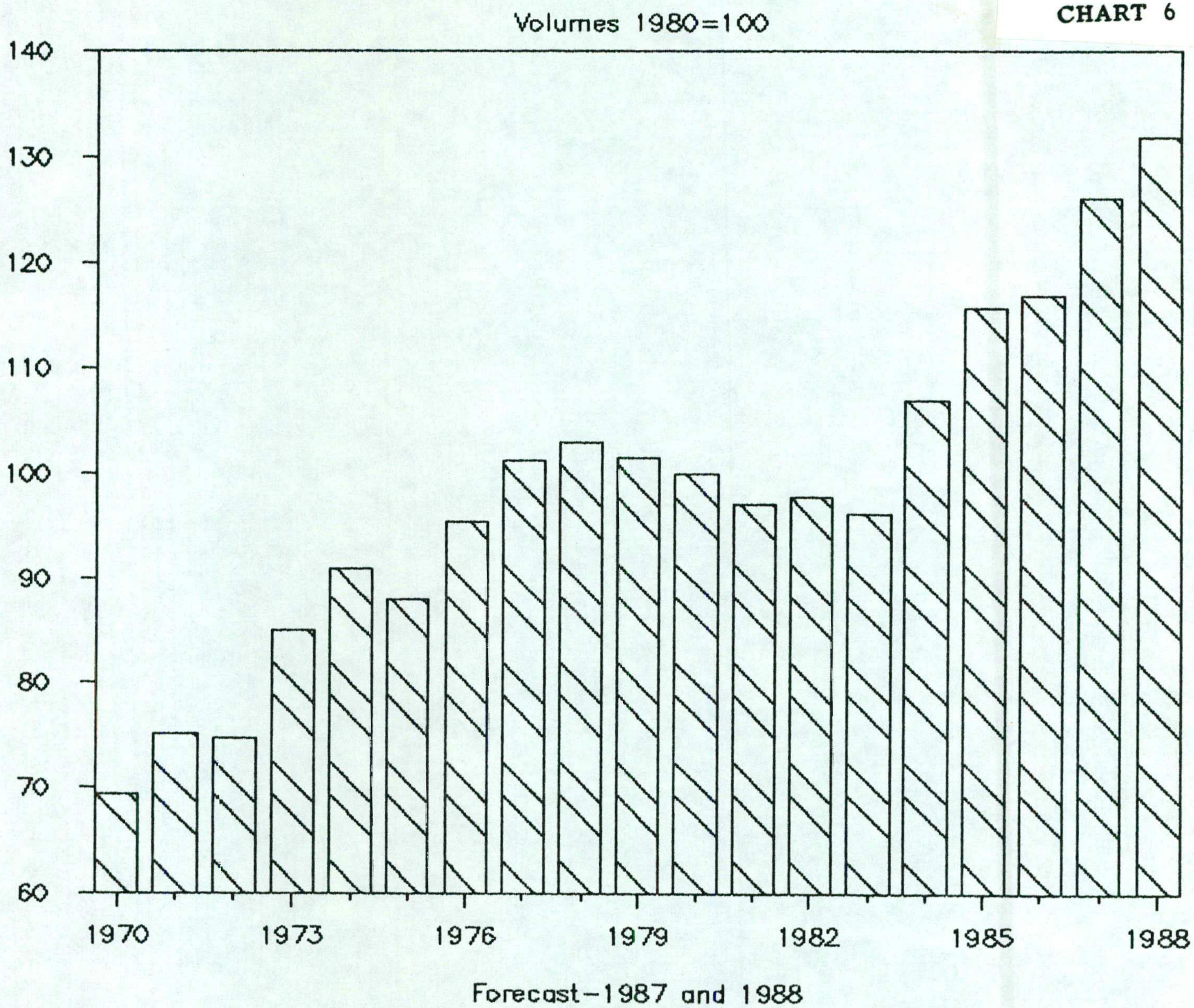
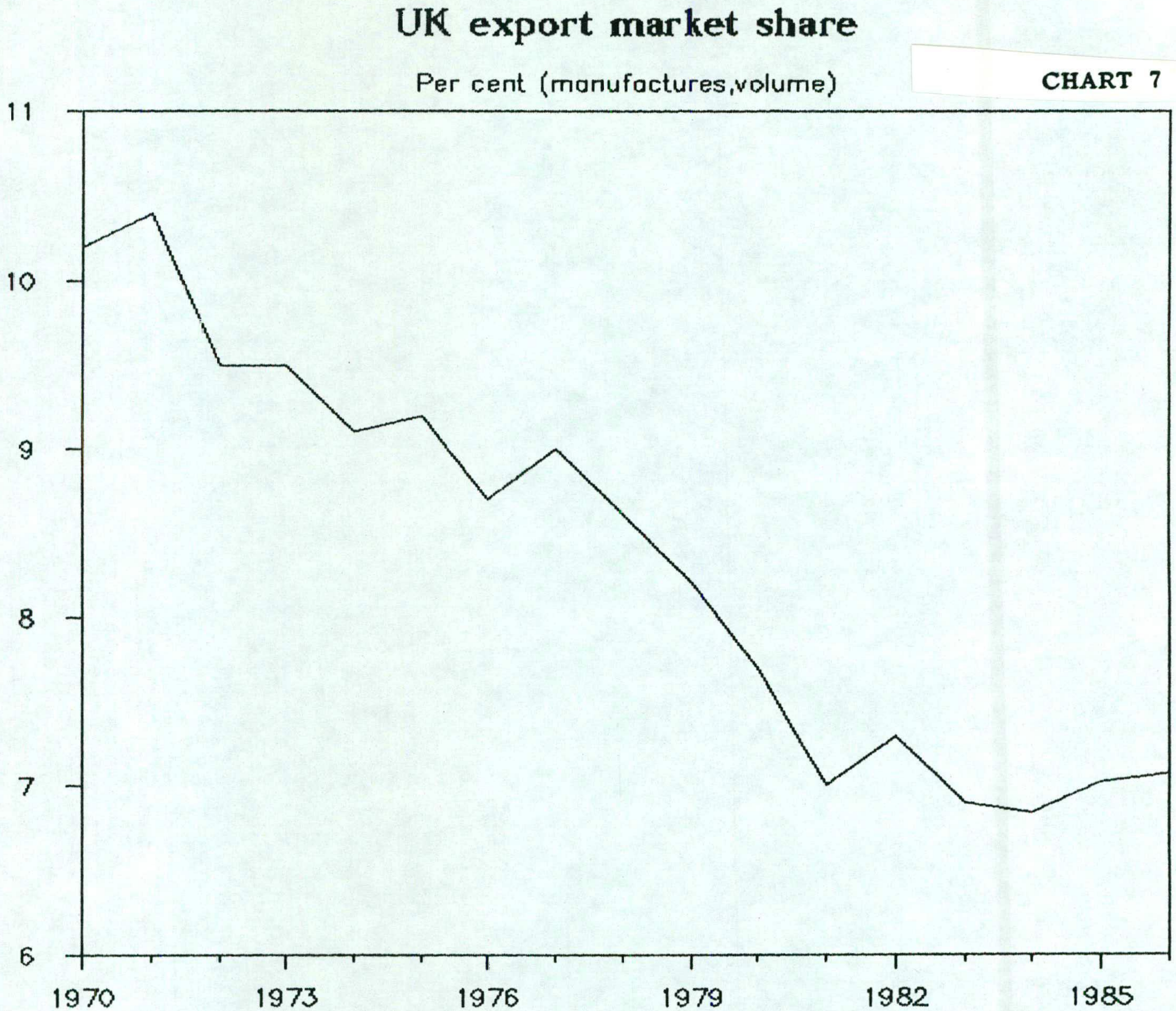
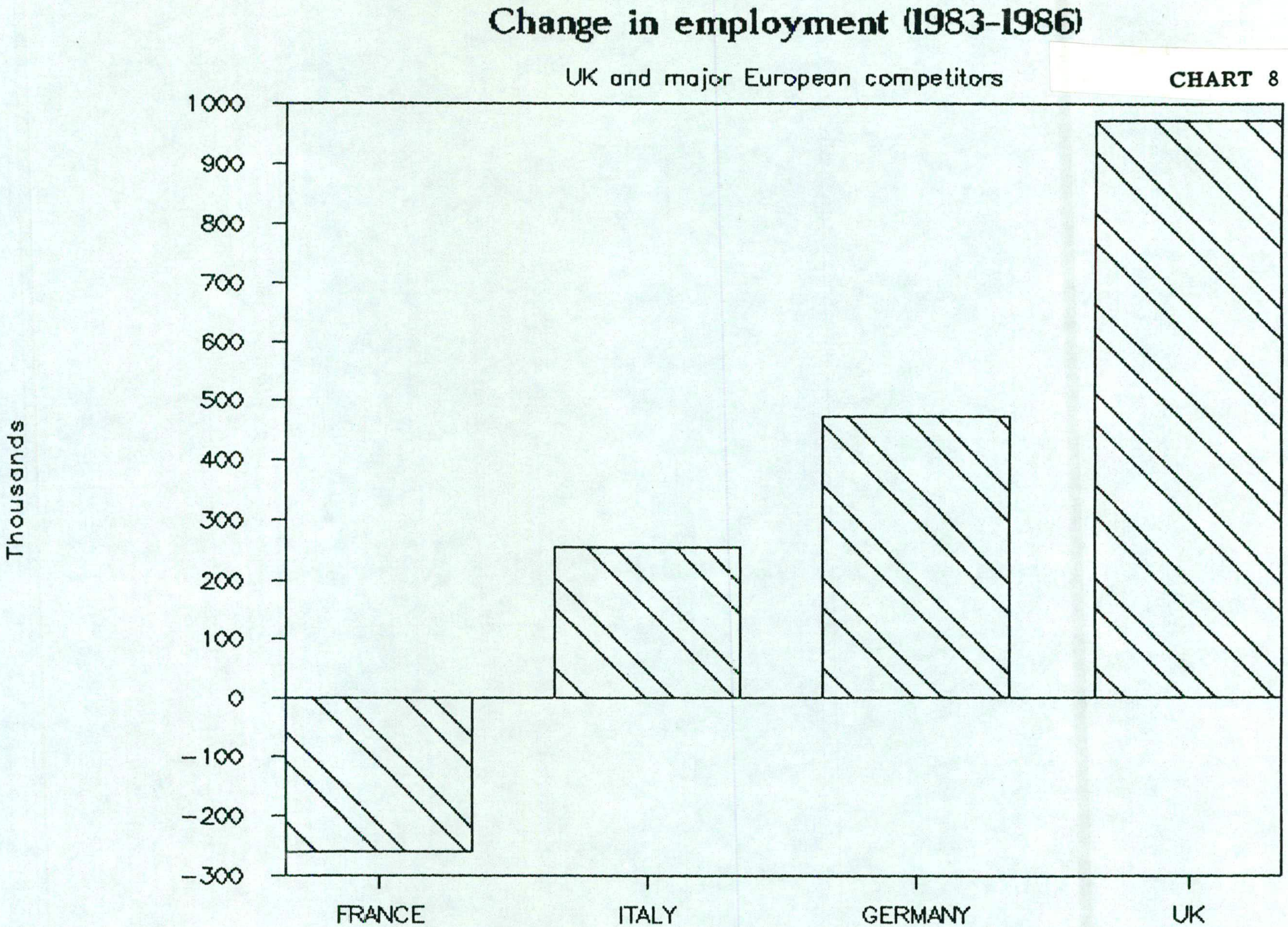


CHART 7



UK export market share
Per cent (manufactures,volume)
11
10
9
8
7
6
1970
1973
1976
1979
1982
1985

CHART 8



Change in employment (1983-1986)
UK and major European competitors
Thousands
1000
900
800
700
600
500
400
300
200
100
0
-100
-200
-300
FRANCE
ITALY
GERMANY
UK

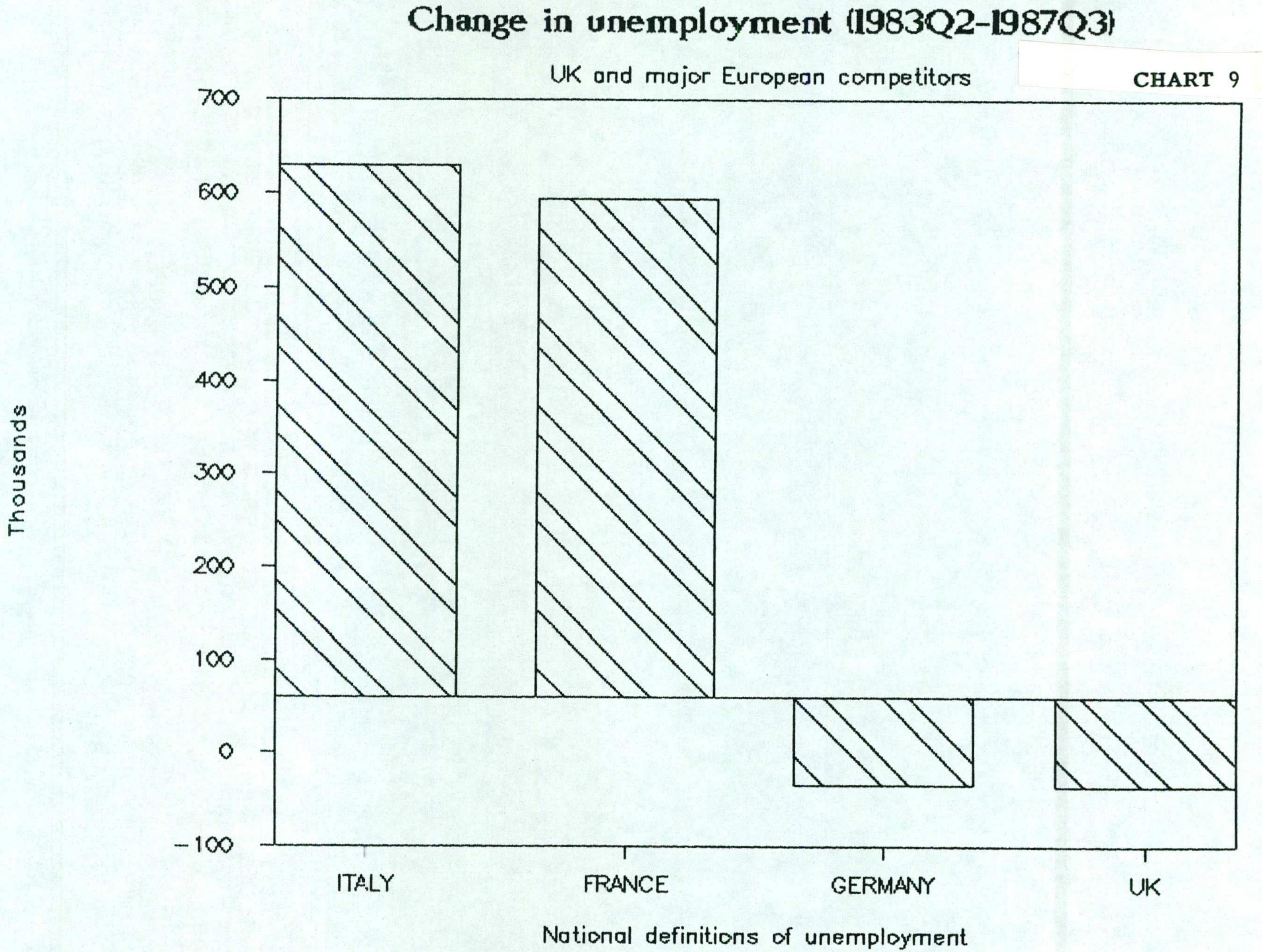
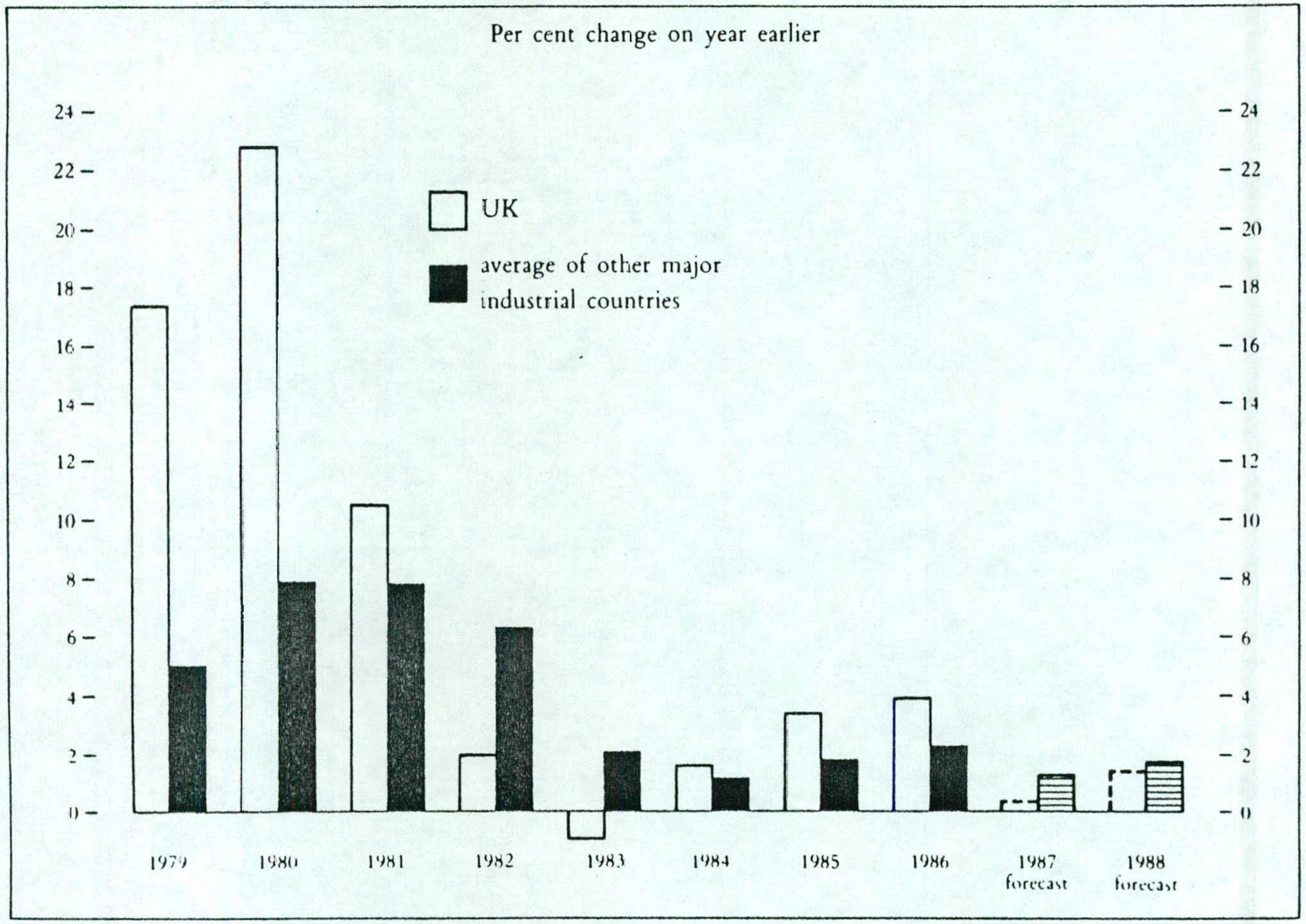

Change in unemployment (1983Q2-1987Q3)
UK and major European competitors
CHART 9
700
600
500
400
300
200
100
0
-100
Thousands
ITALY
FRANCE
GERMANY
UK
National definitions of unemployment

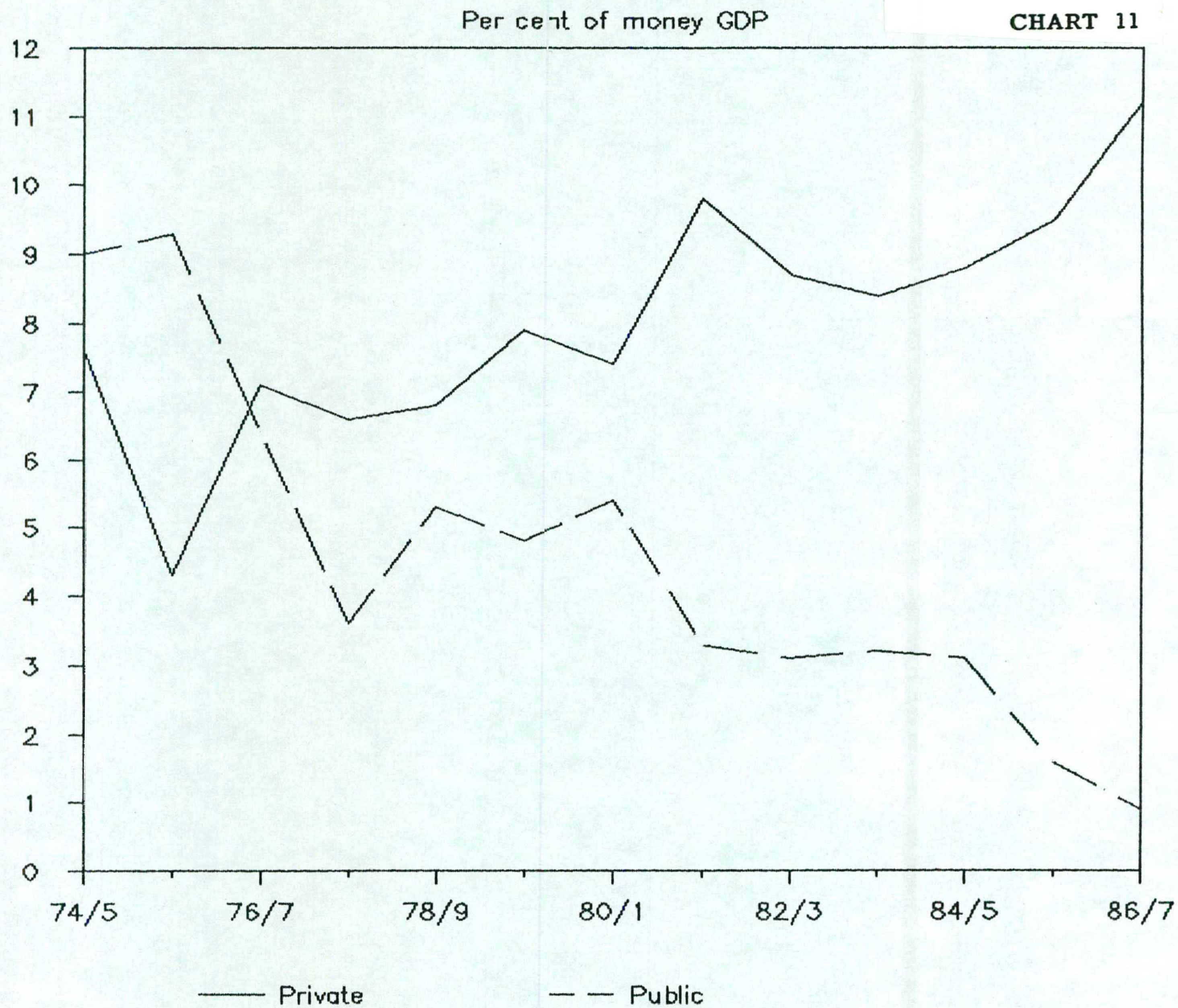
CHART 10

Unit labour costs in manufacturing



Public and private sector borrowing

CHART 11



Public sector borrowing requirement

CHART 12

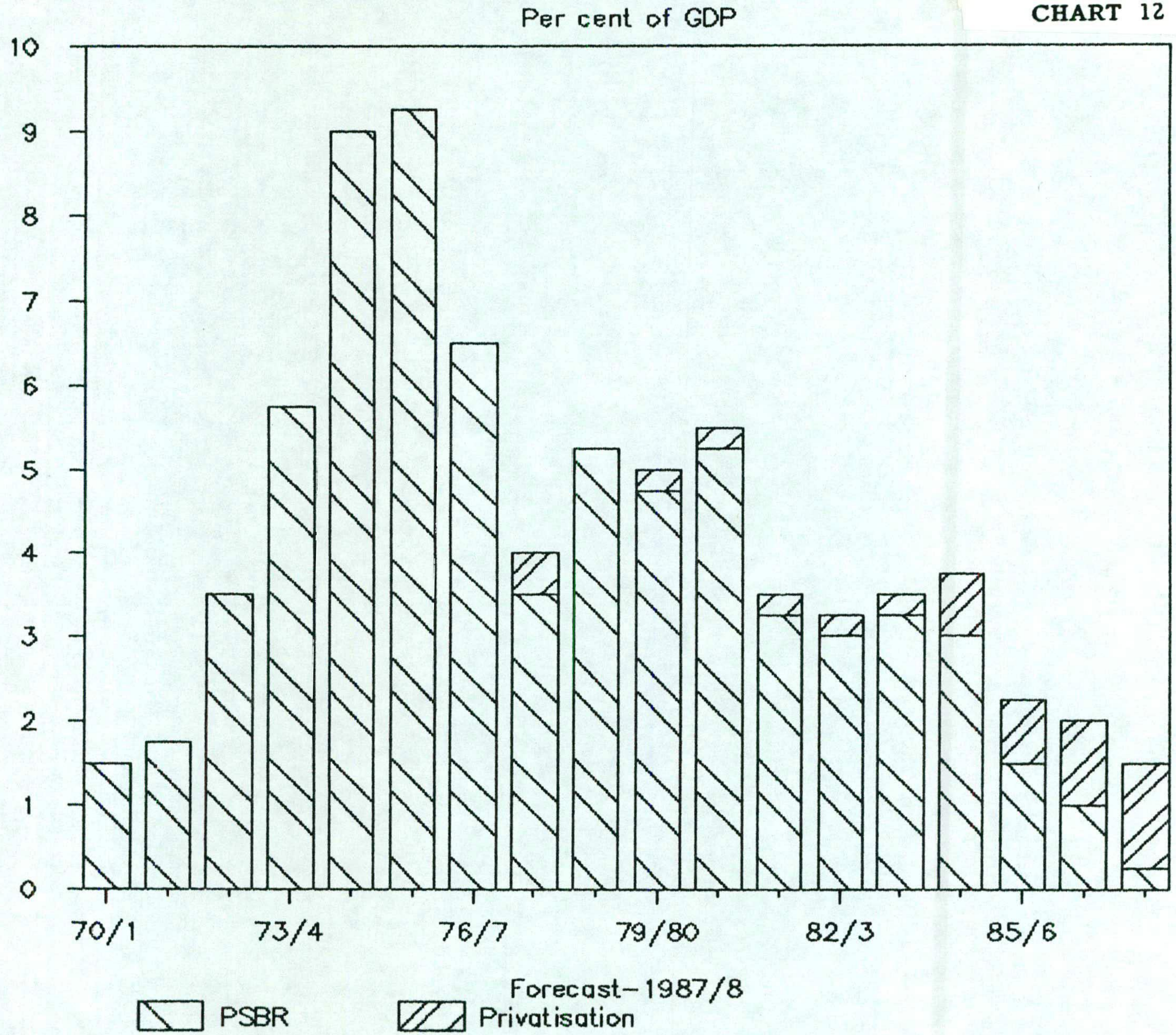
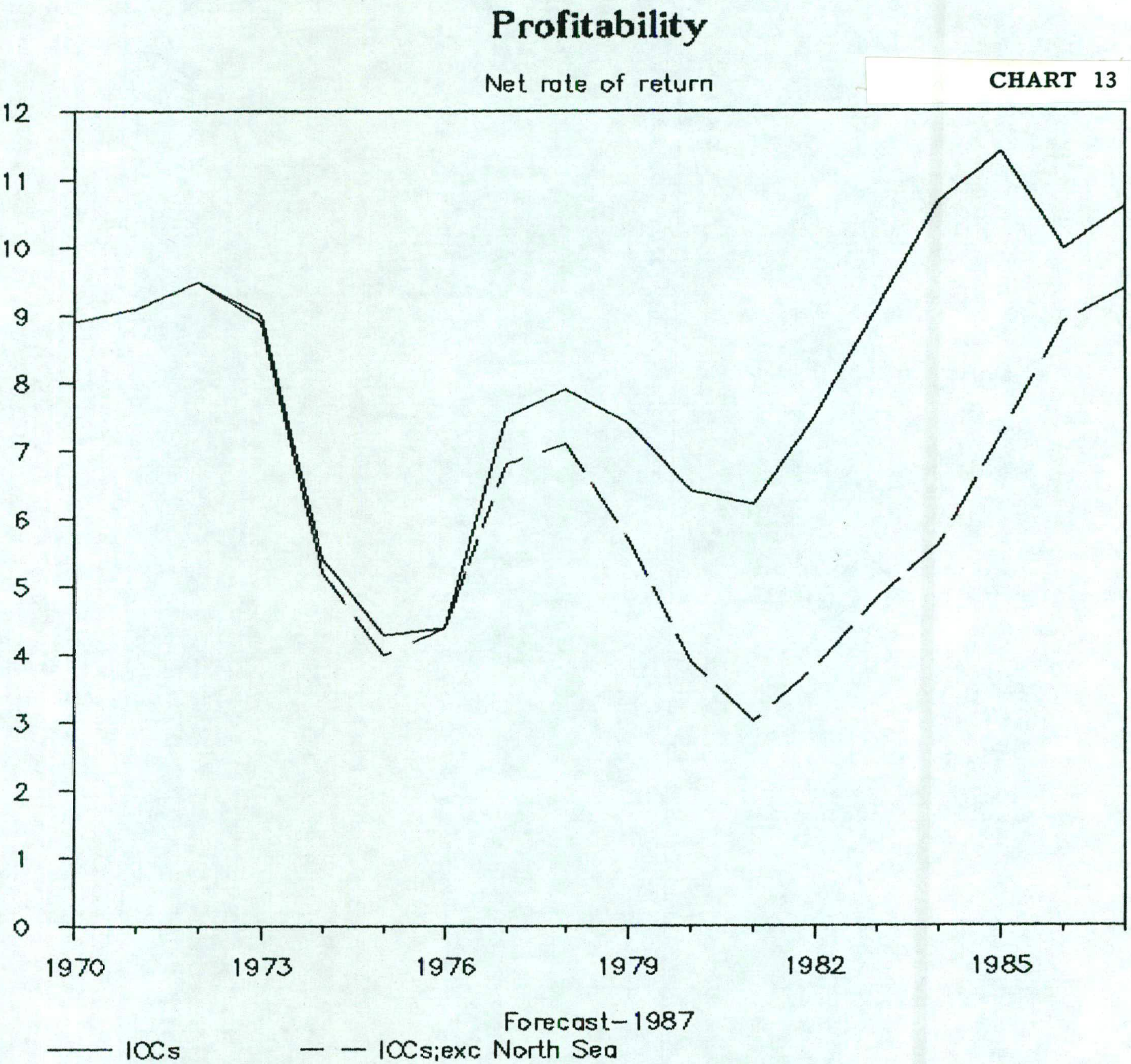


CHART 13

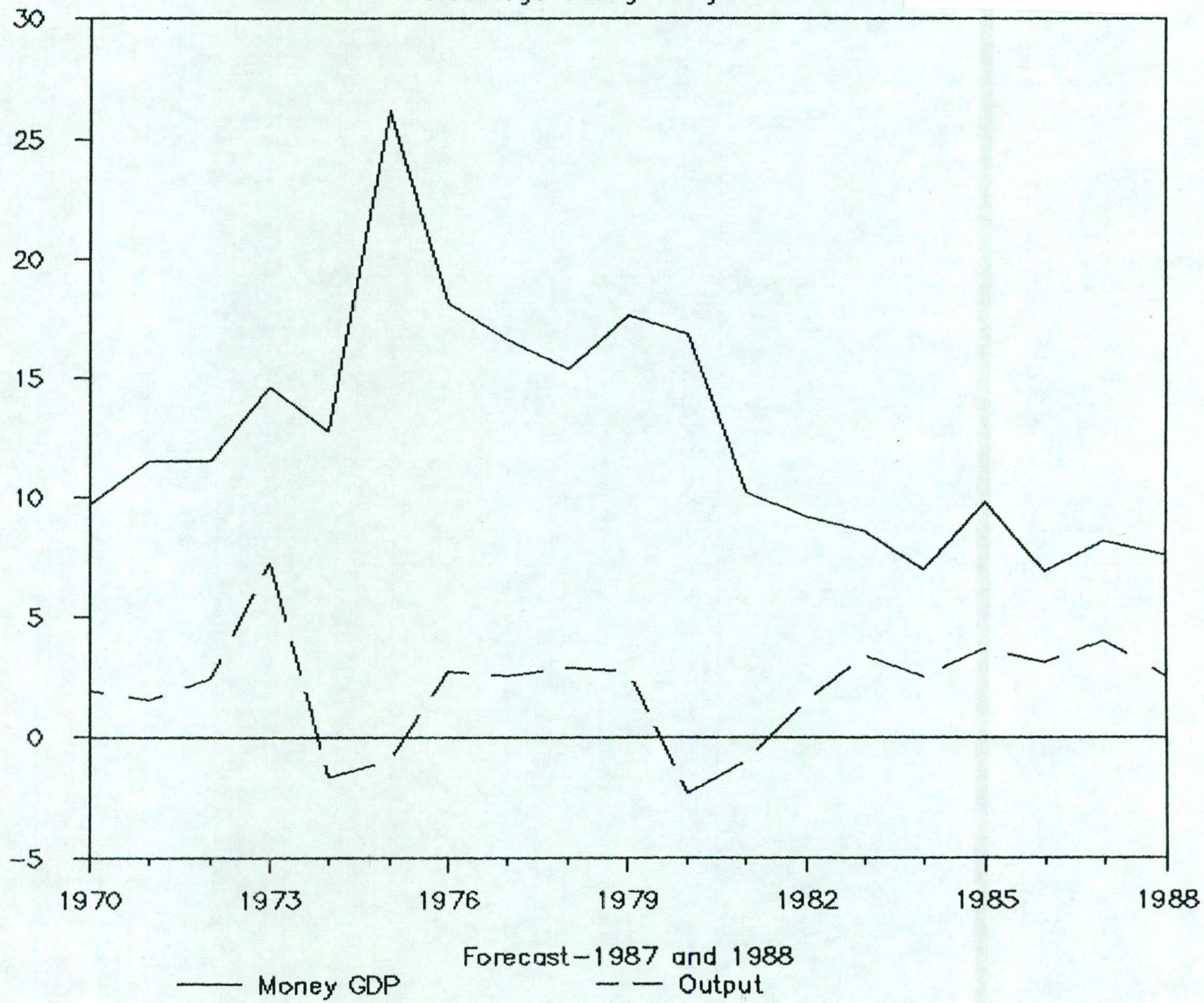


Profitability
Net rate of return
12
11
10
9
8
7
6
5
4
3
2
1
0
1970
1973
1976
1979
1982
1985
Forecast-1987
IOCs
IOCs;exc North Sea

Money GDP and Output

Percentage change on year earlier

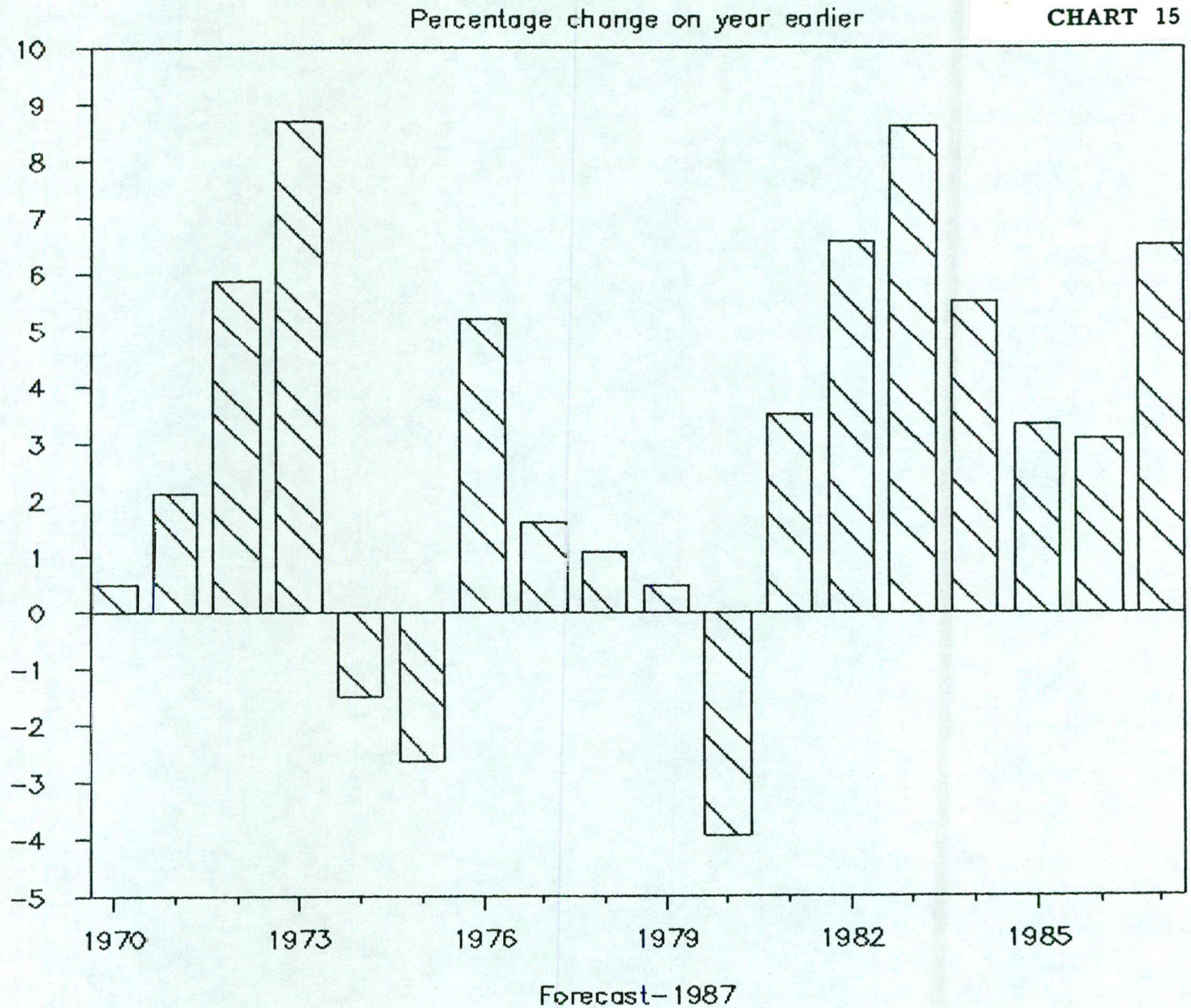
CHART 14



Forecast-1987 and 1988

CHART 15

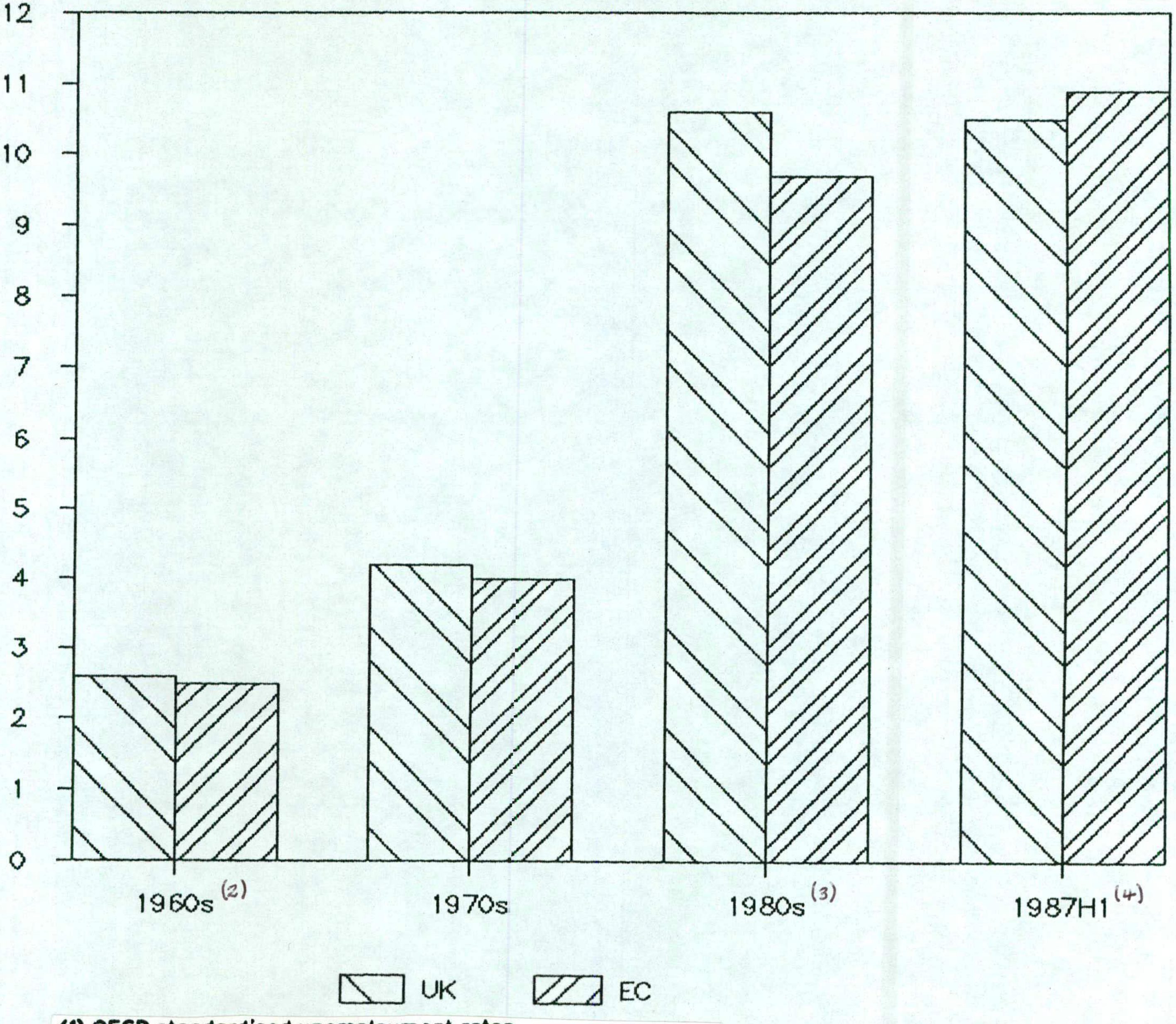
Manufacturing productivity



UK and EC unemployment rates [1]

CHART 16

(as % of labour force)



(1) OECD standardised unemployment rates
(2) From 1964
(3) 1980 to 1986 (EC 1986 estimated from first ten months)
(4) EC excludes Italy

45/B.rj.2186/025

CONFIDENTIAL

I wd like to see a cover note (basically on the same lines as for last yr.) I suggest we have a mtg on this on my 1st wk back. N.

FROM: N MONCK
DATE: 16 December 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Sir P Middleton
Sir T Burns
Mr Anson
Mr Burgner
Mr H P Evans
Mr Odling-Smee
Mr Peretz
Mr Turnbull
Mr R I G Allen
Mr P Gray
Mr Hibberd
Mr S Pickford
Miss C Evans
Mr Wynn Owen

Monck → CH/EX 16/12

Ch/ Do you want a cover note? If so this OK? Or postpone a decision?

[further note behind] MPW 16/12

JANUARY NEDC (13 JANUARY) : POSSIBLE COVER NOTE FOR AUTUMN STATEMENT DOCUMENTS

The main item, billed to last 1¼ hours, at the January Council will be Outlook for the Economy. The Government papers will be your oral Autumn Statement and the Grey Book. You might like to consider whether you would like to circulate a covering note. You did not do so in 1985 but you did last year. The main reason then was that we thought that it would help to defuse the criticisms of Government policy in the TUC paper, which suggested by selective quotations from the EC Annual Economic Report that the Government was frustrating an international consensus in favour of a Co-operative Growth Strategy. You probably do not need to decide whether to circulate a covering note until the week beginning 4 January, but the decision ought to be early in that week.

2. The NEDC Steering Group discussed the shape of this item yesterday, and we have seen early drafts of the CBI paper and of the TUC Budget submission. The latter will be published before the meeting but circulated with a specially tailored cover note to the Council early in January.

3. The Steering Group welcomed my suggestion that you should open the discussion by bringing the Council up-to-date on international economic co-operation etc. Half an hour or so would be spent on this subject, followed by three-quarters of an hour focussed on domestic economic policy and the views of the other parties.

4. The first draft of the CBI paper was pessimistic in tone, saying that confidence was "fragile" and calling for interest rate cuts and a reduction in other business costs influenced by Government. I passed on comments from Sir Terence Burns and

others to them and I hope the next version will adopt a different tone. It is obviously important that it should do so and the CBI will pass on my suggestion that Sir David Nickson or John Banham should show you the final version or discuss it with you before circulating it.

5. The TUC draft Budget submission is on familiar lines. It calls for a world summit to agree on a Co-operative Growth Strategy, a 4 per cent growth rate for the UK, a £7 billion increase in public spending, lower exchange rate and interest rates, and new tax incentives for fixed investment, R & D and training. At NEDC the TUC will argue that the EC Economic Report calls for new policy measures by Governments in Europe to ensure that Community GDP does not fall below the growth rate of 3-3½ per cent, as it is now forecast to do.

6. In view of the content of the TUC submission and the background of the UK's good economic performance and recent indicators, we do not think there is a positive need for you to circulate a covering note of your own.

7. Nevertheless, we thought we should offer you the attached optional note, which Miss Evans has prepared. It takes the Autumn Statement as given and concentrates entirely on the economic situation, especially in the other main countries. This would fit in with your intention to make your presentation focus on the world economy and it would provide an up-dated statement about the situation for the press, though this might reach them too late for the Thursday papers. It may, of course, be necessary to amend it if there are major developments between now and early January.

8. The other two items on the agenda are: Sir R Halstead's report on the Knitting EDC which he will use to seek support for disclosure of details about importers (see Mr Gray's submission to the EST of 11 December); and R & D and International Competitiveness, which will include some impressive export figures but may also see improved tax incentives for R & D.

Conclusion

9. It would be helpful to know your present view on whether or not you are likely to want to provide a cover note and if so whether the attached draft is on the right lines. If you prefer to put off a decision could we have the answer to these questions on 4 January?

NM

N MONCK

ce 2

THE AUTUMN STATEMENT

Note by the Chancellor of the Exchequer

Like its predecessors, the 1987 Autumn Statement* brought together the announcements which it is customary for the Government to make at that time of year. It sets out the public expenditure plans for the next three years, national insurance contributions for 1988-89 and the Industry Act Forecast of the economic prospects up to the end of 1988.

2. The Council's discussion of the outlook for the economy in 1988 provides a convenient opportunity to review developments in the world economy since I presented the Autumn Statement to the House on 3 November. The Autumn Statement forecast took account of the latest developments in the world economy, including the falls in stock markets. Some additional information is now available, although of course many uncertainties remain.

3. Recent developments provide little evidence to support the view that the fall in stock markets will lead to a major worldwide recession. The new information since the Autumn Statement makes this prospect more remote. There have been substantial cuts in interest rates in many countries. In addition, the indications are that the world economy was enjoying rather stronger growth in the Autumn than was previously thought. Many forward-looking indicators, including business surveys and the trend of commodity prices, point to continued growth. Recession is not in prospect, though there may be some slowdown in growth from a stronger base.

4. The governments of the major countries have already acted in ways which will help to keep the world economy on a non-inflationary growth path. The US authorities have reached an outline agreement on a package of measures to reduce the deficit. The German government has announced a package of investment and tax measures.

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*Already circulated to non-Government members of the Council and principal advisers only

Before Christmas the Bundesbank cut its key discount rate to the lowest level for nearly 30 years, as part of a concerted move by most European countries including the UK. In Japan domestic demand has been growing at over 4 per cent. Interest rates here are now 1½ percentage points below the level of early October and the exchange rate has been kept stable against European currencies. These developments are all in the right direction and will help sustain non-inflationary growth. They need to be reinforced by a period of exchange rate stability in which further adjustment of imbalances takes place. The Government will continue to play a full part in seeking international co-operation and action to these ends.

5. The key British indicators confirm the assessment I made at the time of the Autumn Statement of the economy's ability to resist the impact of the stock market falls. The CBI surveys conducted since then underline industry's robust confidence. Retail sales were strong in November. [For the third quarter of 1987 the economy is forecast to have grown by over 5 per cent compared with a year ago.] The October manufacturing output figures show production growing at its fastest rate since 1973 and unemployment fell by a further 64,000 in November. All in all there are no grounds to revise the broad prospect I outlined in the Autumn Statement: of output growth in 1987 at 4 per cent and 2½ per cent in 1988 with continued prospects for low inflation.

Conclusion

6. The uncertainties surrounding the Autumn Statement forecast for the UK and the world economy remain considerable. But there is no evidence of imminent recession. And there are strong indications that the British economy is set to continue to enjoy the steady and balanced growth seen in the past six years. The Government will continue to foster the conditions which have brought about the economy's present resilience and vigour.

H M Treasury

002/PWO

CONFIDENTIAL

FROM: P WYNN OWEN

DATE: 17 December 1986

1. MR MONCK NM 17/12

2. CHANCELLOR

C/content for letter to issue? CR 17/12

cc PS/Chief Secretary
Sir P Middleton
Sir T Burns
Mr Byatt
Mr Lavelle
Mr Burgner
Mr Odling-Smee
Mr Scholar
Mr Bottrill
Mr Culpin
Mr Gray
Mr Kelly
Mr Mortimer
Miss O'Mara
Mr Pratt
Ms Barber
Ms Goodman
Mr S Kelley
Mr Legg
Mr Sturgess
Mr Tarkowski
Mr A R Williams
Mr Ross Goobey

NEDC - 7 JANUARY

Mr Dixon's letter of 10 December to Mrs Ryding (copy attached) proposes the agenda for the Council on 7 January.

2. The proposed agenda is:

(i) Infrastructure - papers from DTp, DOE, DES, DHSS, NEDO and the CBI.

(ii) Diesel Engines EDC - an EDC report.

(iii) Export Opportunities - A NEDO paper.

3. Infrastructure - this arises from the July NEDC, which agreed to:

"A further report back by Departments in due course on progress concerning the management of the capital stock, taking account of the forthcoming meetings on schools and hospitals."

The Government papers are largely limited to the management of the existing infrastructure. If the discussion strays to the quantum of infrastructure spending, the Autumn Statement will provide a useful quarry. Mr Cassels' paper will report back on national seminars NEDO have held on management of the schools and hospitals stocks. The CBI may put in a brief paper welcoming the additional money for infrastructure in the Budget, but requesting a further £300m for infrastructure in the Budget.

4. Diesel Engines EDC - a standard EDC report from Mr Ken Cure. DTI will lead. The paper helpfully concentrates on what the industry is doing to help itself.

5. Export Opportunities - a paper by Walter Eltis which marks his first major contribution to NEDC discussion. It is largely helpful, drawing attention to export opportunities now available to companies as a result of recent exchange rate changes in combination with the oil price fall. Mr Cassels will cover the paper with a brief note reporting on the reactions of EDC Chairmen to this paper. DTI will respond, though you will want to discourage discussion of any surviving macro points in Walter Eltis' paper.

6. Europe - my minute of 11 December said NEDO were asking whether there could be an oral report on the UK Presidency and that this would be discussed at the Steering Group the following day. You responded (Mrs Ryding's minute of 15 December) that you would be perfectly happy to do this, but not if it is just a re-run of last month (the Commission's growth strategy and Trade Union participation etc). If this is what it would be, then you thought we would not want this item.

7. At the Steering Group on 12 December, Mr Monck and his colleagues from DE and DTI successfully argued against a report back on the Presidency, since this would need to involve several departments and the Treasury did not have a clear locus (eg no attendance at the London Summit). The TUC and NEDO accepted this, but requested that you should be asked to give a brief, oral, report back on the December ECOFIN which you referred to at the last NEDC. The TUC clearly want to know what has happened on the Annual Economic Report (AER) of the EC. A brief oral report at the start of this January NEDC, not recorded on the agenda, might be the cleanest way of dealing with this, and would provide an opportunity, if you wished, to give the sense of the updated reference now made in the Report to the 1987-88 prospect following the Autumn Statement.

8. You could say that, as you had mentioned at the December NEDC, the ECOFIN the following Monday agreed the Commission's Annual Economic Report, as amended to take account of member states' comments. It includes an invitation to governments of Member States

to submit by the beginning of May a short report on the initiatives and tangible economic policy measures taken by them in their own country. If the TUC press again for discussion of a draft, you can say it will be a Government response, drawn up following the discussion at the December NEDC; that it has not been decided what form it will take [it may simply result in oral reports at a suitable ECOFIN]; but that you would copy to them any document the Government finally sends to the Commission. To any attempt to prolong the issue, you could say you had responded to the request, but it was not on the agenda and move quickly to the first item.

9. NEDC Attendance - at the Steering Group the TUC complained about poor attendance by other Cabinet Ministers at NEDC. We judge the TUC's truculent approach to recent NEDCs is unlikely to soften in coming months, so there may be advantage in writing to your colleagues to seek their full support for the coming year. Some may already have other plans for January, so a general request for 1987 would be best.

CONCLUSIONS

10. I attach:-

(a) a draft PS letter (Annex A) to Mr Dixon agreeing the agenda. It contains an optional passage you could use if you wish to inform NEDO you would report briefly on the AER discussion at ECOFIN. But you might think it best to keep this up your sleeve.

(b) a draft letter (Annex B) to fellow Government members of the NEDC. A separate letter to each might be best, so as not to appear to be singling anyone out.

Philip Wynn Owen.

P WYNN OWEN

002/c2

CONFIDENTIAL

ANNEX A

DRAFT LETTER FOR ~~MRS~~ CATHY RYDING TO SEND TO:

P V Dixon Esq
Secretary to the Council,
National Economic Development Office,
Millbank Tower,
Millbank,
LONDON SW1P 4QX

NEDC 7 JANUARY - 10AM

You wrote to me on 10 December. The Chancellor has seen your letter and is content with the agenda proposed.

2. [The Chancellor also understands that there was a request at Steering Group for him to give a short, oral report-back to NEDC on the December ECOFIN discussion of the Annual Economic Report (AER) of the EC. He is willing to do this briefly at the start of the meeting, but, as your letter implies, he would not expect it to appear on the agenda.]

[C R]

CONFIDENTIAL

ANNEX B

DRAFT LETTER FROM CHANCELLOR OF THE EXCHEQUER TO:

The Rt Hon Paul Channon MP,
Secretary of State for Trade and Industry

The Rt Hon The Lord Young of Graffham
Secretary of State for Employment

The Rt Hon Peter Walker MP,
Secretary of State for Energy

The Rt Hon Kenneth Baker MP,
Secretary of State for Education and Science

The Rt Hon Nicholas Ridley MP,
Secretary of State for the Environment

NATIONAL ECONOMIC DEVELOPMENT COUNCIL - 1987

I am writing to you and other Government members of the National Economic Development Council to remind you of the need to field the strongest possible team for each NEDC meeting in the coming year.

2. At a recent meeting of the NEDC Steering Group, the TUC representative complained about the poor attendance record of Government members of NEDC. The TUC's general approach to recent meetings suggests there will be few easy rides in the Council during the coming year, so I would be grateful if you could now put all the 1987 meeting dates in your diary and seek to attend as many as possible.

3. If, for any reason, you find you will be unable to attend a Council meeting, I should be grateful if you could give me early notice, with a definite indication of who will attend in your place.

[N.L.]

53/2/LPD/3745/011

cc PS/Chancellor, PS/CST, PS/FST, PS/PMG, PS/Sir P. Middleton, Mr Anson, Mr Monck, Mr Scholar, Mr Burgner, Mr Culpin, Mr Mountfield, Miss Sinclair, Mr P. Gray, Mr Wynn-Owen, Mr Call, PS/C&E, Mr Nash, Mr Pratt.

ECONOMIC SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SWIP 3AG

The Hon Alan Clark MP
Minister of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1

17 December 1987

Dear Alan,

DISCLOSURE OF IMPORTERS' DETAILS

In March of this year you and Peter Brooke were in correspondence about a proposal originating from Ron Halstead (in his capacity as Chairman of the Knitting EDC) to legislate to identify the names and addresses of importers from Customs records. It was agreed that Peter would announce in the subsequent Budget Debate a consultative exercise, which he duly did on 19 March. Officials then put in hand the consultation during the following weeks, issuing an invitation for comments by the end of July. Your department kindly undertook the task of co-ordinating the evaluation exercise, and I am most grateful for their efforts.

I understand that officials met on 19 November, and since then they have been discussing the outcome of the exercise, following the preparation by your department of an initial evaluation report. In the time available since then, however, I understand officials have so far been unable to complete an agreed report back to Ministers.

But I am conscious that time is now at a premium. This is true not only in relation to planning for the content of the 1988 Finance Bill - which, as Peter's 19 March statement made clear would be the appropriate vehicle for making any change in disclosure arrangements - but more particularly because of the likelihood that David Young and Nigel Lawson will be pressed for a report on the consultation exercise at the 13 January NEDC meeting. I therefore thought it might be helpful if I wrote to you now to give you my [tentative] conclusions on the way forward.

The consultation has not pointed to clear consensus on any of the propositions included in the questionnaire, save perhaps that there should be a system of charging for any further information made available. This divided response underlines the fact that the consultation can only provide a guide to our judgement on the right way forward.

We seem to face four options. First, to leave things unchanged. Second, in future to disclose names and addresses of importers by commodity code. Third, also to provide details of countries of origin/consignment and ports of importation in addition to disclosing names and addresses. And fourth, much more radically and at much greater cost, greatly to increase availability of information on product detail.

What is noteworthy about the consultation results is that support for changes is progressively reduced as more radical options are reached. But there is a small overall majority of respondents in favour of the second option, disclosure of names and addresses of importers.

Against that background, I conclude that we should now take steps to provide for the disclosure of names and addresses of importers by commodity code; but that we should not go further, for example by providing finer detail about countries of origin, countries of consignment and ports of importation. I recognise that there are substantial arguments against this modest step. For instance, the information revealed may be of limited value to domestic suppliers in identifying potential customers since many of the names will be import agents and many of the product categories too broad. Furthermore, where the information is helpful it could equally benefit other foreign suppliers. And, in the light of the consultation results, we could expect some highly vocal opposition to the change. But I attach considerable weight to the broad thrust of government policy - as reflected in the objectives now being developed for DTI - to increase the flow of information to markets. British companies can supply on a cost-competitive basis when they can contact and identify their potential customers. This, coupled with the majority support for some change revealed by the consultation, lead me to come down in favour of making the change I have described.

Any decision on disclosure must of course involve parallel consideration of the future of the "suppressions" system. Although I believe there is an economic case for ending the suppressions facility, on balance I think it would be right to retain it and to provide the continuing reassurance of confidentiality about individual trading positions. I do not think we should provide the right for importers to object to the disclosure of their names and addresses as such - a point on which the consultation did not point to a clear conclusion. But I accept that they should retain the right to seek aggregation of other elements in the published trade data to prevent the effective disclosure of details of their business. This may of course lead to an increased level of suppressions which could reduce the value of the existing published information. That is a point we would need to keep under review. But my present judgement is that any such effect is likely to be modest and would not outweigh the information benefit provided by disclosure of names and addresses.

In presenting our conclusions, I think we should also draw attention to the longer term possibility of other sectors seeking to develop arrangements analogous to the Special Chemical Return, in which data giving a finer product break-down than in the basic commodity codes is available. But the essential pre-requisite for similar moves elsewhere would be for the sectors concerned themselves to agree on the product classification for which they would be willing to provide data. I suspect this means progress in this area will be, at best, rather slow and perhaps negligible. But if we take this line it will enable us to give a positive response to those, such as the Knitting EDC, who would want the Government to go much further down the disclosure road.

As indicated above, I think we need to agree on the way forward before the 13 January NEDC meeting. I would therefore be grateful by 6 January to know whether you and other colleagues would be content for us bring forward legislation in the 1988 Finance Bill to amend Section 10 of the Customs and Excise Management Act 1979 to provide for the publishing of names and addresses of importers by commodity code. If you agree, we will need to consider further the timing and content of any announcement, on which we would clearly also need to consider legal advice on presentation in the international context. If you would like to have a discussion about all this, I would welcome it.

I am sending copies of this letter to the Prime Minister, the Secretaries of State for Employment, Trade and Industry, Energy and the Environment, and the Minister of Agriculture, Fisheries and Food and to Sir Robert Armstrong.

Yours ever

Peter

PETER LILLEY

4473. cc P, Owen.

Peter Dixson. Ann Boggard 211 6549.

From the Secretary to the Council
Direct Line 01-211 4148
Personal Assistant 01-211 6549

NEDC

National Economic Development Council
Millbank Tower, Millbank
London SW1P 4QX

Telex 945059 NEDO G
Fax 01-821 1099
Reception 01-211 3100

Pls do a letter (I wd [illegible]) as follows: Thank you for your letter of 22nd December. I am sorry ~~[illegible]~~ we missed each other before Christmas. I would like to thank you for [illegible] years, the admirable way in which you ~~[illegible]~~ your secretaryship of the NEDC, and before that for your distinguished service in the Treasury, where I am sure you will be [illegible]. I wish you every success in the private sector. NL

22nd December 1987

Dear Chancellor,

Had you not understandably already left for a Christmas break, I might have been able to call briefly on you to say farewell as the Secretary to the NEDC — and also as a Treasury Under Secretary.

I am going in the New Year to work with Turner Kenneth Brown, a firm of Solicitors in the City.

Meanwhile I should like to say that I have had great enjoyment during my 30-odd years in — and out of — the Treasury, and I am sure it will go on offering interesting and valuable careers to future generations.

With good wishes,

Peter Dixon

4241/011

FROM: P WYNN OWEN

DATE: 23 December 1987

P WYNN OWEN → CH/EX 23/12

1. MR MONCK ✓ AM 24/12
2. CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Sir P Middleton
PS/Sir T Burns
Mr Anson
Mr Scholar
Mr Burgner
Mr Culpin
Mr Odling-Smee
Mr R I G Allen
Mr Gray
Mr Pickford
Miss Sinclair
Mr M Hughes
PS/IR
Mr McGivern - IR
Mr Riley

PW-0
4473

NEDC: INTERNATIONAL COMPARISONS OF INVESTMENT

Miss Wallace's minute of 21 December, responding to Mr Monck's minute of 15 December, gave your agreement to producing the promised paper now. This submission provides a final version of the paper, plus a short covering letter for you to send to Mr Cassels.

2. As requested, the paper includes Tables 4 and 5, but not the figures or text in Annex A to Mr Monck's note. The paper has also been amended to include up-to-date information on the latest DTI Investment Intentions Survey in paragraph 5 and the latest GDP figures in paragraph 10.

3. Mr Cassels has now circulated the agenda for January as approved by you (copy attached - top copy only), except that it refers to the Autumn Statement as the FSBR (rather than requesting a corrected agenda, you might simply choose to make play of this at the start of the meeting). This leaves it open for you to ask him to circulate this Treasury paper for information to Council members prior to the meeting. So, without it actually being a substantive paper for discussion in January, others will be able to raise it with you at that meeting if they wish.

A bit late for this: the paper only arrived in this office on Xmas Eve.

4. You might aim to get this to Mr Cassels by about Monday 4 January, so he has good time in which to circulate it before the meeting without it appearing to others as a last minute thought of any kind.

5. I attach a short draft letter to Mr Cassels, plus the final version of the paper.

Philip Wynn Owen

P WYNN OWEN

4241/011c2

DRAFT LETTER FROM THE CHANCELLOR TO:

Sir J S Cassels ~~CB Esq~~
Director General
National Economic Development Office
Millbank Tower
Millbank
LONDON SW1P 4QX

INTERNATIONAL COMPARISONS OF INVESTMENT

I was not present at the October meeting of the Council, but David Young ~~the Secretary of State for Trade and Industry~~ informed me about the references to taxation and of the discussion about the UK's investment record, on which he agreed that a paper would be submitted with factual data about international comparisons.

2. I enclose a note by Treasury officials, which I would be grateful if you could circulate to Council members with this letter. It would be helpful if this could be done in good time for the January Council meeting, at which I will be in the chair, in case any Council members wish to raise any points on the Treasury note with me.

~~3. [Merry Christmas and a] Happy New Year.~~

[N L]

INTERNATIONAL COMPARISONS OF INVESTMENT

It was suggested at the 14 October meeting of the Council that a paper might be submitted with factual data about international comparisons of investment and taxation.

2. Such comparisons are fraught with difficulty. Different institutional structures and statistical systems make international comparisons in these areas a hazardous undertaking and a doubtful basis for drawing policy conclusions. But this note summarises the available information, drawn largely from OECD sources.

Investment

3. Table 1 shows fixed investment as a percentage of GDP at market prices in G7 countries since 1960. The one country with a markedly higher percentage than the others has been Japan. The UK percentage has been slightly below that of most other G7 countries, but very closely in line with that of the USA.

4. Table 2 shows investment in machinery and equipment as a percentage of GDP. The figures are not precisely comparable; for the UK they are for plant and machinery. The table shows investment in machinery and equipment in 1985 to be higher as a proportion of GDP in the UK than in the USA, Germany, Italy and Canada, but lower than in France or Japan.

5. This paper does not attempt to break down investment by sector or by industry, where problems of comparability are still greater. The scope of the public sector varies widely from country to country, as do expenditure definitions. In the USA, and to a lesser extent in other countries, nearly all general government expenditure is classed as "current". OECD data is distorted by differences between national accounts as to division by ownership or by use. The increasing use of leased assets has increased the problem.

6. The most recent comparable data available on investment trends comes from the IMF. Table 3 shows annual changes in gross fixed investment in G7 countries, including projections for 1987 and 1988. For a comparison, the Autumn Statement forecast a 5.5% increase in UK gross fixed investment in 1987, and a 4.5% increase in 1988; and within the latter figure a 5.5% increase for business investment. The latest DTI Investment Intentions Survey, although largely conducted before the stock market fall, indicated an 8 per cent increase in 1988 in investment by manufacturing, construction, distribution and selected service industries, including an 11 per cent increase in manufacturing investment. The CBI's special survey showed that the recent fall in stock market prices has had little effect on investment intentions and the latest Monthly Trends Enquiry shows the highest balance of companies reporting order books above normal since 1977.

Corporate Taxation

7. Table 4 shows taxes on business in G7 countries as a percentage of GDP. Table 5 shows taxes on business as a percentage of total taxation. ~~These~~ do not include property taxes, which are not available for France, Italy or Japan. The tables are ~~also~~ not on a comparable basis to tables 1 and 2, and

With these provisos, it emerges that, on the latest available data, taxes on business in the UK are below the G7 average as a percentage of GDP and well below the G7 average as a percentage of total taxation.

8. In interpreting table 4 and 5 it is important to bear in mind the conceptual difficulties with a notion of a "tax on business". As the Institute of Fiscal Studies has pointed out:

> "It is important to recognise from the outset that there is, in the end, no such thing as a tax on business. All taxes are ultimately taxes on individuals. A tax may be levied on a firm, but that tax will have to be paid by its shareholders, or its employees, or the people who buy its products. There is no corporate tax paying capacity which is independent of individual tax paying capacity".

9. Interpretation of past data also has to take into account the steps taken by various OECD countries to reform their corporate tax regimes. In the UK, the main reform was the 1984 changes in corporation tax, which reduced the main rate in stages from 52% to 35%, withdrew stock relief and rationalised allowances. In the US the 1986 Tax Reform Act abolished the investment tax credit and eliminated tax shelters which encouraged investment in commerical property, in an

attempt to make rates more uniform. In Canada, the 1986 Budget began a 3-year programme to reduce tax rates, eliminate inventory allowances and phase out the general investment tax credit. The reform of corporation tax in the UK ~~is~~ can thus be seen to have inaugurated an ~~broadly in line with~~ international trend~~s~~. As noted in the Director General's paper on Capacity and Investment (NEDC(87)37), "the change in the corporation tax system reduced the degree of subsidy to unprofitable investment and made investment decisions more responsive to market as distinct from tax signals".

Implications

10. As noted in paragraph 2 above this type of analysis does not provide a firm basis for drawing meaningful policy conclusions. The acid test of the adequacy of investment is whether it provides the basis for sustained output growth. And this is determined not just by the level of investment but by the efficiency with which it is employed. Again, NEDC(87)37 noted that "it is therefore entirely plausible that companies are now seeking to obtain more growth (or greater increases in technical efficiency) from the same level of investment".

11. The latest indicators show that sustained growth is being maintained. GDP grew by 5 per cent in the year to the third quarter with strong growth evident across all sectors of the economy. However, the CSO suggest that a better guide to the underlying growth rate is probably given by comparing the first three quarters of 1987 with the same quarters of 1986, between which periods growth was 4 per cent. Manufacturing output is now estimated to be growing at an underlying annual rate of 6½ per cent - the fastest rate of growth since 1973.

12. Business confidence continues to be buoyant despite the stock market falls, as evidenced by recent CBI surveys. The December CBI Enquiry found that the balance of firms reporting total order books above normal was at its highest level since the question was first asked in its present form, in April 1977.

13. Consumer confidence also remains high despite the stock market fall. Retail sales were up further in November, and in the latest 3 months are up by nearly 6 per cent on the same period a year earlier.

H.M. TREASURY

NOT FOR PUBLICATION

NEDC

CH/EXCHEQUER
REC. 23 DEC 1987 23/12
Mr Wynn-Owen
CST. PMG.
Sir P Middleton
Mr Anson
Mr Monck
Mr Burgner
Mr P Gray

National Economic
Development Council

NEDC(88)
1st Meeting

Meeting to be held at the
National Economic Development Office
on Wednesday 13 January 1988 at 2.30 pm

AGENDA

1 OUTLOOK FOR THE ECONOMY

- Financial Statement and Budget Report of the Chancellor of the Exchequer 1988-89 (NEDC(88)1 circulated herewith to non-Government members and their principal advisers);

- Memorandum by the CBI (NEDC(88)2 circulated herewith);

- Memorandum by the TUC (NEDC(88)3 to follow).

2 SECTORAL REPORT: KNITTING SECTOR GROUP

- Report from Sir Ronald Halstead CBE, Chairman of the Knitting Sector Group (NEDC(88)4 circulated herewith).

3 INTERNATIONAL COMPETITIVENESS, R & D AND ACTION BY EDCs

- Memorandum by the Director General (NEDC(88)5 circulated herewith);

- Memorandum from the CBI (NEDC(88)6 to follow).

4 RELEASE OF PAPERS

5 ANY OTHER BUSINESS

National Economic Development Office
Millbank Tower
Millbank
London SW1P 4QX

22 December 1987

THIS PAPER IS NOT
FOR PUBLICATION

27.3042

pmg

FROM: H P EVANS

DATE: 5 January 1988

CHANCELLOR

cc Sir P Middleton
Sir T Burns
Sir G Littler
Mr Monck
Mr Odling-Smee
Mr Peretz
Mr R I G Allen
Mr Matthews
Mr Pickford
Ms C Evans
Mr Wynn Owen
Mr Call

Ch/ This on right lines?

MPW 5/1

NEDC: PAPER ON WORLD ECONOMY AND THE UK

In the light of our discussion this morning, I attach a draft note. Most of the tables are not yet ready, though a few are attached so that you can see the proposed format. The remainder we will circulate tomorrow.

2. On the draft text, you will want to look closely at paragraph 7 on policy co-ordination.

* I am most grateful to Messrs Evans & Matthews. I have shortened and rewritten the text. I have also made a few comments on the tables, as well as some comments on Mr Evans's analysis.

HPE

H P EVANS

DRAFT

THE WORLD ECONOMY AND THE UK

Note by the Chancellor of the Exchequer

(Room as usual

Recent events in the financial markets have focussed more attention on developments in the world economy. ~~In the immediate aftermath of the stockmarket falls collapse, it was very difficult to see the likely consequences. Now that stock markets have steadied, and governments have reacted individually and co-operatively with some changes in fiscal and monetary policies, it is possible to see developments more clearly and more positively.~~ This paper presents ~~an~~ a brief analysis of recent developments and, ~~using~~ taking a longer term perspective, presents economic ~~developments~~ performance in the UK in relation to ~~those~~ that of other major industrial countries.

2. There is now considerable evidence that world economic growth in 1987 is likely to turn out to have been stronger than was earlier expected ~~of a growing momentum in economic activity in the course of 1987~~. In the third quarter of ~~the~~ last year, output in the major industrialised countries was ~~over~~ more than 3 per cent higher than a year earlier. Industrial production has been rising strongly in most countries outside continental Europe: for the seven major industrialised countries as a whole, industrial production in October was ~~over~~ more than 4 per cent up on a year earlier. These increases in output were greater than earlier forecasts had suggested. Trade growth in 1987, though the figures are incomplete, was probably also higher than expected.

~~3. Inflation, on the other hand, has been running very much as expected, at about 3 per cent in recent months, rather above the exceptionally low figures at the start of the year when the effects of the oil price fall were at their greatest.~~ now that the initial ~~the recent decline in the dollar~~ impact of the oil price fall has passed

4. The ~~turmoil~~ sharp fall in stock markets ~~and foreign exchange markets~~ in October and the subsequent decline in the dollar have increased uncertainty and will ~~of itself~~ tend to reduce the rate of growth ~~in~~ of world economic activity. But there is now increasing evidence that prospects for the world economy are better than most people thought likely only a short while ago:

(i) Most economies, including the UK, were expanding faster in the autumn than had ~~been expected.~~ earlier been foreseen;

(ii) There have been ~~sizeable~~ significant reductions in interest rates. Short-term rates, for example, taking an average of the major industrialised countries, ~~were 6.7 per cent on January 4, down from 7.8 per cent~~ are now a full point lower than they were in mid-October.

(iii) There has been an increasing awareness that the falls in wealth resulting from the stock market falls in many cases did no more than offset part of the large increases in stock market prices that took place ~~up~~ prior to 1987 -increases that had not fully been reflected in higher spending. In the case of ~~the UK, US, and Japanese markets, for instance,~~ the three main markets - the UK, the US and Japan - price levels are currently ~~-~~ despite the sharp falls in October, ~~- are~~ higher than a year ago.

(iv) The G7 statement of 23 December, ~~embodying~~ which recorded recent fiscal and monetary policy changes, demonstrated a commitment to strengthening the co-ordination of economic policies, and a common interest in more stable exchange rates ~~[illegible]~~ (which has already been translated into effective concerted central bank intervention involving full US participation);

(v) Forward-looking indicators, such as ~~strong~~ business surveys and the ~~rising level~~ trend of commodity prices, are consistent with a substantial rate of economic growth in the period ahead.

~~International co-operation~~

5. But ~~substantial~~ major risks and uncertainties remain. ~~In the United States,~~ In particular, the unsustainable US budget and trade deficits need to be corrected gradually over the next few years. Some progress has already been made:-

(i) The Federal budget deficit has been reduced from $221 billion in ~~financial year~~ fiscal 1986 to $149 billion in fiscal 1987, a fall from 5.3 per cent of GNP to 3.4 per cent.

(ii) While the United States trade deficit in dollar terms has stayed very high, the volume figures show clear signs of improvement: in the third quarter of 1987, exports were 14 per cent higher than a year earlier; imports only 5 per cent up.

More needs to be done, and

6. These deficits should not, of course, ever have been allowed to reach these levels; United States experience over the 1980's shows that there is no substitute for a prudent fiscal policy: and that enormous fluctuations in the dollar, up and down, have ~~not~~ been unhelpful.

7. The solutions to these deficits are primarily a matter for US macro-economic policy. But the deficits, and the instability in exchange rates to which they can contribute, concern us all. That is why the UK continues to play an active role in the attempt to improve policy co-ordination. These are of course differences among G7 members in the importance attached to the goal of stabilising exchange rates and their willingness to allow international developments to influence domestic policies. Recent events reinforce the need, set out in my September speech at the IMF/World Bank Annual Meetings, for a managed system of floating exchange rates.

But I believe that there is increasing international recognition of the harm that can be done by enormous & unwarranted fluctuations in exchange rates.

The UK and its main competitors

8. The attached Annex sets out comparative data covering the five year period 1983-1987, for the seven major industrial countries: the UK, the ~~UK~~, United States, Japan, Germany, France, Italy and Canada, and, where appropriate, an average for the group as a whole.

9. In sharp contrast to previous ~~decades~~ decades, it can be seen that in most respects the performance of the UK economy has been better than that of the G7 average.

~~9. Particular points to note include:~~

~~On output, UK growth at 3¼ per cent a year has matched the growth of G7 countries as a whole.~~

But there is still a long way to go, and meanwhile the US faces the problems both of attracting the funds needed to finance the continuing deficits and of reining back domestic demand sufficiently to ensure that capacity constraints do not prevent an ~~[illegible]~~ adequate diversion of resources to import-saving and exports.

On inflation, 1983-1987 has been a period of sustained moderate or low inflation in most countries, after the high rates experienced in the late seventies/early eighties.

[Annex, including notes to tables]

HM Treasury

~~Economic growth: With the highest rate growth of the seven countries in 1987, UK growth over the period as a whole, at 3 1/4 per cent per annum, has matched the G7 average and substantially exceeded growth rates in the other European countries.~~

~~Inflation: For most countries, including the UK, 1983-87 has been a period of consistently low inflation, in sharp contrast to earlier experience, with the UK's average rate of inflation about a point above the G7 average.~~

~~Investment:~~

(i) Real GDP/GNP

Percentage growth rates

	1983	1984	1985	1986	1987 (estimated)	Average 1983-1987
UK	**3.3**	**2.4**	**3.6**	**3.1**	~~**4.0**~~ 4	**3.3**
US	3.6	6.8	3.0	2.9	2¾	3.8
Japan	3.3	5.0	4.8	2.5	3½	3.8
Germany	1.9	3.3	2.0	2.5	1½	2.2
France	0.7	1.4	1.7	2.0	1½	1.5
Italy	0.5	3.5	2.7	2.7	2¾	2.4
Canada	3.2	6.3	4.3	3.3	3¾	4.2
Major 7	2.8	4.9	3.1	2.7	~~2.7~~ 2¾	3.2

Source: OECD, CSO, Autumn Statement

(ii) Consumer Price Inflation — Annual percentage changes

	1983	1984	1985	1986	1987*	Average 1983-1987
UK	**4.6**	**5.0**	**6.1**	**3.4**	**4.2**	**4.7**
US	3.2	4.2	3.6	1.9	3.6	3.3
Japan	1.8	2.3	2.0	0.4	-0.2	1.3
Germany	3.3	2.4	2.2	-0.2	0.2	1.6
France	9.4	7.7	5.8	2.5	3.3	5.7
Italy	14.6	10.8	9.2	5.8	4.7	9.0
Canada	5.8	4.3	3.9	4.2	4.4	4.5
Major 7	4.6	4.5	3.9	1.9	2.7	3.5

Source: OECD, CSO

* US,UK, Germany and Italy: January to November
Japan, France and Canada: January to October

Nigel 24/114

cc Mr Wynn Owen

Of this is a copy of the letter I sent to David Young on item 2 on the NEDO Council agenda. / Ron

37 EDWARDES SQUARE
LONDON W8 6HH
01-603 9010

5th January, 1988

Private and Confidential
The Rt. Hon. Lord Young,
Secretary of State for Trade and Industry,
1 Victoria Street,
SW1H OET

Dear David,

When I saw you at Blackpool, I promised to let you have some background information on our proposal concerning the disclosure of details of imports via customs and excise.

This has now been formalised in a paper to the NEDO Council for discussion at its meeting on January 14th. You will, of course, have received a copy of the paper and I look forward to seeing you at the meeting.

The main points to note in the paper are:-

1. We are asking for a change in the Customs and Excise Management Act 1979 so that the following details of imports can be published:

   The name of the consignee
   Country of origin of the shipment
   Place of unloading
   Number of packages and description of goods
   Commodity code
   Net mass (kg)
   Date

   We are not asking for sensitive information such as price and unit values which could be a cause for concern to some companies.

   NB The DTI, in their survey, proposed the use of broad commodity codes rather than the details of individual import consignments. This would not be satisfactory and would be of much less value to the UK industry.

2. All the information is already collected by customs and excise and will also be available in the new Single Administrative Document.

3. The system is already in operation in the USA and many other countries. In the USA, for example, the data is computerised by customs and excise. The Journal of Commerce, a private organisation, pays for the

/....

information and makes it available continually via their computer, and fortnightly via a six hundred page news sheet. The data could be similarly privatised in the UK as is already the case with the special chemical return paid for by customers in the chemical industry.

4. The proposal is a development from the manufacturer/ retailer panels and 'Better made in Britain' exhibition initiated by the Knitting and Clothing EDC's where manufacturers and retailers willingly came together to exchange information on specific imported products. However, what we are now proposing is a much more sophisticated and comprehensive coverage which could be extended across the whole of British industry using modern information technology.

5. The proposal will have the following benefits to the UK economy:

   a) increased efficiency and competition in the market place.

   b) improved effectiveness of British industry through rapid pin pointing of market opportunities

   c) increased employment and improvement in the UK balance of trade.

With best wishes,

Yours sincerely,

Ron

Sir Ronald Halstead

5.1.1988

PMP

From the Minister for Trade

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
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Peter Lilley Esq MP
Economic Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

5 January 1988

ECONOMIC SECRETARY
REC'D - 5 JAN 1988
ACTION Mr P.R.C. GRAY
COPIES TO PPS, PS/CST, PS/FST, PS/PAG, PS/Sir P. MIDDLETON, Mr MONCK, Mr ANSON, Mr SCHOLAR, Mr BURGNER, Mr CULPIN, Mr MOUNTFIELD, MISS SINCLAIR, Mr WYNN OWEN, Mr CALL, PS/C&E, Mr NASH - C&E, Mr PRATT - C&E

Dear Economic Secretary

DISCLOSURE OF IMPORTERS' DETAILS

Thank you for your letter of 17 December setting out your views on the way forward following the consultation on disclosing importers' names and consignment details.

The consultation exercise provided useful insights into how some members of the business community view the proposition. However, as we both recognise, it was not a 'proper' statistical survey and, especially where results are marginal, does not of itself provide a basis on which to move forward with confidence in this difficult area.

Given my responsibility for import substitution matters, I am of course keen to find means of offering real help to British firms to compete more effectively in the home market. Plainly the concept of disclosure has to be given serious consideration. And, as was argued by NEDO, providing names of end-users against detailed specifications of the products they import would be one way of helping to put purchasers in touch with <u>suitable</u> UK suppliers able to supply the right goods at the right quality etc. But, the sort of product information needed for such matching is not captured on computer by Customs and manual extraction from the commercial invoices supporting Customs Entries would be prohibitively costly. This consideration alone has to rule out option (4) for us, and we could not ignore the fact that a substantial majority of those who responded to the consultation were against it - because commercially sensitive information would be disclosed. For similar reasons, I agree that we have no alternative but to reject option (3), which was also opposed by a large majority.

L06ADS

999-3

Peter Lilley Esq MP January 1988

Option (2), disclosure of importers' names against commodity codes, has some attractions at first sight since, as you point out, it commanded the support of a small majority of respondents. However, the statistical unreliability of the sample (which I have referred to above) would make it imprudent to place much, if any, weight on this fact but we must judge the option on its practical merits. As you recognise, the fairly general product information which could be disclosed under option (2) would be of limited value to domestic suppliers wishing to (re)capture home markets. The same information - and therefore any advantages - could not be denied to foreign suppliers too, including those wishing to gain a first foothold in our market, if they requested it. Moreover, some respondents welcome the prospect of this information as providing possible leads to new <u>foreign</u> sources of supply (which is of course precisely the opposite of what is intended).

You are right that a move to disclosure of importers' names would be controversial. Most of the major representative organisations (eg CBI, Institute of Directors, ABCC) and many trade associations have signalled their concern at what they would see as a serious breach of long-established policy on confidentiality of information supplied to Government. This being the case, I agree we could not hope to argue successfully that "suppressions" should be abolished, leading to possible exposure of individual trading positions. Moreover, given that the overwhelming majority of respondents to the consultation considered importers <u>should</u> have the right to object to disclosure of their names and addresses, I am sure we should have to provide this safeguard too - and be prepared to see frequent use of both facilities. Otherwise we should have to reckon with companies taking action (fairly easy, I understand) to conceal their importing activities. Either way, more disclosure seems likely to lead to a reduction in the usefulness of the statistics.

In sum, I must reiterate that my central objective is to promote Import Substitution and I suspect that the benefit to UK suppliers of a decision to disclose importers' names against commodity codes could be outweighed by the advantage to foreign suppliers seeking to enter our market. In addition the change would be highly controversial - and unpopular with many of our supporters in the business sector. I reluctantly conclude, therefore, that we should decide to leave the present arrangements unchanged. You will recall that we considered and rejected a virtually indentical proposal from NEDO in 1979 (originally made to the Labour administration).

L06ADS

999.49

Peter Lilley Esq MP

January 1988

As to the handling of NEDC on 13 January, I have no doubt that if we lean towards anything less than your fourth option (ie full blown disclosure) we shall be criticised by NEDO. Nevertheless, I believe we should, if possible, announce a firm decision rather than, say, prevaricating in the hope of avoiding confrontation.

I am sending copies of this letter to recipients of yours.

Yours sincerely

Steven Phillips

for ALAN CLARK

(approved by the minister and signed in his absence)

L06ADS

999-49

mjd 5/11J

Pup

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

6 January 1988

Peter Dixon, Esq
National Economic Development
 Council
Millbank Tower
Millbank
London
SW1P 4QX

Dear Peter

Thank you for your letter of the 22 December. I am sorry we missed each other before Christmas.

I would like to thank you for the admirable way in which you carried out your duties during your 5 years as Secretary to the NEDC, and before that for your dedicated service in the Treasury, where I well remember you when I was Financial Secretary.

I wish you every success in the private sector.

Yours sincerely
Nigel

NIGEL LAWSON

2835/5

CONFIDENTIAL

FROM: S J FLANAGAN
DATE: 7 January 1988

1. MR MONCK Mm 7/1
2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Burgner
Mr Gilmore
Mr Burr
Mr MacAuslan
Mr Kaufmann
Mr Kelly
Mr Finnegan
Mr Wynn Owen

NEDC MEMBERSHIP

You asked us to consider inviting someone else to take up the place on NEDC currently occupied by Sir Bryan Nicholson in his old role as head of the MSC. You said that you thought it would be unlikely that we would wish Sir Bryan's successor to be on the Council (Miss Wallace's minute of 16 November). There are also four expired or expiring memberships to be cleared up, and I have minuted Sir Peter Middleton separately today about these.

Sir Bryan Nicholson: possible successors

2. The MSC chairmanship does not carry with it automatic membership of the NEDC. Like you, **Lord Young** is sceptical of the value of having the new permanent Training Commission chairman on the NEDC. This point of view was expressed in (x) his private secretary's letter of 29 September 1987 to your private secretary. However, **Mr Fowler** feels strongly that the Training Commission should have a place on NEDC. He points out that the MSC/Training Commission is now supposed to be more closely targeted on the task of upgrading the competence of the nation's workforce. He thinks that it would be a "peculiarly inappropriate and untimely signal" to drop the Training Commission from NEDC now (his private secretary's letter to yours of 18 November 1987). There is some force in this, particularly given the emphasis now being placed by the CBI on training and management development.

3. Even Mr Fowler acknowledges that it would not be appropriate to appoint **Sir James Munn,** who is only an interim Chairman of the MSC/TC to NEDC. We would certainly agree with that. You will also recall that in your letter of 1st October you asked Sir Bryan Nicholson to stay on past the end of his term as MSC Chairman. This leaves four courses of action open:

not quite X

a) **replace** Sir Bryan Nicholson now - although in the light of the recent correspondence attached, Sir Bryan would now expect to stay on NEDC until his present term ends

b) **Keep** Sir Bryan Nicholson on NEDC and **defer a decision** on replacing him until a new permanent Training Commission Chairman is appointed and/or Sir Bryan's membership expires

?

c) ask Sir Bryan Nicholson to **resign** from NEDC and **defer a decision** on replacing him until a new permanent Training Commission chairman is appointed, with the seat vacant until then

d) **reduce the size** of the Council by one.

4. The advantage of **option a** is that it would resolve the question now. But that could be seen as a signal that the Training Commission is not regarded as important. On the other hand, deferring the decision (**options b** and **c**) might create a presumption that the new Training Commission would be appointed. This risk could be minimized, though, if it was made clear that no new appointment would be made until Sir Bryan Nicholson's current term expired, at the end of this year. By that time we would have a better idea of what was happening with the Training Commission, without necessarily creating a presumption that the new TC Chairman would get the seat. In the meantime, it would have to be made clear that Sir Bryan was on the NEDC in his own right, and not because of his new position as Chairman of the Post Office (although we understand that the NICG might nominate him for a Nationalised Industry post thereafter). This latter seems to us the best option.

?

No X

5. Whenever the decision is made, if you decide that you would wish to replace Sir Bryan with someone other than the new Training Commission chairman, then it might be possible to avoid the sort of signals Mr Fowler was worrying about by appointing someone else from the field of training. A possible candidate might be **Sir James Ball**, professor of economics at the London Business School and Chairman of the Legal and General Group. Sir James has also been the frontrunner for the post of Chairman of the new Universities Funding Council (UFC), although the Prime Minister has expressed doubts about whether he should be given this job. There is a risk that if he is appointed to both NEDC and the UFC post, he will use NEDC for UFC lobbying. Appointing the Chairman of a Government-backed body like the UFC might also lead to an assumption that Sir James' UFC successor should replace him in due course (ie a repeat of what has happened with the MSC). Therefore, if Sir James is appointed to the UFC - and we will not know until later in the year - HE think that it would be undesirable for him also to have a seat on NEDC.

Spreading the net more widely, possibilities might be:

Christopher Ball, outgoing Warden of Keble College, Oxford and Chairman of the National Advisory Body for Public Sector Higher Education (NAB) as a representative of the world of **education** more generally. The NAB is being wound up, so the worries expressed above about the UFC do not apply here;

Sir David Phillips, Chairman of the Advisory Board for the Research Councils (ABRC), to give an **R&D** angle. But the risks attached to the UFC apply at least equally to the ABRC;

Sir Simon Hornby, Chairman of the **Design Council** and Chairman of the W H Smith Group. Design may, though, be considered too narrow an angle to warrant NEDC membership.

John Salisse, Chairman of the Retail Consortium, might help correct an imbalance away from the **service** sector. The Retail Consortium have lobbied for membership in the past, but the CBI would be likely to resent their appointment, particularly as they would regard Alec Monk as already representing retailing.

You might note that, although your query was sparked by one of Jo Richardson's PQ s about women in NEDC, none of the obvious candidates is a woman. One candidate we considered was Mrs Sally Oppenheim-Barnes but there is already a consumers' representative (Mrs Waterhouse) on NEDC, who might not welcome an appointee from a rival organisation.

7. An alternative would be to **reduce the size of the Council** by one (**option d**) The number of seats is not immutable (when the Bank of England was given a seat in 1980, that increased the number of independents on the Council). This course would avoid having to come up with a make-weight appointment. But coming in the wake of your 1 July announcement and the subsequent detailed decisions on the future funding of EDCs, there is a possibility that it might be interpreted as an attack on the Council.

8. On balance, we do not think there is a particularly strong case for any of these possible appointments. There may also be an argument with Mr Fowler, and a fuss at NEDC if there are any major changes made to the Council's membership. We recommend that you do not replace Sir Bryan Nicholson until his current term

expires, by which time we should be in a better position to advise on whether there is a Training Commission Chairman of sufficient calibre. We should also know by then whether Sir James Ball will be tied up with the UFC. If you agree, we suggest that Ms Wallace should write to Mr Fowler's private secretary on the lines of the attached draft letter.

Steven Flanagan

S J FLANAGAN

2835.2/005c2

CONFIDENTIAL

Nick Wilson
pl type final

DRAFT LETTER FROM THE APS/CHANCELLOR TO PS/SECRETARY OF STATE FOR EMPLOYMENT

NEDC MEMBERSHIP

The Chancellor has seen your letter of 18 November and Jeremy Godfrey's ~~the DTI letter~~ of 29 September. He agrees that Sir James Munn should not be appointed to NEDC. Although he would wish to consider possible alternatives for membership, he thinks that it would be premature to reach a decision before a permanent chairman is found. The Chancellor therefore intends to let Sir Bryan Nicholson continue to ~~serve out his current term of membership in a personal capacity, until December this year;~~ serve on the Council for the time being in a personal capacity, and reach a decision later on whether and, if so, how to replace him.

2. Copies of this letter go to Jeremy Godfrey and ~~the private secretaries to the Secretary of State for the Environment, the Secretary of State for Education, and the Secretary of State for Energy.~~ to Robin Young ~~[illegible]~~ (Environment) Tom Jeffery (Education), and Stephen Haddrill (Energy)

[M P W]

ANNEX

MUNN, Sir James, Kt 1985; OBE 1976; MA; Chairman, Manpower Services Committee for Scotland, since 1984; *b* 27 July 1920; *s* of Douglas H. Munn and Margaret G. Dunn; *m* 1946, Muriel Jean Millar Moles; one *d*. *Educ:* Stirling High Sch.; Glasgow Univ. (MA (Hons)). Entered Indian Civil Service, 1941; served in Bihar, 1942–47. Taught in various schools in Glasgow, 1949–57; Principal Teacher of Modern Languages, Falkirk High Sch., 1957–62, Depute Rector, 1962–66; Rector: Rutherglen Acad., 1966–70; Cathkin High Sch., Cambuslang, Glasgow, 1970–83. Member: Consultative Cttee on Curriculum, 1968–80, Chm., 1980–; University Grants Cttee, 1973–82; Chm., Cttee to review structure of curriculum at SIII and SIV, 1975–77. Mem. Court, Strathclyde Univ., 1983–.

Chevalier des Palmes Académiques, 1967. DUniv Stirling, 1978. *Recreations:* reading, bridge. *Address:* 4 Kincath Avenue, High Burnside, Glasgow G73 4RP. *T:* 041–634 4654.

BALL, Christopher John Elinger, MA; Warden, Keble College, Oxford, since 1980; Chairman, Board of National Advisory Body for Public Sector Higher Education in England, since 1982; *b* 22 April 1935; *er s* of late Laurence Elinger Ball, OBE, and Christine Florence Mary Ball (*née* Howe); *m* 1958, Wendy Ruth Colyer, *d* of Cecil Frederick Colyer and Ruth Colyer (*née* Reddaway); three *s* three *d*. *Educ:* St George's School, Harpenden; Merton College, Oxford (Harmsworth Scholar 1959). 1st Cl. English Language and Literature, 1959; Dipl. in Comparative Philology, 1962; MA Oxon, 1963. 2nd Lieut, Parachute Regt, 1955–56. Lectr in English Language, Merton Coll., Oxford, 1960–61; Lectr in Comparative Linguistics, Sch. of Oriental and African Studies (Univ. of London), 1961–64; Fellow and Tutor in English Language, Lincoln Coll., Oxford, 1964–79 (Sen. Tutor and Tutor for Admissions, 1971–72; Bursar, 1972–79; Hon. Fellow, 1981). Sec., Linguistics Assoc. of GB, 1964–67; Pres., Oxford Assoc. of University Teachers, 1968–70; Publications Sec., Philological Soc., 1969–75; Chairman: Oxford Univ. English Bd, 1977–79; Jt Standing Cttee for Linguistics, 1979–82; Conf. of Colls Fees Cttee, 1979–85; Hebdomadal Council, 1985–; Member: General Bd of the Faculties, 1979–82; CNAA, 1982– (Chm., English Studies Bd, 1973–80, Linguistics Bd, 1977–82); BTEC, 1984–; IT Skills Shortages Cttee (Butcher Cttee), 1984–85; CBI IT Skills Agency, 1985–. Mem. Editl Bd, Oxford Rev. of Education, 1984–. *Publications:* Fitness for Purpose, 1985; various contributions to philological, linguistic and educational jls. *Address:* Keble College, Oxford. *T:* Oxford 59201. *Club:* United Oxford & Cambridge University.

BALL, Prof. Sir (Robert) James, Kt 1984; MA, PhD; Professor of Economics, London Business School, since 1965; Chairman, Legal & General Group, since 1980; Director, IBM UK Holdings Ltd, since 1979; Economic Adviser, Touche Ross & Co., since 1984; *b* 15 July 1933; *s* of Arnold James Hector Ball; *m* 1st, 1954, Patricia Mary Hart Davies (marr. diss. 1970); one *s* three *d* (and one *d* decd); 2nd, 1970, Lindsay Jackson (*née* Wonnacott); one step *s*. *Educ:* St Marylebone Grammar Sch.; The Queen's College, Oxford; Styring Schol.; George Webb Medley Junior Schol. (Univ. Prizeman), 1956. BA 1957 (First cl. Hons PPE), MA 1960; PhD Univ. of Pennsylvania, 1973. RAF 1952–54 (Pilot-Officer, Navigator). Research Officer, Oxford University Inst. of Statistics, 1957–58; IBM Fellow, Univ. of Pennsylvania, 1958–60; Lectr, Manchester Univ., 1960, Sen. Lectr, 1963–65; London Business School: Governor, 1969–84; Dep. Principal, 1971–72; Principal, 1972–84. Director: Ogilvy and Mather Ltd, 1969–71; Economic Models Ltd, 1971–72; Barclays Bank Trust Co., 1973–86. Part-time Mem., Nat. Freight Corporation, 1973–77; Dir, Tube Investments, 1974–84. Member: Cttee to Review National Savings (Page Cttee), 1971–73; Economics Cttee of SSRC, 1971–74; Cttee on Social Forecasting, SSRC, 1971–72; Cttee of Enquiry into Electricity Supply Industry (Plowden Cttee), 1974–75; Chm., Treasury Cttee on Policy Optimisation, 1976–78. Governor, NIESR, 1973–. Member Council: REconS, 1973–79; BIM, 1974–82 (Chm., Economic and Social Affairs Cttee, 1979–82); British–N American Cttee, 1985–. Fellow, Econometric Soc., 1973; CBIM 1974; FIAM 1985. *Publications:* An Econometric Model of the United Kingdom, 1961; Inflation and the Theory of Money, 1964; (ed) Inflation, 1969; (ed) The International Linkage of National Economic Models, 1972; Money and Employment,

1982; (with M. Albert) Toward European Economic Recovery in the 1980s (report to European Parliament), 1984; articles in professional jls. *Recreations:* fishing, chess. *Address:* London Business School, Sussex Place, Regent's Park, NW1 4SA. *T:* 01–262 5050; Timbers, 8 Winchester Close, Esher, Surrey KT10 8QH. *Club:* Royal Dart Yacht.

PHILLIPS, Prof. Sir David (Chilton), Kt 1979; FRS 1967; BSc, PhD (Wales); FInstP; Professor of Molecular Biophysics and Fellow of Corpus Christi College, Oxford, since Oct. 1966; *b* 7 March 1924; *o s* of late Charles Harry Phillips and Edith Harriet Phillips (*née* Finney), Ellesmere, Shropshire; *m* 1960, Diana Kathleen (*née* Hutchinson); one *d*. *Educ:* Ellesmere C of E Schools; Oswestry Boys' High Sch.; UC, Cardiff. Radar Officer, RNVR, 1944–47. UC, Cardiff, 1942–44 and 1947–51. Post-doctoral Fellow, National Research Council of Canada, 1951–53; Research Officer, National Research Laboratories, Ottawa, 1953–55; Research Worker, Davy Faraday Research Lab., Royal Institution, London, 1955–66; Mem., MRC, 1974–78, Royal Soc. Assessor, 1978–83; Chm., Adv. Bd for the Research Councils, 1983–; Member: Adv. Council for Applied R&D, 1983–; Technology Requirements Bd, 1985–. UK Co-ordinator, Internat. Science Hall, Brussels Exhibition, 1958; Member, European Molecular Biology Organization (EMBO), 1964, Mem. Council, 1972–78; Royal Society: Vice-Pres., 1972–73, 1976–83; Biological Sec., 1976–83; Fullerian (Vis.) Prof. of Physiology, Royal Institution, 1979–85, Christmas lectures, 1980. For. Hon. Member, Amer. Academy of Arts and Sciences, 1968; Hon. Mem., Amer. Society of Biological Chemists, 1969 (Lecturer, 1965); For. Associate, Amer. Nat. Acad. of Science, 1985; Almroth Wright Memorial Lecturer, 1966; Plenary Lectures, Internat. Biochem. Congress, Tokyo, 1967, Hamburg, 1976, Internat. Crystallography Congress, Kyoto, 1972; Hassel Lecture, Oslo, 1968; Krebs Lecture and Medal, FEBS, 1971; Feldberg Prize, 1968; CIBA Medal, Biochem. Soc., 1971; Royal Medal, Royal Society, 1975; (jtly) Prix Charles Léopold Mayer, French Académie des Sciences, 1979. Hon. DSc: Leicester, 1974; Univ. of Wales, 1975; Chicago, 1978; Exeter, 1982; Warwick, 1982; Essex, 1983. Member, Ed. Board, Journal of Molecular Biology, 1966–76. *Publications:* papers in Acta Cryst. and other journals. *Address:* Molecular Biophysics Laboratory, Zoology Department, Rex Richards Building, South Parks Road, Oxford OX1 3QU. *T:* Oxford 50454; 3 Fairlawn End, Upper Wolvercote, Oxford OX2 8AR. *T:* Oxford 55828; Corpus Christi College, Oxford.

HORNBY, Simon Michael; Director, since 1974, Chairman, since 1982, W. H. Smith & Son (Holdings) Ltd; Director, S. Pearson & Son Ltd, since 1978; *b* 29 Dec. 1934; *s* of Michael Hornby, *qv*; *m* 1968, Sheran Cazalet. *Educ:* Eton; New Coll., Oxford; Harvard Business Sch. 2nd Lieut, Grenadier Guards, 1953–55. Entered W. H. Smith & Son, 1958, Dir, 1965; Gp Chief Exec., W. H. Smith & Son (Holdings), 1978–82. Mem. Exec. Cttee, 1966–, Property Cttee, 1979–, Council 1976–, National Trust; Mem. Adv. Council, Victoria and Albert Museum, 1971–75; Council, RSA, 1985–; Trustee, British Museum, 1975–85; Chm., Nat. Book League, 1978–80 (Dep. Chm., 1976–78). Chm., Design Council, 1986–. *Recreations:* gardening, golf. *Address:* 8 Ennismore Gardens, SW7 1LN. *T:* 01–584 1597; Lake House, Pusey, Faringdon, Oxon SN7 8QB. *T:* Buckland 659. *Club:* Garrick. – Knighted in New Year's Honours

pmp

cc PS/Chancellor
PS/Chief Secretary
Mr Monck
Mr Burgner
Mr Moore
Mrs M Brown
Mr MacAuslan
Mrs Diggle
Mr Tarkowski
Mr Wynn Owen
Mr S Flanagan

H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01-270 3000
Direct Dialling 01-270 4360

Sir Peter Middleton KCB
Permanent Secretary

N Willis Esq
Trades Union Congress
Congress House
Great Russell Street
LONDON
WC1B 3LS

8 January 1988

Dear Norman,

NEDC MEMBERSHIP

As you are aware, the current two year terms of membership of the NEDC of Rodney Bickerstaffe and Clive Jenkins have now technically expired, though we expect to see them at the January meeting. As usual, I am formally writing to ask you to let me know the wishes of the TUC with regard to these two seats. I will then submit your recommendations to the Chancellor.

Yours ever,

Peter

P E MIDDLETON

H M Treasury
Parliament Street London SW1P 3AG
Switchboard 01-270 3000
Direct Dialling 01-270 4360

cc PS/Chancellor
PS/Chief Secretary
Mr Monck
Mr Burgner
Mr Moore
Mrs M Brown
Mr MacAuslan
Mrs Diggle
Mr Tarkowski
Mr Wynn Owen
Mr S Flanagan

Sir Peter Middleton KCB
Permanent Secretary

J M M Banham Esq
Director-General
Confederation of British Industry
Centre Point
103 New Oxford Street
LONDON
WC1A 1DU

8 January 1988

Dear John,

As you are aware Jim McFarlane's current two-year term of membership of the NEDC expires at the end of this month. As is usual, I am formally writing to ask you to let me know the wishes of the CBI with regard to this seat. I will then submit your recommendation to the Chancellor.

Yours ever,

Peter

P E MIDDLETON

PS. I have seen the letter. I am in no way committed to letting Sir B Nicholson stay on his present term.

CONFIDENTIAL

FROM: S P JUDGE
DATE: 11 January 1988

PS/CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary
PS/Financial Secretary
PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr Burgner
Mr Gilmore
Mr Burr
Mr MacAuslan
Mr Kaufmann
Mr Kelly
Mr Finnegan
Mr Wynn Owen
Mr Flanagan
Mr Cropper (*)
Mr Tyrie (*)
Mr Call (*)
(* with Mr Flanagan's note)

On the main point, the best thing would be for Sir B Nicholson to replace ~~&~~ Ld Marshall as ~~[illegible]~~ a Nat Ind representative (& this is a matter for us: what Mr Monck seems to assume @ X: the NICG do not contain a nominator to NEDC). The membership of NEDC is now one for the [illegible] to reconsider at the time whether we decide to [illegible]

NEDC MEMBERSHIP

The Paymaster General has seen Mr Flanagan's submission of 7 January. He thinks that Mrs Judith Chaplin of the IOD might be suitable, if her membership of the Interim Advisory Committee on Teachers' Pay is regarded as quasi-official. She served on Norfolk County Council - the Paymaster thinks she was the Chairman of the Education Committee - then the ACC and the NAB.

How far [illegible] Commission on NEDC or not depends entirely on the Govt. Chairman of the NEDC [illegible] calibre of the man we can [illegible] [illegible] [illegible] [illegible] place: there [illegible] so far are not v. compelling [illegible]

S P JUDGE
Private Secretary

I can see the attraction of the PMG's idea of getting the IOD in this back door, I don't think this one is on.

pmp

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6460
Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

12/1

CH/EXCHEQUER
REC. 12 JAN1988
ACTION Mr Wynn Owen
COPIES TO CST, PMG, Sir P Middleton, Mr Anson, Mr Monck, Mr Burgner, Mr MacAuslan

Moira Wallace
Chancellor of the Exchequer's Office
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

12 January 1988

Dear Moira

NEDC - WEDNESDAY 13 APRIL

Thank you for your letter of 8 December to John Turner on the above.

I am writing to confirm that my Secretary of State will be available to Chair the meeting of NEDC to be held at 2.30 on Wednesday, 13 April.

Sincerely

Beverley.

Beverley Evans
Private Secretary

mjd 3/0lm

CONFIDENTIAL

pmp.

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

12 January 1988

Nick Wilson, Esq
PS/Secretary of State
for Employment
Caxton House
Tothill Street
London
SW1H 9NF

Dear Nick,

NEDC MEMBERSHIP

The Chancellor has seen your letter of 18 November and Jeremy Godfrey's of 29 September. He agrees that Sir James Munn should not be appointed to NEDC. Although he would wish to consider possible alternatives for membership, he thinks that it would be premature to reach a decision before a permanent chairman is found. The Chancellor therefore intends to let Sir Bryan Nicholson continue to serve on the Council for the time being in a personal capacity, and reach a decision later on whether and, if so, how to replace him.

Copies of this letter go to Jeremy Godfrey, and to Robin Young (Environment), Tom Jeffery (Education), and Stephen Haddrill (Energy).

Yours, Moira.

MOIRA WALLACE
Assistant Private
Secretary

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Burgner
Mr Gilmore
Mr Burr
Mr MacAuslan
Mr Kaufmann
Mr Kelly
Mr Finnegan
Mr Wynn Owen
Mr Cropper
Mr Tyrie
Mr Call
Mr Flanagan

NEDC MEMBERSHIP

ps2/22M

CONFIDENTIAL

mp

FROM: MISS M P WALLACE
DATE: 12 January 1988

MR FLANAGAN

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Monck
Mr Burgner
Mr Gilmore
Mr Burr
Mr MacAuslan
Mr Kaufmann
Mr Kelly
Mr Finnegan
Mr Wynn Owen
Mr Cropper
Mr Tyrie
Mr Call

NEDC MEMBERSHIP

The Chancellor has seen your submission of 7 January, and PS/Paymaster General's minute of 11 January. He has slightly amended your draft Private Secretary letter, so that it does not commit him to letting Sir Bryan Nicholson serve out his present term.

2. On the main issue, the Chancellor has commented that the best thing would be for Sir Bryan Nicholson to replace Lord Marshall as a nationalised industry representative. (The Chancellor thinks that this is a matter for <u>us</u>, and not for the NICG, who do <u>not</u> nominate anyone to NEDC). The membership of NEDC would then be reduced by one, for the time being at least. Whether we decide to put the new Training Commission Chairman on NEDC or not will depend entirely on the calibre of the person we get. In the meantime, it is for consideration whether there are any other strong candidates for the place. The Chancellor is not overwhelmingly attracted by any of the suggestions so far. Although he can see the attraction of the Paymaster General's idea of getting the IOD involved through Mrs Chaplin, he does not think this one is on.

MPW.

MOIRA WALLACE

Chy

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434
My ref:
Your ref:

13 JAN 1988

Peter Lilley MP
Economic Secretary
Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

12 January 1988

Dear Peter

DISCLOSURE OF IMPORTERS' DETAILS

In reply to your letter of 17 December I am doubtful of the utility of legislating to identify the names and addresses of importers from Customs records. However, I have no objections to the course of action you propose.

Yours ever
Nicholas

NICHOLAS RIDLEY

ECONOMIC SECRETARY	
REC'D	13 JAN 1988
ACTION	Mr Kaufman
COPIES TO	PS/Chancellor 2 PS/CST, PS/FST PS/PMG Sir P Middleton Mr Scholar Mr Monck Mr Anson Mr Burgner Mr Culpin

Mr Montfield
Miss Sinclair

Mr Wynn-Owen
Mr Call
Mr Nash C+E
Mr Pratt C+E
PS/C+E

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

This is the work of DTI officials. We must quickly follow up [illegible] with a MAFF letter from me to PL's [illegible]

Ch/ Just as we were getting everyone else on our side ... See also Mr Ridley's note behind MPW 13/1

Peter Lilley Esq MP
Economic Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

ECONOMIC SECRETARY	
REC'D	13 JAN 1988
ACTION	Mr P R C Gray
COPIES TO	PS/Chancellor 2
	PS/CST, PS/FST, PS/PMG
	Sir P Middleton, Mr Monck, Mr Anson, Mr Scholar, Mr Burgner, Mr Culpin
	Mr Mountfield, Miss Sinclair, Mr Wynn-Owen, Mr Call
	PS/C+E, Mr Nash C+E, Mr Pratt C+E

12 January 1988

Dear Mr Lilley

DISCLOSURE OF IMPORTERS' DETAILS

Thank you for copying to me your letter of 17 December to Alan Clark about disclosure of importers' details. I have also seen Alan's reply of 5 January.

I share what I sense is a common feeling, that the results of the consultation exercise were not altogether conclusive. What it has shown however is that the majority of trade respondents, including those from the food and drink industries, are greatly concerned over the risks to their businesses from wider disclosure. The safeguards which I believe they would require, in respect of aggregation and suppressions of specific information about particular traders - quite apart from any concerned with national security would inevitably reduce the sum of the informationthat could be provided. Even so the food and drink sector remains distinctly unenthusiastic.

I am also concerned about the EC dimension, which appears to have received relatively little attention. If we were to disclose more information about importers we would move from a majority group within the EC to join a group of only 3 Member States (Denmark, Italy and Spain). This of itself may not be crucial but at a time when we are becoming increasingly preoccupied with internal market harmonisation it might indeed appear odd to our EC colleagues to provide for such a change in the 1988 Finance Bill when the future of intra Community trade data will inevitably have to be considered in the next year or so.

All this leads me to conclude, for the reasons set out above and because of the need to demonstrate that we are listening to trade advice, to advocate no change in disclosure arrangements for the present.

Yours sincerely

[signature]

JOHN MacGREGOR
(Approved by the Minister and signed in his absence)

NEDC

National Economic Development Council

NEDC(88) 1st Meeting

MINUTES of a Meeting at the National Economic Development Office
Millbank Tower, Millbank, London SW1P 4QX
on Wednesday 13 January 1988 at 2.30 pm.

Chairman:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

Mr J M M Banham

Sir John Cassels CB

The Rt Hon Norman Fowler MP
Secretary of State for Employment

The Rt Hon Robin Leigh-Pemberton

Mr D A G Monk

Sir David Nickson KBE DL

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

Sir Thomas Risk

Mrs R E Waterhouse CBE

The Rt Hon The Lord Young of Graffham
Secretary of State for Trade
and Industry

Mr R Bickerstaffe

Mr J Edmonds

Sir Robert Haslam

Dr J S McFarlane CBE

Sir Bryan Nicholson

Mr T J O'Connor

The Rt Hon Nicholas Ridley MP
Secretary of State for the
Environment

Mr R Todd

Mr N Willis

The following were also present:

Sir Ronald Halstead CBE, Chairman of the Knitting Sector Group.

The Baroness Hooper, Parliamentary Under Secretary of State for Education and Science.

Mr David Trippier MP, Parliamentary Under Secretary of State for the Environment.

Advisers:

<u>HM Treasury</u>

Sir P Middleton
Mr J MacAuslan
Mr R I G Allen
Miss M Wallace
Mr M Call
Mr S Pickford (Item 1)
Mr P Wynn Owen (Item 2)
Mr T Burgner (Item 3)

<u>Department of Employment</u>

Mr G Reid

<u>Department of Energy</u>

Mr A Meyrick

<u>Department of Trade and Industry</u>

Mr H Liesner
Mr R Mingay (Item 1)
Mr J Healey (Item 1)(in NEDO seat)
Mr P Robinson (Item 2)
Mr G White (Item 3)

<u>Department of Education & Science</u>

Mr D Libby

<u>Confederation of British Industry</u>

Mr J Dunkley
Mr J Caff
Mrs J Crawford
Mr A Sentance (Item 1)
Dr F Steele (Item 3)

<u>Trades Union Congress</u>

Mr D Lea
Mr W Callaghan
Mr P Kane
Mr M Smith

<u>Bank of England</u>

Mr R Clews

<u>The Post Office</u>

Mr P Richards

<u>Nationalised Industries' Chairmen's Group</u>

Mr J R Baxter

<u>Department of the Environment</u>

Mr M Dodds

<u>National Economic Development Office</u>

Mr W Eltis
Mr C Leach
Mr B Quilter
Ms L McKinney
Dr D Mayes (Items 1 & 3)
Mr O Murphy (Item 2)
Mr I Brown (Item 2)
Mr C Coleman (Item 3)

Secretariat: Mr M Couchman
Mr D Young

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INTRODUCTION

The CHANCELLOR OF THE EXCHEQUER said that he had received apologies from the Secretary of State for Education and Science, who was represented by the Parliamentary Under Secretary of State; from Mr Jenkins, Mr Jordan and Lord Marshall. The Secretary of State for the Environment would be represented by his Parliamentary Under Secretary of State after item 1. He asked that the minutes record his own and the Council's congratulations to the Director General on the award of a Knighthood in the New Year Honours.

1 OUTLOOK FOR THE ECONOMY

The CHANCELLOR OF THE EXCHEQUER, introducing NEDC(88)1 (the Autumn Statement) and NEDC(88)8 (on the world economy and the UK), said that evidence since the Stock Market fall in October made it clear that, contrary to fears at that time, there was little, if any, prospect of a recession in 1988 or as far ahead as could be seen. Most world economies, including those of the UK, the USA and Japan, though not continental countries, were growing much more strongly towards the end of 1987 than had previously been realised, world interest rates were on average 1 per cent lower, stock markets had steadied, there was a more realistic view of the "wealth effect" of change in share values over the last year and, since Christmas, there had been renewed cooperation between the Group of Seven (G7) countries. In addition, surveys showed that business confidence was good, while commodity prices had been very strong lately. There were some real problems, notably the US budget and trade deficits and the difficulty of getting full international cooperation in a Presidential Election Year. Fortunately, the UK faced this difficult period from a position of considerable strength. It would be helpful in discussion if members indicated any disagreement they might have with the five proposed conclusions in the briefing note circulated by the Director General.

SIR DAVID NICKSON, introducing NEDC(88)2, said he agreed with the Chancellor of the Exchequer on the need to maintain both the momentum of industrial recovery and the confidence on which it depended. The CBI welcomed the Autumn Statement as a very realistic appraisal of the strength of the real economy. In particular, they welcomed both the fall in public spending as a proportion of GDP which should provide scope to reduce taxation, and the increase of about £1 billion in capital expenditure. Exchange rates volatility was a major concern, with the growth of competitive pressures from the lower Dollar and the rise in the Sterling Index from 72 in 1986 to between 75 and 76 now, affecting sales both in the USA and other markets, though the stability against the Deutschemark over the past ten months had been widely welcomed. Growth was bound to be slower, but, he expected, with little decline in confidence. It was important for competitiveness to maintain investment. NEDC(88)7 and NEDC(88)8 showed percentage changes in investment, but not the investment gap between the UK and its competitors. For example, fixed capital per worker in the UK was £2000, in West Germany £2650, implying a £4 billion per year gap; over the years, this added up to some £24 billion. The same problem applied to investment in R&D and in training. Industry needed to increase its profits and to retain the surplus so as to close this gap. As the effects of North Sea Oil declined, the success of manufacturing had become essential.

Interest rates, he continued, should be kept as low as possible, but he recognised the wide range of considerations, not just with exchange rates, which had to be taken into account and welcomed the Chancellor of the Exchequer's efforts to secure international cooperation. Fears about inflation, which the CBI estimated would be under 4 per cent in 1988, might be overstated; there was no obvious danger of overheating in the economy at present. On the very real problem of pay, evidence showed that deals were increasingly linked to output, so that any slowdown in the latter's growth should feed through to lower pay increases. Interest rate increases were not encouraging to investment and, any tightening should be on fiscal policy. The CBI would be concerned about any large increase in public spending. Business taxation (including Corporation Tax, business rates and National Insurance contributions) had increased from under £30 billion three years previously to some £38 billion in 1986/87, the same as the current yield from Income Tax. The CBI was concerned about the proposal for a non-domestic national rate for business under the proposed Community Charge. The increase in electricity prices in prospect would have the equivalent effect on industry of a 2.5 per cent rise in interest rates. Finally, any reduction in the burden of personal taxation should be focussed on lower marginal rates so as to motivate management; the UK's top marginal rate of 60 per cent compared with a range from 33 to 49 per cent in English speaking countries (to which British managers might be tempted).

Responding to Sir David Nickson, the CHANCELLOR OF THE EXCHEQUER said stability had been maintained between Sterling and the Deutschemark; this was of particular importance to industry. The Dollar had fallen, but it was American policy actions (including recent and welcome intervention by the Federal Reserve Bank to support the Dollar) which would determine its value. As NEDC(88)7 showed, business taxes (excluding local imposts) were lower as a percentage of total taxation in the UK than in any other G7 country except Canada. The large increase in UK business taxation, to which Sir David had referred, was due to the welcome rise in profitability.

MR BICKERSTAFFE said the 1988 Budget would be dominated by the unprecedented uncertainty of the world situation. The TUC, which shared many of the CBI's concerns, had written to the Chancellor of the Exchequer in November because of the urgency of dealing with the impact of the Stock Market crash on world growth prospects; the US economy could be pushed into recession with crisis in Third World countries and unemployment increasing in OECD countries. The OECD had now reinforced their fears, forecasting lower growth and higher unemployment in Europe, the possibility of higher interest rates and damage to the world economy from a US budget deficit cut. The G7 statement, which, like the Louvre Accord, had lacked proposals to strengthen economic fundamentals, had not fully restored confidence; downward pressure on the Dollar had been met only by massive, unsustainable intervention. Surplus countries, including the UK, must take action to expand further; hence there was alarm at the recent West German decision to increase taxes and reduce public spending. To avoid similar responses from other G7 countries, it was now more important than ever to hold a World Economic Summit, including the European Community and debtor nations. The UK Government had a particular role in pressing for this; the Community's cooperative growth strategy could provide the basis for worldwide action.

Turning to the UK economy, he said that the statement in NEDC(88)8 that "in most respects" performance had been better than the G7 average was misleading: the UK's record was worse on inflation, manufacturing output and unemployment; and about the same on growth, fixed investment and employment. The TUC recognised the recovering performance of the UK economy and the benefits this had brought; their concern was not for the past, but for the future. They feared output would slow sharply in the second half of 1988; there were signs of lower investment, exports and consumption (as the savings ratio fell towards zero), while the fall in unemployment might come to a stop or be reversed. They were concerned at the call by the Governor of the Bank of England for higher interest rates and at the possibility of the use of growing tax revenues to reduce borrowing and ensuring low growth in the second half of 1988. They agreed with the CBI that fears of overheating were exaggerated. The principal aim should be to sustain 1987's level of output growth so as to reduce unemployment. The TUC therefore proposed that interest rates should be cut more in line with those in (especially) West Germany, there should be a more competitive exchange rate target for Sterling, particularly against the Deutschemark, and the PSBR target should be £4 billion as in the 1987 Budget. With this package, it would be possible to accommodate increased spending on the National Health Service (NHS) as well as a cut in basic rate Income Tax if the Chancellor wished that.

Within this framework, he concluded, a key priority was to assist the one-third of the adult population who had missed out on national prosperity since 1983. Recent trends in output and unemployment and social security changes were creating a more divided Britain; since 1983, virtually the whole increase in jobs had been in the Midlands and South; taxes had fallen for the highly paid, while pensions had lagged behind earnings; the house price spiral in the South would eventually harm employment and output growth across the whole economy; and everyone would be poorer if health suffered because of underfunding of the NHS, one of the nation's greatest assets. The Chancellor of the Exchequer should think again before taking the tax cutting route. The TUC was proposing additional spending of £750 million on the NHS and £850 million on industrial support, and more help for pensioners, child benefit and the long term unemployed. The mood of the country was that the proper funding of the NHS was a top priority; its most pressing problems could be put right for the equivalent of under one penny on basic rate Income Tax, not spent for its own sake, but for priority areas. As a second best option, tax cuts should be made through a lower rate band or higher allowances rather than a reduced basic rate.

Responding to Mr Bickerstaffe, the CHANCELLOR OF THE EXCHEQUER agreed that the NHS was important; but its improvement was not just a matter of spending, although, in the Autumn Statement, this had been increased by £700 million for 1988/89 above earlier plans. There was a widespread misconception about the Louvre agreement; it was not just about exchange rates since this would have been pointless without other monetary policies to maintain stability and consistent fiscal policies. The Louvre Accord had dealt with the changes needed in each country, such as a lower US budget deficit and increased demand in Japan and West Germany; each party had undertaken supply side measures.

MR WILLIS drew attention to the European Community agreement between the social partners, reproduced in NEDC(88)3, reflecting concern about gloomy forecasts for Europe, including higher unemployment. He had been impressed by the common ground between industrialists and trade unions on investment, infrastructure and unemployment; the cooperative growth strategy could help with reform of the Community's financing, agricultural policy and with completion of the Internal Market, to which he attached great importance. The UK's growth gave it the possibility of playing a key role. The TUC had stressed the importance of a Community-wide strategy at earlier NEDC meetings; the Government should now show enthusiasm. Although one should not be alarmist about prospects, emerging problems had to be recognised.

The SECRETARY OF STATE FOR EMPLOYMENT said everyone would welcome the fall in unemployment for 17 months in succession (notably for the long term unemployed and youths), while prospects for further reductions were bright. However, its continued decline was not automatic; pay was a factor, with hourly earnings in manufacturing up 8 per cent over the past year compared with an average 4.9 per cent in the major OECD countries. It was not right to talk of a "North/South divide" (he noted that Mr Bickerstaffe appeared now to include the Midlands with the South); some of the greatest reductions had been in the North, North West and Yorkshire and Humberside regions. The TUC paper ignored self-employment. He agreed that the least well off needed help; they tended to be the long term unemployed for whom the Government was trying to provide a training/re-training programme, which he hoped would be agreed.

The GOVERNOR OF THE BANK OF ENGLAND said the world situation was much clearer now than before September 1985; talk of "unprecedented uncertainty" was inaccurate. The Louvre Accord had specified policy actions to be taken; the question now was one of extent and speed of implementation. Uncertainty was concentrated on the Dollar, which the UK had least opportunity to control. Noting Sir David Nickson's point that volatility was industry's chief concern, it should be remembered that the parties to the Louvre and Plaza Agreements formed a non-inflationary club. It was indifference to inflation which would add uncertainty; his own recent remarks had to be seen in that context. It would be agreeable to meet Mr Bickerstaffe's call for lower interest rates, but one could not be indifferent to the consequences of overlax exchange or interest rate policy on the economy; to speak in this way was not alarmist, but a reminder of an important reality. The Stock Market events of 19 October would not greatly affect growth in the UK or elsewhere: the Federal Reserve Bank was expecting US growth of 2.5 per cent in 1988; there would be world growth, although it was always necessary to keep in mind the danger of an unsustainable rate of growth. UK growth was vigorous; it needed watching, but not immediate restraint. Bank lending, especially for housing, and house prices were rising powerfully; and this was reflected in the balance of payments. Accordingly there was no less need for caution in counter-inflationary policy than before.

The SECRETARY OF STATE FOR TRADE AND INDUSTRY, in response to Mr Willis, noted that the economies of continental Europe were not doing well at present compared with the UK. Our unemployment was falling and was below France's, while West Germany's was rising. It should be remembered that, by 1993, the Channel Tunnel would make the UK physically part of Europe. Under the internal market, service sector companies would be able to trade in other Community countries; likewise, their firms could enter the UK. Some of the programmes he had just announced were about non-price competitiveness, about which the CBI had been concerned for some years. Looking ahead to 1992/93, he noted that quality and other non-price factors were important; it was not just a matter of the exchange rate. DR McFARLANE responded that the exchange rate was not of minor importance and should not be pushed aside by other factors. The recent improvement in the competitiveness of US products was due to exchange rate changes, not design or quality.

SIR ROBERT HASLAM said that movement in the Dollar would have more impact than the Stock Market fall, with effects on import penetration. There had been a reduction of £6 per tonne, 20 per cent of the total price, in imported coal. At the time of the Louvre Accord, the Dollar was at 1.53 and the Deutschemark at 2.80 against Sterling whose Index was then 69. These were apparently then thought acceptable to industry. He wondered why the Deutschemark was "tracked" at 3 to the £ instead of 2.80. Action was needed on interest rates even at some risk of inflation.

MR TODD, referring to the proposed Adult Training Programme, said the principle of schemes being voluntary was important. The Chancellor of the Exchequer had said he shared the TUC's emphasis on the value of the NHS; if so, the issue was whether the Government's choices were right for the economy and the people. He asked what the job creation effects of a 2p cut in Income Tax would be. Later, he noted that the House of Commons Social Services Committee had said that there was an underfund of £1.3 billion for the NHS; the present situation was immoral. MR WILLIS added that such problems as an ageing population had been foreseeable; funds had to be found to meet the situation.

The CHANCELLOR OF THE EXCHEQUER said that he did not accept that there was a paucity of funds for the NHS; there had been a large increase in both capital and current spending compared with the past. There were two problems: growing demands on the NHS, and the way its funds were managed. One could not spend one's way to economic activity; there was increased spending on the NHS because it was believed to be needed, not to boost the economy, whose growth was determined by the performance of business and industry. To help that, the Government sought to remove obstacles and create an enterprise culture; lower taxation was part of this. There was much better economic performance as a result. He entirely agreed with the Governor of the Bank of England, not with Sir Robert Haslam: the control of inflation was at the heart of the Government's policies.

MR EDMONDS said that international comparisons of wage increases should be treated with caution; figures were put together on a different basis. He agreed with the CBI that the quality of labour input was more important; this implied training which, if taken up, would lead to higher skills and thus higher pay. Figures on gross fixed investment before 1983, rather than the level of pay, showed the reason for Japanese success. On the NHS, the Government had itself said that demographic changes and rising expectations of service required an annual rise in funding of 2 per cent above inflation to avoid deterioration. Government statistics were based on a dismissive attitude to analysis and to everyone's perception of the situation. However, it was convenient to accept the Government's assessment of its success and the consequent opportunity to increase spending; this should go on the NHS to make up for the previous underfunding.

Concluding the discussion, the CHANCELLOR OF THE EXCHEQUER said that he was in listening mode in advance of the Budget; he had not spoken about the scope for any particular action. Nobody said that exchange rates were unimportant; he understood the difficulties arising from wild gyrations, especially of the Dollar, and his speech to the International Monetary Fund in September 1987 had related to this point. However, although Japan's currency had appreciated the most, its economic performance had been outstanding. There had been a good discussion with wide agreement and recognition (a point made by Mr Bickerstaffe) that in relative terms the UK's performance had been better than in the past, although of course in many ways the Council would like it to be better still. There was common ground on training and on research and development. In the light of the wide (though not total) measure of agreement, the Council had endorsed the suggested conclusions put forward in the Director General's briefing note.

The COUNCIL noted NEDC(88)1, 2, 3, 7 and 8 and endorsed the following points put forward in the Director General's briefing note, namely that it:

(i) supported the international coordination of monetary, fiscal and exchange rate policies, in which the Government has been playing a notable part, in order to correct some of the world's fundamental macroeconomic imbalances so as to avoid either recession or a renewed acceleration of inflation;

(ii) welcomed the Chancellor's willingness to allow the PSBR to widen towards 1% of GDP if that proves a necessary element in policies to sustain acceptable growth without inflationary risks;

(iii) regarded the competitiveness of UK industry, which is affected by such factors as wage costs per unit of output, the impact of cost increases influenced by Government upon companies and the exchange rate of Sterling, as vital to the growth of employment and output;

(iv) considered increased expenditure on capital investment, R&D and training as essential to the continuing growth of output and jobs, especially in the long term;

(v) recognised that, provided that economic growth continues at a reasonable rate, the Government will be able to continue to increase its real expenditure on the public services and at the same time reduce the proportion of national income taken in taxation.

2 KNITTING SECTOR GROUP

The Chairman of the Knitting Sector Group, SIR RONALD HALSTEAD CBE, introduced NEDC(88)4, drawing attention to the strong competitive pressure on the sector from imports from low wage countries and from the UK's concentrated retail sector. Some 70 per cent of the sector's output came from small and medium sized firms, 90 per cent of the sector's firms employing fewer than 100 people. The Sector Group's work, while valued by subsidiaries of large companies, was of particular benefit to medium sized and smaller firms. In line with the objectives set out in the White Paper issued the day before by the Department of Trade and Industry, the Sector Group had sought successfully to improve the industry's efficiency, design and marketing over the previous eight years in a variety of ways, including investment in advanced technology. He highlighted two projects described in the paper: the valuable self-supporting consultancy databank service, which incorporated performance data on outstanding companies from the USA, Japan and other countries; and the "dynamic response" project, which called for major investment in all parts of the chain from retailers to suppliers of raw materials. The Group's work on exports had been notable; its manufacturer-retailer panels, now ten years old, had worked to improve relationships and to pool knowledge drawn from all over the world on marketing design and technological developments. He asked the Council particularly to endorse the Sector Group's proposal for disclosure of names of import consignees, described in Annex 3 to the paper, which would require amendment to the Customs and Excise Management Act 1979. He stressed that the American system ran at a profit.

The SECRETARY OF STATE FOR TRADE AND INDUSTRY, congratulating the Sector Group on its work, said that arguments about disclosure put to his Department in its recent consultation did not all point in the same direction. If it were decided to change the legislation, he hoped to see implementation by early 1989. He would note the points made in discussion.

MR O'CONNOR commended the report and endorsed the continuation of the work of the Sector Group. Consultations among CBI membership about disclosure of consignees' details had revealed a diversity of views along sectoral lines, some fearing disclosure of commercially sensitive information, which might also assist overseas competitors. Others saw benefit to themselves and a possible use to counter dumping and counterfeiting. Selective introduction to sectors which would welcome disclosure would permit a period of evaluation. MR BANHAM added that overall the CBI favoured change and that suitable provision in legislation would allow the exceptional cases where there might be unwarrantable adverse commercial consequences to be dealt with.

MR TODD agreed that the industry had done well, although with output stable at its 1980 level, gains in productivity had been at the expense of employment, and the trade deficit was growing. Investment should be directed to increasing capacity as well as reducing costs. Exchange rate movements, especially against the Dollar with which many countries with low cost producers were linked, had intensified competitive pressures. UK producers were now weaker in comparison with the European industry than in the previous decade. He endorsed the Sector Group's work on UK sourcing and called for a continuing focus for it in the new arrangements for the Office. He supported the proposals for disclosure, observing that objections, in his view misplaced, came mainly from a small number of retailers. He doubted arguments that potential foreign competitors would gain from disclosure of actual imports into the UK. MRS WATERHOUSE also commended the Sector Group's work. She hoped that the recent Multifibre Agreement would be the last and that sources of cheap supply would not be blocked. She supported the DTI's proposals on competition, provided that requirements on product safety were not compromised, but wondered how useful the proposals for disclosure would be since, unlike Better Made in Britain, they did not provide information about product specifications and values and could not cover consignees of British producers. She hoped that requirement for disclosure would not be used to dissuade companies from importing. If adopted, the provisions should apply to all sectors. SIR ROBERT HASLAM cited his experience with imported coal in support of the proposal for disclosure.

Responding to the discussion, SIR RONALD HALSTEAD said that the Knitting Industry had discovered that it could match even the cheaper imported products given opportunities such as Better Made in Britain to identify product requirements. To Mrs Waterhouse, he said that disclosure, which was strongly supported by Sir Basil Feldman, would make possible obtaining of detailed information at retail outlet level. To Mr Banham, he said that the proposal made provision for "suppression" of sensitive import information, although US importers made very little use of such a clause in their own country's regulations.

The CHANCELLOR OF THE EXCHEQUER thanked Sir Ronald for his report and for the useful work done by the Sector Group, which had achieved improvements in a sector which remained one of predominantly small firms. The Government would take account of the views expressed on the question of disclosure.

The COUNCIL:

(vi) noted NEDC(88)4.

3 INTERNATIONAL COMPETITIVENESS, R&D AND ACTION BY EDCs

The DIRECTOR GENERAL introduced NEDC(88)5 by recalling the Council's discussion of NEDC(87)7 and its brief to EDCs to emphasise work on exporting in view of the competitiveness of Sterling. Output, exports and profitability had continued to improve since then, providing a further opportunity for companies to invest in physical plant and machinery and in Research and Development (R&D) and training. The Annex to the paper showed how EDCs had been active; he hoped that the Council would agree that they continue their work. Britain's comparative advantage lay in the application of new technology. The paper focussed on the particular relevance of R&D to international competitiveness as an essential factor in promoting a rising standard of living, and presented empirical evidence for the proposition that R&D spending represented a capital investment which was linked to improvements in competitiveness. He asked the Council to agree the conclusions in his covering memorandum.

MR BANHAM, introducing NEDC(88)6, questioned a focus on exports in every sector; for some, increased competitiveness in the home market might be a priority. He expressed concern that West Germany was investing more than Britain by some £4 billion per annum. Higher efficiency of British investment still left a large gap, illustrated by recent CBI studies of Britain's disadvantages in design, quality and added value. The pace of change and of fluctuation in the exchange rate, particularly against the Dollar, had strained industry's ability to respond with the rate of adaptation to be expected to the rising exchange rate of a strong economy. Aerospace and automotive engineering, with other companies at the heart of manufacturing resurgence, were particularly affected. R&D was but one, practically indistinguishable, part of the innovation chain. It was undesirable to focus tax or other incentives on R&D alone; better to reduce taxes and permit industry to decide where best to deploy resources. He noted that the tax burden had risen more over the period 1983-1987 in the United Kingdom than in West Germany if the effect of North Sea oil were excluded.

MR WILLIS called for action on the growing trade deficit, asking for reduction of interest rates and stability thereafter, for Government to deploy its purchasing power to encourage innovation, for legislation requiring disclosure in company reports of R&D expenditure, and for further work at company and plant level, involving Sector Groups, to encourage greater expenditure on R&D from company resources. He reaffirmed support for the Innovation Working Party. He asked the Secretary of State for Trade and Industry for reassurance that his recent proposals would imply an increase rather than a diminution in total Government support with no reduction in regional assistance, and to reconsider the decision not to institute a successor to the Alvey programme.

The SECRETARY OF STATE FOR TRADE AND INDUSTRY said that regional expenditure would increase in each of the following three years. Spending on innovation would not fall over that period. He accepted the argument about R&D in the paper. In contrast to Government-funded civil R&D, which as a proportion of GDP was 25 per cent higher in the UK than in Japan and 50 per cent higher than the USA, industry-funded R&D represented only 1 per cent of GDP in the UK, compared with 1.4 per cent in the USA, 1.6 per cent in West Germany and 1.8 per cent in Japan. Although profits had grown rather more slowly in the first half of 1987 in the UK (4 per cent) compared with the USA (6 per cent), West Germany (5 per cent) and Japan (11 per cent), he expected a substantial increase in the second half; this should permit more R&D. The Government was seeking to change attitudes within industry by withdrawing from support for single companies. It was seeking to encourage academic institutions to work more closely with companies, through "LINK", to promote collaborative research, for example between different sectors, and financially to support international collaboration. He would welcome advice on the problem of defining R&D sufficiently closely for disclosure purposes to exclude ordinary development work. SIR DAVID NICKSON observed that the CBI's City-Industry Task Force had recommended against legislation. He would prefer to see a voluntary response arising from conviction of usefulness. There were classification problems over disclosure in accounts which an accounting standard might help to resolve, although its feasibility had not yet been established.

Summing up, the CHANCELLOR OF THE EXCHEQUER said that there was widespread agreement that responsibility for R&D lay with industry. He noted the CBI's view that industry was looking for a climate in which to generate funds which it would wish to allocate itself. He would look at the question of tax rates on business in the light of Mr Banham's comments. He saw considerable merit in disclosure of R&D spending in company accounts but had not yet felt it right to make it a legislative requirement. The timing of a further progress report on exports should be settled by the Steering Group.

The COUNCIL:

(vii) noted NEDC(88)5 and NEDC(88)6;

(viii) endorsed the conclusions of NEDC(88)5, but left it to the Steering Group on Council Programmes to determine the timing of a further progress report on exports.

4 RELEASE OF PAPERS

The Council agreed to the release of NEDC(88)1, NEDC(88)2, NEDC(88)3, NEDC(88)4, NEDC(88)5, NEDC(88)6, NEDC(88)7 and NEDC(88)8.

National Economic Development Office
Millbank Tower
London SW1P 4QX

25 January 1988

CHANCELLOR OF THE EXCHEQUER

bf to m
~~27/1~~

mp

Ch/ account of importers' details seems OK — not couched in terms of "import substitution"!

mpw
25/1

Thanks. X.

NB [illegible]

[illegible] 27/1

25/1

CH/EXCHEQUER

REC. 25 JAN 1988

ACTION Mr P Wynn Owen

COPIES TO CST, PMG
Sir P Middleton
Mr Anson
Mr Burgner
Mr MacAuslan
Mr Monck.

NEDC

PRIVATE AND IN CONFIDENCE

National Economic Development Council

NEDC(88) 1st Meeting

MINUTES of a Meeting at the National Economic Development Office
Millbank Tower, Millbank, London SW1P 4QX
on Wednesday 13 January 1988 at 2.30 pm.

Chairman:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

Mr J M M Banham

Mr R Bickerstaffe

Sir John Cassels CB

Mr J Edmonds

The Rt Hon Norman Fowler MP
Secretary of State for Employment

Sir Robert Haslam

The Rt Hon Robin Leigh-Pemberton

Dr J S McFarlane CBE

Mr D A G Monk

Sir Bryan Nicholson

Sir David Nickson KBE DL

Mr T J O'Connor

The Rt Hon Cecil Parkinson MP
Secretary of State for Energy

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment

Sir Thomas Risk

Mr R Todd

Mrs R E Waterhouse CBE

Mr N Willis

The Rt Hon The Lord Young of Graffham
Secretary of State for Trade and Industry

The following were also present:

Sir Ronald Halstead CBE, Chairman of the Knitting Sector Group.

The Baroness Hooper, Parliamentary Under Secretary of State for Education and Science.

Mr David Trippier MP, Parliamentary Under Secretary of State for the Environment.

Advisers:

HM Treasury

Sir P Middleton
Mr J MacAuslan
Mr R I G Allen
Miss M Wallace
Mr M Call
Mr S Pickford (Item 1)
Mr P Wynn Owen (Item 2)
Mr T Burgner (Item 3)

Trades Union Congress

Mr D Lea
Mr W Callaghan
Mr P Kane
Mr M Smith

Department of Employment

Mr G Reid

Bank of England

Mr R Clews

Department of Energy

Mr A Meyrick

The Post Office

Mr P Richards

Department of Trade and Industry

Mr H Liesner
Mr R Mingay (Item 1)
Mr J Healey (Item 1)(in NEDO seat)
Mr P Robinson (Item 2)
Mr G White (Item 3)

Nationalised Industries' Chairmen's Group

Mr J R Baxter

Department of Education & Science

Mr D Libby

Department of the Environment

Mr M Dodds

Confederation of British Industry

Mr J Dunkley
Mr J Caff
Mrs J Crawford
Mr A Sentance (Item 1)
Dr F Steele (Item 3)

National Economic Development Office

Mr W Eltis
Mr C Leach
Mr B Quilter
Ms L McKinney
Dr D Mayes (Items 1 & 3)
Mr O Murphy (Item 2)
Mr I Brown (Item 2)
Mr C Coleman (Item 3)

Secretariat: Mr M Couchman
Mr D Young

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INTRODUCTION

The CHANCELLOR OF THE EXCHEQUER said that he had received apologies from the Secretary of State for Education and Science, who was represented by the Parliamentary Under Secretary of State; from Mr Jenkins, Mr Jordan and Lord Marshall. The Secretary of State for the Environment would be represented by his Parliamentary Under Secretary of State after item 1. He asked that the minutes record his own and the Council's congratulations to the Director General on the award of a Knighthood in the New Year Honours.

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The CHANCELLOR OF THE EXCHEQUER, introducing NEDC(88)1 (the Autumn Statement) and NEDC(88)8 (on the world economy and the UK), said that evidence since the Stock Market fall in October made it clear that, contrary to fears at that time, there was little, if any, prospect of a recession in 1988 or as far ahead as could be seen. Most world economies, including those of the UK, the USA and Japan, though not continental countries, were growing much more strongly towards the end of 1987 than had previously been realised, world interest rates were on average 1 per cent lower, stock markets had steadied, there was a more realistic view of the "wealth effect" of change in share values over the last year and, since Christmas, there had been renewed cooperation between the Group of Seven (G7) countries. In addition, surveys showed that business confidence was good, while commodity prices had been very strong lately. There were some real problems, notably the US budget and trade deficits and the difficulty of getting full international cooperation in a Presidential Election Year. Fortunately, the UK faced this difficult period from a position of considerable strength. It would be helpful in discussion if members indicated any disagreement they might have with the five proposed conclusions in the briefing note circulated by the Director General.

SIR DAVID NICKSON, introducing NEDC(88)2, said he agreed with the Chancellor of the Exchequer on the need to maintain both the momentum of industrial recovery and the confidence on which it depended. The CBI welcomed the Autumn Statement as a very realistic appraisal of the strength of the real economy. In particular, they welcomed both the fall in public spending as a proportion of GDP which should provide scope to reduce taxation, and the increase of about £1 billion in capital expenditure. Exchange rates volatility was a major concern, with the growth of competitive pressures from the lower Dollar and the rise in the Sterling Index from 72 in 1986 to between 75 and 76 now, affecting sales both in the USA and other markets, though the stability against the Deutschemark over the past ten months had been widely welcomed. Growth was bound to be slower, but, he expected, with little decline in confidence. It was important for competitiveness to maintain investment. NEDC(88)7 and NEDC(88)8 showed percentage changes in investment, but not the investment gap between the UK and its competitors. For example, fixed capital per worker in the UK was £2000, in West Germany £2650, implying a £4 billion per year gap; over the years, this added up to some £24 billion. The same problem applied to investment in R&D and in training. Industry needed to increase its profits and to retain the surplus so as to close this gap. As the effects of North Sea Oil declined, the success of manufacturing had become essential.

Interest rates, he continued, should be kept as low as possible, but he recognised the wide range of considerations, not just with exchange rates, which had to be taken into account and welcomed the Chancellor of the Exchequer's efforts to secure international cooperation. Fears about inflation, which the CBI estimated would be under 4 per cent in 1988, might be overstated; there was no obvious danger of overheating in the economy at present. On the very real problem of pay, evidence showed that deals were increasingly linked to output, so that any slowdown in the latter's growth should feed through to lower pay increases. Interest rate increases were not encouraging to investment and, any tightening should be on fiscal policy. The CBI would be concerned about any large increase in public spending. Business taxation (including Corporation Tax, business rates and National Insurance contributions) had increased from under £30 billion three years previously to some £38 billion in 1986/87, the same as the current yield from Income Tax. The CBI was concerned about the proposal for a non-domestic national rate for business under the proposed Community Charge. The increase in electricity prices in prospect would have the equivalent effect on industry of a 2.5 per cent rise in interest rates. Finally, any reduction in the burden of personal taxation should be focussed on lower marginal rates so as to motivate management; the UK's top marginal rate of 60 per cent compared with a range from 33 to 49 per cent in English speaking countries (to which British managers might be tempted).

Responding to Sir David Nickson, the CHANCELLOR OF THE EXCHEQUER said stability had been maintained between Sterling and the Deutschemark; this was of particular importance to industry. The Dollar had fallen, but it was American policy actions (including recent and welcome intervention by the Federal Reserve Bank to support the Dollar) which would determine its value. As NEDC(88)7 showed, business taxes (excluding local imposts) were lower as a percentage of total taxation in the UK than in any other G7 country except Canada. The large increase in UK business taxation, to which Sir David had referred, was due to the welcome rise in profitability.

MR BICKERSTAFFE said the 1988 Budget would be dominated by the unprecedented uncertainty of the world situation. The TUC, which shared many of the CBI's concerns, had written to the Chancellor of the Exchequer in November because of the urgency of dealing with the impact of the Stock Market crash on world growth prospects; the US economy could be pushed into recession with crisis in Third World countries and unemployment increasing in OECD countries. The OECD had now reinforced their fears, forecasting lower growth and higher unemployment in Europe, the possibility of higher interest rates and damage to the world economy from a US budget deficit cut. The G7 statement, which, like the Louvre Accord, had lacked proposals to strengthen economic fundamentals, had not fully restored confidence; downward pressure on the Dollar had been met only by massive, unsustainable intervention. Surplus countries, including the UK, must take action to expand further; hence there was alarm at the recent West German decision to increase taxes and reduce public spending. To avoid similar responses from other G7 countries, it was now more important than ever to hold a World Economic Summit, including the European Community and debtor nations. The UK Government had a particular role in pressing for this; the Community's cooperative growth strategy could provide the basis for worldwide action.

Turning to the UK economy, he said that the statement in NEDC(88)8 that "in most respects" performance had been better than the G7 average was misleading: the UK's record was worse on inflation, manufacturing output and unemployment; and about the same on growth, fixed investment and employment. The TUC recognised the recovering performance of the UK economy and the benefits this had brought; their concern was not for the past, but for the future. They feared output would slow sharply in the second half of 1988; there were signs of lower investment, exports and consumption (as the savings ratio fell towards zero), while the fall in unemployment might come to a stop or be reversed. They were concerned at the call by the Governor of the Bank of England for higher interest rates and at the possibility of the use of growing tax revenues to reduce borrowing and ensuring low growth in the second half of 1988. They agreed with the CBI that fears of overheating were exaggerated. The principal aim should be to sustain 1987's level of output growth so as to reduce unemployment. The TUC therefore proposed that interest rates should be cut more in line with those in (especially) West Germany, there should be a more competitive exchange rate target for Sterling, particularly against the Deutschemark, and the PSBR target should be £4 billion as in the 1987 Budget. With this package, it would be possible to accommodate increased spending on the National Health Service (NHS) as well as a cut in basic rate Income Tax if the Chancellor wished that.

Within this framework, he concluded, a key priority was to assist the one-third of the adult population who had missed out on national prosperity since 1983. Recent trends in output and unemployment and social security changes were creating a more divided Britain; since 1983, virtually the whole increase in jobs had been in the Midlands and South; taxes had fallen for the highly paid, while pensions had lagged behind earnings; the house price spiral in the South would eventually harm employment and output growth across the whole economy; and everyone would be poorer if health suffered because of underfunding of the NHS, one of the nation's greatest assets. The Chancellor of the Exchequer should think again before taking the tax cutting route. The TUC was proposing additional spending of £750 million on the NHS and £850 million on industrial support, and more help for pensioners, child benefit and the long term unemployed. The mood of the country was that the proper funding of the NHS was a top priority; its most pressing problems could be put right for the equivalent of under one penny on basic rate Income Tax, not spent for its own sake, but for priority areas. As a second best option, tax cuts should be made through a lower rate band or higher allowances rather than a reduced basic rate.

Responding to Mr Bickerstaffe, the CHANCELLOR OF THE EXCHEQUER agreed that the NHS was important; but its improvement was not just a matter of spending, although, in the Autumn Statement, this had been increased by £700 million for 1988/89 above earlier plans. There was a widespread misconception about the Louvre agreement; it was not just about exchange rates since this would have been pointless without other monetary policies to maintain stability and consistent fiscal policies. The Louvre Accord had dealt with the changes needed in each country, such as a lower US budget deficit and increased demand in Japan and West Germany; each party had undertaken supply side measures.

MR WILLIS drew attention to the European Community agreement between the social partners, reproduced in NEDC(88)3, reflecting concern about gloomy forecasts for Europe, including higher unemployment. He had been impressed by the common ground between industrialists and trade unions on investment, infrastructure and unemployment; the cooperative growth strategy could help with reform of the Community's financing, agricultural policy and with completion of the Internal Market, to which he attached great importance. The UK's growth gave it the possibility of playing a key role. The TUC had stressed the importance of a Community-wide strategy at earlier NEDC meetings; the Government should now show enthusiasm. Although one should not be alarmist about prospects, emerging problems had to be recognised.

The SECRETARY OF STATE FOR EMPLOYMENT said everyone would welcome the fall in unemployment for 17 months in succession (notably for the long term unemployed and youths), while prospects for further reductions were bright. However, its continued decline was not automatic; pay was a factor, with hourly earnings in manufacturing up 8 per cent over the past year compared with an average 4.9 per cent in the major OECD countries. It was not right to talk of a "North/South divide" (he noted that Mr Bickerstaffe appeared now to include the Midlands with the South); some of the greatest reductions had been in the North, North West and Yorkshire and Humberside regions. The TUC paper ignored self-employment. He agreed that the least well off needed help; they tended to be the long term unemployed for whom the Government was trying to provide a training/re-training programme, which he hoped would be agreed.

The GOVERNOR OF THE BANK OF ENGLAND said the world situation was much clearer now than before September 1985; talk of "unprecedented uncertainty" was inaccurate. The Louvre Accord had specified policy actions to be taken; the question now was one of extent and speed of implementation. Uncertainty was concentrated on the Dollar, which the UK had least opportunity to control. Noting Sir David Nickson's point that volatility was industry's chief concern, it should be remembered that the parties to the Louvre and Plaza Agreements formed a non-inflationary club. It was indifference to inflation which would add uncertainty; his own recent remarks had to be seen in that context. It would be agreeable to meet Mr Bickerstaffe's call for lower interest rates, but one could not be indifferent to the consequences of overlax exchange or interest rate policy on the economy; to speak in this way was not alarmist, but a reminder of an important reality. The Stock Market events of 19 October would not greatly affect growth in the UK or elsewhere: the Federal Reserve Bank was expecting US growth of 2.5 per cent in 1988; there would be world growth, although it was always necessary to keep in mind the danger of an unsustainable rate of growth. UK growth was vigorous; it needed watching, but not immediate restraint. Bank lending, especially for housing, and house prices were rising powerfully; and this was reflected in the balance of payments. Accordingly there was no less need for caution in counter-inflationary policy than before.

The SECRETARY OF STATE FOR TRADE AND INDUSTRY, in response to Mr Willis, noted that the economies of continental Europe were not doing well at present compared with the UK. Our unemployment was falling and was below France's, while West Germany's was rising. It should be remembered that, by 1993, the Channel Tunnel would make the UK physically part of Europe. Under the internal market, service sector companies would be able to trade in other Community countries; likewise, their firms could enter the UK. Some of the programmes he had just announced were about non-price competitiveness, about which the CBI had been concerned for some years. Looking ahead to 1992/93, he noted that quality and other non-price factors were important; it was not just a matter of the exchange rate. DR McFARLANE responded that the exchange rate was not of minor importance and should not be pushed aside by other factors. The recent improvement in the competitiveness of US products was due to exchange rate changes, not design or quality.

SIR ROBERT HASLAM said that movement in the Dollar would have more impact than the Stock Market fall, with effects on import penetration. There had been a reduction of £6 per tonne, 20 per cent of the total price, in imported coal. At the time of the Louvre Accord, the Dollar was at 1.53 and the Deutschemark at 2.80 against Sterling whose Index was then 69. These were apparently then thought acceptable to industry. He wondered why the Deutschemark was "tracked" at 3 to the £ instead of 2.80. Action was needed on interest rates even at some risk of inflation.

MR TODD, referring to the proposed Adult Training Programme, said the principle of schemes being voluntary was important. The Chancellor of the Exchequer had said he shared the TUC's emphasis on the value of the NHS; if so, the issue was whether the Government's choices were right for the economy and the people. He asked what the job creation effects of a 2p cut in Income Tax would be. Later, he noted that the House of Commons Social Services Committee had said that there was an underfund of £1.3 billion for the NHS; the present situation was immoral. MR WILLIS added that such problems as an ageing population had been foreseeable; funds had to be found to meet the situation.

The CHANCELLOR OF THE EXCHEQUER said that he did not accept that there was a paucity of funds for the NHS; there had been a large increase in both capital and current spending compared with the past. There were two problems: growing demands on the NHS, and the way its funds were managed. One could not spend one's way to economic activity; there was increased spending on the NHS because it was believed to be needed, not to boost the economy, whose growth was determined by the performance of business and industry. To help that, the Government sought to remove obstacles and create an enterprise culture; lower taxation was part of this. There was much better economic performance as a result. He entirely agreed with the Governor of the Bank of England, not with Sir Robert Haslam: the control of inflation was at the heart of the Government's policies.

MR EDMONDS said that international comparisons of wage increases should be treated with caution; figures were put together on a different basis. He agreed with the CBI that the quality of labour input was more important; this implied training which, if taken up, would lead to higher skills and thus higher pay. Figures on gross fixed investment before 1983, rather than the level of pay, showed the reason for Japanese success. On the NHS, the Government had itself said that demographic changes and rising expectations of service required an annual rise in funding of 2 per cent above inflation to avoid deterioration. Government statistics were based on a dismissive attitude to analysis and to everyone's perception of the situation. However, it was convenient to accept the Government's assessment of its success and the consequent opportunity to increase spending; this should go on the NHS to make up for the previous underfunding.

Concluding the discussion, the CHANCELLOR OF THE EXCHEQUER said that he was in listening mode in advance of the Budget; he had not spoken about the scope for any particular action. Nobody said that exchange rates were unimportant; he understood the difficulties arising from wild gyrations, especially of the Dollar, and his speech to the International Monetary Fund in September 1987 had related to this point. However, although Japan's currency had appreciated the most, its economic performance had been outstanding. There had been a good discussion with wide agreement and recognition (a point made by Mr Bickerstaffe) that in relative terms the UK's performance had been better than in the past, although of course in many ways the Council would like it to be better still. There was common ground on training and on research and development. In the light of the wide (though not total) measure of agreement, the Council had endorsed the suggested conclusions put forward in the Director General's briefing note.

The COUNCIL noted NEDC(88)1, 2, 3, 7 and 8 and endorsed the following points put forward in the Director General's briefing note, namely that it:

(i) supported the international coordination of monetary, fiscal and exchange rate policies, in which the Government has been playing a notable part, in order to correct some of the world's fundamental macroeconomic imbalances so as to avoid either recession or a renewed acceleration of inflation;

(ii) welcomed the Chancellor's willingness to allow the PSBR to widen towards 1% of GDP if that proves a necessary element in policies to sustain acceptable growth without inflationary risks;

(iii) regarded the competitiveness of UK industry, which is affected by such factors as wage costs per unit of output, the impact of cost increases influenced by Government upon companies and the exchange rate of Sterling, as vital to the growth of employment and output;

(iv) considered increased expenditure on capital investment, R&D and training as essential to the continuing growth of output and jobs, especially in the long term;

(v) recognised that, provided that economic growth continues at a reasonable rate, the Government will be able to continue to increase its real expenditure on the public services and at the same time reduce the proportion of national income taken in taxation.

2 KNITTING SECTOR GROUP

The Chairman of the Knitting Sector Group, SIR RONALD HALSTEAD CBE, introduced NEDC(88)4, drawing attention to the strong competitive pressure on the sector from imports from low wage countries and from the UK's concentrated retail sector. Some 70 per cent of the sector's output came from small and medium sized firms, 90 per cent of the sector's firms employing fewer than 100 people. The Sector Group's work, while valued by subsidiaries of large companies, was of particular benefit to medium sized and smaller firms. In line with the objectives set out in the White Paper issued the day before by the Department of Trade and Industry, the Sector Group had sought successfully to improve the industry's efficiency, design and marketing over the previous eight years in a variety of ways, including investment in advanced technology. He highlighted two projects described in the paper: the valuable self-supporting consultancy databank service, which incorporated performance data on outstanding companies from the USA, Japan and other countries; and the "dynamic response" project, which called for major investment in all parts of the chain from retailers to suppliers of raw materials. The Group's work on exports had been notable; its manufacturer-retailer panels, now ten years old, had worked to improve relationships and to pool knowledge drawn from all over the world on marketing design and technological developments. He asked the Council particularly to endorse the Sector Group's proposal for disclosure of names of import consignees, described in Annex 3 to the paper, which would require amendment to the Customs and Excise Management Act 1979. He stressed that the American system ran at a profit.

The SECRETARY OF STATE FOR TRADE AND INDUSTRY, congratulating the Sector Group on its work, said that arguments about disclosure put to his Department in its recent consultation did not all point in the same direction. If it were decided to change the legislation, he hoped to see implementation by early 1989. He would note the points made in discussion. 2

MR O'CONNOR commended the report and endorsed the continuation of the work of the Sector Group. Consultations among CBI membership about disclosure of consignees' details had revealed a diversity of views along sectoral lines, some fearing disclosure of commercially sensitive information, which might also assist overseas competitors. Others saw benefit to themselves and a possible use to counter dumping and counterfeiting. Selective introduction to sectors which would welcome disclosure would permit a period of evaluation. MR BANHAM added that overall the CBI favoured change and that suitable provision in legislation would allow the exceptional cases where there might be unwarrantable adverse commercial consequences to be dealt with.

MR TODD agreed that the industry had done well, although with output stable at its 1980 level, gains in productivity had been at the expense of employment, and the trade deficit was growing. Investment should be directed to increasing capacity as well as reducing costs. Exchange rate movements, especially against the Dollar with which many countries with low cost producers were linked, had intensified competitive pressures. UK producers were now weaker in comparison with the European industry than in the previous decade. He endorsed the Sector Group's work on UK sourcing and called for a continuing focus for it in the new arrangements for the Office. He supported the proposals for disclosure, observing that objections, in his view misplaced, came mainly from a small number of retailers. He doubted arguments that potential foreign competitors would gain from disclosure of actual imports into the UK. MRS WATERHOUSE also commended the Sector Group's work. She hoped that the recent Multifibre Agreement would be the last and that sources of cheap supply would not be blocked. She supported the DTI's proposals on competition, provided that requirements on product safety were not compromised, but wondered how useful the proposals for disclosure would be since, unlike Better Made in Britain, they did not provide information about product specifications and values and could not cover consignees of British producers. She hoped that requirement for disclosure would not be used to dissuade companies from importing. If adopted, the provisions should apply to all sectors. SIR ROBERT HASLAM cited his experience with imported coal in support of the proposal for disclosure.

Responding to the discussion, SIR RONALD HALSTEAD said that the Knitting Industry had discovered that it could match even the cheaper imported products given opportunities such as Better Made in Britain to identify product requirements. To Mrs Waterhouse, he said that disclosure, which was strongly supported by Sir Basil Feldman, would make possible obtaining of detailed information at retail outlet level. To Mr Banham, he said that the proposal made provision for "suppression" of sensitive import information, although US importers made very little use of such a clause in their own country's regulations.

The CHANCELLOR OF THE EXCHEQUER thanked Sir Ronald for his report and for the useful work done by the Sector Group, which had achieved improvements in a sector which remained one of predominantly small firms. The Government would take account of the views expressed on the question of disclosure.

The COUNCIL:

(vi) noted NEDC(88)4.

3 INTERNATIONAL COMPETITIVENESS, R&D AND ACTION BY EDCs

The DIRECTOR GENERAL introduced NEDC(88)5 by recalling the Council's discussion of NEDC(87)7 and its brief to EDCs to emphasise work on exporting in view of the competitiveness of Sterling. Output, exports and profitability had continued to improve since then, providing a further opportunity for companies to invest in physical plant and machinery and in Research and Development (R&D) and training. The Annex to the paper showed how EDCs had been active; he hoped that the Council would agree that they continue their work. Britain's comparative advantage lay in the application of new technology. The paper focussed on the particular relevance of R&D to international competitiveness as an essential factor in promoting a rising standard of living, and presented empirical evidence for the proposition that R&D spending represented a capital investment which was linked to improvements in competitiveness. He asked the Council to agree the conclusions in his covering memorandum.

MR BANHAM, introducing NEDC(88)6, questioned a focus on exports in every sector; for some, increased competitiveness in the home market might be a priority. He expressed concern that West Germany was investing more than Britain by some £4 billion per annum. Higher efficiency of British investment still left a large gap, illustrated by recent CBI studies of Britain's disadvantages in design, quality and added value. The pace of change and of fluctuation in the exchange rate, particularly against the Dollar, had strained industry's ability to respond with the rate of adaptation to be expected to the rising exchange rate of a strong economy. Aerospace and automotive engineering, with other companies at the heart of manufacturing resurgence, were particularly affected. R&D was but one, practically indistinguishable, part of the innovation chain. It was undesirable to focus tax or other incentives on R&D alone; better to reduce taxes and permit industry to decide where best to deploy resources. He noted that the tax burden had risen more over the period 1983-1987 in the United Kingdom than in West Germany if the effect of North Sea oil were excluded.

MR WILLIS called for action on the growing trade deficit, asking for reduction of interest rates and stability thereafter, for Government to deploy its purchasing power to encourage innovation, for legislation requiring disclosure in company reports of R&D expenditure, and for further work at company and plant level, involving Sector Groups, to encourage greater expenditure on R&D from company resources. He reaffirmed support for the Innovation Working Party. He asked the Secretary of State for Trade and Industry for reassurance that his recent proposals would imply an increase rather than a diminution in total Government support with no reduction in regional assistance, and to reconsider the decision not to institute a successor to the Alvey programme.

The SECRETARY OF STATE FOR TRADE AND INDUSTRY said that regional expenditure would increase in each of the following three years. Spending on innovation would not fall over that period. He accepted the argument about R&D in the paper. In contrast to Government-funded civil R&D, which as a proportion of GDP was 25 per cent higher in the UK than in Japan and 50 per cent higher than the USA, industry-funded R&D represented only 1 per cent of GDP in the UK, compared with 1.4 per cent in the USA, 1.6 per cent in West Germany and 1.8 per cent in Japan. Although profits had grown rather more slowly in the first half of 1987 in the UK (4 per cent) compared with the USA (6 per cent), West Germany (5 per cent) and Japan (11 per cent), he expected a substantial increase in the second half; this should permit more R&D. The Government was seeking to change attitudes within industry by withdrawing from support for single companies. It was seeking to encourage academic institutions to work more closely with companies, through "LINK", to promote collaborative research, for example between different sectors, and financially to support international collaboration. He would welcome advice on the problem of defining R&D sufficiently closely for disclosure purposes to exclude ordinary development work. SIR DAVID NICKSON observed that the CBI's City-Industry Task Force had recommended against legislation. He would prefer to see a voluntary response arising from conviction of usefulness. There were classification problems over disclosure in accounts which an accounting standard might help to resolve, although its feasibility had not yet been established.

Summing up, the CHANCELLOR OF THE EXCHEQUER said that there was widespread agreement that responsibility for R&D lay with industry. He noted the CBI's view that industry was looking for a climate in which to generate funds which it would wish to allocate itself. He would look at the question of tax rates on business in the light of Mr Banham's comments. He saw considerable merit in disclosure of R&D spending in company accounts but had not yet felt it right to make it a legislative requirement. The timing of a further progress report on exports should be settled by the Steering Group.

The COUNCIL:

(vii) noted NEDC(88)5 and NEDC(88)6;

(viii) endorsed the conclusions of NEDC(88)5, but left it to the Steering Group on Council Programmes to determine the timing of a further progress report on exports.

4 RELEASE OF PAPERS

The Council agreed to the release of NEDC(88)1, NEDC(88)2, NEDC(88)3, NEDC(88)4, NEDC(88)5, NEDC(88)6, NEDC(88)7 and NEDC(88)8.

National Economic Development Office
Millbank Tower
London SW1P 4QX

25 January 1988

mjd 3/65m

43/124

CONFIDENTIAL

FROM: MOIRA WALLACE
DATE: 14 January 1988

MR MACAUSLAN

cc PS/Economic Secretary
Sir P Middleton
Mr Monck
Mr Burgner
Mr Culpin
Miss Sinclair
Mr Wynn-Owen
Mr Call
PS/C&E

DISCLOSURE OF IMPORTERS' DETAILS

The Chancellor has seen Mr MacGregor's and Mr Ridley's letters of 12 January to the Economic Secretary. He has commented that we must quickly follow up the clear steer at NEDC yesterday with a letter from the Chancellor to Lord Young, proposing that we go ahead.

2. I should be grateful if you could provide a draft.

MJW.

MOIRA WALLACE

Mr MacAuslan

cc PS/Chancellor
PS/EST
Sir P. Middleton

Sir R Halstead rang me to say that after NEDC, Lord Young had told him (in a "courteous?" "Cantonian" way) that this subject ought to be come out all right. AA 14/1

2873/48

CONFIDENTIAL

FROM: N G FRAY 4399

DATE: 14 January 1988

1. MR MACAUSLAN ✓ JM 15/1

2. CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr Monck
Mr Kemp
Mr Burgner
Mr Gilmore
Mr Moore
Mr Hawtin
Mr Potter
Mr M L Williams
Mr Instone
Mr Burr
Mr Wynn Owen
Mr Flanagan
Mr Cropper
Mr Tyrie
Mr Call

Ch/ content with provisional steer:
July - ~~Mr Parkinson~~ Mr Ridley
Sept - ~~Mr Ridley~~? Ld Young

MPW 18/1

NEDC - WEDNESDAY 6 JULY AND WEDNESDAY 21 SEPTEMBER

We have been considering who, from your Ministerial colleagues on the NEDC, should be approached to chair the NEDC meetings on Wednesday 6 July and Wednesday 21 September 1988. This minute offers suggestions and seeks your approval for possible candidates.

Background

2. At the NEDC meeting on 1 July 1987, you announced the following arrangements for chairing forthcoming Council meetings:

> "The other three meetings will be chaired by the Secretary of State for Trade and Industry, the Secretary of State for Employment, and another NEDC Cabinet Minister."

3. Lord Young chaired the Council meeting in October, the first since your announcement in July that NEDC meetings would be held on a quarterly basis. You chaired the meeting on 13 January and Mr Fowler has now been formally invited to chair the meeting in April (your Private Secretary's letter to Mr Fowler's office of 8 December), and has now confirmed that he is able to do so. However, we have since learned that the April NEDC meeting is now being rearranged from the afternoon of **Wednesday 13 April**, so as to accommodate a morning meeting. When NEDO confirm the new time and date, I will provide Miss Wallace with a draft letter to send to Mr Fowler's office seeking confirmation that Mr Fowler is still available to chair this rearranged meeting. (We should not let NEDO fix a date unless Mr Fowler is content with it!) JM

4. This will leave Mr Baker, Mr Ridley or Mr Parkinson of the six NEDC Cabinet Ministers yet to chair a meeting. The provisional agenda for the July 1988 meeting, as agreed by Steering Group is:

(i) Mobile Investment - a Walter Eltis paper on the extent to which the world's larger companies find it advantageous to source in the UK

(ii) Pay and Productivity

(iii) Sectoral item

For September 1988 issues under consideration include Urban Regeneration, Pay, a sectoral item and the EC Internal Market.

5. There is always a slight risk that, should Mr Baker, Mr Ridley or Mr Parkinson chair the **July meeting**, the opportunity could be taken to promote public expenditure bids, though the Chief Secretary would be on hand to deter this.

6. Other than public expenditure considerations, a possibly stronger reason for **Mr Baker** not chairing the July meeting is that the agenda hardly touches his responsibilities. Mr Ridley may not wish to take this on as July is the busiest month on local authority current finance when the provision and grant for the year ahead is determined. The TUC might seek to put pressure on him for a higher settlement. Should **Mr Parkinson** chair the July meeting, he may be quizzed on his plans for electricity privatisation, but this is not thought by PE division to be a major constraint. Of the three, however, arguably **Mr Baker** is responsible for more issues currently of general concern to NEDC than the others.

7. For **September** the agenda items might fit Lord Young, who would be due to chair the September meeting if the rotation of just four Ministers were repeated. But you might feel it more appropriate to give all six Ministers in turn a chance in the chair, in which case the choice would be between the two not already chosen.

Recommendation

8. The possibility, though remote, of promoting PES bids is common to Mr Baker, Mr Ridley and Mr Parkinson. It is therefore essentially a political

decision as to whom you consider appropriate to chair the **July NEDC** meeting. On the arguments given above, it would appear that **Mr Parkinson** might be marginally a front runner and **we recommend** that he be tentatively approached to check whether his diary can accommodate the meeting.

9. You might feel that it is too early to consider a possible candidate to chair the NEDC meeting in **September,** but it would be helpful to know if you wish to continue the rota of four by inviting **Lord Young.** Or, as urban regeneration is provisionally on the agenda for September you might invite **Mr Ridley** to chair the meeting, given that he shares Lord Young's interest in this subject, and this would imply that the chairmanship was rotating through the full NEDC six.

10. No firm decision is needed now, but it would be helpful to know your thinking in advance of the Steering Group meeting which Mr Monck will be attending on Wednesday 20 January.

Nigel Fray

NIGEL FRAY

4241/015

CONFIDENTIAL

FROM: P WYNN OWEN

DATE: 15 January 1988

1. MR ~~MACAUSLAN~~ AM 15/1
2. APS/CHANCELLOR

cc PS/Economic Secretary
Sir P Middleton
Mr Monck
Mr Burgner
Mr Culpin
Miss Sinclair
Mr Flanagan
Mr Fray
Mr Call
PS/C&E
Mr Pratt - C&E
Mr Wood - C&E

Ch/Letter to issue?
MPW 15/1

No. Much too prolix. Plse fix a quick mtg. N.

DISCLOSURE OF IMPORTERS DETAILS

Your minute to Mr MacAuslan of yesterday asked for a draft letter for the Chancellor to send to Lord Young.

BACKGROUND

2. The **Economic Secretary's letter of 17 December** proposed steps to provide for the disclosure of names and addresses of importers by commodity code, but not further disclosure. It also proposed retention of "suppressions" but argued against the right for importers also to object to disclosure of their names and addresses as such. It suggested an announcement should also refer to the longer term possibility of other sectors seeking to develop arrangements analogous to the Special Chemical Return (SCR), in which data giving a finer product breakdown than in the basic commodity codes was available.

3. **Mr Clark's reply of 5 January** argued that the present arrangements should be left unchanged. His [officials'!] arguments were unimpressive. He apparently admitted as much when he spoke to the Chancellor last week, but he still attached great weight to a single argument that some British firms might welcome this information as providing possible leads to new foreign sources of supply, which is the opposite of what is intended. Mr Clark argued that if anything were to go ahead, the right to object to disclosure of names and addresses should accompany the continuation of "suppressions".

4. **Mr MacGregor** wrote on 12 January. He said the food and drink sector remained distinctly unenthusiastic and he foresaw presentational difficulties in the EC since the future of intra Community trade data would have to be considered in the next year or so. He therefore advocated no change. **Mr Ridley,** on the other

hand, also wrote on 12 January saying he doubted the utility of what was proposed, but had no objection to the Economic Secretary's proposed course of action.

5. The NEDC discussion provided a clear steer, as the Chancellor has noted. **Sir Ronald Halstead** made many constructive remarks, arguing for disclosure of full data, but calling the DTI consultation process "helpful" and saying that in many cases commodity code data alone would be sufficient and useful. **Mr O'Connor** (CBI) said CBI members were divided, often along sectoral lines. Those against argued for commercial confidentiality and the risk that other countries would exploit the data. Those in favour pointed to import substitution opportunities and measures to counter dumping and counterfeiting. He recommended introducing further data only for sectors who believed they could take advantage of it. **Mr Banham** said later he had trouble identifying the one or two sectors who might object. The CBI therefore generally supported disclosure, though there may be a very few sectors where it might not be appropriate. **Mr Todd** (TUC) wholly endorsed Sir Ronald Halstead's proposals, saying those against were simply retail interests wanting to protect cheap sources of foreign supply. The data released would only be on goods already being imported, so there should be no detriment from foreigners obtaining such data. **Mrs Waterhouse** was all for more freedom of information and welcomed a proposal of this sort, especially if people would pay for it. But she was sceptical about how useful such measures might be, except in the dangerous goods area, where it might help. She felt it should be done for all sectors or none at all. **Mr Haslam** said disclosure would be of substantial help in marketing.

ANALYSIS

6. There are three issues which the Chancellor might briefly consider further - the CBI proposal for only proceeding for some sectors; whether DTI agreement should now be bought by a hint at a concession on the right to withhold names and addressees; and the intra Community trade data point raised by Mr MacGregor.

7. Certain Sectors only? - as Mrs Waterhouse said this could well lead to complications, perhaps in drafting the law, and also in increasing administrative costs for Customs. There would be problems not only in defining sectors, but also in deciding who represented each sector. Lord Young is moving away from DTI sponsor divisions; half the EDCs have gone. We could not simply rely on trade associations to represent each sector accurately. We might end up not releasing names and addresses for any sector in which any single significant company chose to object on confidentiality grounds, which would weaken the system.

8. A right to non-disclosure of names and addresses? - Mr Clark's letter argued this would have to be allowed, alongside the continuation of suppressions, if anything were to be done. It may be he was suggesting his support could be bought in this way. But there must be a risk that, if it were made too easy for companies to request a non-disclosure of names, many would do so. The value of the data for sale would thus be impaired and Customs might not be able to cover their costs. But the Chancellor might like to consider whether his letter to Lord Young should say that he would be willing to consider favourably what concession could be made on this issue, provided it did not risk widespread abuse, if pressure were to emerge at Finance Bill Committee stage.

9. Intra Community trade data - Mr MacGregor points out that EC trade data will have to be looked at in the next year or two. But such EC changes could well take many years. If we end up with a Community without any internal trade data, such a system of disclosure would still be useful on a Community basis for monitoring imports from non-EC countries. We see no weight in Mr MacGregor's fear that we will be moving into a minority of EC countries who release such data. The new information will be on sale to domestic and foreign firms alike and will provide better information, which should help to oil the wheels of the internal market.

10. I attach a draft letter for the Chancellor to send to Lord Young, copied to Messrs MacGregor and Ridley, plus other relevant Ministers.

pp Nigel [signature]

P WYNN OWEN

4241/015c2

CONFIDENTIAL

DRAFT LETTER FROM THE CHANCELLOR TO:

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
1-15 Victoria Street

DISCLOSURE OF IMPORTERS DETAILS

Following the 13 January NEDC discussion of importers details I am writing to propose that we now go ahead with the limited additional disclosure (of importers names and addresses only) recommended in Peter Lilley's letter of 17 December to Alan Clark. Disclosure would offer [UK] producers of goods equivalent to those being imported useful marketing information, contacts, and leads. This could make companies' marketing, product development, and selling more effective, and reduce its cost. Both the provision of extra information to the market, and the substantial impetus to improved marketing, seem wholly in line with the approach set out in your recent White Paper.

2. When I spoke to Alan Clark prior to NEDC, the argument to which he gave most weight was the his main fear was that further information might provide those now sourcing at home with leads to new foreign sources of supply. I think this fear can be overplayed. Under Peter Lilley's option British firms currently using Those with secure domestic sources of supply are those least likely to purchase such data. In any case, they would not be able to ascertain from it not the names and addresses of the overseas suppliers, but only lists of names and addresses of their competitors. They could not readily approach their competitors to obtain further detail about relevant overseas suppliers even if indeed they wanted to abandon secure home suppliers. I do not feel that Alan's other arguments are overriding. Names and addresses might not always be those of end-users, but they would certainly provide a useful start for those who wished to follow them up. Better information in the market should provide a spur to efficiency. I do not accept that more disclosure will automatically lead to a reduction in the usefulness of the statistics. But I recognize this is a matter we would need to monitor carefully and we would obviously act if we felt that companies were abusing the system.

3. The NEDC discussion gave us a clear steer on the views of industry. Ron Halstead and the TUC argued for full disclosure while John Banham, for the CBI, was basically in favour of further disclosure, though he noted that there might in some cases be commercial sensitivities (though he readily conceded that they had not so far identified any ~~had had problems identifying~~ such cases). Bob Haslam was also in favour on the grounds that disclosure would be a substantial marketing tool while Rachel Waterhouse expressed qualified support. Overall, I think the discussion at the meeting greatly strengthens the case for us to produce something positive as a result of the consultation exercise.

4. I recognize we need have regard to some commercial confidentiality. Hence Peter Lilley's proposal of limited disclosure without provision of finer detail. I was interested to hear Ron Halstead say limited data would be worthwhile.

5. Any ~~The~~ possible controversy over disclosure of importers' names and addresses would be substantially lessened by the retention, as Peter Lilley proposed, of the "suppressions" system which allows companies to apply for masking of their individual trading positions. I note that Alan Clark said that importers should also have the right to object to disclosure of their names and addresses. I have serious doubts about this, but I would be willing to consider sympathetically ~~favourably~~ what concession could be made on this issue, provided it did not risk widespread abuse, if pressure were to emerge at the Finance Bill Committee Stage. The retention of suppressions, plus, if necessary, a concession of some sort on non-disclosure of names, should ensure a broad measure of support for the proposal.

6. As in Peter Lilley's earlier letter, I would still propose to draw attention to the longer term possibility of other sectors seeking to develop arrangements analogous to the Special Chemical Return, in which data giving a finer product breakdown than in the basic commodity codes would be made available. But the essential pre-requisite for similar moves elsewhere would be for those concerned

themselves to agree on the product classification for which they would be willing to provide data and to ensure arrangements for its collation, which could take some considerable time.

very!

7. I have also seen Nick Ridley's muted support for Peter Lilley's proposal and John MacGregor's letter arguing against. John points out that intra Community trade data will have to be considered in the next year or so. Such matters may take some years to resolve within the EC. In the meantime, progress in the UK with disclosure of names and addresses should cause no presentational problems within the EC, since three other countries already have similar practices, the data will be available for sale to all Europeans alike and the better flow of information should facilitate, rather than impede, the progress towards the EC Internal Market. If we ever end up with a Community wholly without internal trade data, such a system will still be useful, on a Community wide basis, for monitoring non-EC imports.

8. I should like to move quickly now, given that several months have passed since the consultation period ended. Perhaps you, and others to whom I am copying this letter, could let me know by the end of next week, 22 January, whether you are content for us to prepare a draft announcement and suitable Finance Bill drafting. My officials would, of course, keep you closely in touch with developments.

9. Copies of this letter go to recipients of Peter Lilley's original letter of 17 December.

[N L]

4241/015c2

CONFIDENTIAL

redraft P.up

DRAFT LETTER FROM THE CHANCELLOR TO:

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
1-15 Victoria Street

DISCLOSURE OF IMPORTERS' DETAILS

Following last week's NEDC discussion of importers' details I propose that we now go ahead with the limited additional disclosure (of importers names and addresses only) recommended in Peter Lilley's letter of 17 December to Alan Clark. [~~I have also seen Nick Ridley's muted support and John MacGregor's letter against.~~] Disclosure would provide extra information to the market and a substantial impetus to improved marketing - [~~both of which are in line with~~] the ~~exactly~~ proposal approach set out in your recent White Paper.

2. When I spoke to Alan Clark ~~prior to NEDC his main fear was~~ before NEDC ~~he was concerned~~ ~~that new information might provide those now sourcing at home with leads to new foreign sources of supply. This fear is overplayed. Those with secure domestic sources of supply are least likely to buy such data. In any case, they would be unable to ascertain from it the names and addresses of overseas suppliers, but only lists of names and addresses of their competitors, whom they could not readily approach for further details.~~ We agreed that we should be guided to a considerable extent by the views expressed there. ~~I think it was clear from the NEDC discussion that~~ I think you will agree that it became clear that the CBI was broadly in favour of the move, provided there could be an escape clause for a minority of cases where disclosure might be harmful – although I see that John MacGregor ~~said~~ has argued against disclosure on the grounds that intra Community trade data will have to be considered in the next year or so. But This could take some years to resolve, and it would be wholly unreasonable to wait that long. ~~Three other European countries already provide such data and it will be on sale to all nationalities alike. The better information should facilitate progress towards the Internal Market. If we do end up without internal Community trade data, such a system will still be useful, on a Community wide basis, for monitoring non-EC imports.~~

~~Indeed~~ John Banham ~~admitted that the CBI~~ confirmed to others in front ~~had not found~~ a single case of opposition on these grounds ... special case where this should apply.

omit?

3. [The NEDC discussion gave us a clear steer on the views of industry and strengthened the case for us to produce something positive following the consultation exercise. But ~~I recognize~~ I accept that we ~~may~~ need to protect ~~have regard to some~~ commercial confidentiality in some special ~~cases~~. Hence Peter Lilley's proposals ~~of~~ for limited disclosure without

CHANCELLOR OF THE EXCHEQUER

Ch/

As your diary is so crowded and this letter ought to issue soon if we are not to lose the initiative, I have attempted to fix up this letter without a meeting.

Is shorter IAE draft, further amended by me, on right lines?

I have further amended

MPW

18/1

~~provision of~~ finer detail and the retention of the "suppressions" system. ~~Alan Clark argued that also said importers should have the right to object to disclosure of their names and addresses. I have serious doubts, but would be willing to consider what concession might be made, provided it did not risk widespread abuse.~~ ~~If~~ pressure for other safeguards were to emerge at the Finance Bill Committee Stage, we could consider ~~what~~ whether any concessions ~~might~~ should be made and, if so, what.

4. We must move quickly now ~~since several months have passed since the consultation period.~~ if we are to act in this year's FB, as I am satisfied that we should. ~~Perhaps~~ I should be grateful if you, and others to whom I am copying this letter, could let me know by the end of this week, 22 January, whether, in the circumstances, you are content for ~~us~~ them? to prepare a draft announcement and suitable Finance Bill drafting. My officials would, of course, keep yours closely in touch with ~~developments.~~ the detailed proposals. Copies of this letter go to recipients of Peter Lilley's original letter of 17 December.

[N L]

cc PS/EST
Sir P Middleton
Mr Monck
Mr Burgner
Mr Culpin
Miss Sinclair
Mr Flanagan

Mr MacAuslan
Mr Wynn Owen
Mr Fray
Mr Call
PS/C&E
Mr Pratt - C&E
Mr Wood - C&E

prp

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

19 January 1988

The Rt. Hon. The Lord Young of Graffham
Secretary of State for Trade and Industry

Dear David

DISCLOSURE OF IMPORTERS' DETAILS

Following last week's NEDC discussion of importers' details I propose that we now go ahead with the limited additional disclosure (of importers names and addresses only) recommended in Peter Lilley's letter of 17 December to Alan Clark. Disclosure would provide extra information to the market and a substantial impetus to improved marketing - precisely the approach set out in your recent White Paper.

When I spoke to Alan Clark before NEDC we agreed that we should be guided to a considerable extent by the views expressed there. I think you will agree that it became clear that the CBI was broadly in favour of the move, provided there could be an escape clause for a minority of cases where disclosure might be harmful - although John Banham confessed to difficulty in finding a single specific case where this should apply. I see that John MacGregor has argued against disclosure on the grounds that intra Community trade data will have to be considered in the next year or so. But this could take some years to resolve, and it would be wholly unreasonable to wait that long.

I accept that we will need to protect commercial confidentiality in some special cases. Hence Peter Lilley's proposals for limited disclosure without finer detail and the retention of the "suppressions" system. If pressure for other safeguards were to emerge at the Finance Bill Committee Stage, we could consider whether any concessions should be made and, if so, what.

We must move quickly now if we are to act in this year's Finance Bill, as I am satisfied that we should. I should be grateful if you, and others to whom I am copying this letter, could let me know by the end of this week, 22 January, whether in the circumstances you are content for me to prepare a draft announcement and suitable Finance Bill drafting. My officials would, of course, keep yours closely in touch with the detailed proposals. Copies of this letter go to recipients of Peter Lilley's original letter of 17 December.

Yours

Nigel

NIGEL LAWSON

PAM10

CONFIDENTIAL

pmp

FROM: MOIRA WALLACE
DATE: 19 JANUARY 1988

MR N G FRAY

cc Chief Secretary
Sir P Middleton
Mr Monck
Mr Kemp
Mr Burgner
Mr Gilmore
Mr Moore
Mr Hawtin
Mr MacAuslan
Mr Potter
Mr M Williams
Mr Instone
Mr Burr
Mr Wynn Owen
Mr Flanagan
Mr Cropper
Mr Tyrie
Mr Call

NEDC - WEDNESDAY 6 JULY AND WEDNESDAY 21 SEPTEMBER

The Chancellor has seen and was grateful for your minute of 14 January. He would be inclined to invite Mr Ridley to chair in July, and Lord Young in September.

MPW.

MOIRA WALLACE

Confederation of British Industry
Centre Point
103 New Oxford Street
London WC1A 1DU
Telephone 01-379 7400
Telex 21332
Facsimile 01-240 1578

From
John M M Banham
Director-General

CBI

~~Papers PS~~

PS to M

~~28/1~~
~~29/1~~
~~2/2~~
~~5/2~~
~~10/2~~
17/2

20 January 1988

JMMB/RHP

Sir Peter Middleton KCB
Permanent Secretary
H M Treasury
Parliament Street
LONDON SW1P 3AG

Dear Peter,

I am replying to your letter of 8 January about Jim McFarlane's membership of the NEDC.

We would very much like to renominate him for a further term, recognising his experience and the quality of his contribution. In nominating him, I should also perhaps mention that because of his prospective retirement this is the last occasion on which we will be doing so.

Yours,

John M M Banham

PERM SEC'S OFFICE
RECEIVED
21 JAN 1988
Action: Mr Wynn Owen
Copies To: PPS
PS/CST.
Mr Monck
~~Mr Burgner~~
Mr Moore
Mrs Brown
Mr MacAuslan
Mrs Diggle
Mr Tarkowski
Mr Flanagan.

29.

2873/52

pse let me have x over

FROM: N G FRAY

DATE: 21 January 1988 M

APS/CHANCELLOR -1/2

cc PS/Chief Secretary
Mr Monck
Mr Burgner
Mr MacAuslan
Mr Wynn Owen

NEDC MEETING: APRIL 1988

I promised, in my minute to the Chancellor of 14 January, to provide you with a draft letter to send to Mr Fowler's office asking them to confirm that he is still available to chair the rearranged NEDC meeting, now fixed for **Tuesday 26 April at 10.00 am.** This is attached. The Chief Secretary's Diary Secretary has confirmed that this new date is in the Chief Secretary's diary.

Nigel Fray

NIGEL FRAY

2873/49

DRAFT LETTER FROM APS/CHANCELLOR TO:

~~pse type for me to sign~~

Ms Beverley Evans
PS/Secretary of State
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

NEDC MEETING: APRIL 1988

X Thank you for your letter of 12 January confirming Mr Fowler's availability to chair the NEDC meeting on 13 April.

As you probably now know, this meeting has now been rearranged for **10.00 am on Tuesday 26 April**. I should be grateful if you would ~~please~~ confirm that Mr Fowler is still available to chair this rearranged meeting.

[M P W]

IBM

IBM United Kingdom Limited

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Telephone: Portsmouth (0705) 321212
Telex: 86741 (IBMPOR G)

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

HM TREASURY – MCU
RECD. 22 JAN 1988
ACTION Mr MacAuslan IAE3.
CC PS/EST, Sir P Middleton, CE.
EST
1158/88

21 January 1988

DISCLOSURE OF IMPORTERS' DETAILS

Dear Chancellor,

I read with interest the report of the recent NEDC meeting at which there was discussion of the proposal for disclosure of importers' details, which has been put forward by the Knitting Industry EDC. While agreeing with the objective, we are concerned that the proposal could have the effect of increasing our UK costs and disclosing information of strategic importance to our UK manufacturing operations.

IBM devotes considerable effort to finding UK suppliers and to avoiding unnecessary imports. This is justified commercially by the contribution it makes to shortening the vendor pipeline by moving the vendor closer to the point of manufacture, which is essential to 'just in time' and continuous flow manufacturing concepts. We have worked with the DTI and with NEDO on supplier sourcing for some years, and we have promoted our interest in UK vendors through advertising and exhibitions.

As part of our applications for inward processing relief and duty suspension, the DTI regularly reviews us to identify all relevant imports from non-EC sources. This review concentrates particularly on items where there is an apparent UK source. The DTI has always expressed itself very satisfied with our efforts as a result of their investigation.

We are, therefore, reluctant to agree to information on our imports being made available to a wide range of suppliers, as we see little benefit to the economy and positive disadvantages to ourselves.

A major disadvantage is that which we experienced when we advertised for suppliers; many companies which make goods covered by the commodity code will submerge our procurement department, only to discover that their commodities do not meet our requirements. The result is that both their

21 January 1988

- and particularly our - costs are increased by the unproductive work being undertaken, and expectations are raised only to be dashed.

A further disadvantage, which we understand has already been identified by the DTI, is that foreign vendors will have equivalent access to the information resulting in yet more overseas competition being aware of specific UK markets for their products.

Our existing concerns would be increased if disclosure was made in finer detail. In the case of country of origin data it would be possible for other countries to identify UK manufacturers' critical sources of supply, which we believe would be strategically undesirable. We also have concerns over the possibility that fine detail may enable specific suppliers and volumes to be identified, information which we consider to be commercially confidential.

We would not wish to be disadvantaged by such considerations when bidding for new manufacturing against other IBM plants in Europe.

These views reflect our position as the largest producer and exporter of information technology products in the United Kingdom. We fully appreciate that these views may not be relevant to other industries where procurement activity is not as highly developed as it is in IBM and elsewhere in the information technology industry; there may be a case, therefore, for selectivity in terms of the industries to which such a proposal might apply.

Should this proposal be adopted I hope very much that an exemption will be made for the electronics industry, or that companies would be allowed to opt out under circumstances such as those described above.

J B Holmes

J B HOLMES
Director of Manufacturing and Development

RJ5.54

PMP

cc PS/CST
Mr Monck
Mr Burgner
Mr MacAuslan
Mr Wynn Owen
Mr Fray

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

22 January 1988

Ms Beverley Evans
PS/Secretary of State
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

Dear Beverley,

NEDC MEETING: APRIL 1988

Thank you for your letter of 12 January confirming Mr Fowler's availability to chair the NEDC meeting on 13 April.

As you probably now know, this meeting has now been rearranged for 10.00 am on Tuesday 26 April. I should be grateful if you would confirm that Mr Fowler is still available to chair this rearranged meeting.

Yours,

Moira.

MOIRA WALLACE
Assistant Private Secretary

3901/027

pmp

FROM: N G FRAY

DATE: 26 January 1988

MR GUNTON

cc PS/Chancellor - 2
PS/Chief Secretary
Mr Monck
Mr Burgner
Mr MacAuslan
Mr R I G Allen
Mr Finnegan
Mr Kalen
Mr Wynn Owen

NEDO: "MANAGEMENT DEVELOPMENT AND EDUCATION"

NEDO are publishing the above report by the Cotton and Allied Textiles EDC on Wednesday 27 January. A copy of the draft press release is attached. You should be aware that this EDC will continue to receive public funding after 1 April 1988.

Background

2. Towards the end of 1985, the Shirley Institute published a report on management training in the textile industry which suggested that such training was not accorded sufficient importance by some companies, particularly the smaller ones. The Cotton and Allied Textiles EDC followed up this report by establishing a Management Recruitment and Training Working Party with the broad terms of reference of considering how the industry could recruit and retain people of the highest potential.

3. The work was carried out in two stages. First, a team of final year post-graduate students on Manchester Business School's MBA course looked at the industry's image, and at attitudes to training. Second, the industrial director of the British Textile Employers' Association and the EDC Secretary spoke to two of the industry's 'majors'- Coats Viyella and Courtaulds to establish what assistance might be available from that quarter, and to Manchester Business School and UMIST to discuss what courses might be developed to meet the specific needs of the industry.

The Report

4. The image of the industry is relatively poor. University students in textile and non-textile courses were asked to rate the industry in comparison with others. Textile students put it first, but non-textile students put it seventh out of a possible ten (ahead of steel, shipbuilding and coal). However, the report says that the recent improvement in the industry's performance and image building efforts should bring about a favourable change in due course.

5. Potential recruits to the industry attach high importance to training. The large firms in the industry (who account for well over half of employment) are firmly committed to the goal that all managers should receive at least 40 hours training annually, and the amount of management training they provide is rising steadily. Most small firms do very little management training, but are becoming increasingly aware of the importance of management training and development because they find difficulties in recruiting both experienced people and recent graduates, and in finding people of sufficiently high calibre internally to promote to senior management positions.

Conclusions and Recommendations

6. The image of the industry will be determined by the way in which its leading companies are perceived. In its management training and development needs, the textile industry is no different from most of Britain's other industries. The large textile companies and, increasingly the smaller ones, do spend money, devote time and organise effectively to train their existing managers.

7. To strengthen the image of the textile industry among potential recruits, and develop managerial capabilities of existing staff the EDC is encouraging companies to adopt the "Development Charter" proposed in the "Making of Managers" (a code of good practice in management development). The report urges small companies to follow the examples set by Courtaulds and Coats Viyella and treat training as an investment, not a cost.

8. Discussions are taking place with Manchester Business School and UMIST about developing a course suitable for the industry's needs. The new course (to be called PROTEX) may receive financial assistance from the MSC, and it is proposed that participating companies will be charged £500 per place.

Line to take

9. If asked, you should say that the Government welcome this report and the industry's efforts to improve their management training. On the specific point of the MSC's possible financial assistance of Manchester Business School's 'PROTEX' course you should say this is entirely a matter for the MSC. But that any funding would be expected to come from the MSC's existing budget. If there are more specific questions to this point you should refer enquiries to the Department of Employment.

Nigel Fray

NIGEL FRAY

27 January 1988

Ref: 88/06

COTTON AND
ALLIED TEXTILES
ECONOMIC
DEVELOPMENT
COMMITTEE

TEXTILE FIRMS SHOULD ADOPT DEVELOPMENT CHARTER

Effective training facilities and adequate management development opportunities have a key part to play in improving company performance but, in common with much of British industry, a significant number of companies in the cotton and allied textiles sector still fail to accord management training sufficient importance.

The situation is particularly serious among smaller textile companies says a report, "Management Development and Education", published today by the Cotton and Alled Textiles EDC. Many companies that slimmed management levels during the recession are now encountering a "generation gap" with a shortage of experienced managers.

Such companies have, therefore, started to look at recruitment of graduates direct from universities and polytechnics. However, the report suggests that the best graduates may not be interested in joining small firms where opportunities seem limited.

To strengthen the image of the textile industry among potential graduate recruits, and enhance the managerial capabilities of existing staff, textile companies are called on to adopt the 'Development Charter' proposed in the "Making of Managers" which sets out a code of good practice in management development. Smaller companies in particular are urged to follow the good example set by larger firms in the industry and treat training as an investment not a cost.

The report sees the main obstacles to good training practice in smaller firms as insufficient knowledge of what is available, the widespread view that existing courses are too expensive or inappropriate and poor appraisal systems for developing and assessing individual needs. Recognising these factors, the report makes a series of proposals for improving management training in the cotton and allied textiles industry.

Drawing on experience at the Manchester Business School (MBS) and in the UMIST Department of Textiles, the MBS Planned Accelerated Company Expansion (PACE) programme has been adapted to meet the needs of the industry. The first such course will begin in March with support from the MSC which will keep down the costs to participating companies.

In consultation with the British Textile Employers Association (BTEA) the EDC will seek the development of other courses for companies in the cotton and allied textiles industry. The EDC also intends to discuss with the BTEA how to help companies introduce structured appraisal systems.

Notes to Editors

1. 'Management Development and Education' is available, price £3.00 (payment with order), from NEDO Books, Millbank Tower, Millbank, London SW1P 4QX, telephone 01-211 5989.

2. 'The Making of Managers - a report on management education, training and development in the USA, West Germany, France, Japan and the UK' is available from NEDO Books, price £8.00.

pmp

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-~~213~~ 273 5803

Switchboard 01-213 3000 GTN Code 213

Facsimile 01-213 5465 Telex 915564

27/1

CH/EXCHEQUER

REC. 27 JAN1988

ACTION Mr Wynn Owen

COPIES TO CST, PMG

Sir P Middleton

Mr Anson

Mr Monck

Mr Burgner

Mr MacAuslan

Moira Wallace
Chancellor of the Exchequer's Office
Treasury Chambers
Parliament Street
London
SW1P 3AG

27 January 1988

Dear Moira

NEDC MEETING: APRIL 1988

Thank you for your letter of 22 January.

I can confirm that my Secretary of State will be available to Chair this meeting on the rearranged date of Tuesday, 26 April at 10 am.

Sincerely,

Beverley.

Beverley Evans
Private Secretary

pmp

dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

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

Department of Trade and Industry

1-19 Victoria Street
London SW1H 0ET

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01-215 7877

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CH/EXCHEQUER
28 JAN1988

Mr Wynn-Owen
PS/EST
Sir P Middleton
Mr Monck
Mr Burgner
Mr Culpin
Miss Sinclair
Mr Flanagan
Mr MacAuslan
Mr Fray
Mr Call

Direct line 215 5422
Our ref DW2CPB
Your ref
Date 27 January 1988

Dear Nigel,

DISCLOSURE OF IMPORTERS' DETAILS

Thank you for your letter of 19 January proposing that you should now prepare to move to disclosure of importers' names against commodity codes.

I can see why you feel that discussion at NEDC should clear the way for disclosure. But I am concerned that the more broadly based consultation last summer gave little grounds for confidence in the limited extra disclosure you now propose : even Ronald Halstead wrote to me on 5 January saying it would do little for import substitution. Leaving aside the real possibility that the change might work to the advantage of foreign suppliers, such uncertain returns make me doubtful about overriding the many respondents whose best commercial judgement is that their business at least would be damaged by disclosure of this information. We can be certain that they will protest vigorously, whatever safeguards we promise.

the enterprise initiative

dti

the department for Enterprise

In the circumstances, I am not convinced we should take this proposal forward. I note that Nicholas Ridley and John MacGregor also have doubts and objections.

I am copying this letter to recipients of yours.

Yrs

David

CONFIDENTIAL

SECRETARY OF STATE FOR ENERGY

SECRETARY OF STATE FOR ENERGY
THAMES HOUSE SOUTH
MILLBANK LONDON SW1P 4QJ

01 211 6402

CH/EXCHEQUER 28/1
REC. 28 JAN 1988
ACTION Mr Wynn-Owen
COPIES TO PS/EST
Sir P Middleton
Mr Monck
Mr Burgner
Mr Culpin
Miss Sinclair
Mr Flanagan
Mr MacAuslan
Mr Fray
Mr Call

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

28th January 1988

Dear Nigel,

DISCLOSURE OF IMPORTERS' DETAILS

I have seen a copy of your letter of 19 January to David Young, and other colleagues' comments on the correspondence between Peter Lilley and Alan Clark.

I have doubts about the formal adoption, across the board, of the proposal for further limited disclosure. It is a protectionist measure but is unlikely to fulfil protentionist objectives. It might be preferable if the sectors most concerned were to tackle the problem through an informal scheme of data acquisition and exchange. If prepared by the industries themselves, such schemes could be more sharply defined and targeted to the particular requirements of the industry.

Indeed, it appears from the views of many industrialists that there is concern that the present proposal could backfire on them. A list of importers' names and addresses under a general commodity code would not give them sufficient detail to direct their marketing effectively, but it could be useful to foreign suppliers seeking fresh UK outlets. However presented the proposal will also be seen as protectionist: even if an interim measure, it does not sit well with our policy on the EEC internal market. The attitudes of the energy industries bear this out: British Coal welcomed it on protectionist grounds, while the private sector expressed some surprise that we should even be considering it.

I therefore believe we should look to the industries which are genuinely concerned about market recapture to put more effort into establishing the scope for creating and participating in their own voluntary schems, before accepting that we should take the mandatory proposed route.

I am copying this letter to the recipients of yours.

Yours ever,
Cecil

CECIL PARKINSON

CONFIDENTIAL

DISCLOSURE OF
IMPORTERS' DETAILS

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CONFIDENTIAL

From: P WYNN OWEN
Date: 28 January 1988

I agree. AM 28/1

1 MR MONCK

2 APS/CHANCELLOR I hope Lord Young will accept these good arguments for going ahead. But if you eventually conclude he will not yield, you might exact his agreement that (although the Paymaster announced the consultations) DTI Ministers will announce a negative outcome.

cc PS/Economic Secretary
Sir P Middleton
Mr Burgner
Mr Culpin
Mr MacAuslan
Miss Sinclair
Mr Flanagan
Mr Fray
Mr Call
PS/C&E
Mr Pratt -C&E
Mr Wood -C&E

DISCLOSURE OF IMPORTERS' DETAILS

You asked for points to make for use by the Chancellor in rebutting Lord Young's letter of 27 January. [Ch/ we have since received further negative letter - from Mr Parkinson MPW]

2. The attached notes first counter each point made in Lord Young's letter, then provide more positive arguments for going ahead.

3. Lord Young's support is clearly necessary. From views expressed at an earlier inter-departmental officials meeting, we doubt whether a meeting of interested Ministers would easily win a green light. On the other hand, it is unlikely anyone else will dig in their heels if Lord Young can be overcome. So a brief private word between the Chancellor and Lord Young tomorrow therefore seems the best course.

4. The Chancellor should also be aware of the attached letter from IBM, since it is possible that, if Lord Young knows of it, he may raise it.

Philip Wynn Owen

P WYNN OWEN

IMPORTERS' DETAILS - SPEAKING NOTE

Disappointed that you have ignored clear steer from industry, including the CBI, at NEDC and accepted dead hand approach of your officials. You gave the impression after NEDC that something could be done.

See no strength in your case. Let's take your arguments in turn:

- the consultation last summer gave little grounds for confidence in the limited extra disclosure now proposed. This entirely ignores the fact that a majority (55%) of respondents favoured disclosure of names and addresses.

- You claim Ronald Halstead wrote to you on 5 January saying this would do little for import substitution. Unfair to quote Halstead in this way. At NEDC he said that more limited data, confined to tariff trade code number (such as we have in mind) would be useful in many sectors (eg textiles). Moreover, "import substitution" not the aim. Rather, securing "a more efficient market by improving the provision of information to business about new methods and opportunities" (from your own objectives for the new DTI).

- a real possibility that the change might work to the advantage of foreign suppliers. This holds no water. **Foreigners** buying data would only spot opportunities to substitute for goods already being imported - so no net balance of trade effect there. And concern that some **British companies** currently sourcing at home might see opportuntoes for foreign supplies is unfounded. They are least likely to purchase such data. But if they did, they would be unable to ascertain the names and addresses of overseas suppliers, but only lists of names and addresses of domestic competitors. How could they approach competitors to obtain further detail about relevant overseas suppliers, even if they wished to?

- overriding the respondents whose best commercial judgement was that their business would be damaged by such disclosure. On what grounds was their fear based? May not be in interest of whole economy. Such information could help to counter dumping and counterfeiting. Will also help the consumer and customer (possibly even HMG) to reduce prices by spotting possible cases of those buying cheap abroad and selling dear here. And if importers are determined to stick with overseas suppliers, why worry about it becoming known? Remember John Banham was having trouble finding any sector that would be against.

- vigorous protests whatever safeguards we promise. I do not accept this. My letter of 19 January accepted the need to accept commercial confidentiality in some special cases. Hence this **limited** proposal and the retention of the **"suppressions"** system. Moreover, you have my assurance that if pressure for other safguards were to emerge at the Finance Bill Committee Stage, we could consider whether any **concessions** should be made.

- Nicholas Ridley's and John MacGregor's doubts and objections. Nicholas Ridley had no objections to our proceeding. John MacGregor argued EC-wide trade data would need reexamination soon. Maybe, but that could take years to complete, and in any case, disclosure of importers details would improve flow of information in whole internal market. I gather the NFU support such disclosure.

REASONS TO GO AHEAD NOW

Several advantages would flow from amending legislation to allow names and addresses of importers to be made available for sale:

- Will help firms to **identify markets for new or existing products** - so helping to improve quality of R&D and of marketing.

- Believe **UK industry now well placed** to take advantage of such information within the market place. No reason to believe that foreigners, further afield, will benefit more.

- Can be defended for these reasons **without any reference to import substitution,** which should avoid any international repercussions, [though we would have to clear any public statement with lawyers].

- **Confidentiality, for those who so wish,** could be retained by continuation of suppressions system, plus, if necessary, consideration of a possible concession at Finance Bill Committee stage.

FROM: A TURNBULL
DATE: 29 JANUARY 1988

1. MR ANSON
2. CHIEF SECRETARY

Copy attached for:

Chancellor

I agree. It is satisfactory that DoE have been prepared to sign up to our main arguments. This is a plus, even if it has taken some time to negotiate.

cc Mr Kemp
Mr Monck
Mr Odling-Smee
Mr Spackman
Mr Burgner
Mr Hawtin
Mr Parsonage
Mr Allen
Mr Richardson
Mr Baker

A. 29/1

PRIVATE FINANCE: DISCUSSIONS WITH THE CIVIL ENGINEERING ECONOMIC DEVELOPMENT COUNCIL

Mr Felstead's minute of 12 November recorded your agreement that we should send a paper on Private Finance to the Secretariat of the Civil Engineering Economic Development Council, and invite them to circulate it to their members.

2. We did so, but immediately encountered objections from the DOE. They were concerned mainly about the treatment of housing, where the policy is now to encourage private finance so that the private sector takes over a part of the market which had previously been public sector. DOE asked the EDC Secretariat not to circulate the paper and proposed a number of proposed amendments to it.

3. We have subsequently revised the draft with the aim of meeting DOE points while maintaining all the essential elements of the Treasury position. I believe we have now succeeded in this. The attached redraft, which has been accepted by DOE, retains most of the original wording, and most notably keeps to the Treasury line in the crucial paragraphs 11-14. The main difference from the earlier draft is the addition of two new paragraphs 9 and 15 - dealing with "grey areas" such as housing where a service is provided in part by the public sector and in part by the private sector. The main changes are sidelined. No change of view or concession from the Treasury is involved here. The paper now simply gives explicit recognition to the fact that there are activities straddling the boundary between public and private sector activity, and that in these areas the normal additionality issue arises in a more indirect way.

4. Although the delay in promulgating our Private Finance views to the EDC is unfortunate, it has been well worth the wait to get DOE fully signed

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4. Indeed the fact that they have accepted the principles we are seeking to establish puts us in a stronger position than we might have feared.

5. While reaching agreement with DOE officials, we fully reserved your position. However, as explained above we do not think that the new paper need cause any difficulty. Subject to your views, therefore, we should now like to send the revised paper to the EDC as soon as possible. This will not only enable an accurate explanation of the Government's position to be circulated in NEDO. It will also provide a public statement to which officials can refer when Private Finance questions arise in the future.

6. In this connection, you should be aware of seminar that is being organised in Oxford by the Major Projects Association on 18-19 February. From the attached programme you will see that John Wybrew of the No 10 Policy Unit is to speak on the political rationale for privatisation in infrastructure projects. The Treasury have also been invited to attend - not to speak formally, but no doubt to answer a few questions; Mr Spackman will be going.

7. I shall be grateful for your agreement to send the revised paper to the EDC.

AT

A TURNBULL

DRAFT

PRIVATE FINANCE IN PUBLIC EXPENDITURE

Background

The Prime Minister wrote to Mr David Stevens (now Lord Stevens), the Chairman of the Civil Engineering EDC, in October 1986 setting out the Government's approach towards private finance for public sector projects. This note explains the thinking behind that approach more fully. In particular, it puts that approach in the context of the increasing role of the private sector.

2. As the Prime Minister's letter made clear, the Government welcomes the use of private sector finance and expertise in improving the enterprise and management efficiency with which services can be delivered. Privatisation, that is transferring the responsibility for providing a service such as telecommunications wholly to the private sector, is the most complete way to secure this. Where the public sector retains responsibility to provide a service, other ways of getting the private sector to provide an input to that service, such as contracting out, can be valuable where they are more cost-effective than provision from within the public sector.

3. Similarly, where the public sector would otherwise have invested in a capital project as part of the provision of a service, the introduction of private finance for the capital project is welcomed, if the proposal is more cost-effective.

4. The Prime Minister's letter raised three issues:

a) what projects are relevant to the discussion;

b) how the choice between public or private sector finance should be made;

c) what are the implications for the Government's existing expenditure plans and limits?

Identification of projects

5. The Prime Minister's letter was directed at privately financed projects of a kind which would otherwise be financed by the public sector. For the foreseeable future, there will be a wide field of such projects in such areas as ~~public administration~~, public health, public education, law and order, roads and many other activities of Government.

6. Schemes in this field may come in a number of different forms. In some cases the private contractor is allowed to levy charges on the private sector so the public sector is not directly involved, as is the case with the Dartford crossing. In others, the private sector acquires or constructs a capital asset which it makes available to the public sector in return for which the public sector accepts a liability to make a flow of payments (or give up a flow of future expenditure savings) in the longer terms. But in each of these cases, the public sector is relieved of an obligation to undertake capital expenditure in the short term, in return for higher payments or lower receipts later on. One characteristic of these schemes is therefore that they are akin to borrowing, in the broadest sense.

7. Although the most obvious cases involve the offer by the private sector to finance a capital investment project, in other cases the contractor may offer a service in which the financing of a capital asset forms a significant part. If so, the nature of the service may need to be examined to see how far the financing element embodied in it can be distinguished from the rest of the activity. Guidance on these lines has been issued to Government departments in respect of contract energy management schemes.

8. At the other end of the spectrum from the continuing activities of Government are the projects and activities that have been or are being transferred entirely into private hands. Telecommunications, gas and many bus companies are instances. In these cases, responsibility for providing the service has been taken entirely out of the public sector.

9. Between these two classes are activities where the boundary between public and private provision is subject to progressive rather than once-for-all change. Housing is a major example, but there are a number of

other areas at the fringe of Government where it is not yet clear either that they could be placed fully in the private sector or that the alternative to private financing is necessarily public sector finance. In some cases services may be supplied by the private sector but supported by a degree of subvention from a public authority. The Government welcomes a greater private sector role in these "grey" areas.

The choice between conventional and private finance

10. The use of private finance instead of public finance for a specific project is justified if, and to the extent that, it provides the most cost-effective solution. Publicly and privately financed investment options should therefore be compared using standard investment appraisal techniques. When comparing publicly and private finance options, the appraisal will take account of differences in financing costs; and the fact that transferring to the private sector the risk of project overruns, or a failure to secure the benefits of investment, may provide a strong incentive to the private contractor to achieve greater efficiency than would be achieved by the public sector. The risk of losses - unprotected by public sector guarantees - is at the heart of market disciplines and the assessment of these extra incentives provided for the private constractor is a key element.

11. These factors lie behind the Ryrie Rules which were drawn up by NEDO in 1981 in the context of nationalised industries - at Appendix A.

Implications for existing plans and limits

12. The use of the private finance does not of itself create additional resources. Borrowing by the private sector to finance a public sector project has much the same macro-economic effect as borrowing by the Government to finance conventional public expenditure. The Government's objective is to reduce the proportion of national income pre-empted by the public sector. It is therefore necessary to guard against private finance being used as a backdoor way to the expansion of public sector activity.

13. Where there is effective market discipline, the market can be expected to redistribute resources to match demand. For those services where

supply remains wholly or predominantly the responsibility of the public sector, the Government needs to ensure that the balance of activity between different public expenditure programmes reflects its own priorities. Changes to these priorities should be a deliberate decision, rather than emerging through the addition of private finance in varying degrees to different programmes.

14. For continuing activities of the Government that would otherwise be financed by public expenditure the normal presumption is that projects should be ranked by priorities, and accommodated within existing expenditure provision; unless Ministers deliberately decide they should be additional. This applies whether the finance is public or private. As the Prime Minister made clear, the Government may decide, as in the Dartford case, that the importance attached to a new project and to schemes already in the programme is such that expenditure should be additional. This is a separate question from the finance of such projects.

15. The same presumption applies in a slightly different form in the intermediate category of services referred to in paragraph 9 above. The conventions governing public expenditure remain the same, and any decisions to add to public expenditure are distinct from the question of finance. However, where private suppliers are operating in a competitive market environment, it is not the task of Government to attempt to dictate the level of provision by the private sector. The Government will nevertheless wish to take into account this level in deciding, over a period of time, how much the public sector needs to do in the same area.

Local authorities

16. The arguments in this note apply to the whole of the public sector, including local authorities. Financing proposals, such as financial leases, which transfer no significant risk out of the public sector are taken into account when determining the overall level of local authority capital expenditure. Other proposals can introduce effective market discipline and may fall outside that constraint. In order to achieve comparability between in-house and external tenders, legislation for compulsory tendering in direct Labour Organisations provides that the in-house tenderer must make a prescribed rate of return on the capital involved.

Nationalised industries

17. The principles also apply to nationalised industries. Where a proposal is classified as a financial lease the principles are already applied through the capitalisation of such leases. Private finance proposals which do not score as financial leases will be taken into account when setting the External Finance Limits and investment approvals by the same means as described above for programmes generally.

PRIVATE FINANCE FOR NATIONALISED INDUSTRY INVESTMENT: RYRIE RULES

An NEDC working party on nationalised industry investment was set up in June 1981 under the Chairmanship of Sir William Ryrie (then Second Permanent Secretary to HM Treasury) following NEDC concern that EFLs were frustrating nationalised industry investment and belief that a higher level of investment would benefit the economy. The working party, which presented its report to the NEDC in September 1981, devised the following criteria under which private finance might be introduced:

(i) decisions to provide funds for investment should be taken under conditions of fair competition with private sector borrowers; any links with the rest of the public sector, Government guarantees or commitments, or monopoly power should not result in the schemes offering investors a degree of security significantly greater than that available on private sector projects;

(ii) such projects should yield benefits in terms of improved efficiency and profit from the additional investment commensurate with the cost of raising risk capital from financial markets.

Major Projects Association

SEMINAR 31

"BOOT for Britain? -
Domestic Build-own-Operate Projects
and the Privatisation of UK Infrastructure Work"
Thursday 18 and Friday 19 February 1988
Templeton College, Oxford

PROGRAMME

Thursday 18 February

6.30 p.m.	Drinks in the Common Room, Templeton College
7.00	Dinner
8.15	Introduction by Seminar Chairman, **Michael Barnett, Assistant Director, Kleinwort Benson Ltd.**
8.20	"The Role of public and private finance in Major Projects" **Professor Alan Budd, Professor of Economics, London Business School**
9.00	"The Political Rationale for Privatisation in Infrastructure Projects" **John Wybrew, Special Adviser, Policy Unit, No. 10 Downing Street**
9.30	Discussion
10.00	Close
11.00 p.m.	Coach to Hotel

Friday 19 February

8.10 a.m.	Breakfast for Templeton College residents Hotel residents have breakfast in Hotel and will be collected at 8.30 a.m.
9.00	"The Dartford Crossing" **Dick Thorp, Managing Director, Dartford River Crossing Ltd.**
9.30	"Dartford Crossing Finance" **Patrick de Pelet, Director, Kleinwort Benson**
10.00	Discussion
10.30	Coffee
11.00	"The Role of Private Finance in Inner City Regeneration". **Neville Simms, Chief Executive Tarmac Construction Ltd.**
11.30	Discussion
12.45	Close