

PO-CH/NL/0158 PTA

Part A

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Begins: 19/11/87
Ends: 11/1/88


 PO -CH /NL/0158

 PART A

Chancellor's (Lawson) Papers:

DEPARTMENT OF TRADE AND
INDUSTRY WHITE PAPER

Disposal Directions: 25 Years

Phillips

31/8/95

NL/0158

PO -CH

PART A

CONFIDENTIAL

FROM: N J ILETT

DATE: 19 November 1987

ECONOMIC SECRETARY

cc: PPS
Sir P Middleton
Sir Geoffrey Littler
Mr Cassell
Mrs Lomax
Mr Peretz
Miss Noble
Mr Neilson
Ms Ryding
Mr Cropper
Mr Hyett T.Sol

DTI STATEMENT ON INSOLVENCY LAW AND THE FINANCIAL MARKETS

Mr Francis Maude wrote to you on 6 November with the draft of a statement he would propose to make, subject to agreement at the time, if there is an insolvency in one of the financial markets to which the DTI's proposed Financial Markets (Clearing Arrangements) Bill would apply.

2. This Bill is intended to remedy what DTI think is a deficiency in the insolvency legislation as it applies to participants in financial markets. This is not certain, but DTI lawyers' best judgement. Put very briefly, an insolvency administrator might attempt to undo deals that the insolvent firm had already struck and so overrule normal market practice and disrupt the market. The plan - agreed by the Cabinet just after the election - is to introduce a Bill later this session to put this right; but to say nothing in public until the Bill is ready for introduction so as to minimise the risk of disturbance. The DTI is working up Instructions to Counsel. (Part of the Bill will deal with a more limited case of uncertainty in the gilts markets - action is with the Bank, who have promised us a drafting brief, which the Treasury Solicitor could use to draw up Instructions to Counsel, within the next few days.)

3. Annex A describes the reasoning behind the Bill in more detail, and how the DTI propose to structure the Bill.

4. Mr Maude's concern is that an insolvency might happen now, after he has been warned that insolvency law may pose real problems and before his legislation to deal with the problems is on the statute book. I understand he feels exposed on this point, as do some senior DTI officials. Hence the proposal to legislate retrospectively, and the attempt - in this letter - to draft a statement in advance on a contingency basis so as to be able to move fast if an insolvency actually occurs. (DTI officials tried to agree an earlier draft interdepartmentally last month which Treasury and Bank officials resisted.)

5. It does not, of course follow from the decision that legislation is in principle desirable that retrospective legislation is essential to cope with an insolvency which occurs before that legislation is in place. What matters is:

(a) whether retrospective legislation would make it significantly easier to handle the effects of the insolvency; and

(b) whether it is worth the hassle or actually possible to legislate retrospectively for the purpose in question.

6. Politically, retrospective legislation for this purpose is obviously awkward. Technically, it is not easy, because one needs to specify in advance precisely what effect the legislation will achieve and then to deliver that promise. Mr Maude's draft shows the difficulty of that task on this very technical subject, where so many hypothetical possibilities exist; as you have commented, it is not clear from the draft what the problem is nor how it will be solved. Nor is there much mileage in making a 3 page statement about insolvency in financial markets, the need for special action, doubts about the application of the law, retrospective legislation etc, at any time, and still less in present conditions, unless this is clearly justified by the circumstances.

7. It follows that retrospective legislation should only be used if that is essential to prevent a chain of collapses. Whether Mr Maude's statement is needed therefore depends on how serious

developments are. This is obviously difficult to predict. Nevertheless, it seems likely that if an insolvency does not have particularly serious consequences for the rest of the market, uncertainty about how the insolvency administrator will treat outstanding market transactions is not going to make much difference to the market's assessment of that particular insolvency. On the other hand, if an insolvency does have serious implications, the market concerned, and maybe the authorities, may need to take rather more vigorous action than retrospective legislation on one aspect of insolvency law.

8. It therefore seems likely that it is only in a limited number of circumstances that retrospective legislation and the statement would actually be needed. And the Treasury Solicitor's advice is that it could be imprudent for the Government to promise to legislate to protect all actions of market authorities undertaken in good faith in relation to insolvency, because of the difficulty of delivering that promise. DTI officials give the impression that their Ministers may be content for their draft to lie on the table. If there were a crisis which requires this action, I would advise a much shorter statement, more directly pointed towards the situation which had actually arisen. DTI officials disagree with that advice, for a number of reasons including legal policy. They have tied their hands to some extent by obtaining restrictive legal advice - whereas if a serious emergency actually occurred it should be possible to obtain the Law Officer's approval to a more flexible response.

9. The question now is how to take this forward with Mr Maude. As he says, whether to make this or any other statement would have to depend on circumstances at the time. It is arguably not worth an exchange of correspondence with DTI Ministers about hypothetical problems, given that you could always object if it was proposed actually to make this statement. On the other hand, the idea of making a statement on these lines at any time is extremely unattractive, and could damage confidence.

10. One option would be to have a quiet word with Mr Maude; you could say you understand that he feels exposed on this point, but his attempt to draft a statement in advance neatly illustrates

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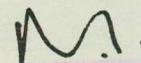
the difficulties of this sort of detailed contingency planning, and it is not really possible to take it any further now. However, your presumption - and that of the Chancellor - is that retrospective legislation would only be used if there were really a major collapse, and then only if the judgement at the time was that the promise of retrospective legislation made some material difference to the stabilisation of the markets.

11. On balance it would be safer to register some scepticism in writing now. I attach a brief draft for that purpose.

12. This leaves the Bill itself (paragraphs 11-13 of Annex A summarise the approach). This is already late, and the Business Managers are asking whether it is really essential to take it in this session. I suspect that the DTI are making more of a meal of it than necessary (latest estimate - 30 clauses); and Parliamentary proceedings may be more controversial than first thought, given the close links with the Financial Services Act. Also, we shall have to look very closely at the DTI's Instructions to Counsel when they finally appear - in particular, to check that there are no implications for banking payment systems.

13. However, Mr Maude has been closely involved in the preparation of policy, we do not have the resources or the expertise to do the DTI's job for it, and it is too late to reopen basic questions at this stage. Also, Treasury Ministers supported the concept of an early Bill and the need for legislation on the CGO. I will show you the DTI's Instructions to Counsel on the Bill when they finally appear, but at this stage I do not recommend you to raise doubts about the Bill with Mr Maude.

14. One final point. DTI and SIB have just taken Treasury Counsel's advice on the proposition that the SIB ought not to recognise exchanges under the Financial Services Act if those exchanges' rules conflict with insolvency law. Treasury Counsel has firmly confirmed this proposition. In consequence the Bill really needs to be introduced before the FS Act start day on 1 April next year. This introduces a new and unwelcome complication; and makes it easier for critics to pillory the Bill as an emergency measure to remedy defects in the Financial Services Act.



N J ILETT

THE PROBLEM WITH INSOLVENCY LAW

1. For simplicity, the following paragraphs refer to the Stock Exchange. Problems of the same order are thought to arise in other financial markets, but they may show up in a number of different ways, depending on technicalities.

2. The Bill is intended to cope with the following point. A Stock Exchange member firm will have a number of positions in the market. By the time the Account ends, some transactions undertaken during the Account will prove profitable; others may not. Other members of the market will be the counterparties to each of these transactions, and will rely on the first member firm to come up with the securities or the money on the due day.

3. If the first member firm becomes insolvent, the Exchange rules would require these bargains to be completed, so that any net surplus of funds could be handed over to the receiver or administrator, and any net shortfall could be presented as a claim of the Exchange on the assets of its insolvent member. The risk which the DTI perceives, however, is that the administrator of the insolvent firm could make other member firms with whom the insolvent firm had profitable bargains pay up, while at the same time refuse to honour bargains in which the insolvent firm came off worse (ie "to pick the cherries out of the pie".) It is not certain that the courts would maintain an Administrator's attempt to operate in this way if that conflicted with the Exchange's rules; DTI legal advice is that there is a substantial risk, which DTI Ministers judge they must remove.

4. This argument has been simplified even in relation to the Stock Exchange. But it applies to a number of other markets, and in particular to futures and options markets which work on margin and where a central organisation, such as the International Commodities Clearing House (ICCH), takes over as counter-party to each of the sides in the original deal. In practice, problems on how to close out deals when insolvency strikes are more likely to arise in these markets than in the Stock Exchange.

5. The consequence the DTI fear is that other market users who thought they had a given position in a particular stock, commodity, future or whatever would suddenly find that they did not have that position, or did not know their position because there was uncertainty about which bargains the administrator handling their insolvent counterparty's affairs would honour. The thought is that it would be at the least unhelpful if market authorities hesitated to apply their rules because they were not sure whether the Courts would find that those rules were in conflict with insolvency procedures (though the Stock Exchange rules are actually inadequate anyway post-Big Bang). Worse, an Administrator might attempt actively to interfere with the market authorities' crisis control operations.

6. At best, the argument goes, if this weakness in the UK legal framework underpinning financial markets became known, people would be more reluctant to do business here - especially North Americans who are used to more protection from insolvency procedures. (It was a US lawyer who drew the DTI's attention to the problem in UK law.)

7. At worst, the loss of profitable bargains or of hedged positions and uncertainty as to members' actual positions could trigger a progressive collapse in a particular market. If a firm which aims to be fully hedged does not know what contracts will be honoured it cannot take action to restore its fully hedged position and is thus exposed to an unknown client.

8. The justification for the Bill is therefore the need to remove the uncertainty about the present legal position which has emerged since the insolvency Administrator procedures came into force in the last couple of years. As yet, the suspected need for legislation is not widely known, though the DTI have been consulting the market authorities in confidence and some lawyers with special interest in this area of the law also know that the DTI thinks there is a problem.

The Central Gilts Office part of the Bill

9. The Bill will also deal (at Treasury behest) with the following possible problem in the gilts market.

10. The Central Gilts Office operates by ensuring that the package of gilts one way and the money in payment for them travelling the other way arrive at their respective destinations at the same time. The banks which operate the CGO guarantee these transactions. So if the customers of one of these banks defaults that bank has to make good any loss to counter-parties in the market from transactions which are going through the CGO system. The banks protect their position by a floating charge over the gilts they hold on behalf of their customers, but there is some doubt as to whether this charge would work in all circumstances, which makes the banks reluctant to admit further members to the CGO whose ability to meet any commitment which may arise is perhaps less certain.

The structure of the Bill

11. The approach the DTI is adopting is to graft the legislation onto the Financial Services Act and to use the Act's administrative machinery. The Bill would enable markets ("recognised investment exchanges") which have appropriate insolvency rules, duly vetted by the SIB under principles laid down in the Bill, to carry out those rules notwithstanding any provisions of insolvency legislation.

12. The advantage of this approach is that it limits the damage done to the principles of the Insolvency Act (all creditors to be treated alike), by restricting the special treatment to markets which have proper rules on this subject. The disadvantage is that it is more complex than generic amendment of the Insolvency Act, it adds to the SIB's duties when the SIB has quite enough to do already, and it risks something of a rerun of the themes of the Financial Services Act in Parliament.

13. The approach we intend to recommend on the CGO provisions is to protect assets in assured payment systems listed by the Treasury under subordinate legislation on the recommendation of the Bank - we will of course let Treasury Ministers see detailed proposals when the work has gone a little further.

DRAFT LETTER:**FROM: Economic Secretary****To:** The Hon Francis Maude MP
Parliamentary Under Secretary of State
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1**FINANCIAL MARKETS BILL**

Thank you for your letter of 6 November.

As you say, we would have to decide at the time whether a default in the financial markets justified making this Bill retrospective and, if so, whether a statement on the lines of your draft was appropriate in all the circumstances. In present circumstances, a statement of this kind could have devastating effects on confidence.

While one can never be sure, there must be some grounds for assuming that if the consequences of a default were unacceptable, the market as a whole and maybe even the authorities would have to take rather more immediate steps to cope with it than retrospective legislation of this kind. If, on the other hand, the market could live with the default, it could live with any uncertainty about the insolvency law until your Bill was actually in place.

Either way, retrospection would, I hope, not be necessary, so we could avoid the political

price that it might carry. In any event, there should be no retrospection, and so no statement, unless a major player has failed and the statement clearly makes a significant contribution to coping with the consequences.

In short, while I am grateful to you for sharing your contingency planning on this subject with me, I think we should keep our options open for the moment.

I am sending copies of this letter to Lord MacKay, Patrick Mayhew, the Governor and Sir Robert Armstrong.

PETER LILLEY



DEPARTMENT OF TRADE AND INDUSTRY

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mp

Secretary of State for Trade and Industry

CONFIDENTIAL

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
London SW1H 9NF

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REC.	08 DEC 1987
ACT	
DIS	
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December 1987

Norman

MANAGEMENT EDUCATION AND DEVELOPMENT

As you know, I intend to publish a White Paper on the policies and organisation of DTI. One chapter will deal with management education and development, an issue in which you and other Ministers have a close interest. I attach the draft chapter which I believe reflects the strategy agreed at our meeting on 2 October.

I intend to send the White Paper to the Prime Minister and colleagues at the end of this week. If you or other colleagues have comments on this draft chapter, it would be most helpful to receive them by Thursday midday.

I am copying to Kenneth Baker, Malcolm Rifkind, Peter Walker and Peter Brooke.

PAYMASTER GENERAL

& DEC

ACTION Mr Wynne Owen

PSI ch 184

PSI CST

Sir P Middleton

Mr Anson

Mr Monda

Mr Burgner

Mr CD Butler

Mr Gilmore

Mr Burr

LORD YOUNG OF GRAFFHAM

Law
Paul
Mr Gray

Mr Waller

Mr Kaufmann

Mr McRostan

Mr Callaghan

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CHAPTER FIVE

"We will encourage the spread of management education."

DTI Objectives

MANAGEMENT

1. Management which is educated, trained and aware of new opportunities is the spearhead of a competitive business. Postwar British management was badly hampered by a lack of investment in education and training and an unbalanced climate in industrial relations. The consequence across a wide range of sectors was inefficient use of manpower and machines, inadequate concern about quality, insufficient attention to design, innovation and development and poor delivery performance.

2. Management weaknesses have their source in the whole culture of society including business/education relationships. But two specific sources of management weakness in the UK can be identified:

- the first lies in the training and development of individuals and particularly managers. Recent reports, notably Professor Handy's "The Making of Managers", provide evidence of the efforts being made by our competitors in developing their managers and the need for comparable efforts by the UK. One fifth of the largest UK companies make no provision for management training; one third of middle managers have had no training since starting work;

- the second lies in the failure of individual

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firms to develop managerial competence in functions which are crucial to competitive success. That is not helped by a paucity of information about best management practices.

3. Experience suggests that market forces on their own will not bring about the necessary improvements in the quality of British management, or, at any rate, not quickly enough. DTI, with other Government Departments, is working in partnership with industry to improve management education and development and to spread awareness about best management practices.

4. The Government strongly welcome the measures which industry and particularly the Confederation of British Industry (CBI) is now taking to respond to this challenge. The Council for Management and Education and Development, brings together industry, education and Government to develop a coherent national framework of qualifications for the training and education of managers at all levels. It launched on 3 November 1987 the Charter Group Initiative to establish a code of best practice for management development, to which employers will be invited to commit themselves through membership of the Charter Group. The aim is to create a structure which will provide ladders of opportunity to all those interested in developing their managerial capabilities to the full for the benefit of themselves, their companies, and the national economy.

5. Industry is best placed to identify its own needs and implement the right solutions. But reliance on industry alone is insufficient. Individual firms may not reap immediate benefits from investing in individuals

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development and so their willingness to invest is likely to be insufficient to meet the needs of industry as a whole. The infrastructure of national qualifications and information which is needed to tackle this problem cannot be the responsibility of individual firms.

6. DTI is leading the Government's strong support for this initiative. It will seek to ensure that the Charter Group initiative reaches the widest possible audience, in particular among small firms; and modest financial assistance is available if it is required to fund experimental approaches to management development. DTI intends to join the Charter Group as a full member, subscribing to the same standards as member companies.

7. Some management practices have a widespread application throughout industry and commerce. DTI has run or supported campaigns to spread awareness about the need for best practices such as quality and design in the management of British companies.

8. Quality is relevant not just to a product or service but also to the motivation and attitudes of everyone in a business. The national Quality campaign puts across this message and has already reached well over 60,000 companies. This approach to quality has been strengthened by a system of national accreditation to ensure consistency of performance and independent certification services. The standards making process has been encouraged and DTI has forged closer links with the British Standards Institution aimed at meeting industry's needs and improving competitiveness.

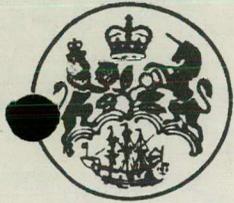
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9. The aim is to support and encourage initiatives which bring an increased understanding of the elements involved in the quality approach and the benefits to be secured. Work on standards will be developed both internationally and as part of our commitment to the single European market, to achieve harmonised European standards and the development of a Community policy on testing and certification, so leading to the adoption of mutual recognition arrangements.

10. Design has a major impact on the acceptability of products to consumers. It affects appearance, aesthetic acceptability, ease of use, reliability and maintenance, safety, and ease and costs of manufacture. All are a key influence on market success or failure.

11. DTI funds the Design Council and other agencies to increase understanding about the relevance of design. During 1987 DTI launched three Product Design Advice Centres in Warrington, Halifax and Glasgow. This is a pilot initiative to help local firms identify and pursue new, market led product opportunities with major international potential. Each of the firms assisted is offered a tailor made package of expert consultancy including areas such as design and marketing to develop such new opportunities into marketable products.

12. DTI will continue to spread awareness of the need to exploit design and link it with marketing, quality and production. New initiatives in design and management education will be encouraged to produce designers with the right skills to meet industry's needs and managers who understand the potential of design for their business.



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pmj

CHIEF SECRETARY	
REC.	- 9 DEC 1987
Mr Waller	
CX Mr Anson Mr Monck	
Mr Burgess Mr Gilmore	
Mr Moore Mr Turnbull	
Mr Call	

PRIME MINISTER

8/12/87.

REVIEW OF DTI INNOVATION POLICY

As you know, Kenneth Clarke and I have been reviewing DTI's policies on innovation. We have now taken decisions as a result of that review and we intend to announce them as part of the White Paper on the role and policies of DTI.

2 It was agreed by E(ST) that I should discuss my proposals with John Fairclough to ensure that they were fully consistent with the E(ST) Action Programme. I have done this and he is content with what I propose. I shall submit a paper to E(ST) in the New Year to report the changes in some detail. In the meantime, you and other colleagues may find it helpful to see the draft chapter of the White Paper which sets out the broad changes in innovation policy.

3 The main changes in policy are:

- (a) greater emphasis on collaborative programmes for longer term pre-competitive research, with particular encouragement of collaboration between universities and industry;
- (b) greater emphasis on encouraging and assisting technology transfer; and
- (c) end to grant assistance to single companies, except for small firms in Development Areas and for a limited number of exceptional cases which offer significant national benefit.

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4 The collaborative research programmes will include LINK and EUREKA, as well as programmes targetted on particular areas. Companies will also be able to apply for support for other collaborative, longer term, pre-competitive research projects.

5 We will be announcing in the White Paper two new programmes of collaborative research in superconductivity (£7 million over three years) and IT (£29 million over three years). Neither programme will incorporate support for applications projects. The IT programme, taken together with our contribution to ESPRIT II and the £55 million which I understand SERC would be prepared to allocate to this area, will be presented as our response to the report of the IT 86 Committee, although other departments, particularly the Ministry of Defence, might also wish to become involved.

6 The full White Paper will be sent to you and other colleagues at the end of this week.

7 I am copying this minute to other members of E(ST) and John Fairclough.

A handwritten signature in dark ink, appearing to be 'D Y', written in a cursive style.

D Y

December 1987

DEPARTMENT OF TRADE & INDUSTRY

CONFIDENTIAL

DW3CYR

CONFIDENTIAL

FROM: P WYNN OWEN

DATE: 9 December 1987

PS/PAYMASTER GENERAL

pnyp

cc PS/Chancellor
PS/Chief Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Burgner
Mr C D Butler
Mr Gilmore
Mr Burr
Mr Gray
Mr Waller
Mr Kaufmann
Mr MacAuslan
Mr Call

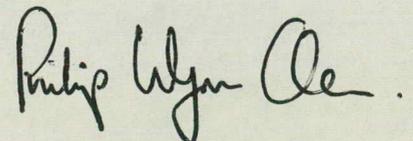
MANAGEMENT EDUCATION AND DEVELOPMENT

Lord Young wrote yesterday to Mr Fowler, copied round to colleagues with an interest in management education and development, seeking to clear a draft chapter for his White Paper on the policies and organisation of DTI. He asked for comments by Thursday midday.

2. Quite separately at official level IAE2 have been coordinating comments on a complete draft of the White Paper, also for Thursday noon. It is curious that Lord Young has chosen to circulate a single draft chapter in advance in this way, before he sends the whole White Paper to the Prime Minister and colleagues at the end of this week. I have agreed with Mr Waller in IAE2 that it would be much better if our comments on this chapter are passed, together with comments on all the other draft chapters, as one to DTI at official level by noon tomorrow. Mr Waller is accordingly coordinating the collection of comments on this draft chapter as well as the rest.

3. We recommend you therefore simply ring Lord Young's private office and say that Treasury comments on this chapter, as on all the other draft chapters, are being passed to DTI at official level by noon tomorrow.

4. I attach a short draft letter in case you wish to confirm in writing. But before copying other Ministerial offices in, you might check with DTI that it would not embarrass them to reveal that the Treasury has seen the full draft White Paper in advance at official level.



P WYNN OWEN

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DRAFT LETTER FROM PS/PAYMASTER GENERAL TO:

S Ratcliffe Esq
PS/Secretariat of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

MANAGEMENT EDUCATION AND DEVELOPMENT

Your Secretary of State wrote on 8 December to the Secretary of State for Employment covering a draft chapter on Management Education and Development for the White Paper on the policies and organisation of DTI. He asked for comments by Thursday midday.

2. As you may know, the Treasury will be giving its comments on the full draft White Paper to DTI at official level by midday [on Thursday 10 December/today]. Those comments will also cover the chapter circulated by Lord Young on Management Education and Development.

3. [I am copying this letter to Private Secretaries of the Secretaries of State for Employment, Education and Science, the Scottish Office and Energy.]

[S P J]



purp

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The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
1-19 Victoria Street
London SW1H 0ET

10 December 1987

PAYMASTER GENERAL
 11 DEC 1987
 Mr Wynn Owen
 Pelchitex
 Pelcost
 Sir P Middleton
 Mr Anson
 Mr Monde

Dear David

DRAFT WHITE PAPER

Thank you for your letter of 8 December covering a draft chapter on "Management Education and Development" and for the copy of your letter to Kenneth Baker of the same date covering a draft chapter on "Business and Education".

I much welcome the general approach of these chapters and look forward to seeing how they fit into the whole White Paper. If I have a general worry it is that the drafts show inadequate recognition of what is already being done by, for example, the TVEI and do not fully acknowledge the parts of other Departments and MSC in the developments you highlight. There is a great deal of fully cooperative activity in both of these areas and I am sure you will be able better to reflect this.

I attach a schedule of specific suggestions designed to meet this general point and also more specific points of accuracy and departmental concern.

I am sending copies of this letter to Kenneth Baker, Malcolm Rifkind, Peter Walker and Peter Brooke.

*Mr Call
PM 9*

Yours

Norman Fowler

NORMAN FOWLER

- Mr Burgner
- Mr CD BUTLER
- Mr Cillmore
- Mr Burr
- Mr Cragg
- Mr Walker
- Mr Kar Arman
- Mr McAulan

DE AMENDMENTS TO DRAFTS OF 8 DECEMBER

MANAGEMENT EDUCATION

Paragraph 3, line 4: after "Government Departments" insert "and the Manpower Services Commission".

Paragraph 4. Our concern here is to maintain the agreed position that industry must be in the lead if it is to feel that it "owns" this initiative and to avoid blessing prematurely specific "measures" (line 1) rather than the general thrust of current activities. Also, we should not pre-empt the role of NCVQ. The first 11 lines might therefore be replaced by:

"The Government strongly welcomes the energetic steps being taken by industry to respond to this challenge, and particularly the Charter Group Initiative launched by the Confederation of British Industry (CBI) on 3 November 1987 to establish a code of best practice for management development to which employers will be invited to commit themselves through membership of a Charter Group. This followed discussion in the Council for Management and Education and Development in which industry together with education and relevant Government Departments is able to set out views on a coherent national framework of qualification for the training and education of managers at all levels. The aim...."

Paragraph 5, line 1: after "needs" insert "for improving managerial competence".

Line 5: Delete "is likely to" and insert "for the benefit of industry may".

Paragraph 6, first sentence: delete and insert "The Government is convinced of the need for industry to be successful in improving the training and development of its managers.

Line 6: after "DTI", insert "along with DE"

Penultimate line: begin with, "and the Department of Employment intend..."

BUSINESS AND EDUCATION

Paragraph 2, penultimate sentence: delete and insert:

"Much has been achieved in recent years by the DTI together with the DES, Department of Employment, the Scottish and Welsh Offices and the Manpower Services Commission and the Careers Service. DTI's role in this process is to encourage business to work with education at all levels.

Paragraph 3, first paragraph: delete and insert: "DTI will work closely with the other Departments in encouraging and helping employers to develop good links with schools".

Paragraph 4, penultimate line: after "to be done" insert "by employers".

Paragraph 5, second indent: insert at the beginning, "Through the national spread of TVEI, every..."

Paragraph 7, second sentence: this shows inadequate recognition of the work being done by MSC and others to coordinate existing and developing education databases. We suggest that in line 4 of the paragraph, "schools by" should be followed by "working with current initiatives to encourage".

Paragraph 9: at the end insert, "...needs, building on the planning mechanism created by MSC's Work-Related Non-Advanced Further Education programme."

Paragraph 11, line 4: after "DTI" insert "together with other Departments".

Penultimate sentence: This can be significantly beefed-up to reflect the announcement of the new Enterprise in Higher Education Programme on 9 December. The minimum amendment would be to introduce this sentence with, "Through the Enterprise in Higher Education Programme, MSC is....".

PMG 1037 -5



ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
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RAYMASTER GENERAL

10 DEC 1987

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET

INB PSI chlex
PSI CST
Sir P Middleton

10 December 1987

Mr Anson
Mr Mandel
Mr Burgeon
Mr CD Butler
Mr Cullmore
Mr Burr

DTI WHITE PAPER

Thank you for your two letters of 8 December inviting me to comment on certain chapters of the draft White Paper on the work of your Department.

I appreciate that the current drafts incorporate a number of changes agreed at official level. There are, however, other amendments which are, in my view, important to make which are outlined in the attached Annex.

In addition to the comments and changes proposed in the Annex, there are some general points I would make:

- a. On work experience for school pupils, I understand the need to keep the drafting in the document simple, and am content to leave it as it stands on the understanding - which my officials and yours have discussed - that it is intended as an umbrella term for the range of activities - work shadowing, work observation, etc. - which we certainly believe should be every pupil's entitlement.
- b. More needs to be said to acknowledge that much has already been done to develop good links between secondary schools and industry.
- c. Unless there is a specific reference elsewhere in the draft White Paper, mention should be made of unemployment and of the help employers can give to young people so they can come to terms with this problem.
- d. I was concerned to see that FE colleges get very little mention in the current draft. Some of my proposed changes in the Annex will help to redress the balance. I do, however, hope that you will expand the references on FE colleges in the final Paper.

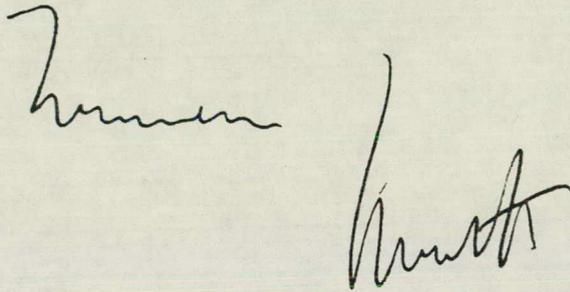
Mr McAuslan
Mr Call
PMG

Continued.....
Mr P Gray
Mr Weller
Mr W. S. ...
Mr Kaufmann

In regard to the draft chapter on management education and development, my comments and proposed changes have already been passed to your officials. I am sure you will be able to accommodate these, but they have been included in the Annex for ease of reference.

I should explain that my officials have not seen all the chapters of the draft White Paper. There could therefore be other parts of the document on which I ought to comment before it is finalized. I understand, for instance, that there is to be a chapter on the Regional Inner City Dimension which is relevant to my Department. In the circumstances, I would hope that there will be an opportunity for me to see the full text of the draft White Paper as soon as possible.

I am copying this to Peter Walker, Malcolm Rifkind and Peter Brooke.



COMMENTS AND PROPOSED MODIFICATIONS TO DTI'S DRAFT WHITE PAPER

CHAPTER 5: MANAGEMENT EDUCATION AND DEVELOPMENT

Paragraph 4: Second sentence. We do not wish to emphasise qualifications as opposed to competences. Frameworks are, surely, inherently coherent. I therefore suggest the following amendment.

"The Council for Management Education and Development brings together industry, education and Government to develop a national framework for the training and education of managers at all levels."

Paragraph 4: Will PCO be content with the references to the Charter Group? We understand that DTI officials tried to wean CMEAD away from the mis-use of the Charter terminology at the last CMEAD meeting.

Paragraph 5: The third sentence has a lot of individuals and a missing '. I suggest the following instead.

"Single firms may not reap immediate benefits from investing in the development of individual managers; this may inhibit firms' willingness to invest enough to meet the needs of industry as a whole."

Paragraph 6: Which initiative is meant in the first sentence? I suggest that you use "Charter Group initiative" in the first sentence and "initiative" on its own in the next. The penultimate sentence looks like a bit of a giveaway.

CHAPTER 8: BUSINESS AND EDUCATION

Paragraph 2: In line 6 I suggest adding after the word education "and a growing understanding of the strengths of the system".

Paragraph 2: You describe the bringing together of business and education as "DTI's role". It is of course very much DES's as well - and that of the other Departments you list in para 3. Could you not in para 2 either say "DTI is working closely with DES ... Welsh Office to bring business and education closer together at all levels" (then start para 3 with "The DTI will work with its partners in Government in encouraging"); or else simply refer to DTI's aim rather than their role?

Paragraph 2: I do have doubts too about the reception you will get for the last sentence of this paragraph. The words "major initiative" are not always these days greeted with enthusiasm, unless there is a lot to back them up. I fully support your wish to repackage and re-energise what is going on in the school-industry area, but I fear that the last sentence of para 2 will merely invite people to claim that this is all the initiative amounts to. The sentence adds nothing: can it not be left out?

Paragraph 3: In the first sentence insert the word "further" before "encouraging".

Paragraph 5: In respect of the first objective in this paragraph, I welcome the acceptance in your covering letter that this must be a holiday scheme, but would have preferred the earlier, broader formation ("every teacher to have the opportunity once every ten years"). Unless you can back this up with concrete incentives to employers, I cannot see that much more is going to be achieved than already happens as a result of the DES's INSET grants, teacher shortage initiative etc. Employers' failure to offer placements is the main obstacle.

Paragraph 5: In the second objective "before leaving school" is vague. "before 16" is better.

Paragraph 6: At the end of this paragraph would you add to " - school and college management" the words "especially through involvement on governing bodies"?

Paragraph 6: At the end of both the penultimate and final sentences I would like you to add the words "and FE colleges".

Paragraph 7: Some words are missing in line 3 of this paragraph. My preferred ones would be, "In particular, the Government is anxious that IT should be used across".

Paragraph 7: In line 6 will you substitute "to enter" for "to access".

Paragraph 9: I would prefer to begin the first sentence with a form of words such as "Further education courses are responsive to the changing needs of industry and commerce", and to insert "LEA's" in the second sentence after "other Departments".

Paragraph 11: To avoid the implication that an ideal state has been reached, the first sentence should be extended to end "..... six or seven years, though much remains to be done." Income from industry still represents only a very small proportion of total income in both universities and polytechnics. Ministers are on record as saying that they believe that much more should and can be done.

Paragraph 12: The description of the Teaching Company Scheme in the first sentence is a little strong. It would be better if it started "A highly successful means"

Paragraph 13: It would be appropriate, in the opening words of this paragraph, to acknowledge the role of DES

and others in the initiatives, so that it would read "In partnership with industry, Higher Education and others, DTI will be promoting"

Paragraph 13: We will not have an estimate of the increase in the number of manufacturing systems engineers by 1991 until the total available funds have been determined and proposals from higher education institutions have been assessed. The words at the end of the first sentence of the first indent "by almost 2,000 a year by 1991," **must** therefore be deleted.

Paragraph 13: Industry at large and not the Engineering Council will contribute, together with DES, DTI and the higher education funding bodies towards the Manufacturing Systems Engineering initiative. In the second sentence of the first indented paragraph the words "the Engineering Council and its industrial affiliates" will therefore need to be replaced by the word "industry". I also suggest that you replace the words "to enable" with "at enabling" in the second sentence.

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FROM: APS/PAYMASTER GENERAL

DATE: 10 December 1987

MR P WYNN OWEN

cc PS/Chancellor
PS/Chief Secretary
Sir Peter Middleton
Mr Anson
Mr Monck
Mr Burgner
Mr C D Butler
Mr Gilmore
Mr Burr
Mr P R C Gray
Mr Waller
Mr Kaufmann
Mr MacAuslan
Mr Call

MANAGEMENT EDUCATION AND DEVELOPMENT

As recommended in your minute of 9 December, I telephoned Stephen Ratcliffe in Lord Young's Private Office today to inform him that comments on the draft chapter for the White Paper would be passed to DTI at official level today. Stephen did not consider it necessary to put this in writing.

Given the short notice by DTI, the Paymaster General has not been able to give the draft chapter as much consideration as he would have liked, but his initial reactions are as follows. The chapter seems to be very unbalanced, with a skew or bias towards those areas where the DTI has been doing (good) work (paragraphs 7 on) and silence on great chunks elsewhere.

The Paymaster thinks that a good case could be made out that the principal failures in British management have been the inability -

- a. to see the world as our oyster, with the Japanese attitudes to markets providing you with the scale of operation to justify a significant R&D effect and
- b. to provide an informed management cadre who can manage the admittedly difficult process which leads from basic through applied research to product development to large scale manufacture, and

c. to understand how far intelligent organisation can maximise the return from what may be ordinary management.

The Paymaster has made the following comments on the text:

- i. all of what is said in paragraph 1 is probably true, but the greatest deficiency/consequence was that the shortage of managers who understood the totality of a business led to domination by accountants as a proxy.
- ii. the second weakness identified in paragraph 2 implies functional competence. The real problem is not understanding the imperatives of other people's functions.
- iii. paragraph 4, line 4: should this not read The Council for Management, Education and Development.
- iv. on paragraph 5, the Paymaster has commented that there is also a problem of critical mass. A company with eg thirty MBAs is geometrically more effective than one with three, because it is the ability to work with each other from a common base of knowledge which makes the difference.
- v. paragraph 8, line 6: should not this read "accreditation".
- vi. in paragraph 11, line 9, the Paymaster feels that this should read "marketing and design" given that design is a part of marketing. If marketing does not come first, the design is speculative.
- vii. the word marketing in the first sentence of paragraph 12 seems to have been confused with sales.

Deborah Francis.

MISS D L FRANCIS
Assistant Private Secretary

~~BF with volume of 15/12~~



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PRIME MINISTER

WHITE PAPER ON THE ROLE OF THE DTI

Since taking over my Department I have, as you know, been reviewing its policies and programmes. I propose to announce the changes I will make in a White Paper, to be published on 12 January just before the Public Expenditure White Paper, so that the changes can be seen in context.

2 The draft White Paper is attached. Individual sections of it have already been seen by those colleagues most closely concerned and the draft embodies their comments. You and other E(ST) colleagues have seen the chapter on innovation policy.

3 The overall policy changes reflect the Objectives for my Department which I published in October. DTI will in future concentrate on creating a climate for enterprise. The proposed changes in programmes reflect this shift in policy emphasis and are within the overall ceiling on DTI expenditure agreed with Treasury colleagues in the Public Expenditure Survey round.

4 The concentration on enterprise will inevitably mean a greater focus in programmes on promoting the growth of small and medium sized firms. This approach carries across all the main programmes for business development, innovation and policies towards the regions and inner cities, where we need to encourage indigenous enterprise and growth. Effective presentation of the redirection of my Department's policies and services will be critical and I propose to follow the White Paper with substantial publicity on television and in the press about the programmes contained in our "Enterprise Initiative".

5 This "Enterprise Initiative" will be the centrepiece of my department's revised programmes designed to improve the management skills of small and medium sized firms, through supporting their



use of private sector consultancy in key competitive areas such as design and marketing. I will be launching it on 13 January.

6 I am conscious of the potential for overlap between this initiative and some of Norman Fowler's work with small firms. I believe our respective efforts will be complementary - mine will be aimed at established companies to help them move up the league in terms of growth; with Norman's aimed primarily at helping the individual entrepreneur to start in business and become established. I have discussed it with him and we have agreed arrangements to ensure that his programmes and mine will offer a coherent range of services for small and growing companies. In Scotland and Wales this coherence will be reinforced by the decision of Malcolm Rifkind and Peter Walker to use the Development Agencies as a single delivery point both for my initiatives and for the Small Firms Service.

7 The enterprise initiatives outlined in the White Paper will have a significant regional dimension, both through higher levels of support to develop management skills and through grants targetted at very small firms in Development Areas to help them with investment and innovation. I propose to fund these initiatives by abolishing automatic, open-ended grant schemes and general schemes of single-company support, which I do not consider to be cost-effective.

8 The White Paper will accordingly announce the ending of Regional Development Grants (RDG) in England, Scotland and Wales. You and other colleagues most closely involved have agreed the policy and QL has agreed that legislation be introduced as soon as possible after the White Paper is published. This will enable us to cut off applications after March 1988 and minimise the call on public expenditure which would flow from claims during the transitional period. For that reason I remain concerned to ensure that there is no advance notice of the change to RDG ahead of the White Paper.



9 The abolition of RDGs may be contentious with businesses which have benefitted heavily from automatic grant. I shall be seeing the CBI and the Institute of Directors the day before the White Paper to brief them at senior level.

10 The Assisted Area Map will remain relevant, both for the existing selective regional assistance and for the new grants aimed at very small firms. Malcolm Rifkind, Peter Walker and I are agreed that it would be desirable to leave the Map unchanged at least for the lifetime of this Parliament. The White Paper, however, leaves some room for manoeuvre: if, for example, economic growth continues to spread rapidly in the regions, Assisted Area status may no longer be justified for some areas.

11 The changes which we propose for innovation policy carry through existing trends away from support for near-market research and single company projects and towards collaborative research, particularly between industry and academia, and the transfer of technology. This is in accordance with the policy agreed in E(ST) and has been agreed with John Fairclough.

12 The other main area where I intend to make changes is in competition policy. These flow from the outcome of the interdepartmental review chaired by my Department. On mergers policy I intend to improve the procedures for vetting proposed mergers and reduce clearance times for the large majority of uncontroversial mergers. The proposals are essentially procedural but in current circumstances any change in mergers policy can be expected to provoke wide ranging debate. There is unlikely to be strong opposition on party political lines and my proposals should be welcome to the business community.

13 The White Paper also sets out the main elements for a fundamental overhaul of existing restrictive trade practices legislation which is out-of-date and ineffectual in controlling damaging cartels, whilst imposing unnecessary burdens on business. A Green Paper will be issued later in the year on the detailed



implementation of the changes to the Restrictive Trade Practices Act.

14 The changes to competition policy and a number of other deregulatory measures foreshadowed in the White Paper will in due course require legislation. I have sought to ensure that such references to future legislation do not preempt colleagues' consideration of the legislative programme. I fully recognise that these proposals will need to be considered together with other colleagues' priorities in the normal way.

15 The changes to my department's policies and programmes will be accompanied by changes in the approach and organisation of DTI. In its relations with business, DTI has been seen in part as responsible for 'sponsoring' specific industries. I intend to make a clear break with this view of its role. In future we will be emphasising best business practice and focusing effort much more on issues which affect all of industry and commerce: the spread and application of pervasive technologies; improving links between business and education; and concentration on markets and users, rather than specific supplier industries. An important element in the high-profile presentation of the new policies will be better communication with business. I propose to strengthen and expand my Department's regional network, particularly to improve contact with small and medium sized businesses. I shall also look to increase the use of private sector expertise to deliver some DTI services.

16 I would be grateful for your agreement to the other changes which I propose and to the draft White Paper. I should welcome any comments which you and other colleagues may have on the draft by the afternoon of Wednesday 16 December.



17 I am copying this minute to the other members of Cabinet and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'Dy', written in a cursive style.

DY

December 1987

DEPARTMENT OF TRADE AND INDUSTRY

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Summary of main policy changes and initiatives

Competition Policy (Chapter 2)

- Fundamental changes in the Restrictive Trade Practices legislation which will prohibit agreements with anti-competitive effects, and provide stronger powers for the investigation of illegal cartels. Possible exemption for agreements which are on balance beneficial. (Green paper to follow on details.)

- Merger Controls

New legislation proposed for

- (a) a voluntary procedure for pre-notification to the Director General of Fair Trading (DGFT) of proposed mergers, with automatic clearance for simple cases within 4 weeks;
- (b) new powers for the DGFT to secure legally binding undertakings from parties to a merger to remove any anti-competitive aspects as an alternative to full reference to the Monopolies and Mergers Commission.

Deregulation (Chapter 2)

- New Companies Bill to reduce compliance costs, particularly for small firms.

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- Deregulation White Paper to be published in summer 1988.

One market in Europe (Chapter 3)

- Launch in April 1988 of major campaign to alert individual companies to the implications and opportunities for them of the single European market.

Business and education (Chapter 4)

- An initiative to bring education and industry closer together by encouraging commercial work experience for teachers, work experience for young people before they leave school and participation by businesses in schools.
- New DTI support for use of Computer Aided Design and other forms of advanced technology in schools and Further Education colleges.

Business Development (Chapter 6)

- Major extension of access to consultancy services for small and medium sized companies; range of services to be extended further in April 1988.
- Promotion of management functions which raise the competitiveness of businesses such as design and marketing strategy.

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Regional Policy and Inner Cities (Chapter 7)

- Improved access to consultancy services for small and medium sized companies in Development Areas and Urban Programme Areas.
- Investment and innovation grants for small companies in Development Areas.
- Abolition of Regional Development Grant Scheme.
- English Industrial Estates to increase substantially provision of managed workspace, primarily in inner cities.

Innovation (Chapter 8)

- Greater emphasis on technology transfer - especially linking educational institutions and industry - for small firms, for the regions, and for new technologies.
- Greater emphasis on collaborative research on both a national and European scale. Launch of new collaborative programme on superconductivity and of a national information technology initiative.
- Initial assistance to technologically advanced projects in small companies and a very restricted number of projects offering exceptional national benefit whilst substantially reducing support for projects in

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single companies.

Business and Government (Chapter 9)

- Greater emphasis in the work and organisation of DTI on good communications with business throughout the economy and especially at a local level.

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DRAFT WHITE PAPER

DTI - the department for Enterprise

11 December 1987

Copy No _____ of _____

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INDEX

- Chapter 1 Enterprise: the role of DTI
- Chapter 2 A competitive domestic market
- competition policy
 - regulation and competition
- Chapter 3 Open international markets
- the single European market
 - international trade
- Chapter 4 Business and education
- Chapter 5 Management
- Chapter 6 Business development
- business development initiatives
 - services to exporters
- Chapter 7 Regions and inner cities
- Chapter 8 Innovation, using technology
- Chapter 9 Business and Government
- Chapter 10 The Enterprise Initiative

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CHAPTER 1

"The needs and demands of society can only be met by increasing prosperity. The prime objective of the Department is to assist this process throughout the economy and to champion all the people who make it happen, rather than just individual sectors, industries and companies."

DTI Objectives

ENTERPRISE: THE ROLE OF DTI

1.1 Enterprise is fundamental to a dynamic and growing economy. Lack of enterprise played a major part in the relative decline of the British economy; its return has played a major role in the recent economic revival. The key to continued economic success lies in the further encouragement of the enterprise of our people.

The past: economic decline

1.2 The seeds of economic decline can be traced back over a hundred years. After 1870, the UK's growth rate measured in GDP per man year was persistently below that of the United States, France, Germany, Italy, Sweden and Japan.

1.3 The enterprise of the nation appeared to have been lost. The education system discouraged young people from working in business and neglected the skills of management and innovation. No training was available for the great mass of people at work; such training as did exist was too often rigid and anachronistic. The ability of the economy to change and adapt was hampered by the combination of

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corporatism and powerful unions. Corporatism limited competition and the birth of new firms whilst at the same time encouraging protectionism and restrictions designed to help existing firms. Trade unions opposed changes in working practices and fed the inflationary expectations of their members.

1.4 Although the UK's post war economic performance appeared good by the standards of our recent past, its poor relative performance revealed these underlying weaknesses in the economy. From the early 'fifties until the end of the 'seventies the UK was bottom of the league table in economic growth, in the level and the growth of productivity, and in the efficiency of investment. High and accelerating inflation compounded those problems, leading us in the end to borrow from the International Monetary Fund in 1976.

1.5 During this period, increasing Government intervention in the economy brought not only the burden of higher taxation but combined it with a complicated tax system. As a consequence, the process of which, decision taking was distorted. Government intervention directly affected the fortunes of companies and industries, protecting those industries which were unable to adjust to world conditions, yet often neglecting the potential of new companies in emerging sectors. Social attitudes mirrored these attitudes to enterprise; business and profits were disparaged and money making itself was despised.

1.6 The result was an inefficient economy. The symptoms were readily apparent - reduced and inefficient use of investment, low productivity combined with high wage

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growth, poor industrial relations combined with weak management and a continuing lack of technological innovation. Britain failed to compete successfully in world markets and suffered a relative decline in its ability to generate wealth.

1979: the turning point

1.7 The change in policies in 1979 marked the major turning point. Two primary economic aims were set; the control of inflation and the encouragement of enterprise. It was recognised that "supply side" policies to encourage enterprise had to be wide-ranging and consistent.

1.8 Since 1979 the whole climate for wealth creation and enterprise has improved. The control of inflation has been the foundation on which businesses and individuals have been able to plan with confidence. The changes in the tax system have restored incentives and rewards for individuals. The return of venture capitalists and changes in financial markets have encouraged smaller businesses. Business start-ups now have a network of advice and financial help, encouraged by the Government. Deregulation and competition have given people more scope to develop their businesses. The links between education and industry are being strengthened in schools and in higher education. The need to encourage enterprise has infused a wide range of Government policies.

1.9 There have been major changes in the economy too. The recession between 1979 and 1981 demonstrated all too clearly the weakness of an economy which, over many years, had become uncompetitive and unresponsive to change.

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Conditioned by years of inflationary expectations and inflexible working practices, the labour market in particular could not respond to the second oil price shock and the consequent strengthening of sterling. As a result output fell and the economic recession was more severe in the UK than in its competitors.

1.10 Since 1981 the economy has been transformed. Instead of being bottom of the league, the UK is now second only to Japan in terms of growth of GDP. We are top in terms of productivity growth. Output growth since 1981 has been double that for France and Germany and the economy is growing at about twice the world rate. The UK's share of world trade in manufactures has recently been broadly stable after many years of decline. And, alongside major improvements in profitability and productivity, there has been a significant growth in enterprise since 1979 with the number of self-employed up by a third and the net number of businesses increasing on average by 500 a week.

The future

1.11 In future, the economy will have to adapt to the pressures exerted by the increasing pace of innovation and changes in consumer demand, and respond to the lower oil trade surplus. Manufacturing, the service industries and earnings from overseas will all have a major role to play in the UK's adjustment to lower oil production.

1.12 There is still much to achieve. Despite rapid productivity growth in recent years, the level of productivity remains, on average, about one-third to one-half lower than our competitors. Private sector R&D is a

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smaller proportion of GNP than in all major competitors. The training and skills of managers and other employees are low compared with principal competitors. The enterprise culture and the efficiency and competitiveness of industry and commerce need further encouragement. That is the role of DTI.

The philosophy : open markets and individuals

1.13 The keynote of future DTI policies is enterprise; its two foundations are open markets and individuals.

1.14 Open markets are the best guarantee of incentive and efficiency. Closed, insular markets kill enterprise and effort with a consequent loss of dynamism. But open markets are not to be confused with unfettered market forces, for these can lead to closed, protected and monopolistic conditions. DTI will strive to promote open markets through the exercise of its competition policy, through privatisation, European deregulation and international trade negotiations. Regulation has sometimes limited the operation of open markets in the past but it has been used, and will be used, to encourage competition and to ensure that markets work properly and enjoy the confidence of informed investors and consumers.

1.15 Individuals need positive encouragement to participate actively in the challenge of creating prosperity, if only to combat the past anti-enterprise bias of British culture. DTI will seek to bring business into education and encourage education to consider the needs of business. It aims to expose more young people to the excitement of running a business and working in business.

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DTI policies also seek to raise the skills of individuals, particularly through developing management skills. The encouragement of self-help will be an important part of DTI's new initiatives and of the innovative approaches being developed in inner cities.

DTI spending

1.16 Many of the policies to achieve these goals - such as competition and deregulation - do not need Government spending. Indeed privatisation and greater efficiency in the remaining nationalised industries have led to a very significant fall in DTI spending over the last eight years. The underlying theme of spending is to improve the functioning of markets, to avoid taking decisions which should be taken by the private sector while contributing positively to economic activity.

1.17 Individuals can only work efficiently in open markets if they have enough information about the opportunities and problems to make reasoned business decisions. The need to transfer information underpins a whole range of DTI's policies and spending. Spreading information about best practice is particularly important for small firms. Management skills and excellence in strategic decision making can be achieved by spreading information about best practice and knowledge about the advantages of using expert outside advice. This will be a focus of future policies. Technology can spread innovation and the use of techniques, which, while they need not be high-technology, can significantly raise the potential of many companies. Again, information is the key to management action. Collaboration between businesses and

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research institutions can be greatly encouraged by spreading both information and experience on the benefits of research collaboration on projects which are still some way from commercial exploitation but which have considerable market potential. DTI can act as a catalyst by providing information and encouraging businesses to try new approaches; once the commercial success and relevance of such approaches is accepted by business, the normal operation of the market economy should take over.

CHARTS

1.18 The total size of the DTI budget has fallen by more than a quarter since 1979/80 and the balance of spending within the budget has shifted. The most significant change was the decline in spending on nationalised industries while spending on innovation increased substantially.

1.19 Over the next few years, there will be further substantial changes in spending. Spending on the use of consultancy services by small and medium sized businesses will increase markedly. There will also be a shift in the type of spending within programmes, away from automatic grant and near market support for individual companies, towards consultancy services and towards technology transfer and collaborative research. Detailed spending plans will be published shortly in the annual Public Expenditure White Paper.

1.20 Vigorous assessment of spending programmes is important in ensuring that the DTI's policies are meeting their objectives and not funding activities which would have been financed in the market. Accountants and private

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sector advisers appraise cases for selective assistance; assessments of the effectiveness of programmes are used to review policies and their implementation.

1.21 The future policies and organisation of DTI set out in this paper are based on the underlying philosophy of open markets and individuals and the new objectives of DTI.

1.22 The change in approach is reflected throughout DTI's activities. DTI will be the department for Enterprise.

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CHAPTER 2

"Business flourishes in a competitive and open economy and we aim to secure this both at home and abroad."

DTI Objectives

A COMPETITIVE DOMESTIC MARKET

2.1 Competitive firms are the key to a prosperous economy. Competition in open markets offers both rewards and penalties. It seeks out those who produce goods and services which give the customer the best value in price and quality. Competitive markets provide the spur to improved performance and efficiency in industry and commerce.

2.2 Too often in the 'sixties and 'seventies 'industrial policy' was determined by pressures from special interest groups for protection and subsidy to "adjust" to competition. In other words to resist open markets. The benefits of such policies, while immediately visible, were illusory in the medium-term. The costs, in higher bills for the customer and lost job opportunities elsewhere in the economy, were less visible but very real. Overall such policies contributed to the relative decline in our economic performance and in the purchasing power of all of us.

2.3 Since 1979 the micro-economic policies of the Government have been directed towards creating and sustaining open markets, by getting out of direct involvement in running parts of the economy, by removing obstacles to the flexible operation of markets and by

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seeking to ensure competition within the expanded private sector. "Open markets" do not mean that Government should rely simply on the operation of market forces or stand by as a passive observer of the economy. Market forces do often create open markets, but where they do not, the Government act to introduce competition and thereby efficiency.

Privatisation

"We seek to create a larger market by privatisation."

DTI Objectives

2.4. Privatisation can enable an industry to thrive competitively in the market and serve its customers better. It helps to prevent the economic distortions of the past which subjected particular parts of the economy to political rather than economic decisions.

2.5 Since 1979 DTI has successfully returned a significant number of nationalised industries to private ownership and to profitability. Virtually all have flourished in the face of competition in the open market. For example, British Aerospace have quadrupled their pre-tax profits between 1980 and 1986. Cable & Wireless have increased their pre-tax profits by 450 per cent since privatisation in 1981.

2.6 The Government are committed to returning successful state industries to private hands as soon as practicable. While they remain in public ownership the Government's approach has been to expose them to the beneficial disciplines of competition and open markets. In some

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sectors, world market conditions have created particular difficulties. Yet in the steel industry, despite those world market difficulties, the efforts of management and workforce in responding to greater commercial freedom have transformed BSC's performance. In 1979-1980 it made a loss after interest and exceptional items of more than £1.75 billion. It returned to profit in 1985-1986 and made a profit, after all deductions, in 1986-1987 of £178 million. In December 1987 the Corporation announced half-year profits of £190 million. BSC has reached the stage where it will benefit from the commercial flexibility and freedom from Whitehall restrictions which privatisation will bring. The Government accordingly announced on 3 December 1987 their intention to introduce in the current session the legislation required to turn the corporation into a private company and to set in hand the work necessary to privatise the Corporation as soon as possible, subject to market conditions.

Competition Policy

"We seek to produce a more competitive market by encouraging competition and tackling restrictive practices, cartels and monopolies."

DTI Objectives

2.7 Competition policy serves to ensure that competition remains a strong force to promote efficiency and the development of markets, where this is not achieved by market forces acting on their own. DTI encourages pro-competitive policies across the spectrum of Government activity. Competition law includes powers for the investigation and control of mergers, monopolies, anti-

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competitive practices (mainly, anti-competitive behaviour by individual firms) and restrictive trade practices (cartels and other anti-competitive agreements between firms). Law and policy on mergers and restrictive trade practices have recently been subject to a thorough review, and a number of decisions have been reached.

2.8 On mergers policy, the main - though not exclusive- consideration in determining whether mergers should be referred to the Monopolies and Mergers Commission (MMC) will be their potential effect on competition. But the Government believe that the law should continue to give the Secretary of State for Trade and Industry discretion to refer mergers on other public interest grounds.

2.9 This policy enables the great majority of proposed mergers and acquisitions which do not pose a threat to competition to be decided by the market, without intervention from official agencies. The Government believe that there are considerable benefits from allowing freedom for change in corporate ownership and control through mergers and acquisitions. Generally, the market will be a better arbiter than Government of the prospects for the proposed transactions, and will ensure better use of assets, for the benefit of both their owners and the economy as a whole.

2.10 Government should intervene only where the interests of the decision makers in the market are likely to run counter to the public interest. The classic example of this is where a merger threatens to give the newly-formed enterprise a position of market power which it will be able to exploit at the expense of its customers. Mergers may,

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also, occasionally raise other issues which affect the public interest, and that is why the discretion to refer on public interest grounds is to be retained. Similarly, the MMC, in their assessment of mergers referred to them, will continue to make an overall public interest judgement, but in practice it is likely that the main consideration for the MMC in assessing the public interest will continue to be, as it has been in most past cases, the likely effect of the merger on competition.

2.11 In assessing the threat to competition and deciding whether to refer a merger to the MMC, the Secretary of State - and the Director General of Fair Trading (DGFT) who advises him - will continue to take full account of competition from within Europe and from other international sources. In addition, opportunities to exploit market power are often in practice limited by the threat that new competitors will enter the market; the assessment therefore takes into account the potential for competition from new suppliers, whether from domestic, European Community or other overseas sources.

2.12 In most cases, competition is likely to be the most effective means of promoting efficiency. There may sometimes be cases in which a merger appears both to threaten competition and to offer the prospect of efficiency gains. In such cases arguments about the gains to efficiency (and thus to international competitiveness) which may flow from a merger will be considered. But the paramount consideration is to maintain competitive market conditions, and mergers which may significantly threaten competition will therefore normally be referred to the MMC for a full examination. It is for the MMC to assess both

CONFIDENTIAL

the potential damage from a merger and its potential benefits, and to reach a balanced overall judgement.

2.13 There has been widespread criticism that current merger control procedures are time-consuming and inflexible. Within current procedures, good progress has recently been made by the MMC in cutting the length of their investigations; the average time taken by the MMC over merger enquiries has come down from about 6 months over the past few years to about 4 months in 1987. Similar improvements are now in prospect in the handling of monopoly investigations by the MMC. Following a management consultancy study of current procedures and working methods within the three institutions involved (the DTI, the Office of Fair Trading (OFT) and the MMC) the Government expect that it will be possible to make further progress in cutting the overall time taken, measured from when a merger becomes known to the OFT to the time an MMC report on it is published and the Secretary of State's decision is announced. Some of the proposed improvements in working methods and internal procedures will require minor legislative change.

2.14 In addition, two major legislative changes will be sought which are designed to enable the merger control process to operate more efficiently and flexibly : a formal, though non-mandatory, pre-notification procedure; and a new function for the DGFT to obtain undertakings from the parties in cases where it is possible in this way to remove a potential threat to competition without the need for an MMC investigation.

2.15 A number of major industrialised countries have

CONFIDENTIAL

mandatory pre-notification procedures for mergers above a certain size. These are designed primarily to prevent mergers taking place before the competition authorities can take action to prevent them. In practice this is rarely a problem in the UK, and the Government do not believe that a mandatory pre-notification requirement would bring sufficient advantages to justify the additional regulatory burden on businesses. But a non-mandatory system will bring real benefits. The vast majority of merger cases are cleared without a reference to the MMC, and the aim of the proposed procedure is to facilitate the more rapid and efficient handling of those cases where it can be established at an early stage that there is no serious ground for contemplating a reference.

2.16 Those who choose to pre-notify their proposed merger to the OFT will be required to submit, with their pre-notification, answers to a standard questionnaire setting out basic information about the transaction and about the businesses involved. In simple cases, the information supplied in this way will be sufficient for the DGFT to advise, without further inquiry, that there is no ground for a reference. In such a case, provided that the proposed merger has been publicly announced so that third parties have an opportunity to register any objections, the parties will be entitled to automatic clearance of their proposal if they hear nothing from the OFT within a defined period of 4 weeks. In more complicated cases, the OFT will need more detailed information before the Director General of OFT is in a position to advise, and in that case the parties will have to be informed that the right to automatic clearance has lapsed - though naturally the Secretary of State will still aim to reach his decision as

CONFIDENTIAL

quickly as possible. Mergers which are not pre-notified will remain liable to reference to the MMC for a period of up to 5 years.

2.17 The second major legislative proposal is designed to provide a quicker and more flexible mechanism than a full MMC reference for dealing with some of the competition problems which may arise. The DGFT will be enabled to discuss with the parties possible modifications to their merger proposal, usually involving the divestment of some of the assets of the merging businesses. If the parties are able to offer divestments which remove the competition problem, the Director General may be prepared to advise the Secretary of State against reference on that basis. Whenever it is feasible, the parties will be required to complete the divestments before the main transaction is given clearance. Where it is not possible, then the parties may be given clearance to complete their transaction first, but only subject to legally binding undertakings to make the agreed divestments within a specified period afterwards. The parties would also be required to give legally binding undertakings to keep the operations of the two merging businesses separate until the agreed divestments had been completed. If the divestment undertakings were not honoured, the Secretary of State would have powers, without an MMC investigation, to require divestment of some or all of the assets acquired.

2.18 In addition to discussing possible divestments, the DGFT will also be enabled to propose undertakings which the parties might give to the Secretary of State about the post-merger behaviour of the new group, designed to prevent the anti-competitive effects which might otherwise flow

CONFIDENTIAL

from the merger. Any such undertakings would be legally binding.

2.19 The law contains special provisions for the control of newspaper mergers. As with other mergers it is desirable that the examination process should be completed as speedily as possible. The MMC have said that they will complete future enquiries into the general run of newspaper mergers within two months rather than the three which the law now gives them. Against this background the Government proposes to amend the law to give the Secretary of State the flexibility, as with merger enquiries generally, to specify the period within which the MMC should report. The statutory arrangements under which a newspaper merger may be allowed to proceed without a reference to the MMC in cases of financial urgency will be maintained, but consideration will be given to ways of tightening their administration. These measures will make it more difficult for the parties to newspaper mergers to argue that an MMC enquiry is ruled out by financial urgency.

2.20 DTI will shortly publish a further paper setting out more fully the background to these decisions on merger control and the details of the proposed legislative changes.

2.21 The other main aspect of the review of competition law concerned restrictive trade practices. The review has confirmed the belief that the legislation, first passed over 30 years ago, has fundamental weaknesses in today's business climate and that thorough-going reform is required.

CONFIDENTIAL

2.22 The most important point is that the law is less effective than it should be in tackling seriously damaging cartels. The DGFT currently has only limited and ineffective powers to investigate suspected covert cartels. Moreover, even if a cartel is uncovered, there are usually no penalties. The deterrent effect of the present law is therefore extremely weak.

2.23 At the same time, since the law requires registration of agreements of a certain form, regardless of their practical effect on competition, it is indiscriminately and unnecessarily burdensome on innocuous agreements between businesses. It is also based on wholly different principles from the equivalent European Community law which has direct effect in domestic law. Businesses are therefore subject to two very different legal systems.

2.24 The Government propose that the new national law should reflect the same principles as EC law. The basis of the new law will be a prohibition of agreements with anti-competitive effects. The emphasis on the effects of an agreement rather than its form will ensure that the many innocuous agreements unnecessarily caught by the current law will fall outside the scope of the new law altogether. At the same time genuinely anti-competitive agreements, skilfully drafted to avoid the current law, will be caught by the new law. The law will be backed by stronger powers for the investigation of suspected illegal cartels; and there will be tough penalties for breach of the prohibition.

2.25 The law will make provision for exemption from the prohibition for agreements which are on balance beneficial.

CONFIDENTIAL

This will include provision both for exemption of individual agreements and for "block" exemptions, set out in secondary legislation, for classes of agreement. The Government intend that the law should apply throughout the economy; subject to consultation, it is not intended that the primary legislation will provide exemption for whole sectors, as for example the existing Act provides for many professions. Exemption from the prohibition will normally need to be obtained either by individual exemption through the procedures which the new law will provide or by block exemption enacted in secondary legislation.

2.26 The proposed reform will be far-reaching in its effects, and further consultation will be required on the details of the proposals. The Government will publish a Green Paper shortly.

Regulation and Competition

"We seek to increase confidence in the working of markets by achieving a fair level of protection for the individual consumer and investor."

DTI Objectives

2.27 Open markets mean not only free markets but informed and fair markets in whose workings the individual consumer and investor can have confidence. But regulation to that end must be kept at the minimum level necessary. Regulation can be a positive force to promote competition; but, as a general rule, neither the efficiency of open markets nor competition is improved by prescribing detailed requirements which impose costs on consumers and business and limit the scope for freedom of choice, enterprise and

CONFIDENTIAL

innovation. Regulation can also divert energy away from the primary task of meeting customer needs and creating national wealth.

2.28 Some regulation is needed to prevent anti-competitive behaviour and to provide a framework which achieves a fair level of protection for the individual consumer and investor. As part of this, it is clearly important that consumers know that products on the market are safe, that consumers and investors have the information they need to identify best value for money and that they have access to redress if things go wrong.

2.29 A balance therefore needs to be struck between regulation needed to promote competition and give confidence in the working of markets and the risk that regulation will divert economic activity and impose unnecessary costs.

2.30 The achievement of open markets and competition has been a significant aim in DTI's regulatory functions, recognising that this is essentially a long term process:

- in the telecommunications market, the Government's licensing powers are used to introduce effective competition into what was, before privatisation, a statutory monopoly. The Government have established Mercury as an effective national competitor to BT. In mobile communications the introduction of competition has created a much larger market: in 1981 there were only 20,000 mobile telephones in the UK; there are now more than 260,000;

CONFIDENTIAL

- in financial services, the 1986 Act had its origins, in part, in the removal of some of the traditional restrictions. The new structure established by the Act achieves the flexibility needed to respond to developments in rapidly changing markets, most notably in the role it gives to practitioner based bodies. It introduces a comprehensive system of investor protection covering all financial markets, from Eurobonds to the High Street. At the same time the Act contains its own competition provisions designed to act against rules or practices which have significantly anti- competitive effects greater than are justified by the need to protect investors;

- in the radiocommunications markets, the promotion of competition and open markets is a key aspect of the way in which DTI administers the radio spectrum. DTI is currently consulting users about how the role of market forces in spectrum allocation can be increased;

- in regulation and public purchasing, use of effective industry standards promotes competition by helping to create a market in which businesses compete on equal terms. DTI promotes the adoption and use of effective and open standards. Public purchasing requirements are increasingly being based on published standards, thus widening the range of businesses which can compete for public orders.

CONFIDENTIAL

In advanced technologies, such as computers and telecommunications, regulation promotes open standards which help reduce barriers to competition arising from acquired technology or information. Compliance with defined voluntary standards is being increasingly used as an effective means of meeting public interest concerns and encouraging competition;

- in the area of copyright, patents, trade marks and industrial design, the need to ensure that the innovator's enterprise is adequately rewarded must be balanced against the adverse effect of such protection on competition. DTI has the main responsibility in Government for ensuring that the regulatory framework reflects the constant change in markets and technologies to maintain that balance. To that end the Government have recently introduced the Copyright, Designs and Patents Bill currently before Parliament.

Informed and effective markets

2.31 Full competition, and the freedom of the customer to make effective choices, depend on the quality of information available in the market and about those who supply it. Many of DTI's activities contribute towards greater openness and transparency in the market:

- the framework of company law sets standards of financial openness in the dealings of a business with its suppliers, customers and

CONFIDENTIAL

shareholders;

- business and others make more than 14,000 company searches every working day at DTI's Companies Registration Office;
- the very broad range of factual information collected and analysed by DTI's Statistics Divisions forms an important source of intelligence about the economy and particular sectors of industry and commerce. The 'Business Trends' section of "British Business" is used extensively and about 300,000 copies of Business Monitors are issued each year by the Business Statistics Office.

2.32 In maintaining the integrity of the market place an essential contribution to the desirable balance between free markets and the protection of the participants is made by those in DTI and in the private sector who administer the new insolvency legislation and the provisions for the disqualification from office of 'unfitted' directors. Similarly, the prudential regulation of the insurance industry and the investigatory work of DTI's Companies Investigation Branch all contribute towards making markets work properly. The high degree of confidence which customers and investors enjoy as a result of these activities helps strengthen the UK as a sound base for international investment and safeguards the reputation of our financial and trading institutions, vital to their continued success in world markets.

2.33 In consumer protection, the policy emphasis will

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reflect the Government's belief that the best form of protection comes from consumers making well informed choices and acting in their own interests in the market place. To achieve this, information can be more effective than regulation. However, where the case is made out for regulation on safety or other grounds, the Government will not hesitate to act. Consumer Safety awareness campaigns run by DTI will play an increasing part in the promotion of consumer safety. Such campaigns can, for example, provide a cost effective way of reducing accidents in and around the house, involving no extra administration burden on industry. DTI will continue to fund a number of bodies, such as the National Consumer Council and the National Council of Citizens' Advice Bureaux which provide an important source of advice, information and research to consumers and make a valuable contribution to protecting consumers' interests.

Reducing the burdens on business

"We work within Government to create a climate that reduces red tape."

DTI Objectives

2.34 Whilst regulation is needed, it has to be combined with an overall requirement to keep the burdens on business as light as possible. The costs of compliance with regulation take many forms: there are costs of the time of those who have to deal with officialdom, of constraints on human and material resources; costs of registration, licensing and of returns to Government.

2.35 In achieving a reduction of burdens on business

CONFIDENTIAL

across Government, DTI will continue to seek both to remove the burden of unnecessary Government regulations from business and to improve regulation where it is absolutely essential. The Enterprise and Deregulation Unit (EDU), based now in DTI, is responsible for coordinating the process of regulation reform across Whitehall. All new proposals for requirements on business are examined to see if they are necessary and, if they are, to see how they can be implemented in the most cost-effective way. Gradually, all existing requirements are being examined in the same way. The system of assessing the compliance costs of proposed new requirements on business is being further developed and departments are being encouraged to identify more targets for regulatory reform.

2.36 DTI also seeks to improve regulation in areas for which it is responsible. Deregulation will be sought through:

- new companies legislation, an objective of which will be to reduce compliance costs to business, particularly small business;
- legislation to amend the Consumer Credit Act 1974 to remove business lending and hiring from the scope of the Act;
- amendments to the Weights and Measures Act 1985 to increase self-regulation, coupled with a duty for Trading Standards departments to inspect equipment for use in trade at reasonable intervals.

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Communication with business

2.37 It is vital that DTI is well informed about business views and the impact of Government on business and markets. The EDU promotes better consultation with business, simplification and streamlining of essential controls and training within the Civil Service to improve the mutual understanding between Government and business.

2.38 In the Government's work on communication with business, it is essential that regulators and those running services are increasingly seen, and see themselves, as facilitators of business. Regulators' aims need to recognise that regulation which may seem straightforward to an expert in taxation or a licensing system is often complex to business. Public sector delivery mechanisms need to offer comprehensive support and help to businesses to understand and comply with their obligations.

2.39 Achieving this improved relationship with business requires positive attitudes towards business development from officials at all levels. Training is an important feature of this. So, too, is improving consultation with business at all stages of policy development. The EDU operates with and through the deregulation units which have been set up in departments to promote the policy both domestically and in relation to the European Community.

2.40 A White Paper will be produced in the summer which will set out further progress on deregulation.

CONFIDENTIAL

CHAPTER 3

"We will continue to promote the growth of international trade and work towards a single market within the European Community."

DTI Objectives

OPEN INTERNATIONAL MARKETS

3.1 Open markets internationally are an indispensable element in promoting efficiency and enterprise at home. They are also a vital part of the UK's economic prosperity. Exports account for about a third of national product and imports are similar in scale. The creation of a single unified market in Europe by the end of 1992 is one of the main elements of the Government's policy of open markets. It will bring benefits to British business and will make fundamental changes to our domestic market.

The single European market

3.2 In the past the single European market has tended to be seen as something separate from domestic concerns. This perception ignores the fact that consumers rightly take for granted that their range of choice embraces all European goods. In the economic and legal framework within which business operates, European and domestic concerns have become inextricably intertwined. Half of the UK's exports of goods already go to other Community countries. The chart shows the rapid growth in the proportion of UK exports going to other Community countries.

CHART

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3.3 Yet much more needs to be done before there is genuinely a single market. The remaining segmentation of the European market raises barriers to enterprise; it leads to inefficiency, reduced international competitiveness and wasted resources. Creating a single market presents the UK with a challenge and an opportunity. It is a challenge, because the actions which business and Government take over the next five years will determine how far the UK will be one of the more prosperous parts of the European economy. It is an opportunity, both because of the potential for wealth creation and prosperity which a single market of 320 million people can release and because the UK is well placed to benefit from that potential. Ours is now one of the fastest-growing and most dynamic economies in Europe.

3.4 Simply removing barriers to trade and establishing common rules are not enough. British business must also respond to the challenge and opportunities of the single European market. Its decisions on investment, corporate alliances and ability to build market share over the next five years are crucial. The Government's priorities in helping to establish this single market reflect both these points.

3.5 DTI will work to ensure that the single market is achieved, and in ways beneficial to the UK. To that end, DTI wants to establish a closer partnership with business so that Britain's commercial interests can be taken into account. The Government also want to see that industry and commerce understand and prepare for the fundamental changes in the way in which the European market operates which will take place between now and 1992. Within Government, DTI

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takes the lead in seeking the views of business, the City and the professions; in representing these views in Brussels; and in coordinating Government policy towards the single European market in general.

Key activities

3.6 The Government's aim is to remove obstacles which inhibit any firm's ability to operate across frontiers, selling goods and services of every kind. Financial services are, in particular, an area of great competitive opportunity for the UK. The Government's objective is to secure liberalisation of capital movements within the Community, and to match the freedom which Community firms have to establish themselves locally within other member states with the freedom to provide services across frontiers. This will reinforce the existing strengths of London and other established European financial centres.

3.7 Differences in national standards, and testing and certification practices, can impose barriers to trade. DTI will seek not only to establish greater mutual recognition of standards, tests and certificates, but also European-wide standards which impose minimum rules consistent with safety and environmental requirements. Where the need is to provide for European-wide infrastructure and services, more comprehensive European standards will be sought. Past experience shows that those countries which put most effort into European standards-making tend to secure Community harmonisation on terms most favourable to their industries. Industry and commerce must give the British Standards Institution the backing needed to ensure an influential UK voice. At the same time a single European market must not

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create a "Fortress Europe"; international standards must be preferred wherever possible.

3.8 The move to a single market should also imply less bureaucracy and less regulation. The Government will press for this in Europe. The introduction of the "Single Administrative Document" for EC Customs documentation from January 1988 represents a significant advance in reducing the paperwork needed for export, transit and import purposes. DTI wants to see a general simplification of trade procedures, reducing the paperwork and harmonising procedures. The Government will aim to persuade other member countries and the Commission to look for further ways of reducing the burdens of regulation.

3.9 Removing barriers to trade would not create the full benefits of an open market if those barriers were replaced by restrictive or anti-competitive behaviour or unfair subsidies. The Government therefore place great weight in Europe on the maintenance of vigorous competition throughout the Community market and forceful application of state aids rules. The Government also want to see public authorities throughout the Community buying from whatever source makes best commercial sense, with effective enforcement of open public purchasing rules.

Dialogue with industry

3.10 With these changes in prospect, businesses of every kind need to adapt their production, marketing and distribution strategies to exploit the new opportunities. To this end, DTI is mounting a major effort to stimulate industry and commerce. The Secretary of State has

CONFIDENTIAL

established a group of businessmen to advise him on strategy. This will be supported by working groups covering key industrial and commercial sectors, including small firms, which will consider the implications of the various proposals and give advice on where the UK's interests best lie.

3.11 The establishment of the single market will be an evolutionary process. As a recent example illustrates, there is much that can be done between now and 1992, by DTI and business working together, to put British business in a good position to reap the benefits.

3.12 Over the last two years, DTI and British telecommunications manufacturers and operators have co-operated to secure agreement in Europe on the launch of a European-wide mobile communications network for the beginning of the 1990s. The European-wide market which will result gives European industry the opportunity to take a lead in mobile communications. DTI led the UK effort necessary to bring together national Governments, telecommunications operators and manufacturing companies and to secure agreement in Europe on common technical standards. At the same time, British manufacturers are forming trans-national collaborative alliances to help break down nationalistic purchasing decisions. As 1992 approaches Government and company efforts will need to come together in many other areas to achieve similar results.

3.13 Next April a major campaign will be launched throughout the country to bring home to individual companies the implications and opportunities for them of the single European market, so that they can plan how best

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to exploit this situation in their own interests. DTI is ready, both in London and in its regional offices, to discuss with companies what being part of the single European market may mean for them and how we can work together to achieve the best results for the UK.

International Trade

3.14 The world's economies are interdependent. The Government's ability to pursue liberal trade policies and the success of efforts to secure open international markets thus rest in substantial part upon the policies and actions of others. As a member of the European Community, the UK shares with the other 11 member states a common commercial policy. Being part of a large grouping has many advantages, not least in terms of the greater force that the Community, acting together, can bring to bear for the resolution of trade problems. DTI will continue to play a full part in the formulation of the Community's commercial policies and in the conduct of its relations with other major countries and groups, to ensure that these develop in a way attuned to Britain's views and interests.

3.15 The maintenance and creation of open international markets depends on a number of key trading relationships. The most important are those between the European Community, Japan and the United States, which together account for 60 per cent of visible world trade. The newly-industrialising countries are of increasing importance both as competitive suppliers and as expanding markets.

3.16 The European Community has an essential part to play in developing those trade relationships positively, both

CONFIDENTIAL

through its common commercial policy and through the macro-economic strategies of individual member states. The Government work in the Community to press for the maintenance of open international markets by:

- encouraging the commitment of the US Administration towards multilateralism and against protectionism;
- assisting the process of integrating Japan into the world economic and trading system;
- encouraging the newly industrialised countries to adopt commercial policies which reflect their growing economic strength and to participate fully in the international trading system.

3.17 The improvement of bilateral relations with all trading countries has to be reinforced by efforts to improve the multilateral trading framework. Over the last 40 years, the General Agreement on Tariffs and Trade (GATT) has been a major force for stability and liberalisation in world trade. But this framework is not comprehensive. Many of the basic mechanisms and disciplines of the GATT need to be strengthened. Substantial barriers remain throughout the world to open markets for goods and services. These issues are to be tackled in the new round of international trade negotiations, known as the Uruguay Round, which is due to be concluded in 1990.

3.18 DTI will work through the European Community to reinforce the GATT system and to reduce further the

CONFIDENTIAL

remaining barriers to trade. The Government's specific objectives in the Uruguay Round will include:

- a lasting solution to the problem of the subsidisation and protection of agriculture which has led to massive over-production and the destabilisation of the world market;
- the liberalisation of services, which account for a growing proportion of world trade;
- stronger and more enforceable protection for intellectual property;
- the progressive acceptance by the more advanced developing countries of the full range of GATT obligations;
- effective procedures for the settlement of disputes in GATT.

3.19 Success in the Uruguay Round will represent a major step forward towards achieving a genuinely open world trading system from which all countries, and not least the UK, will benefit.

Open markets for investment

3.20 The free flow of international investment is an essential counterpart to open markets in international trade. Outward and inward investment is best guided by the business decisions of individual companies. This is why the Government abolished exchange controls in 1979.

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The UK has built up a large and diversified portfolio of external assets and is second only to Japan as a net overseas investor. The net contribution to the balance of payments from overseas investment is now around £5 billion a year. As important to the health of our economy as this revenue stream is the effect on British companies and institutions of the exposure to new ideas and technologies.

3.21 Inward investment contributes significantly to our economic growth and brings wider benefits through innovations in products, technologies and management practice. The examples set by inward investors are noted and followed not only by their UK competitors but by the suppliers as well. Whole areas of British business have been able to adapt better and faster to change than they would in an economy closed to inward investment.

3.22 DTI encourages inward investment. DTI's Invest in Britain Bureau (IBB) was specifically created to publicise the advantages of Britain as a location for internationally mobile investment. It coordinates all such promotional activities by UK bodies and advises overseas firms on establishing or expanding facilities in Britain.

3.23 British companies need the same access to investment opportunities abroad as foreign companies have here. DTI works with business to achieve that. The Government have, for example, worked successfully with business recently to gain authorisations for British financial institutions to participate fully in overseas financial markets; and to help secure a licence for Cable and Wireless to invest in the operation in one of Japan's competing international telecommunications networks.

CONFIDENTIAL

CHAPTER 4

"We will encourage the growth of links between schools and the world of work."

DTI Objectives

BUSINESS AND EDUCATION

4.1 The competitiveness of industry and commerce depends on our ability to harness the energy, develop the intelligence and promote the enterprise of our people, especially among the young. Achieving that needs action by all of us: by individuals; by employers; by education and training providers; by professional bodies, and by the Government. Considerable progress has been made in recent years but more can be achieved.

4.2 Bridging the historical divide between business and education is vital to encourage the enterprise culture, to encourage young people to work in industry and commerce, to bring greater relevance to their education and to prepare them better for working life. Employers too will benefit from active involvement with education and an understanding of the strengths of the system. Much has been achieved in recent years by DTI together with the Department of Education and Science (DES), Department of Employment (DE), the Scottish and Welsh Offices and the Manpower Services Commission and the Careers Service. DTI's role in this process is to encourage business to work with education at all levels.

CONFIDENTIAL

School employer links

4.3 DTI will work closely with other departments in further encouraging and helping employers to develop good links with schools. In particular, DTI will take action to introduce employers to people and organisations that can help them to become actively involved in education.

4.4 Already there are many instances of schools and employers working successfully together supported by a wide range of programmes run and financed by existing voluntary and other agencies and by Government. Curriculum reform, new examinations and the Technical and Vocational Education Initiative are also having a significant effect in the classroom, and are helping a large number of young people to relate the world of work to learning in the classroom.

4.5 To take this process further the Government will work with employers to achieve the following objectives:

- Every year 10 per cent of teachers should have the opportunity to gain some personal experience of the world of business.
- Every young person should have two or more weeks of work experience, suited to his or her ability and needs, before leaving school.
- Every trainee teacher should gain an appreciation of the needs of employers and of the importance of links between schools and employers.

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These objectives will need the active involvement of a wide range of employers, large and small, in the private and public sector.

4.6 There are many other ways in which employers can assist and influence their local educational system. DTI will publicise a range of possible activities, including those already carried out by the private and voluntary sectors and by other Departments. Employers will be helped to find out about these and decide on the most suitable options for their companies. They will, in particular, be encouraged to become more involved with their local schools and Further Education (FE) colleges. Employers have much to contribute to:

- the development of the curriculum;
- school and college management especially through involvement on governing bodies;
- the promotion of enterprise activities in schools and FE colleges.

Technology in education

4.7 The Government also wish to ensure that young people become aware of the value of information technology (IT), and that IT is used across the curriculum. DTI will complement DES's strategy on IT in schools by working with current initiatives to encourage the use of education databases. DTI is also immediately making available over £5 million to support Computer Aided Design and other forms

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of advanced technology in schools and FE colleges. Support is also available to help initial teacher training establishments and Local Education Authorities to gain experience with interactive video. When young people are regularly using technology to enter, use and manipulate information at school, they will be better placed to help industry and commerce to compete effectively.

4.8 DTI has a similar part to play in helping schools to make use of recent developments in science and technology, and will continue to influence and participate in the development and introduction of appropriate science and technology teaching equipment and resources in schools.

4.9 There is a growing response by the Further Education sector to the changing needs of industry and commerce, particularly in response to MSC's work-related Non-Advanced Further Education programme. DTI will continue to work with other departments, Local Education Authorities, Further Education colleges and industry to influence the development of facilities to meet these changing needs.

Higher education/employer links

4.10 If higher education is to help produce the highly qualified manpower the nation needs, good links with industry and commerce are vital. The relationship involves information and ideas as well as finance. Companies benefit from the services and enterprise offered by higher education institutions (HEIs). HEIs benefit from both the immediate income and the diversification of their funding base. Their staff and students are able to get close, up-to-date experience of business.

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4.11 Such links have multiplied and strengthened over the past six or seven years, though much remains to be done. University income from industry grew from £23m in 1981/82 to £59m in 1985/86 and polytechnics attracted some £25m in 1986/87. DTI has contributed to this welcome and important development through its support for a wide range of programmes including: collaborative research programmes; the establishment of industry clubs; the purchase of equipment for use by HEIs in collaboration with industry; the development of new engineering and other industrially relevant courses; and the establishment with DES and MSC of a network of Regional Technology Centres. The successful Industry Year Award for Collaboration between Industry and Universities, Polytechnics or Colleges highlighted and encouraged many excellent examples of collaboration.

4.12 Collaboration between industry and HEI's will continue to be encouraged. DTI will be launching another collaboration Award in 1988 and a guide to good practice is being prepared to help potential and existing participants to overcome the problems and maximise the benefits of collaboration. Through the Enterprise in Higher Education Programme MSC is collaborating with HEIs to enable them to set up enterprise programmes to develop more enterprising graduates, aware of the needs of industry and commerce and with direct commercial experience. Institutions will need to get commitment for further funding from employers.

4.13 A highly successful means of promoting active partnerships between HEIs and industry in recent years has been the Teaching Company Scheme, sponsored jointly by DTI, the Science and Engineering Research Council (SERC), and

CONFIDENTIAL

others. Under this scheme young graduates undertake key projects in companies under the joint supervision of academic and company staff. The scheme has proved a valuable means of developing the technological and managerial capabilities both of the young graduates employed under the scheme and of the collaborating industry and education partners. It is proposed to increase its size substantially by 1992 and to base an increasing proportion of programmes on smaller and medium-sized firms.

4.14 In partnership with industry, Higher Education and others, DTI will be promoting a number of initiatives in engineering education:

- support for course development, including new equipment, for universities and polytechnics as they increase substantially the supply of manufacturing systems engineers. DTI will provide funds in conjunction with DES, the higher education funding bodies and industry, particularly the industrial affiliates of the Engineering Council. This is a direct response to the views of employers about the engineers they will want to recruit to senior positions in the future;

- HEIs will provide more courses for engineers following the successful model of the SERC's Integrated Graduate Development Scheme. DTI will contribute funds towards a tripling of the number of experimental schemes aimed at enabling engineering managers to follow advanced courses in new technological systems

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whilst continuing their careers in industry;

- new courses leading to a general engineering degree will be set up and monitored in a pilot scheme run by DTI in conjunction with the Engineering Council and other bodies.

4.15 However, the Government's main role can only be to encourage. The real initiative rests with individual institutions and companies across the country to recognise and make the most of the mutual advantages brought by closer links.

CONFIDENTIAL

CHAPTER 5

"We will encourage the spread of management education."

DTI Objectives

MANAGEMENT

5.1 Management which is educated, trained and aware of new opportunities is the spearhead of a competitive business. Post-war British management was badly hampered by a lack of investment in education and training and an unbalanced climate in industrial relations. Although the best companies were well up to world standards, across a wide range of sectors there was inefficient use of manpower and machines, inadequate concern about quality, insufficient attention to design, innovation and development and poor delivery performance.

5.2 Management weaknesses have their source in the whole culture of society including business/education relationships. But two specific sources of management weakness in the UK can be identified:

- the first lies in the training and development of individuals and particularly managers. Recent reports, notably Professor Handy's "The Making of Managers", provide evidence of the efforts being made by our competitors in developing their managers and the need for comparable efforts by the UK. One fifth of the largest UK companies make no provision for management training; one third of middle managers have had no training since starting work;

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- the second lies in the failure of individual firms to develop managerial competence in functions which are crucial to competitive success. That is not helped by a paucity of information about best management practices.

5.3 Experience suggests that market forces on their own will not bring about the necessary improvements in the quality of British management, or, at any rate, not quickly enough. DTI, with other Government departments and the Manpower Services Commission, is working in partnership with industry to improve management education and development and to spread awareness about best management practices.

5.4 The Government strongly welcome the energetic steps being taken by industry to respond to this challenge, and particularly the Charter Group initiative launched by the Confederation of British Industry (CBI) and the British Institute of Management (BIM) on 3 November 1987. The Charter Group Initiative aims to establish a code of best practice for management development, to which employers will be invited to commit themselves through membership of the Group. This followed discussion in the Council for Management Education and Development in which industry, together with education and relevant Government departments, is able to set out views on a national framework of qualifications for the training and education of managers at all levels. The aim is to create a structure which will provide ladders of opportunity to all those interested in developing their managerial capabilities to the full for the benefit of themselves,

CONFIDENTIAL

national economy.

5.5 The Government is convinced of the need for industry to be successful in improving the training and development of its managers and the DTI is leading the Government's strong support for the Charter Group initiative. It will seek to ensure that this initiative reaches the widest possible audience, in particular among small firms; and modest financial assistance is available if it is required to fund experimental approaches to management development. DTI intends to join the Charter Group as a full member.

5.6 Business is best placed to identify its own needs for improving managerial competence and to implement the right solutions. But reliance on business alone is insufficient. The infrastructure of national qualifications and information which is needed to tackle this problem cannot be the responsibility of individual firms. Government can help to set the framework within which individuals can be encouraged.

5.7 Some management practices have a widespread application throughout industry and commerce. DTI has run or supported campaigns to spread awareness about the need for best practices such as quality and design in the management of British companies.

5.8 Quality is relevant not just to a product or service but also to the motivation and attitudes of everyone in a business. The national Quality campaign puts across this message and has already reached well over 60,000 companies. This approach to quality has been strengthened by a system of national accreditation to ensure consistency of

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performance and independent certification services. The standards-making process has been encouraged and DTI has forged closer links with the British Standards Institution aimed at meeting industry's needs and improving competitiveness.

5.9 The aim is to support and encourage initiatives which bring an increased understanding of the elements involved in the quality approach and the benefits to be secured. Work on standards will be developed both internationally and as part of our commitment to the single European market, to achieve harmonised European standards and the development of a Community policy on testing and certification, so leading to the adoption of mutual recognition arrangements.

5.10 Design has a major impact on the acceptability of products to consumers. It affects appearance, aesthetic acceptability, ease of use, reliability and maintenance, safety, and ease and costs of manufacture. All are a key influence on market success or failure.

5.11 DTI funds the Design Council and other agencies to increase understanding about the relevance of design. During 1987 DTI launched three Product Design Advice Centres in Warrington, Halifax and Glasgow. This is a pilot initiative to help local firms identify and pursue new, market-led product opportunities with international potential. Each of the firms assisted is offered a tailor-made package of expert consultancy including areas such as design and marketing to develop such new opportunities into marketable products.

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5.12 DTI will continue to spread awareness of the need to exploit design and link it with marketing, quality and production. New initiatives in design and management education will be encouraged to produce designers with the right skills to meet industry's needs and managers who understand the potential of design for their business.

CONFIDENTIAL

CHAPTER 6

"We seek to secure a more efficient market by improving the provision of information to business about new methods and opportunities."

DTI Objectives

BUSINESS DEVELOPMENT

6.1 High quality management is essential for the competitive businesses which alone can create a prosperous economy. Improvements in links between business and education, management development and information about quality and design all help to provide the long-term foundations for high quality management. But the need to improve management skills demands immediate action, especially to spread best management practices across industry and commerce.

6.2 Management skills can be improved by training, and a wide range is available through Business Schools, colleges and through various programmes managed by the Manpower Services Commission. However many small and medium-sized businesses face particular difficulties because management can rarely be spared away from the work place for training and because a wide breadth of management skills is required in a small number of individuals. Energetic but small businesses simply do not have the spare resources for proper analysis and planned development.

6.3 An immediate addition to management resources can be made by the use of outside professional expertise. Outside consultants can develop strategies for business

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development, improve management systems and supplement the skills of existing management in key areas. The use of private sector consultants by small and medium-sized businesses is limited by lack of information about their relevance and uncertainty about the cost effectiveness of using them. The market is failing to provide sufficient information to raise the quality of management.

6.4 DTI has run a number of schemes to encourage the use of private sector consultancy by small and medium sized businesses in particular functions. Those schemes have been run on a small scale and have covered limited aspects of management performance; they have not been strongly promoted. Even so demand has been high and the available evidence suggests that such schemes can be an effective use of public money to improve business performance.

Business development initiatives

6.5 The Enterprise Initiative which is being launched now (and is described in Chapter 10) will include a set of initiatives to encourage the development of management skills through the use of outside consultancy services by small and medium-sized businesses. It will support private sector consultancy projects in a wide range of key management functions. The new initiative aims to raise the level of management performance in such businesses and to encourage them to use outside consultancy services as a regular part of their management strategy. The whole aim of the initiative is directed towards self-help through critical self-analysis.

6.6 More than £50 million is being provided in 1988/89.

CONFIDENTIAL

This will initially support 1,000 consultancy projects every month. The budget and the number of projects supported each month will be increased further over the subsequent two years.

6.7 The initiatives will be available to independent businesses or groups in both manufacturing and services which have less than 500 employees. The emphasis is on businesses where the lack of information about the value of such outside services is likely to be limited and where existing management skills are unlikely to cover the full range of management functions.

6.8 The initiatives are designed to have a significant impact on the firms which take it. The commitment of management to change is a key part of the process. That commitment is obviously greater where the management itself makes a financial contribution. So the level of DTI support will normally be half the costs of a consultancy project. Two-thirds of the cost will be paid in the Assisted Areas and in the Urban Programme Areas where greater encouragement needs to be given to indigenous development. Consultancy projects of between 5 and 15 man days will be covered, sufficient to make a significant contribution to company development especially in management.

6.9 The launch of the Enterprise Initiative now covers four key management functions which will be supported on common and straightforward terms to present a coherent service to businesses which can be easily presented and understood:

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- Design: Good design is not simply about making a product look attractive. It is a vital ingredient in the competitive armoury of every firm. Assistance is available towards consultancy studies on the design and development of new products and the redesign of existing products to meet market, financial or production needs, as well as the more commonly understood aspects of design such as graphics, technical and promotional literature. Later, the coverage of the Design Initiative will be widened to include the broader aspects of design strategy which will have a lasting impact on management performance. These include the process of design management and a strategy for design training to strengthen firms' in-house resources.

- Marketing: Catering for an ever more sophisticated consumer calls not only for clear understanding of what customers want and need but also the ability to lead in establishing new market demand. That requires a strategic approach to marketing and the creation of a marketing culture which permeates the business. Support will be given to consultancy projects to help businesses develop such marketing strategies. For international markets, a key obstacle to successful exporting among smaller businesses is a widespread lack of understanding about the nature of exporting, the opportunities it offers and, critically, the resources that have to be committed if

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sustained exports are to be achieved. One consequence of this is that too many smaller businesses pay too little attention to strategic planning for exporting and omit export marketing objectives from their overall plans. Support is therefore being offered within the Marketing Initiative for consultancy projects to help businesses, especially inexperienced or occasional exporters, to develop a strategy and a more considered and effective approach to export marketing.

- Quality Management: Like design and marketing, quality management has to be an integral part of companies' overall operations. Increasingly purchasers insist that suppliers' management systems meet standards which guarantee quality. In many instances these are based on British Standard (BS) 5750 or related international standards. Support is available for consultancy projects to help businesses set up quality management systems and to apply for assessment to BS5750 and other recognised schemes. Later the Quality Initiative will be broadened to advise businesses on the "total quality approach" which has been so successfully adopted by a number of leading British companies in recent years.

- Manufacturing Systems: The spread of computer-aided manufacturing techniques offers small and medium-sized businesses a major opportunity to improve their competitiveness and growth

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prospects. The adoption of these techniques is not, however, simply a matter of buying in the technology. It is at least as much about changing management systems to integrate production, marketing and design. Support is provided for consultancy on the technology and associated management challenges of introducing Computer-Aided Design and Manufacture, Computer Assisted Production Management and Flexible Manufacturing Systems.

6.10 The range of key functions will be extended in April 1988 to cover consultancy projects which help businesses with business planning and with the introduction or improvement of financial and information systems:

- Business Planning: Without the management skills to define and meet strategic objectives, a business is unlikely to prosper, whatever its strengths in other functions. Assistance will be available towards the cost of consultancies which will give expert advice on how to develop and implement a business plan.

- Financial and Information Systems: Budgeting and financial control foster stability and growth in businesses. Just as critical is the availability of information on resources, production, customers and competitors. Business services provided over the telephone network add a further dimension of growing importance. Consultancy support will be given to help improve existing systems or to design,

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introduce and operate new information systems. The package will embrace budget and financial control, accounting records, use of data services and any computer and software needs.

6.11 The key management functions covered by the initiatives will change over time as management skills in the functions which have been supported improve and managers show their willingness to use consultancy services in the commercial market. Drawing attention to the importance of managerial strategies in achieving commercial success should itself help to improve management techniques and encourage the greater use of consultancy services more generally.

6.12 The Small Firms Service of the Department of Employment, through its counsellors and in particular under the Business Development Service, provides advice and support to established small businesses. In providing counselling, it aims to tackle basic business problems. The new initiatives are complementary, advising in depth on specific management functions in firms that have in general developed beyond the stage of requiring basic counselling. The services operated by the two Departments will be closely co-ordinated.

Business Review

6.13 The initiatives will be made available to firms through DTI's Regional Offices in England, and through the Scottish and Welsh Development Agencies. An important part of the service will be a free Business Review of up to two days of advice by a private sector Enterprise Consultant

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who will have a wide range of experience in the management problems encountered by small and medium-sized businesses. The Enterprise Consultant's role will be to help the management of the businesses assess the constraints on growth and the relevance of consultancy advice to removing those constraints. The Enterprise Consultant will work with the company to identify the most appropriate initiative.

6.14 Firms who approach the Small Firms Service but who could benefit from DTI's new initiative will be identified and referred to DTI with the minimum of bureaucracy. Enterprise Consultants will refer firms to the Small Firms Service when this seems more appropriate than a specialised consultancy. Some of the Small Firms Service Counsellors will act as Enterprise Consultants, especially for smaller firms, further strengthening the bond between the services operated by the two Departments and ensuring that the skills and techniques that are particularly appropriate when dealing with small firms will be available as part of the new initiative.

6.15 It is essential that consultancy should be impartial, of high quality and provided by the private sector. DTI has therefore engaged private sector contractors, such as the Institute of Marketing, the Design Council and Industry Research Associations, who have a wide knowledge of the skills and relevance of project consultants in their field. Their role is as project managers in the provision of consultants for the key functions covered by the initiatives and to ensure that businesses are advised by the project consultant most suited to their individual needs.

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6.16 These initiatives are expected to be an effective and targeted use of public money, having a significant and lasting impact on the competitiveness of the large number of businesses who will be able to benefit from it. Businesses which have, as a result of adopting best practices, raised their management standards will find it easier to generate self-sustaining growth.

Services to Exporters

6.17 Lack of information and management expertise prevent many companies, particularly smaller companies, from exporting their products. Yet profitable exports make an essential contribution to the UK economy. UK exports are equivalent to 30 per cent of gross national product - a higher proportion than in many comparable economies. Research indicates considerable potential, particularly among smaller businesses, to improve export performance.

6.18 The British Overseas Trade Board (BOTB), the export arm of DTI, (in conjunction with Diplomatic Service posts overseas) helps businesses by providing information about export opportunities, overseas marketing conditions and also by assisting with market entry.

6.19 Alongside the support for consultancy projects in export marketing is a range of services for exporters developed with the help of the BOTB and its area advisory groups of business people with expertise in particular markets.

6.20 In the light of advice from the BOTB, DTI export

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services will be reorganised later this year to reflect exporters' needs better. Services should then match the stages through which successful exporters go in developing their business.

6.21 The aim will be to encourage companies, particularly those inexperienced in overseas marketing, to think out their own planned approach to exporting and to use DTI's export services as part of a more developed strategy for overseas business.

6.22 The policy of charging will be maintained. Where firms have to make a contribution themselves, their commitment to success is greater. Tapering rates of support have already been established for participation in overseas trade fairs and outward trade missions, on a basis which targets support at exporters new to a market. Support, but at a lower level, remains available for those who have taken part in trade fairs before, so that their experience can be available to new exporters.

6.23 Advice and information for exporters is available through DTI's Regional Offices, the Scottish and Welsh Offices and from a number of private sector sources including trade associations, Chambers of Commerce, banks and consultants and from commercial databases. DTI already works through the Chambers of Commerce and trade associations in its programmes for overseas trade fairs and visits and seminars. It will in future work more closely with private sector organisations to ensure that help for exporters is delivered as effectively as possible and, over the medium and longer term, to increase the role played by private sector organisations in the provision of advice and

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information to exporters.

6.24 The aim in this, as in other areas, is to maximise use of open markets and to encourage the flow of information to enable markets to work efficiently.

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CHAPTER 7

"In all our work we will take account of the differing circumstances in the regions and of the inner cities to enable those who live there to help themselves."

DTI Objectives

REGIONS AND INNER CITIES

7.1 The problems experienced by British industry in the past have affected some areas of the country worse than others. For many decades some regions have had higher unemployment and poorer growth. Concentrations of deprivation have existed in inner cities often surrounded by areas of prosperity. Regional and inner city problems have often been caused by inflexibility in responding to the decline of traditional industries, the low rate of creation of new firms and inadequate levels of innovation.

7.2 The Government's policies in increasing competitiveness, encouraging innovation and improving skills of individuals are even more relevant to depressed areas and inner cities than they are to the rest of the country. Those policies will therefore be intensified in areas which have suffered the greatest industrial problems. For example, the work on creating a more effective relationship between education and industry will be intensified in inner cities, including stronger schools/industry links and the use of colleges for enterprise training.

7.3 But the problems of some areas are so serious that additional measures are required. Regional industrial policy is DTI's responsibility, with similar policies

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administered in Scotland by the Scottish Office and in Wales by the Welsh Office.

Regional Policy

7.4 The last comprehensive statement of the Government's policy on regional industrial development (Cmnd 9111, December 1983) heralded significant changes in the operation of the main policy instruments (Regional Development Grant and Regional Selective Assistance). The aim was to make them more cost-effective. A central objective of the revised policy was that it should "encourage the development of indigenous potential within the Assisted Areas with the long term objective of self-generating growth in these areas".

7.5 This objective remains. But now the Government believe that it will be achieved more effectively with a change in the balance of regional policy so that the main aims of the Government's enterprise policies are properly reflected in the regions.

7.6 The changes do not reduce the planned level of spending on regional industrial measures but ensure that spending will go increasingly to policies which encourage business development. Such policies seek to achieve improvements in the managerial skills and strategies of businesses, which are central to the overall development of those businesses but which would not have generally been achieved simply by operating in open markets.

7.7 New policies are being introduced to achieve these aims:

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- the business development initiatives have a significant regional dimension, with higher levels of grant in Assisted Areas and in Urban Programme Areas;

- new incentives will be introduced in Development Areas from the beginning of April 1988 based on the successful experience of the Business Improvement Services scheme. These incentives will be designed to support the wealth creation process amongst the smallest firms. Such firms often need encouragement to implement strategic decisions; they also find it difficult to raise finance for development projects. Firms with fewer than 25 employees will be able to apply for investment grants of 15 per cent towards the costs of fixed assets subject to a maximum grant of £15,000. An innovation grant of 50 per cent subject to a maximum grant of £25,000 will also be available to such firms to support product and process development;

- further incentives to strengthen the infrastructure of support for small businesses will be considered.

7.8 The Government have concluded that significant development of local potential will be achieved more effectively through these policies than through the Regional Development Grant scheme and that the RDG scheme should be abolished. The scheme has provided "automatic"

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grants open to companies of any size and without any prior assessment of the benefits resulting from the projects supported. But companies seeking Government assistance for investment projects should be required to show that they genuinely need grant in order to proceed and that their projects are viable and will produce identifiable and significant benefits. The RDG scheme does not meet these requirements and will with suitable transitional arrangements cease to operate throughout Great Britain. No new applications will be accepted after 31 March 1988.

7.9 This move away from an "automatic" grant regime, which makes an open-ended call on public expenditure, is both possible and desirable in a period of rising investment. Many of the projects which would have been supported by RDGs will take place anyway. Grants towards the cost of investment projects which would not otherwise go ahead will continue to be available in Development and Intermediate Areas under the Regional Selective Assistance scheme. Companies which previously expected to receive RDG for new investment projects will be able to apply for Regional Selective Assistance but will have to demonstrate that they meet the relevant criteria, in particular that assistance from public funds is needed for the project to go ahead.

7.10 Regional policy remains based on the existing regional map. The Government have concluded that it is too soon to re-open the definition of the boundaries of the Assisted Areas which were last fixed at the end of 1984. The present intention is that the existing map should remain in place for the lifetime of this Parliament.

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7.11 DTI's longest standing instrument of regional industrial policy is the English Industrial Estates Corporation (English Estates). Its task is to provide and facilitate the provision of industrial and commercial premises in the Assisted Areas and inner cities of England where shortage of private sector provision is a constraint on development. Despite recent improvements in market conditions, the private sector is still reluctant to invest in certain types of property in those parts of the Assisted Areas and in some non-Assisted Area inner city locations. English Estates will continue to provide industrial and commercial premises in the Assisted Areas where there is no prospect of private sector provision. But it has been asked to give particular priority in future to a new programme of managed workspace primarily in inner city locations and with considerable private sector involvement.

7.12 As the foregoing paragraphs indicate, the changes in emphasis in regional policy described will apply throughout Great Britain. In Scotland and Wales they will be implemented through the Scottish and Welsh Offices and the Scottish and Welsh Development Agencies.

Inner Cities

7.13 The primary role for DTI in working in the inner cities with other Government departments and other agencies is to encourage business development, enterprise and employment. Inner cities will of course benefit from the higher rates of grant for subsidised consultancy projects in Urban Programme Areas under the business development initiative. The identification of Urban Programme Areas for particular help in DTI's policies is a new policy for

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DTI and recognises the particular difficulties of such areas. A number of inner cities are in Assisted Areas and will similarly benefit from the new measures for Development Areas as well as Regional Selective Assistance. DTI also is responsible for co-ordinating the work of the City Action Teams in major cities and running 16 Inner City Task Forces.

7.14 The City Action Teams (CATs) cover all or most of the inner areas of London, Birmingham, Manchester/Salford, Liverpool and Newcastle/Gateshead. They consist of the Regional Directors of DTI, the Department of Employment and the Department of the Environment who ensure that the programmes of the three Departments work closely together in those inner cities. The CATs have Action Plans to tackle the needs of local enterprise, employment and investment using a range of projects and programmes. These include support for local purchasing initiatives in London, help with developing a region-wide company database in the North East and special financial support for small enterprises in Manchester/Salford.

7.15 The Task Force programme is innovative and experimental. Like the CATs it pulls together the combined efforts of a number of Government departments and works with the private sector and local government. It demonstrates what can be achieved when policy is carefully targeted on the individuals and areas most in need. The aim of Task Forces is ultimately to work themselves out of a job in each district that they tackle, leaving behind the self-confidence and skills that local organisations and residents need to assume responsibility for economic activity in their areas. They have been successful in

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developing new approaches to inner city problems which can now be applied more broadly elsewhere. Experience to date has identified six main areas where attention should be focussed:

- Managed workshops to provide premises for new business to start and grow in a favourable environment.
- Employment of local labour to provide more jobs for people in their own communities by tackling barriers to local recruitment and by encouraging local enterprise.
- Training, especially using the substantial resources of local schools and colleges, targeted on the needs of local employers and aimed at specific skill shortages and vacancies.
- Task Force Development funds to provide help with grants and loans to new businesses and small businesses unable to secure finance elsewhere.
- Schools/industry links so that young people can be better aware of the opportunities through enterprise in the world of work.
- Fostering the creation and growth of locally led businesses and organisations that can ultimately takeover from the Task Forces.

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7.16 The objectives of the Task Forces are consistent with the focus of DTI in encouraging individuals to compete in the market and in providing assistance to small companies which is not available in normal financial markets. The aim of the initiative is, in short, to enable people living in the most run-down inner city areas to acquire the skills and confidence they need to compete on equal terms for the increasing number of opportunities in the economy as a whole. Indeed, although the scope for self-help may be seen as least promising in inner cities, the need for it and the potential rewards from it are even greater there than elsewhere.

7.17 Private sector involvement is essential in tackling the problem of inner cities and the Government's major aim is to increase further the participation of companies in inner city development. The Government therefore welcome the increasing commitment being made by private sector companies in supporting initiatives in inner city areas; in Task Force activities alone, over 200 private sector companies are already participating. But more is needed than commitment to Government initiatives alone. Only when commercial judgement comes to regard inner cities as a worthwhile investment will the underlying economic problem have been tackled.

CONFIDENTIAL

CHAPTER 8

"We will encourage the transfer of technologies and co-operative research."

DTI Objectives

INNOVATION, USING TECHNOLOGY

8.1 Successful businesses innovate, often using technology to improve their products and processes. Innovation is essential to sustain a competitive edge in world markets. The willingness and ability of business to innovate has been strengthened by the healthy economic climate in recent years. Even so, in 1985, UK-industry funded R&D was a lower proportion of Gross Domestic Product than in major industrial competitors.

8.2 The White Paper on Civil R&D (Cm 185) announced that DTI was reviewing its role in encouraging innovation. The main conclusion of that review is that the balance of existing policies should be changed, by:

- giving greater emphasis in collaborative programmes to longer term pre-competitive research, and to encouraging collaboration between higher education institutions (HEI's) and companies;
- giving greater emphasis to encouraging and facilitating the many different aspects of technology transfer;
- ending the general scheme for providing

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innovation grant assistance to individual companies; ending the Micro-electronics Industry Support Programme, Support for Software Products and the Fibre Optics and Opto-electronics scheme, but continuing to encourage small high technology companies.

8.3 Firms themselves are best able to assess their own markets and to balance the commercial risks and rewards of financing R&D and innovation. The Government should not take on responsibilities which are primarily those of industry. The closer to the market place that innovation is taking place, the more fundamental this should be as a guiding principle of policy. In particular, firms have the best access to information about the prospects of the R&D projects they alone undertake and are best placed to reap the benefits from them.

8.4 But the Government recognise that reliance on the decisions of firms may produce a level of innovation and use of technology which fails to provide the maximum benefits for the economy as a whole. The Government's view is that DTI's innovation policy should be focussed on firms' lack of information about the benefits of research and technology and the scope for innovation and their reluctance to fund projects where the benefits of research would have to be shared with others. There may also be exceptional circumstances where technological uncertainties of research dissuade firms from projects which would have benefit to the whole economy.

8.5 The overall aim of DTI's innovation policy is to encourage a net addition to innovation by industry without

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creating or perpetuating distortions in the economy. The Government have decided that the objectives of DTI's innovation policy will be to encourage:

- industry to increase its funding of R&D and to apply new technology more effectively;
- the translation of both inventive capability and best practice technique into commercial application i.e. more and better technology transfer;
- industry to make most effective use of its own and academic resources through collaborative research and development on both a national and European scale;
- innovation by small firms, especially in advanced technologies, and in the regions.

8.6 DTI will work to promote the fuller exploitation of public funded R&D together with other Government departments, notably the Department of Education and Science, and the science base.

Effective Programmes

8.7 The basis for DTI's innovation programmes is that they will achieve their objectives cost-effectively without supporting activities which would otherwise be funded by the market or for which the private sector should be responsible. Specific programmes will have testable objectives and will be time limited.

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8.8 The main conditions for departmental assistance will be clearly set out and applied on a consistent basis across the programmes. Maximum grant provision will be 50% of eligible costs; in appropriate cases grant rates will be tapered as the market potential becomes clearer.

8.9 DTI's Regional Offices will play an important role particularly in technology transfer activities.

Improving the environment for innovation

8.10 The Government will seek to establish a more favourable environment for innovation in which shareholders and managers can have the information, and be more able to assess, the value of research and technology. It is for companies to ensure that their bankers and shareholders understand the advantages of investment in R&D. The reporting of R&D expenditure in annual accounts along the lines proposed by the Accounting Standards Committee will promote this understanding.

8.11 The Government have already announced improvements in the statistical information available on industrial R&D. Since 1986 sample surveys of private industry are conducted annually by DTI's statistical service with benchmark inquiries taken every four years.

8.12 The Government now publish an Annual Review of Government-funded R&D and have also announced a strengthened central structure for collective Ministerial consideration of science and technology priorities. DTI plays a full part in the assessment of the contribution

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which science and technology can make to national economic success while satisfying wider Government objectives.

8.13 DTI collaborates closely with other Government departments (notably the Department of Education and Science), seeking agreement about priorities; technology transfer between departments; efficient management of research programmes of mutual interest; and the maximum benefit of R&D funded by the Government to the national economy as a whole.

8.14 It also reviews new developments in the UK and elsewhere which seem likely to promote innovation and the use of technology (for example, corporate venturing) and will continue to give publicity and encouragement to best practice wherever it may be found.

Collaborative research

8.15 New technologies can transform products, processes and services in remarkable and often unfamiliar ways. The UK has particular strengths in some of these technologies in scientific research and industrial application. But exploiting those strengths often requires new collaborative arrangements both between companies and between companies and researchers in the public sector. DTI can encourage and facilitate the development of collaborative arrangements with other Departments concerned; this is particularly important at the pre-competitive research phase where the information about opportunities is poor and not widely shared and where technological risks are high.

8.16 The need to exploit technological strengths on a

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collaborative basis exists internationally within Europe. Few European countries can compete with the scale of resources available to the USA and Japan but collaborative research can maximise the strengths of industries and researchers in different European countries. DTI will encourage the participation of UK companies in technological collaboration with other European firms and research communities, including programmes such as ESPRIT and RACE.

8.17 There are four main ways in which DTI, with other Government departments in some cases, will encourage and finance collaborative research:

- LINK encourages companies to undertake joint research with HEI's and Research Councils. The research will be pre-competitive but industrially relevant. Programmes currently under preparation include new technologies such as nanotechnology, industrial measurement systems and eukaryotic genetics, linked with initiatives by the Science and Engineering Research Council.
- EUREKA encourages industrially-led projects with European Community and other European partners. These should both strengthen European technological capability in world markets and contribute to the completion of the internal Community market.
- National collaborative research programmes in advanced technologies encourage longer term

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research in new technologies often involving mixed scientific and technological disciplines. Such technologies are likely to have a pervasive impact on economic activity of all kinds; often characterised by high entry costs and/or technological risks; usually some distance from the market but offering a good prospect of market exploitation. DTI's role is to help establish the collaborative links both between firms and between firms and the research community at the pre-competitive research stage. Once those links are established, decisions on further collaboration and commercial exploitation should be taken by industry itself. DTI, with advice from its Technology Requirements Board, is currently running collaborative programmes in such advanced technologies as advanced robotics and gallium arsenide. A new programme on superconductivity is now being launched.

- General industrial collaborative projects encourage collaboration through a variety of projects. Some foster R&D serving the interests of fragmented industries where small firms typically do not have the resources for advanced technological projects; Research Associations which pool resources can meet those needs. Some encourage the adoption of technology originating in the science base, particularly in the Government's research establishments. Some are collaborative projects only involving industrial participants

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in joint research for companies with similar interests, (especially small and medium sized companies).

8.18 Research covered by the collaborative programme will change over time. In the future we will only contribute funds to research which would not and could not go ahead without some support from the taxpayer. It will normally be DTI's policy to fund any particular project or area of work only over a specific time period and where appropriate to reduce the rate of funding over time. Companies themselves are expected to become aware of the benefits which collaborative arrangements can bring and to undertake collaborative research without any Government funding.

8.19 The Government have considered whether the proposals in the report of the IT86 Committee should be included amongst the national collaborative research programmes. These programmes would include the UK participation in any follow-up to ESPRIT.

8.20 The Government have already agreed to support ESPRIT II, for which there will be a UK contribution via the Community budget of the order of £200 million. The Government also recognise that the Alvey Programme has provided a good focus for the IT research community, which has helped to bring together different parts of industry as well as industry and higher education institutions. The involvement of secondees from industry, academia and the Government departments involved has also proved successful and has assisted UK organisations to participate fully in ESPRIT.

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8.21 The Government therefore agree with the IT86 Committee that resources should be devoted to a national initiative complementary to ESPRIT. DTI has allocated £29 million over the next three years for such a programme and SERC has made provision for some £55 million over five years, to be devoted to related academic research, mainly in partnership with companies. Together with ESPRIT II, and with other programmes in this area, this provides very substantial support for collaborative research in IT. DTI will bring together all its collaborative research activities in information technology into an enlarged Alvey Directorate which will continue to encourage closer relationships between those active in IT research.

Technology transfer

8.22 The UK's overall weakness in industrial innovation performance lies not in the inadequacies of scientific or inventive capability, but in the transfer of that capability into commercial application. Concern about technology transfer is not confined to new technologies but extends to the transfer of best practice techniques and technologies into commercial applications, particularly by small firms and in certain geographical locations. The business development initiatives (see Chapter 6) will contribute to such technology transfer.

8.23 DTI's aim is to encourage technology transfer where the market is weakest, particularly:

- links between industry and educational institutions, Research Councils and Government's research establishments;

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- the access of small firms to the sources of technology, particularly in those localities where technology transfer networks are least well developed;

- the diffusion of new technologies likely to have pervasive applications but in novel and unfamiliar ways, often requiring changes in other aspects of existing products and processes.

8.24 The range of DTI's technology transfer programmes includes; the establishment of Regional Technology Centres (jointly funded with DES and MSC); training, demonstrator and awareness programmes in modern manufacturing techniques and technologies (including biotechnology and advanced integrated manufacturing systems); the Teaching Company Scheme (Chapter 4 paragraph 13) and inward technology transfer.

Small firms and start-ups

8.25 The Government consider that companies themselves are best placed to assess the balance of risks and rewards of their own research projects in open and competitive market conditions. The focus of Government funding should therefore be on research and technology transfer which spans companies and not on research projects in single companies. But the decision to end general support for projects in single companies does not exclude funding research in individual companies completely.

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8.26 The rise of new high technology firms from small beginnings adds an extra element of rivalry and flexibility to the market's response to technology opportunities. This appears still to be better developed in other economies, such as the US than the UK. Funding innovation in start-ups, the growth of new technology-based small firms and innovation in small firms in regions with a limited technological infrastructure can add to innovation throughout the economy.

8.27 The Government are therefore expanding the Small Firms Merit Award for Research and Technology (SMART) to encourage the start-up of small high technology firms. Innovation grants for small firms with fewer than 25 employees in Development Areas (see Chapter 7) are also being introduced.

Exceptional projects

8.28 There may be exceptional cases of single company projects which offer significant national benefits but which would not be undertaken without financial assistance from the Government. Assistance in a very restricted number of cases will be considered; the budget provision for this will be small reflecting the small number of exceptional cases. Such projects may involve products and technology achieving greater recognition in world markets. Assistance will only be considered where the projects are significantly innovative and high risk, and where they generate wider and additional benefits to the UK economy.

Space

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8.29 The Government currently spend around £120 million a year on civil space science and R&D. DTI is responsible for approximately £70 million of this. No increase is proposed. DTI has discussed with UK companies the space projects to which they attach importance. In the light of this, DTI is taking a fresh look at the distribution of support for individual European and domestic programmes. The Government will look to the private sector, if it attaches importance to the results of space R&D, to play an increasingly important role in future programmes.

Other research programmes

8.30 The innovation review did not include either DTI's research establishments or the Aircraft and Aero Engine Research and Demonstrator programme. The Government intend to review both, starting with the research establishments early in 1988.

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CHAPTER 9

"We work with business to promote best practice and within Government to create a climate that stimulates enterprise and reduces red tape."

DTI Objectives

BUSINESS AND GOVERNMENT

9.1 The aims of DTI policy are to encourage open, competitive and efficient markets and businesses. The main responsibility for efficiency and the achievement of prosperity lies with industry and commerce. The role of DTI is to inform, to encourage, and to facilitate; this will only be successful if DTI works in partnership with business. The basis of this partnership must be a clear recognition of different roles, good communication and mutual understanding. The achievement of this essential partnership needs a number of changes in the approach and organisation of DTI.

Communications with business

9.2 Contacts between business and government exist over a very wide spectrum. A number of departments work closely with firms in the sectors of industry and commerce for which they have particular policy responsibility. The Department of Employment (DE) has specific responsibility for small firms and a considerable interest in the promotion of enterprise. DE runs the Small Firms Service and has Regional Enterprise Units, both of which are an important means of communication with small firms. The Department of the Environment, through the Development

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Commission, is responsible for the Council for Small Industries in Rural Areas (COSIRA), which provides support for businesses in rural areas. DTI works closely with other Government departments in taking a view of business as a whole.

9.3 At present DTI is seen in part as responsible for sponsoring a wide variety of specific industries. The danger is that "sponsorship" can give the impression of "responsibility" for particular sectors of industry. This is misleading and detracts from the message that industry is responsible for its own destiny. At the same time concentration on individual companies or sectors inhibits the DTI from its real role of spreading best business practice.

9.4 Changes in the structure of DTI are being implemented which mark a clear break with traditional "sponsorship", but improve communications with business in ways which are much more relevant to today's problems. First, much greater emphasis is being given to issues which span all industry and commerce. Modern technology is all-pervasive in its effects, and in future one division in DTI will be concerned with information technology, materials and manufacturing technology. The emphasis will be on encouraging the spread and application of such technologies in all the relevant sectors of business. The focus of DTI's work will move away from the suppliers of technology to the users. Second, the existing "industry" divisions are being replaced by "market" divisions which will focus on the markets for particular goods and services rather than specific supplier industries. Market divisions, and the individuals within them, will tackle broad policy

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issues affecting all the suppliers and customers in the market in question, rather than dealing with particular industries. Market divisions will include economists, statisticians and people concerned with European issues and with deregulation; their concern will be with issues which span the whole market. The function of market divisions is to act as the interface between DTI headquarters and businesses.

9.5 The changes in structure will be supplemented by strengthening the mechanisms for the review and evaluation of programmes and priorities. Zero-based budgeting-justifying budgets for programmes from scratch each year-will be used to ensure that programmes and projects do not continue without regular detailed scrutiny. Particular emphasis will be given to ensuring that programmes have clear objectives, testable and quantified where possible and with time limits or milestone points for review.

9.6 These changes reflect the objective to **"champion all the people who make it happen, rather than just individual sectors, industries or companies."** DTI as the department for enterprise must be organised to take a properly balanced view of the problems of individual sectors of industry and commerce in the context of the economy as a whole and the needs of emerging and growing sectors of economic activity.

9.7 Better communication with business is an essential aim of the organisational changes. For many businesses, contacts with DTI at a local level are desirable. The regional network is being strengthened and extended; a number of satellite offices are being set up throughout

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England to act as contact points with business. The intention is to have a network of some 24 satellite offices by April 1988 as well as the existing 7 Regional Offices, and an additional 3 major sub-offices in the South East. Often these satellite offices will be located in Chambers of Commerce and Local Enterprise Agencies.

9.8 Close communications between DTI and business will be improved by greater emphasis on marketing DTI's services for industry and running clearly focussed campaigns on issues relevant to business and DTI. One theme running throughout the policy changes set out in this paper is the need for greater consistency of criteria in DTI's initiatives; so, for example, the consultancy services offered under the business development initiatives have identical terms and conditions. There are a number of issues of particular relevance to business and campaigns will be run to establish a clear partnership of interest on such issues as the single European market and innovation.

Enterprise in Government

9.9 Good communication with business provides essential information which informs DTI's aim of creating a climate to stimulate enterprise throughout Government policy. Of course other policies which are not normally regarded as economic, - on education, social security, the environment, foreign affairs, defence and law and order - have their own legitimate objectives. But the way in which these policies are pursued, and the instruments used, can have a major and sometimes an unintended impact on business and enterprise. There is a need to influence the implementation of such policies so that they help more, or interfere less, with

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the essential process of wealth creation.

9.10 It is in nobody's interests for DTI to be an uncritical spokesman in Whitehall for business interests. And the changes from industry to market divisions will help ensure that does not occur. But it is DTI's job to be aware of the impact on business of all of the Government's policies, and of the views of businessmen about those policies. If policies could be pursued in ways more helpful to wealth creation, such views will be made known powerfully within the Government. The extent to which DTI can be effective in this critically important activity depends on individual businessmen and business organisations putting forward their views and concerns about any aspect of Government policy, preferably while policy is at a formulative stage.

9.11 The role of DTI in encouraging enterprise across Government has been strengthened by the addition of the Enterprise and Deregulation Unit which is responsible in working with all other Government departments for lifting the burden on business.

9.12 Understanding the needs of business and the potential for enterprise requires more than good communication with business. It calls for the active involvement of the private sector in focussing on the most important issues. DTI has a number of advisory committees of businessmen which provide an essential input into the policy formation process. The best known of these are the British Overseas Trade Board, the Technology Requirements Board and the Industrial Development Advisory Board.

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9.13 Secondments from the private sector are a direct way of bringing in understanding of the needs of business as well as using skills which are not available within the public sector. DTI has traditionally used private sector secondees in the Industrial Development Unit. It has also brought in private sector expertise for particular programmes such as Alvey. Now, as part of the business development initiatives, experienced people from the private sector will be used as an integral part of the organisation of the teams of Enterprise Consultants operating out of each Regional Office. They will also provide business experience on which each Regional Director can draw. Secondments of DTI officials to industry and commerce and DTI officials serving as non-executive directors in private sector companies also strengthen understanding of the issues facing British business.

9.14 DTI will be examining over the next few months the possibilities of using private sector expertise in a more direct way by employing outside agencies to deliver some services. One possibility is to make more use of Chambers of Commerce and other regional bodies to deliver services to exporters where they can offer a network of contacts which is close to the small and medium-sized businesses we need to encourage to export. One other possibility is to use outside agencies such as Local Enterprise Agencies, Chambers of Commerce and firms of management consultants to provide an information and signposting service for the business development initiatives. The advantage of operating in this way would be to extend the range of DTI's contacts with industry at a relatively small cost and to use wider networks of contacts with small and medium sized businesses than is possible even through the extended

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Regional Office network.

9.15 One of the aims in developing and publishing the objectives of DTI was to give greater cohesion to its organisation and policies. The policies which DTI operates and the services which it offers to industry must be limited in number, coherent in approach and tightly defined so that they can be clearly understood and recognised by people in business. They must be well marketed and promoted.

9.16 The aim of these changes in the organisation and structure of DTI is to build a close partnership with business and to create a climate for enterprise as effectively as possible. DTI will adopt an active stance in communicating with business and will involve business as much as possible in the achievement of its objectives.

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CHAPTER 10

"Our objective will be to produce a climate which promotes enterprise and prosperity."

DTI Objectives

THE ENTERPRISE INITIATIVE

10.1 This paper has set out the policies and organisation of DTI. There will, of course, be further policy and organisation changes over the next few years as DTI adjusts to reflect changes in business and the domestic and international economy, and the effectiveness of existing policies is evaluated. But any changes will be made within the framework of the coherent, consistent rationale summarised in the objectives and described in this paper.

10.2 Is this an "industrial policy"? The phrase itself is unfortunate, because it appears to concentrate on industry rather than consider all the factors which affect the ability of industry and commerce to create wealth; it also carries the flavour of DTI taking responsibility for the fortunes of individual industries and companies. It will be obvious that neither is consistent with the philosophy of this paper.

10.3 But the Government have a coherent set of policies towards industry and commerce. That set of policies is better described as an enterprise strategy than an industrial policy.

10.4 DTI has a key role in that strategy to act as a facilitator of open markets and of enterprise, throughout its activities and in partnership with business. On open

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markets, it will act through the exercise of its competition policy, through privatisation, deregulation and through international trade. On enterprise, DTI activities range from stimulating the greater involvement of business in education and the spread of management education to initiatives to improve the provision of information to business about new methods and opportunities.

10.5 Now DTI is launching the Enterprise Initiative. This brings together the services provided by DTI for industry and commerce. These services will be well targeted and strongly promoted. The Enterprise Initiative will provide the most comprehensive self-help package offered to business by Government; with the business development initiatives, businesses can become more competitive using expert private sector advice; with the research initiatives, businesses can innovate and develop collaborative R&D; with the regional initiative, businesses will have greater help to develop their own potential. The services are provided in partnership with business, often delivered by the private sector and rarely offering grants of more than 50 per cent. The emphasis of the Enterprise Initiative is on transferring best practice and providing information. The content of the initiatives will change over time as the needs of business change.

10.6 Real change requires people themselves to alter the way in which they manage their businesses and approach their work. The best way of accomplishing this is to give people the scope and opportunity in open markets to compete, but also to help them acquire the skills and information which they need to compete effectively. This, DTI, the department for Enterprise, will do.

pmf

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W0329

PRIME MINISTER

11 December 1987

REVIEW OF DTI INNOVATION POLICY

Lord Young sent to you on 9 December the draft chapter on innovation policy for the White Paper on the role and policies of DTI and said that I was content with it. Whilst I strongly support the general redirection which is proposed and believe it offers an important model for other Departments' support for industrial R & D, the draft chapter is now significantly different from the one which I saw and discussed with Lord Young and does not reflect a number of points I thought I had agreed with him.

2. The main changes which I consider necessary in the presentation here are:

(a) the rationale for DTI's support for innovation needs to be more clearly stated than in the draft paragraph 4. The grounds for this support are not adequately reflected by "The Government's view is that DTI's innovation policy should be focussed on the circumstances where firms lack information about the benefits of research and technology and the scope for innovation and where they are likely to have to share with others the benefits of research which they have funded". A more clearly articulated and more tightly drawn rationale is essential. "Lacking information" seems much too broad.

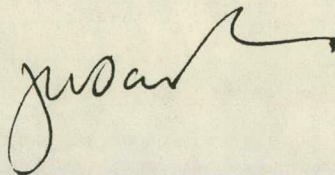
(b) explicit reference should be made to the termination of near market support. The draft uses the termination of single company support as a proxy for this; however it is important to indicate clearly to industry that it is for companies to support near market work, whether singly or in collaboration.

(c) the exceptions to (a) and (b) which may still justify support for reasons other than that of their scientific or technological merit need to be more tightly 'ring-fenced' both in the cases of "small firms and start-ups" and "exceptional projects" (paragraphs 25-28).

(d) the White Paper also needs to make it clear that where Government has a role in providing technology transfer services, industry will be expected to bear the costs subject again to any exceptions eg for reasons of small firms, inner city policies etc.

3 In view of the importance of the White Paper for future science and technology policy, E(ST) should discuss Lord Young's proposed more detailed paper before, rather than after, the White Paper is agreed for publication particularly since the latest draft now contains detail on individual programmes such as the follow up to Alvey. This level of precision would make it much more difficult for an E(ST) discussion after publication of the White Paper to have an influence on the S & T priorities.

4 I am copying to members of E(ST) and to Sir Robert Armstrong.



JOHN W FAIRCLOUGH
Chief Scientific Adviser

CONFIDENTIAL

FROM: M A WALLER

DATE: 11 December 1987

CHIEF SECRETARY

map

cc. Chancellor
Mr Anson
Mr Monck
Mr Burgner
Mr Gilmore
Mr Turnbull
Ms Roberts
Mr Hughes
Mr Call

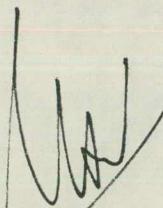
REVIEW OF DTI INNOVATION POLICY

Lord Young's minute to the Prime Minister of 9 December reports the results of the review of DTI's innovation policy which will be announced in the forthcoming DTI White Paper. A copy of the relevant proposed chapter of the White Paper is attached to Lord Young's minute.

2. This is one of a number of minutes/letters from DTI Ministers circulating individual chapters from the draft White Paper to interested colleagues. The contents of the innovation chapter are unexceptionable from the Treasury point of view and require no intervention on your part. The main thrust - the abolition of normal innovation grants to single companies and greater emphasis on collaborative programmes and technology transfer - are very welcome since they move DTI support further away from near market intervention and activities which, therefore, tend to have a high deadweight and low overall cost effectiveness.

3. The White Paper will also announce, in a very low key way, the Government's response to the IT92 (Bide report) which recommended spending some £1 billion on further development and applications projects over the next 5 years. The DTI's original proposal was for a programme of £70m from their domestic SFI programme. The response now proposed to *Bide* is extremely modest - additional DTI domestic support of only £29m over 3 years (with a possibility of a further £55m coming from SERC), with main emphasis of the response being on the need to pursue IT developments via the relevant EC programme (Esprit II). All these allocations will be contained within existing public expenditures totals. This is a good outcome from the Treasury's point of view, particularly given the very ambitious plans originally put to DTI in the IT92 Report.

4. Lord Young intends to circulate the full text of the White Paper to Cabinet colleagues very shortly. We have seen and commented on the latest draft at official level and will submit further advice on the need for any intervention by Treasury Ministers when we have sight of the version circulated by Lord Young.

A handwritten signature in black ink, appearing to be 'M A Waller', written in a cursive style.

M A WALLER



I agree with Mr
Burgess's conclusion (105)
white paper on Nov 18
& part on Nov 20)
but so much known
as to prevent the
legitimate issue arising
the Autumn Statement
of 1954 planned for
Nov 14th.
M.

CONFIDENTIAL

FROM: T U BURGNER
DATE: 10 December 1987

CHANCELLOR

cc Chief Secretary
Sir P Middleton
Mr Anson
Mr Monck
Mr Scholar
Mr Turnbull
Mr R I G Allen
Mr Gray
Mr Waller
Mr Tyrrie
Mr Call

*I am not at all
keen on postponing the
RDG statement until 18th,
since it may lead to a
postponement of the BS amendment.
We would be unworkable.
I would like to discuss with
CST before this goes
further.*

*P.S. News of course, but
whether it will work
or not before
this one
before the
18th, in
Lough.*

**TIMING OF PUBLIC EXPENDITURE WHITE PAPER
AND DTI WHITE PAPER**

- At the present DTI plan to publish their White Paper describing Lord Young's new orientation and including the decision to abolish Regional Development Grants on 12 January, one week before the planned PEWP date of 19 January.
- However, in settling on 12 January DTI have not taken into account the meeting of NEDC the following day, 13th January. The risk is that the TUC will pick on the abolition of RDGs and create a row at the NEDC.
- The question is whether this matters. DTI anticipate a good deal of noise in Parliament about the RDG abolition in any case. Lord Young may be prepared to take on the TUC in NEDC. But at the least it would create the wrong sort of headlines following the meeting, and make your job as Chairman and as leading the main discussion on the economic outlook more difficult. We have mentioned the timing point to DTI and have asked them to flag up the proximity of NEDC when they circulate their White Paper draft to Ministers in the next day or so.
- If DTI thought it better to postpone publication until after NEDC, the options are quite tight. Considerations are:

Burgner
CH EX
10/12

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- the need to avoid the DTI White Paper coming out on the same day as the Debate on the Autumn Statement (Thursday 14 January);
- the need to avoid publication on Friday, 15 January for Parliamentary and press reasons;
- the need not to co-incide with, or crowd, the PEWP (Tuesday 19 January).

This suggests that the earliest slot after NEDC for publishing the DTI White Paper would be Monday, 18 January, with the PEWP following on Wednesday 20 January, ie one day later than presently planned. Postponing the PEWP at all is to be avoided if possible. But GEP advise that one day's postponement would still just leave time for the two TCSC hearings, publication of the TCSC Report and debate on the Report to be completed by the end of February, ie well clear of the Budget. Delay by more than one day would put this timetable at serious risk.

5. This minute is for information at this stage. The next step is to see what view DTI take on timing the White Paper in relation to NEDC.

TU

T U BURGNER

CONFIDENTIAL

*mpw*

FROM: MISS M P WALLACE
DATE: 14 December 1987

MR BURGNER

cc CST
Sir P Middleton
Mr Anson
Mr Monck
Mr Scholar
Mr Turnbull
Mr R I G Allen
Mr Gray
Mr Waller
Mr Tyrie
Mr Call

TIMING OF PUBLIC EXPENDITURE WHITE PAPER AND DTI WHITE PAPER

The Chancellor has now had the opportunity to discuss with the Chief Secretary the issues raised in your minute of 10 December. He agrees with your conclusion that we should go for the DTI White Paper on Monday 18 January, and the PEWP on Wednesday 20 January. This is not so much because of NEDC on 13 January, but to prevent the regional issue overshadowing the Autumn Statement Debate planned for the 14 January.

MPW
7
Burgner
14/12

mpw.

M P WALLACE

mp



10 DOWNING STREET

LONDON SW1A 2AA
CHIEF SECRETARY

From the Private Secretary

REC.	15 DEC 1987
ACTION	Mr WALLER
COPIES TO	EX Mr ANDERSON Mr BLACK, Mr BURGNER Mr GILHOPE, Mr MOORE Mr TURNBULL, Mr CALL

15 December 1987

Dear Jeremy

DTI'S INNOVATION POLICY

The Prime Minister has seen the revised version of the innovation chapter for DTI's White Paper sent with your Secretary of State's minute of 14 December and is content, subject to the views of colleagues.

I am copying this letter to the Private Secretaries to members of E(ST) and to John Fairclough.

David

DAVID NORGROVE

Jeremy Godfrey, Esq.,
Department of Trade and Industry

mpw

FROM: T U BURGNER
DATE: 15 December 1987

CHANCELLOR

- cc Chief Secretary
- Sir P Middleton
- Mr Anson
- Mr Kemp
- Mr Monck
- Mr Scholar
- Mr Turnbull
- Mr R I G Allan
- Mr Gray
- Mr Waller
- Mr Tyrie
- Mr Call

*I have
the letter
you or
ASAP.*

Ch/ Lord Young's office called to say that officials had given them advance notice of your views on timing.

Delay wd cause them big problems (possibility of leaks, arrangements for launch already made, new stationery ready!). Lord Young wd like to discuss if you are still minded to push for delay.

WHITE PAPER ON THE ROLE OF DTI

Lord Young's minute to the Prime Minister attaching a draft of his proposed White Paper asks for comments by the **afternoon of 16 December.**

*mpw
15/12*

2. There is a question of whether the reply should come from you or from the Chief Secretary. There are points on both timing and content. On timing the DTI White Paper in relation to the PEWP, your view is recorded in Miss Wallace's minute of 14 December. **I would expect Lord Young might be reluctant to change his plans and for this reason think it would be better if you were to write to him rather than the Chief Secretary.** The outstanding points on the contents of the White Paper cover some points of public expenditure and others (eg on competition policy, R&D disclosure) with which you have been concerned. **If you decide to write, you will wish to check that the Chief Secretary is content with the public expenditure points.**

3. The White Paper is **long and in places repetitive.** It is written in a form which **tends to exaggerate DTI's role at the expense of other Departments,** a point on which both Mr Fowler and Mr Baker have earlier commented. But despite these faults, it does overall convey a picture of DTI as **pro-competitive and encouraging enterprise - and moving away from its traditional role of "sponsorship" of individual companies or sectors of industry.**

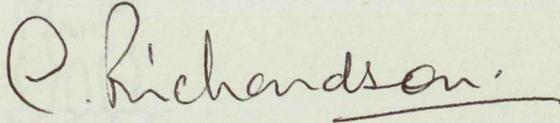
4. Some comments on the particular points in the draft letter:

(i) One of the major DTI initiatives is the setting up of a subsidised Advisory Service for small and medium-sized companies. There are clear dangers of overlap and duplication with DE's Small Firms Service (and at the margin with rural enterprises through ADAS and the Development Commission). We took this up with DTI at an early stage. Although Lord Young's minute expresses confidence that the Departmental efforts will be complementary, we think it is worth emphasising the need for continuing vigilance to avoid overlap and confusion.

(ii) On competition policy, the White Paper goes much further in outlining a position for the Government than Ministers have so far agreed collectively. Paragraphs 2.24 and 2.25 propose a UK "effects based" law, embodying the same principles as EC law, which would prohibit agreements with anti-competitive effects. There would be provision for exemption for agreements judged beneficial, both for individual companies and for whole classes of agreement. There would be stronger backing for investigating suspected illegal practices and tough penalties. We do not think that these ideas are mistaken in substance, but you may be unwilling to take them on trust without having had a chance to consider them. In that case, part of paragraph 2.24 and a good deal of 2.25 of the White Paper would need to be deleted. I have included in the draft letter a passage in square brackets proposing this deletion and a revised paragraph for the White Paper; but this part of the letter together with the revised paragraph, could be dropped (with minor editorial changes to the rest of the draft) if you preferred not to question this aspect.

(iii) On paragraph 7.7, third indent, we understand that Lord Young has in mind the possibility of subsidising the provision of common office services for small firms and also financial support for risk appraisal for projects. But these ideas have not yet been agreed and, in the meantime, we fear that vague talk about "further incentives" could become a focus for pressure for more expenditure by those concerned at the abolition of RDGs.

(iv) The reference in paragraph 8.10 to work by the Accounting Standards Committee to encourage the reporting of R&D expenditure in company accounts could with advantage be strengthened. Although the idea of an accounting standard was supported by the recent CBI Task Force (and referred to in your Stock Exchange speech), there have been recent press reports of CBI backsliding on this issue. The draft proposes a reference to the Government not ruling out the possibility of legislation if inadequate progress is made voluntarily. This would be consistent with the line taken in the Government's recent reply to the House of Lords Report on Civil Science.


T U BURGNER

Mr^s Wallace.

CONFIDENTIAL

DRAFT LETTER

From: The Chancellor

To: Lord Young

Copied to: Prime Minister
Cabinet
Sir Robert Armstrong

WHITE PAPER ON THE ROLE OF DTI

You sent me a copy of your minute to the Prime Minister covering the draft of your White Paper on the DTI's new role. My officials have commented on an earlier draft. But I have comments on the timing of publication and also on the contents.

to publish it on 12 Jan.

2. On timing, I agree that it is right for publication of the DTI White Paper to proceed the Public Expenditure White Paper. But your present plan will mean that it is published directly ahead of the debate on the Autumn Statement on 14 January. (and rather less importantly before the quarterly meeting of NEDC on 13 January). Among the various themes in the DTI White Paper the changes to regional policy, in particular the intention to abolish Regional Development Grants, can be expected to attract a good deal of criticism. This will make it considerably more difficult to handle the Autumn Statement in Parliament and in the NEDC in a balanced and positive way. It would be better for the publication of the DTI White Paper to be put back until 18 January, ie the beginning of the week following the Autumn Statement debate. On that basis the Chief Secretary would be ready to postpone publication of the Public Expenditure White Paper until 20 January so as to allow sufficient time to elapse between them.

Expected

Expected

present
Your present plan will enable into meeting
No TUC 15 Jan 13 Jan NEDC mtg etc
a demonstration against these changes, as no opposition
to do the same with 14 Jan debate. This does not seem sensible (sensible)

3. As far as the content of the White Paper is concerned, I have only a few points. First, as you recognise, the D'I's increased orientation towards small businesses risks overlap with other departments, mainly the Department of Employment but in rural areas with MAFF through ADAS and perhaps with DOE via the Development Commission. It is most important that any overlap problems are effectively resolved so that we neither risk wasteful duplication nor present a confusing picture to those smaller companies we are aiming to help. I hope that you and Norman Fowler will continue to watch this aspect carefully as the new services develop.

4. ~~Second, on competition policy, I am concerned that what is said in chapter 2 should not pre-empt collective Ministerial decisions. In this respect paragraphs 2.24 and 2.25 on restrictive trade practices go well beyond anything so far discussed in E(A). I would prefer some of the detailed proposals (in effect the whole of paragraph 2.25) to be omitted from the White Paper pending the publication of the consultation document which is foreshadowed in the text. I would also want to delete the first sentence of paragraph 2.24. A revised and shortened version of these paragraphs is attached.]~~

5. Third, I am doubtful about the wisdom of the third indent of paragraph 7.7. Against the background of the proposed changes to regional policy this section with its rather vague reference to "further incentives" may well become a focus for expenditure pressures.

6. Lastly, I would like to see some strengthening at the end of paragraph 8.10 to indicate that the Government would be willing to consider legislation if there is inadequate progress by the Accounting Standards Committee

insofar

although I have no problems

with the policy as far as I understand it,

you may wish to consider

rephrasing

upheld that in committee more tentative terms

pending

these

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to promote disclosure of R&D in company accounts. Although the CBI Task Force on city/industry relations supported an accounting standard along these lines, recent press reports suggest that there may be some backsliding by the CBI. A reference to the possibility of legislation should help to encourage the ASC as well as those in the CBI who favour voluntary progress. It would also be consistent with the line adopted in the Government's response to the House of Lords Report on Civil R&D (Cm 185 - paragraph 25).

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

2.24/2.25 The Government propose that the new law will prohibit agreements with anti-competitive effects. The emphasis on the effects of an agreement rather than its form will ensure that the many innocuous agreements unnecessarily caught by the current law will fall outside the scope of the new law altogether. At the same time genuinely anti-competitive agreements, skillfully drafted to avoid the current law, will be caught by the new law. There will be provision for exemption from the prohibition for agreements which are on balance beneficial. The law will be backed by stronger powers for the investigation of suspected illegal cartels; and there will be tough penalties for breach of the prohibition.



ELIZABETH HOUSE
YORK ROAD
LONDON SE1 7PH
01-934 9000

mp

CH/EXCHEQUER	
REC.	16 DEC 1987
ACTION	CST
COPIES TO	

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1-19 Victoria Street
London SW1H 0ET

16 December 1987

DTI WHITE PAPER

Thank you for circulating the full text of the draft White Paper on the work of your Department. I also received the revised draft of Chapter 8, on Innovation Policy.

It has of course been necessary to look at the document in some haste, but I am content with the general thrust of the policies as they affect the work of my Department.

I have attached as an Annex a note of some further drafting suggestions which I would like to see incorporated.

This letter is copied to recipients of the draft.

Proposed Amendments to the DTI Draft White PaperChapter 1: Enterprise: the Role of DTI

Paragraph 1.8: Penultimate sentence. Insert "further and" before "higher education."

Chapter 5: Management

Paragraph 5.4: Third sentence. Delete "of qualifications."

Paragraph 5.4: Final sentence. Insert "their companies and the" after "of themselves."

Paragraph 5.6: Delete third sentence.

Paragraph 5.6: Final sentence. Amend to read: "Government can help to set the national framework for management education and training and to spread information so that individual firms are encouraged to identify their management development needs and to take action on them."

Paragraph 5.7: Second sentence. Delete "such as quality and design."

Chapter 8: Innovation, Using Technology

Paragraph 8.17: First indent, final sentence. Delete "linked with initiatives by the Science and Engineering Research Council."

Paragraph 8.17: Third indent, final sentence. Insert at end "linked with initiatives by the Science and Engineering Research Council."

Paragraph 8.21: Second sentence. After "SERC has" delete "made provision for" and insert "plans to devote". Later in the sentence delete "be devoted to."

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pnyp



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

CH/EXCHEQUER	
REC.	16 DEC 1987
ACTION	CST
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16 December 1987

Dear David,

WHITE PAPER ON THE ROLE OF THE DTI

I have seen your recent minute to the Prime Minister with which you enclosed a draft of the White Paper that you intend to publish next month. You also sent me drafts of some chapters under cover of your letters of 8 December. This letter represents my consolidated reply.

In a number of places the draft text as it presently stands refers to the position in England but not necessarily to the position in Scotland. I appreciate the drafting problems caused by the fact that some of your Department's functions apply across GB and some do not, and therefore attach a list of specific amendments, most of which are to take into account different arrangements applying in different parts of Great Britain.

I was glad to see the reference in Chapter 3 to the importance of inward investment, both for its direct contribution to the economy and for its indirect effects on the performance of indigenous industry. This is a topic that, I am quite sure, warrants considerably more prominent treatment than two short paragraphs in the middle of a chapter which otherwise focusses on open international trade. I suggest, in particular, that two points need to be underscored. First, that our policy is, and will continue to be, to encourage inward investment both as an exemplar to domestic industry and also as a valuable way of building the strength of the regional economies. Second, that the new mechanisms for regional policy will enable us to continue to offer as attractive a package of incentives to inward investors as at present. I hope you will agree that unequivocal statements along these lines should appear in Chapter 1, perhaps after paragraph 1.14, and in Chapter 7, perhaps after paragraph 7.9. I should also note that, as you will recall from our discussions, I attach particular importance to having increased flexibility in arriving at the grant offers which we can make in respect of important inward investments.

I agree generally with the thrust of the first half of the the Business and Education section, Chapter 4. I have to say, however, that I find some of the objectives optimistic, particularly that of giving 10% of teachers each year personal experience of the business world. As I understand is the intention, this experience is to be gained during the summer

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olidays, and is to be voluntary and paid. Nevertheless it means persuading some 5,000 teachers in Scotland alone to engage in something which, frankly, many of them will think is quite irrelevant to their classroom duties, and for which they will see themselves as quite unfitted. I know that is precisely the attitude we want to change. But would it not be better to start with a more attainable objective by, for example, targeting secondary teachers of the more business related subjects? I think there is a real danger in setting as ambitious and specific a target as 10% that it will not be achieved and that the whole programme will hence lose credibility. I consider, also, that very careful thought will have to be given to how to fit into an already crowded teacher training programme a new component of business appreciation, although I fully endorse the objective.

The second half of this chapter covers links between higher education and industry and there are important cross-references to Chapter 8 on Innovation. I was disappointed that in neither Chapter was there any clear statement that your Department would continue to make available grants towards the purchase of equipment by higher education institutions in order to catalyse their collaboration with industry. In Scotland, with a particularly sharp dichotomy between the technical capacity of industry and of higher education, these grants have been a valuable way of encouraging technology transfer. I very much hope you would agree to make it plain, therefore, that such arrangements will continue to receive concrete encouragement from your Department.

Chapter 6 describes your proposals for the new Advisory Services to industry and for changes to be made to Export Services. I note that the draft says that the Advisory Services will be delivered in Scotland by the Scottish Development Agency and I understand that your officials are discussing with them the mechanics involved. I believe that a number of problems have been encountered. My officials will do whatever they can to help to resolve these matters quickly. I am content with your proposals for Export Services which, as you acknowledge, are delivered in Scotland by my officials.

Chapter 7 contains, of course, some of the most important material in the White Paper. The present draft does not leave scope for a jobs element to be included within the proposed Regional Investment Grant and I note your comments on this point in your letter of 8 December. I am content for the moment not to press this specific issue but I remain generally concerned that the new grant should not be seen as unreasonably restricted in its availability, and that it should be a significant measure of assistance to small, indigenous companies. This is essentially a matter for the operating guidelines. I am concerned to learn, however, that under your officials' current proposals a firm would be eligible for the grant only once, even where the application is well below the £15,000 maximum available. This is a restriction which I would hope you would agree that we should avoid.

I was glad to see the references in your minute to the need for particularly effective presentation of the new policies described in the White Paper. The press conference in Glasgow that you have agreed to attend will, I am sure, be very useful. I am also considering how best to further reinforce the overall message for a Scottish audience for example by preparing some explanatory material for use in Scotland.

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I am copying this letter to other members of the Cabinet and to Sir Robert Armstrong.

*Yours ever,
Malcolm Rifkind*

MALCOLM RIFKIND

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COMMENTS IN DETAIL

CHAPTER 2: A COMPETITIVE DOMESTIC MARKET

Paragraph 18:

As earlier paragraphs acknowledge the possibility of merger references on other grounds than competition, so it might be more appropriate here to delete "anti-competitive" from line 5 and replace it with "undesirable".

CHAPTER 3: OPEN INTERNATIONAL MARKET

Paragraph 13:

Insert "along with the Industry Department for Scotland [and the Welsh Office Industry Department] after "regional offices".

Paragraph 22

Delete "all such" from line 4.

CHAPTER 4: BUSINESS AND EDUCATION

Paragraph 7:

In the second sentence, the reference to "DES's strategy" should be changed to "Education Departments' strategy".

Paragraph 14:

Should include a reference to the parallel Scottish initiative in Manufacturing Systems Engineering. In line 2, after "polytechnics", insert "and the Scottish Central Institutions"; in line 5 of the first sub-paragraph, insert "SED", after "DES".

CHAPTER 6: BUSINESS DEVELOPMENT

Paragraph 4:

Since there are separate schemes in Scotland, the opening reference might be more appropriately to "The Government" rather than "DTI".

Paragraph 8:

The phrase "Urban Programme Authority areas" is inappropriate to describe the agreed Scottish coverage. It should be replaced with "DoE Urban Programme Authority areas and comparable areas in Scotland [and Wales]".

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Paragraph 13:

It may be seen as a little disingenuous to describe Enterprise Consultants as "private sector" when their only income may well be what they derive from the DTI. This could be dealt with by replacing the existing lines 5 and 6 with: "advice by a specially appointed Enterprise Consultant who will have a wide range of private sector experience in the management problems ..."

CHAPTER 7: REGIONS AND INNER CITIES

Paragraph 3:

The formula in the latter part of the second sentence is based on paragraph 1 of Annex A of the 1983 White Paper but the overall context was different. In any case, as Lord Young will recollect from the Gleneagles Forum, the issue of whether the Scottish Office is responsible merely for the "administration" of policy has become a sensitive one. An alternative (and less controversial) formula might be:-

"In Great Britain DTI shares with the Scottish and Welsh Offices responsibility for the development of regional industrial policy, which is administered in England through DTI Regional Offices, in Scotland through the Industry Department for Scotland and in Wales through the Welsh Office Industry Department."

Paragraph 7, first indent:

See comment on chapter 6, paragraph 8.

Paragraph 13:

See comment on Chapter 6, paragraph 8.

Paragraphs 13-17:

These paragraphs describe the position in England, without making it clear that they do not apply throughout GB. Either this should be made clear, or an additional paragraph 18 should be inserted as follows:-

"The DTI Task Forces and CATS operate in England. In Scotland the Secretary of State for Scotland and the Scottish Office is responsible for co-ordinating urban policy, and a major instrument of urban renewal is the Scottish Development Agency. Operating through its general powers for economic development, environmental improvement and through the LEG-UP (Local Enterprise Grants for Urban Projects) Scheme, and also through a series of local area initiatives, the Agency is bringing new life to urban blackspots throughout Scotland."

CHAPTER 8: INNOVATION, USING TECHNOLOGY

Paragraph 9

Insert ", the Industry Department for Scotland [and the Welsh Office Industry Department] after "Regional Offices".

CHAPTER 9: BUSINESS AND GOVERNMENT

Paragraph 2

This paragraph reads rather oddly in that it discusses DTI's relationships with other departments involved with business affairs while omitting any reference to the territorial departments. Insert "in the parts of Great Britain or" after "firms" in line 3. Insert "In England" before "DE" in line 7. Insert "In Scotland and Wales a wide range of services to industry are administered by the Scottish and Welsh Offices and the Scottish and Welsh Development Agencies" as a new penultimate sentence.

CONFIDENTIAL

FROM: S BROOKS
DATE: 16 DECEMBER 1987

1. MR HIBBERD
2. CHANCELLOR OF THE EXCHEQUER

cc : Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Mr Monck
Mr P N Sedgwick
Mr Allen
Mr Pickford
Mr Shaw
Mr Guy
Mr Hudson
Mr Patterson
Mr Dyer (+ 1 for No 10)

*Encouraging figures for manufacturing investment.
Jim Hibberd
16/12*

✓

DTI INVESTMENT INTENTIONS SURVEY: DECEMBER 1987 (to be published at 11.30 am on Thursday 17 December 1987)

The twice yearly survey covers manufacturing and construction distribution and selected service industries. The total of all these industries is here referred to as industrial investment. These sectors accounted for 40 per cent of total investment in 1986.

2. The survey results are based on questionnaires completed in September and October. They are most unlikely to reflect any impact of the stock market crash in the second half of October. The CBI monthly surveys for November and December, however, show no sign of a break in manufacturers' expectations since the stock market collapse. Moreover, interest rates have fallen 1½ percentage points since the stock market decline; the survey takes no account of this either. The results of the latest intentions survey should, therefore, be treated with more than usual caution. But there seems little reason to disregard them.

3. The main results of the survey are shown below. The figures for 1989 will not be published but a qualitative assessment will be made of the expected rates of growth compared with those in 1988.

DTI Investment Intentions Survey Projections
percentage increases on a year earlier

	<u>1987</u>	<u>1988</u>	<u>1989</u>
Manufacturing (including leased assets)	+ 6 (+ 4)	+ 11 (+6)	+ 5*
Construction, Distribution & Selected Service Industries (excluding assets leased to manufacturers)	+ 6 (+10)	+ 6 (+7)	+ 6*
Industrial Investment	+ 6 (+ 8)	+ 8 (+7)	+ 5*

June survey results in brackets.

* For information only - these figures will not be published.

4. For manufacturing the projected rates of growth for 1987 and 1988 are higher than in the June survey. They are very close to the unpublished forecasts underlying the Autumn Statement. (Neither the Autumn Statement nor the June survey considered 1989.) For construction etc, the forecasts have been revised down - particularly for 1987. This may partly reflect unexpectedly low investment by financial and business services in the third quarter of this year. Taking 1987 and 1988 together the projected rise in industrial investment is about the same as the unpublished Autumn Statement forecast for non-oil business investment.

5. The table below compares the DTI projections with recent published outside forecasts. On balance the DTI survey suggests a more buoyant outlook for manufacturing than outside forecasters expect. For non-manufacturing, the definitions used by different forecasters vary widely. The forecasts are not directly comparable with each other or with the DTI measure. The non-manufacturing figures in the table should, therefore, only be regarded as illustrative of broad trends.

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<u>Forecast</u>	<u>Date</u>	<u>Manufacturing</u> incl. leasing			<u>Non-manufacturing</u>		
		<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
DTI		6	11	5*	6	6	6*
CBI	Nov	2.0	7.2		7.5	11.4	
NIESR	Nov	5.0	3.0	5.9	8.1	5.0	8.0
LBS ¹	Nov				9.7 ¹	9.0 ¹	3.8 ¹
OEF	Nov	6.7	6.8	4.3	13.9	6.3	5.4
Phillip & Drew	Dec	3.2	1.7	1.9	7.5	1.2	3.5
Goldman Sachs	Nov	5.5	8.3		5.1	7.1	

* Not to be published.

¹ Private non-oil non-dwelling investment including manufacturing but excluding privatised companies.

S Brooks

S BROOKS

16/12/87



CH/EXCHEQUER	
REC.	17 DEC 1987
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pm

PRIME MINISTER

WHITE PAPER ON THE ROLE OF DTI

Under cover of his minute of 10 December, David Young has circulated a draft White Paper on the role of DTI and has asked for comments.

David was good enough to let me have advance sight of some of the key chapters in his draft, and I am glad that he has been able to make many of the small changes I had earlier proposed. In particular, we must ensure, as he says in his minute to you, that the efforts of our two Departments in respect of small firms are seen to be complementary and not in conflict.

My Department is responsible for the existing Small Firms Service and its force of counsellors, drawn from the private sector, and John Cope here has a designated responsibility for Small Firms and the impact of Government policies on them. Our interest is not confined to those first starting in business, as paragraph 6 of David's minute might imply, but also covers the development of small but existing businesses.

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So, it is very important that Government is seen to be offering a coherent range of services. I am satisfied that the arrangements we have agreed and the references in the draft White Paper to my Department's complementary service provide a basis for the two Departments continuing to work closely together, as they must.

Similarly, I am glad to see that the draft recognises my interest, and that of the Manpower Services Commission in particular, in the subject of Management Education.

I note the intention to issue, later next year, a Green Paper on restrictive trade practices. I look forward to discussing that with David and considering with him how far it should include an reference to restrictive labour practices.

I am copying this minute to David Young and other members of the Cabinet as well as to Sir Robert Armstrong.

A handwritten signature in black ink, consisting of a large, stylized initial 'N' followed by a horizontal line extending to the right.

NF
16 December 1987



DEPARTMENT OF THE TREASURY

Washington

Ch

Business managers may not be very helpful: they are worried about timing of bill — which would be tight if statement (or hence whole timetable) was delayed a week.

MA

CONFIDENTIAL

FROM: P J CROPPER
DATE: 16 December 1987

CHANCELLOR

DTI WHITE PAPER

David Young's adviser seems to think that I must have been instrumental in turning you round on Nissan. He has now, therefore, asked me to try and change your position on their White Paper publication date.

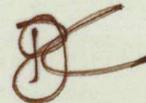
2. Basically:

(1) The longer the publication is delayed the more likely it is that there will be a leak, which will set Scotland ablaze with indignation about the regional grant proposals.

(2) DTI have planned a great PR exercise, with new DTI logo, advertising campaign etc. Unspoken, but I suspect they have booked space and are in difficulties about changing the date.

3. They understand your position re NEDO and Autumn Statement, but humbly submit that if the Government's interests are looked at as a whole they would still point to a 12 January publication.

4. Can I influence you?



P J CROPPER

cc CST
 Sir P Middleton
 Mr Anson
 Mr Kemp
 Mr Monck
 Mr Scholar
 Mr Turnbull
 Mr R I G All
 Mr Burgner
 Mr Gray
 Mr Waller
 Mr Tyrrie
 Mr Call



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

Lord Young of Graffham
 Department of Trade & Industry
 1-19 Victoria Street
 London SW1H 0ET

16 December 1987

Dear Secretary of State,

WHITE PAPER ON THE ROLE OF DTI

You sent me a copy of your minute to the Prime Minister covering the draft of your White Paper on the DTI's new role. My officials have commented on a earlier draft. But I have comments on the timing of publication and also on the contents.

2. On timing, I agree that it is right for publication of the DTI White Paper to precede the Public Expenditure White Paper. But your present plan to publish it on 12 January will mean that it is published directly ahead of the quarterly meeting of NEDC on 13 January and the annual debate on the Autumn Statement expected on 14 January. Among the various themes in the DTI White Paper the changes to regional policy, in particular the intention to abolish Regional Development Grants, can be expected to attract a good deal of criticism. Your present plan will enable the TUC to turn the 13 January NEDC meeting into a demonstration against these changes, and the Opposition to do the same with the 14 January debate. This does not seem sensible. It would be better for the publication of the DTI White Paper to be put back until Monday 18 January. On that basis the Chief Secretary would be ready to postpone publication of the Public Expenditure White Paper until 20 January so as to allow sufficient time to elapse between them.

3. As far as the content of the White Paper is concerned, I have only a few points. First, as you recognise, the DTI's increased orientation towards small businesses risk overlap with other departments, mainly the Department of Employment but in rural areas with MAFF through ADAS and perhaps with DOE via the Development Commission.

CHEX
 →
 LORD
 Young
 16/12



It is most important that any overlap problems are effectively resolved so that we neither risk wasteful duplication nor present a confusing picture to those smaller companies we are aiming to help. I hope that you and Norman Fowler will continue to watch this aspect carefully as the new services develop.

4. Second, on competition policy, although I have no problems with the policy insofar as I understand it, paragraphs 2.24 and 2.25 on restrictive trade practices go well beyond anything so far discussed in E(A). You may wish to consider rephrasing these in somewhat more tentative terms pending collective discussion.

5. Third, I am doubtful about the wisdom of the third indent of paragraph 7.7. Against the background of the proposed changes to regional policy this section with its rather vague reference to "further incentives" may well become a focus for expenditure pressures.

6. Lastly, I would like to see some strengthening at the end of paragraph 8.10 to indicate that the Government would be willing to consider legislation if there is inadequate progress by the Accounting Standards Committee to promote disclosure of R&D in company accounts. Although the CBI Task Force on city/industry relations supported an accounting standard along these lines, recent press reports suggest that there may be some backsliding by the CBI. A reference to the possibility of legislation should help to encourage the ASC as well as those in the CBI who favour voluntary progress. It would also be consistent with the line adopted in the Government's response to the House of Lords Report on Civil R&D (Cm 185 - paragraph 25).

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

Yours sincerely,

Muir Wallace

pp NIGEL LAWSON

*(Approved by the Chancellor
and signed in his absence.)*

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



From the Minister

CONFIDENTIAL

The Rt Hon Lord Young of Graffham
Secretary of State for Trade
and Industry
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

GH/EXCHEQUER	
REC.	17 DEC 1987
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COPIES TO	

17 December 1987

mp

Dea Daid,

WHITE PAPER ON THE ROLE OF THE DTI

Your recent minute to the Prime Minister and other Cabinet colleagues sought clearance to a series of policy changes and initiatives and to the issue of a White Paper on the role of your Department.

As I explained to you this morning, having been away in Brussels for most of the past week I have only now seen it and not yet had the opportunity to read it fully. I do however have two quick comments on the drafting and would be grateful if they could be taken on board.

First I suggest that the text on the first indent of paragraph 3.18 should be amended to read:-

"a lasting solution to the problems of excessive protection and subsidies in agriculture which has led..."

Second I support your initiative for an awareness campaign on the Single European Market and will do all I can in my contacts with the organisations and companies in my sectors to reinforce the message. However, I would be grateful for a small but important addition at the end of the first sentence of paragraph 3.6, as follows:-

"while retaining necessary safeguards for vital UK interests, for example in the field of human, animal and plant health".

+ I am copying this to the Prime Minister and other members of Cabinet and to Sir Robert Armstrong.

John MacGregor
JM

JOHN MacGREGOR



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

17 December 1987

[Handwritten signature]

Dear Jeremy,

WHITE PAPER ON THE ROLE OF THE DTI

The Prime Minister has seen your Secretary of State's minute (undated) to which was attached a draft White Paper on the role of the DTI. The Prime Minister noted this without comment.

I am copying this letter to the Private Secretaries to the other members of Cabinet and to Trevor Woolley (Cabinet Office).

*Yrs,
David*

David Norgrove

Jeremy Godfrey, Esq.,
Department of Trade and Industry

CONFIDENTIAL

CHIEF SECRETARY	
REC.	17 DEC 1987
ACTION	Mr BERGNER
COPIES TO	CX Mr ANSON
	Sr P. HODGSON, Mr KEMP
	Mr HARRIS, Mr SCARF
	Mr TURNER, Mr BIGGS

*Mr GRAY, Mr WALTER
Mr FLEMING, Mr GILL*

CONFIDENTIAL

*prop*

FROM: A C S ALLAN

DATE: 17 December 1987

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr Kemp
Mr Monck
Mr Burgner
Mr Turnbull
Mr P Gray

TIMING OF PUBLICATION OF DTI WHITE PAPER

The Chancellor discussed with Lord Young this morning the timing of publication of the DTI White Paper. Lord Young argued very strongly for sticking to the original timetable of publication on Tuesday 12 December, and the Chancellor agreed.

2. Lord Young said he would definitely come to NEDC on Wednesday 13 January, and would handle any press briefing after that.

3. In these circumstances, the Chancellor feels there is no reason to change the planned publication date of the PEWP.

A handwritten signature in black ink, appearing to read 'A C S Allan'.

A C S ALLAN

CONFIDENTIAL

- cc Chief Secretary
- Sir P Middleton
- Mr Anson
- Mr Kemp
- Mr Monck
- Mr Scholar
- Mr Turnbull
- Mr R I G Allen
- Mr Burgner
- Mr Gray
- Mr Waller
- Mr Tyrie
- Mr Call



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

17 December 1987

Jeremy Godfrey
 PS/Secretary of State for
 Trade and Industry
 1-19 Victoria Street
 London SW1

pmj

Dear Jeremy,

WHITE PAPER ON THE ROLE OF DTI

The Chancellor and your Secretary of State discussed the timing of the DTI White Paper this morning. I can confirm that the Chancellor is now content for the DTI White Paper to be published on 12 January, with the Public Expenditure White Paper following on 19 January.

I am copying this letter to the Private Secretaries to the Prime Minister, other members of Cabinet, and Sir Robert Armstrong.

Yours,

Moirz.

MOIRA WALLACE
 Private Secretary

CH/EXCHEQUE

REC.	18 DEC 1987 ^{18/13}
ACTION	CST
COPIES TO	●



mp

MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000
DIRECT DIALLING 01-218 2111/3

MO 30V

17 December 1987

Dear David,

WHITE PAPER ON THE ROLE OF THE DTI

Thank you for sending me a copy of your minute to the Prime Minister with the draft of your proposed White Paper about the role of your Department.

I welcome your initiative. As a major public purchaser, the Ministry of Defence has been putting much emphasis on competition and the contribution that small and medium sized firms have to make in Defence procurement. The changes you now propose to make are very much in accordance with our own need for a competitive environment in British industry in order to secure good value for money. You rightly lay emphasis on the need for a break with the traditional sponsorship role for specific industries. I am sure that this move, in particular, will allow our two Departments to work more closely together to ensure that we buy our equipment in a way which provides the best value for money.

I am sending a copy of this letter to the Prime Minister and other Cabinet colleagues, and to Sir Robert Armstrong.

Yours ver.
George

George Younger

The Rt Hon The Lord Young of Graffham

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270 0538(Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru



mp

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

CH/EXCHEQUER	
REC.	17 DEC 1987
ACTION	CST
COPIES TO	

17 December 1987

CONFIDENTIAL

WHITE PAPER ON THE ROLE OF DTI

Thank you for sending me a copy of your recent letter to the Prime Minister with which you attached a draft of your proposed White Paper on the role of your Department.

As you know, I will be tackling a number of those policies with equal vigour in Wales and believe that the use of the Welsh Development Agency for the provision of a number of the new services being made available to businesses will provide a strong local and unified source of much of Government's stimulation of industry.

/ I am copying this to other members of the Cabinet and Sir Robert Armstrong.

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



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon The Lord Young of Graffham
Secretary of State
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H 0ET

21 December 1987

* CHIEF SECRETARY	
REC.	22 DEC 1987
ACTION	Mr Waller
COPIES TO	Mr Area
	Mr Morris, Mr Brown
	Mr Gilmore, Mr Morgan
	Mr Tubb, Mr Cull

Dear David

DTI'S INNOVATION POLICY

I welcome your analysis of the role Government should play in encouraging enterprise and innovation. My Department does not fund near-market research and I strongly support your intention to move away, with limited exceptions, from its funding by Government. I particularly welcome your market approach and endorse your proposals that Government should support collaborative programmes with industry (and higher educational institutes) which emphasise longer term research; and should encourage and facilitate technology transfer. This is in line with my Department's present approach to the construction and environment protection industries. I see the White Paper as an opportunity to give industry a strong and consistent lead, and expect to develop our thinking along similar lines.

I am copying this letter to the Prime Minister, E(ST) colleagues and John Fairclough.

NICHOLAS RIDLEY

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CC:
Chancellor
Mr Anson
Mr Monck
Mr Burgner
Mr Turnbull
Miss Peirson
Mr Gieve
Mr N Williams
Mr Waller
Mr Tyrrie
Mr Call

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

23rd December 1987

Dear Secretary of State

**RSA CASH LIMITING:
DEPARTMENT OF TRADE AND INDUSTRY**

I wrote to you on 9 December about control of expenditure on Regional Selective Assistance. You will have since seen Malcolm Rifkind and Peter Walker's letters on this issue. In the light of their letters I fear I must press you again on the introduction of cash limiting of expenditure on RSA in England.

As you know my Survey agreements for Scotland and Wales were on the basis that RSA in those territories will be cash limited. Neither Malcolm Rifkind nor Peter Walker see insuperable practical difficulties over this. Indeed, it offers some advantage because effective commitment limiting unavoidably involves a very real risk of underspend in any given year. Thus under the normal public expenditure conventions, if RSA is within a cash limited vote operating departments would have the ability to use underspends to meet pressures elsewhere in their programmes; if RSA is not cash limited any excess provision must be surrendered.

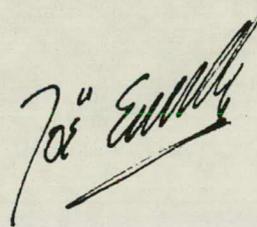
Malcolm and Peter have, however, made strong representations over the presentational difficulties they face in introducing cash limiting in Scotland and Wales when you are not doing so in England. As I have previously stressed, I attach the greatest importance to effective control of expenditure on regional assistance and regard cash limiting of RSA as an essential underpinning to commitment limiting, ensuring that expenditure will be constrained within agreed annual totals. Given, therefore, the overall threat

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to the regional policy package agreed in the 1987 Survey if this element starts to become unpicked, I very much hope that, on reflection, you will agree to the principle of cash limiting of RSA in England.

I hope that you will feel able to respond positively but if you continue to see major problems then I think it would be useful for us to meet early in the New Year to discuss how this issue can best be resolved.

Yours sincerely,

A handwritten signature in dark ink, appearing to read "John Major", written in a cursive style with a horizontal line underneath.

PP JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence)



Prop

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

PS/ Secretary of State for Trade and Industry

CONFIDENTIAL

8 January 1988

Paul Gray Esq
Private Secretary to the Prime Minister
10 Downing Street
LONDON
SW1A 2AA

CH/EXCHEQUER	
REC.	08 JAN 1988
ACTION	Mr BURGNER
COPIES TO	<i> </i> CST. Sir P Middleton Mr KEMP, Mr Monck Mr Kelly, Mr Scholar Mr Turnbull Mr R Allen

Dear Paul

DTI WHITE PAPER

*Mr Cropper
Mr Tyrie, Mr Call, Mr MacAuslan,
Mr Waller*

We shall be publishing our White Paper "DTI - The Department for Enterprise" next Tuesday, 13 January. I am attaching a statement which Lord Young will be making in the House of Lords and which Kenneth Clarke will repeat in the Commons.

It is more than likely that some changes will be made to the statement on Monday and I will circulate a revised version on Monday evening.

I am copying this letter to Jonathan Taylor (Treasury).

Yours

Jeremy Godfrey

JEREMY GODFREY
Private Secretary

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ANNEX A1

DRAFT STATEMENT

1. My Lords, with permission, I will make a statement about major changes in the role of DTI and its policies.
2. We have been engaged in a major review of the main activities and organisation of DTI. Our decisions are set out in the White Paper entitled "DTI - the department for Enterprise" which will be laid before the House later today.
3. This review was conducted in the light of the Objectives of the DTI which were published on October 13th last year and in the knowledge that considerable changes will be required to face the challenges of 1992 and to succeed against ever increasing international competition.
4. In an economy of some £400bn the main role of DTI with its budget of £1bn must be to influence attitudes and to encourage open markets, for that will promote enterprise and prosperity.
5. We can influence attitudes to enterprise in a number of ways. We will start by helping young people to learn about business and enterprise. We will work with employers with the aim of giving one teacher in ten each year some personal experience of the world of work. We will further aim to ensure that no young person will leave school without at least 2 weeks work experience.

Printed 8 January 1988

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6. We will help young people to become more knowledgeable about new technology. We shall increase our support for Computer Aided Design and other advanced technologies in schools, further education and teacher training colleges.

7. We will work in partnership with commerce and industry to improve management education and development and spread awareness of best practices in new technologies. These are essential to the competitiveness of British industry and commerce.

8. We will spread best practice in marketing, design, quality and advanced manufacturing methods. A major new initiative will start forthwith to encourage firms with fewer than 500 employees to take expert consultancy advice in these key management functions. We will extend the programmes in April to cover business planning and financial and information systems. More than £50m will be provided in the next financial year and some £250m in total in the 3 years to 1991. The aim is to support 1,000 consultancy projects every month.

9. Changing business attitudes to marketing must cover international markets and particularly the Single European market of which we will be physically a part with the opening of the Channel Tunnel in 1993. We will make it a priority to help business prepare for, and benefit from, this change.

10. Influencing attitudes so that businesses innovate using new technology will be a major part of our policies. Greater emphasis will be given to encouraging the effective

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transfer of technology, between educational institutions and industry, and in the more disadvantaged regions.

11. The aim of our innovation policies is to encourage industry and commerce to invest in research and development. We will concentrate our help on facilitating collaborative research projects and the transfer of technology which would otherwise not take place. Research and development which is at the stage of commercial exploitation should be the responsibility of the private sector. The general schemes of single company support for innovation are therefore being ended today.

12. DTI will be a catalyst for enterprise, innovation and change. But enterprising attitudes will only develop in open markets. We will continue our efforts to cut red tape so business can concentrate on its primary task of creating the wealth on which society depends.

13. The need to open up competitive markets is an essential strand in DTI's policies. Competition policy is the key element in that process.

14. As a result of the review which my predecessor announced in another place in June 1986, we propose a fundamental overhaul of the Restrictive Trade Practices Act. It has not proved effective in controlling illegal cartels. The new legislation which we are considering would prohibit agreements with anti-competitive effects. It will be backed by stronger investigation powers and effective penalties. A detailed Green Paper on this will be issued shortly.

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15. The review also covered mergers. The paramount consideration in mergers policy will continue to be the need to maintain competitive market conditions. We are proposing two principal changes to speed up the decisions on whether individual mergers can go ahead. The first would be a new formal, but voluntary, procedure for giving advance notice of prospective mergers. This would give automatic clearance for simple cases within 4 weeks. The second proposal would give more flexibility in dealing with possible competition problems; the Director General of Fair Trading would have the power to obtain legally binding undertakings from the parties to a merger over such issues as agreed divestment as an alternative to a reference to the MMC.

16. My Lords, the White Paper puts the need to encourage enterprise at the very heart of DTI's role and policies. We are particularly concerned to encourage enterprise in the more disadvantaged areas of the country and in the inner cities. The new consultancy initiatives which we are announcing will offer higher levels of grant both in the Assisted Areas and in those Urban Programme Areas outside the Assisted Areas; consultancy projects will receive support of two-thirds of the cost in those areas compared with 50 per cent in the rest of the country.

17. My Lords, new incentives will be introduced from April this year to encourage the growth and development of small firms in Development Areas. Their growth will continue the revival of regional economies which is one of the aims of our policy. Firms with fewer than 25 employees will be

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able to apply for investment grants of 15 per cent towards the cost of fixed assets and innovation grants of 50 per cent for product and process development. We will be targeting our help on those firms at a critical stage of their development; those which may not yet have developed the key management skills needed to survive and compete.

18. Our policies are designed to encourage self-generated business development in the regions, both in manufacturing and services, so that there is a broader, lasting base for economic growth. We have concluded that this approach to business development will do more for the regional economies than the present Regional Development Grant scheme. A Bill will therefore be introduced in the other place today to end the RDG scheme. No new applications for grant will be accepted after 31 March this year. The Bill will provide for transitional arrangements. These changes will apply throughout Great Britain. We are not proposing that there will be any reduction in regional spend. Regional policy will remain based on the existing regional map.

19. Regional Selective Assistance remains available in the Development and Intermediate Areas; unlike RDG, Regional Selective Assistance requires companies to show that they genuinely need public money in order to proceed, that their projects are viable and will produce identifiable and significant benefits. Internationally mobile projects will be able to benefit from Regional Selective Assistance as before.

20. Inner cities will benefit from the higher level of

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grant for the consultancy initiatives. The Government will be publishing a review of its policies for the inner cities and taking steps to encourage more private sector involvement in urban regeneration.

21. The proposed changes in policies which I have announced will result in an increase in spending by DTI over the provision that was planned last year. Expenditure on regional programmes in Great Britain represents an increase over earlier plans as will expenditure on support for collaborative research, technology transfer and small business innovation.

22. But many of the ways in which we seek to influence attitudes and encourage open markets cannot be achieved merely by Government spending. It is important that the new objectives should be complemented by the approach and attitude of DTI in facilitating change by business.

23. The White Paper therefore announces changes in the organisation of DTI which will enable it to be more effective in the delivery of its services. The Enterprise Initiative will be marketed clearly and strongly so that business is aware of the potential for action through self-help. We need to get closer to our customers where they live and work. We will increase and strengthen the regional office network and expand its role.

24. Furthermore industry divisions in DTI, which up to now have been seen as sponsoring specific industries, will be replaced by market divisions which focus on the markets for a range of goods and services rather than specific supplier

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industries. Emphasis will be given to issues which span all industry and commerce, especially in technology.

25. My Lords, the changes which are announced in the White Paper reflect the objectives which we set for DTI last year. They provide a coherent, consistent rationale for the activities of DTI. Real change, to give Britain a lasting basis for prosperity, requires individuals to alter the way in which they manage their businesses and approach their work. The best way to accomplish this is to influence people's attitudes, to help them acquire the skills and information which they need to compete effectively and to give them the scope and opportunity in open markets to compete. The White Paper policies which I have outlined today represent this consistent and coordinated strategy for enterprise. DTI - the department for Enterprise, will now carry this enterprise strategy forward.

mpw

FROM: M A WALLER

DATE: 11 January 1988

CHIEF SECRETARY

- cc. **Chancellor**
- Mr Anson
- Mr Monck
- Mr Burgner
- Mr Turnbull
- Ms Peirson
- Mr Gieve
- Mr N Williams
- Mr Tyrrie
- Mr Call

Ch/
To be aware.
DTI have been told
that this is not on
(at official level)

mpw 11/1

RSA CASH LIMITING: DEPARTMENT OF TRADE AND INDUSTRY

The purpose of this minute is to seek your views on an offer by Lord Young, conveyed to us by DTI at official level, to his accepting cash limiting for RSA in return for additional resources for RSA of:

1988-89	1989-90	1990-91	£m
10	25	50	

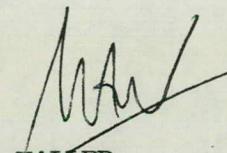
These figures are what DTI claim they would have to spend on RSA to meet the demand for RSA generated by the abolition of RDG, on the assumption that DTI were to take no action to constrain the spillover from RDG. We cannot exactly recreate DTI's figures but they are broadly consistent with work done in the 1987 Survey on the likely spill-over effects from RDG abolition to RSA (though heavily rounded in DTI's favour).

2. This is a blatant try-on by DTI. The basis of their argument is that both the Scots and the Welsh PES settlement involved additional money to enable Mr Rifkind and Mr Walker to increase provision for RSA in Scotland and Wales to absorb the spill over effects of RDG abolition, and that there was no equivalent increase in England. They argue that since the increases were the quid pro quo for accepting cash limiting in the case of Scotland and Wales, if a similar arrangement were to apply to England, then additional resources should also be made available in England. This, of course, totally ignores the nature of the deal sought by and struck with Lord Young which provided him with almost total freedom to allocate resources between his various programmes. In assessing his

priorities, he deliberately chose not to increase provision for RSA, thereby committing himself to take necessary management or policy action to constrain RSA demand to his provision.

3. DTI officials have indicated that, in the absence of your agreeing to the additional money requested, then the most Lord Young will be willing to do would be to review the case for cash limiting without prejudice i.e. he would stand on existing correspondence.

4. DTI are seeking an urgent response to this proposal so that they may know whether it is worth Lord Young writing quickly to you in advance of tomorrow's launch of the DTI White Paper. But this is something of an artificial deadline. The line Lord Young proposes to take in the absence of an agreement on cash limiting is that he believes he has sufficient provision to manage RSA in the absence of RDG (Scotland and Wales will be saying the same thing). If he is pressed on this issue he might be forced to say that he will have to look at RSA cases rigorously to ensure that he lives within his provision. But in either case this should not foreclose the option of imposing cash limits for 1988-89 onwards if you can force through an agreement with Lord Young (it is most unlikely that this issue will surface in the context of the White Paper launch). The real deadline for this is the finalisation of Main Estimates in late January/early February. I therefore recommend against accepting Lord Young's offer and that you continue to press for a meeting with him. If you agree, we will convey this message to DTI at official level.



M A WALLER



PS/

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY

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pmp

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Paul Gray Esq
10 Downing Street
LONDON
SW1A 2AA

CH/EXCHEQUER	
REC.	11 JAN 1988
ACTION	CST
COPIES TO	

11 January 1988

/

Dear Paul

DTI WHITE PAPER

I am attaching a copy of the White Paper which Lord Young and Kenneth Clarke will be publishing tomorrow. I am also attaching the final draft of the statement which Lord Young will be making in the Lords tomorrow.

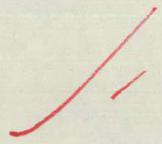
I am copying this letter to Private Secretaries to other members of Cabinet and to Trevor Woolley.

Yours

Jeremy Godfrey

JEREMY GODFREY
Private Secretary

PS1ABA



DRAFT STATEMENT

My Lords, with the leave of the House, I will make a statement about major changes in the role of DTI and its policies.

We have been engaged in a major review of the main activities and organisation of DTI. Our decisions are set out in the White Paper entitled "DTI - the department for Enterprise" which will be laid before the House later today.

We conducted this review building on the new Objectives for the DTI which we published on 13 October last year. In our opinion, considerable changes in the Government's support to industry will be required to face the challenges of 1992 and to succeed against ever increasing international competition.

In an economy with a GDP of some £400bn the main role of DTI with its budget of £1bn must be to influence attitudes and to encourage open markets in order to promote enterprise and prosperity.

We will start by helping young people to learn about business and enterprise. We will work with employers with the aim of giving one teacher in ten each year some personal experience of the world of business. We will further aim to ensure that every

young person will have at least 2 weeks work experience before leaving school as part of his or her preparation for employment.

We will help young people to become more knowledgeable about new technology. We shall increase our support for Computer Aided Design and other advanced technologies in schools, further education and teacher training colleges.

We will work in partnership with commerce and industry to improve management education and development and spread awareness of best practices in new technologies. These are essential to the competitiveness of British industry and commerce.

We will help small and medium size firms to improve their performance in marketing, design, quality and advanced manufacturing methods. We are putting in hand forthwith a major new initiative to encourage firms with fewer than 500 employees to take expert consultancy advice in these key management functions. We will extend the programmes in April to cover business planning and financial and information systems. We will provide more than £50m in the next financial year and some £250m in total in the 3 years to 1991 to encourage firms to take advantage of this initiative.

In 1992 the single European market will be completed, ending most barriers to trade within the EC. The opening of the Channel Tunnel in 1993 will make us physically a part of this much bigger market for all our goods and services. We will therefore make it a priority to help business prepare for, and benefit from, this great extension of the market within which we must compete.

The need to open up competitive markets is an essential strand in DTI's policies. Competition policy is the key element in that process.

As a result of the review which was announced in another place in June 1986, we propose a fundamental overhaul of the Restrictive Trade Practices Act. It has been proved increasingly ineffective in controlling damaging illegal cartels. The new legislation which we are considering would prohibit agreements with anti-competitive effects. It will be backed by stronger investigative powers and effective penalties. A detailed Green Paper on this will be issued shortly.

The review also covered mergers. The paramount consideration in mergers policy will continue to be the need to maintain competitive market conditions. We are proposing two principal

changes to speed up the decisions on whether individual mergers can go ahead. The first would be a new formal, but voluntary, procedure for giving advance notice of prospective mergers. This would give automatic clearance for simple cases within 4 weeks. The second proposal would give more flexibility in dealing with possible competition problems; the Director General of Fair Trading would have the power to obtain legally binding undertakings from the parties to a merger over such issues as agreed divestment as an alternative to a reference to the MMC.

We are particularly concerned to encourage enterprise in the less prosperous areas of the country and in the inner cities. We will therefore be increasing and strengthening DTI's regional office network and expanding their role. The new consultancy initiatives which I have just announced will offer higher levels of grant both in the Assisted Areas and in Urban Programme Areas outside the Assisted Areas. Consultancy projects will receive support of two-thirds of the cost in those areas compared with 50 per cent in the rest of the country.

My Lords, new incentives will be introduced from April this year to encourage the growth and development of small firms in Development Areas. Their growth will help the full revival of regional economies which is the aim of our policy. Firms with fewer than 25 employees will be able to apply for investment

grants of 15 per cent towards the cost of fixed assets and innovation grants of 50 per cent for product and process development. We will be targeting our help on those firms at a critical stage of their development; those which may not yet have developed the key management skills needed to survive and compete. Our policies are designed to encourage self-generated business development in the regions, both in manufacturing and services, so that there is a broader, lasting base for economic growth.

Regional Selective Assistance will remain available in the Development and Intermediate Areas. Unlike RDG, Regional Selective Assistance requires companies to show that they genuinely need public money in order to proceed, that their projects are viable and will produce identifiable and significant benefits. Internationally mobile projects will therefore be able to benefit from Regional Selective Assistance as before.

We have concluded that this approach to business development will do more to strengthen regional economies than an automatic subsidy to all capital investment. A Bill will therefore be introduced in another place today to end the RDG scheme. No new applications for grant will be accepted after 31 March this year. The Bill will provide for transitional arrangements. These changes will apply throughout Great Britain. Regional

policy will remain based on the existing regional map. Let me make it clear that we are not proposing any reduction in the Government's total regional spend. But we do believe that existing resources can be spent more effectively.

Inner cities will benefit from the higher level of grant for the consultancy initiatives. The Government will be publishing a review of its policies for the inner cities and will be taking steps to encourage more private sector involvement in urban regeneration.

We have also reviewed our Department's policy on civil research and development. In future, we will concentrate our help on collaborative research projects and the transfer of technology which would otherwise not take place. The White Paper announces our support for new collaborative programmes in both information technology and superconductivity. Research and development, which is at the stage of commercial exploitation, should be the responsibility of the private sector. The general schemes of single company support for innovation are therefore being ended today. We believe that our spending on research and development will be more effectively used in collaborative research bringing different companies and the academic world much closer together.

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DTI will be a catalyst for enterprise, innovation and change. But enterprising attitudes will only develop in open markets. We will therefore continue our efforts to cut red tape so business can concentrate on its primary task of creating the wealth on which society depends.

The proposed changes in policies which I have announced will result in an increase in spending by DTI over the provision that was planned last year. Our proposed expenditure on regional programmes in Great Britain represents an increase over earlier plans. We will also increase previously planned expenditure and support for collaborative research, technology transfer and small business innovation.

The White Paper also announces changes in the organisation of DTI which will enable it to be more effective in the delivery of its services. The Enterprise Initiative will be marketed clearly and strongly so that business is aware of the potential for action through self-help. And the expansion of our regional network will enable us to get closer to our customers where they live and work.

Furthermore, industry divisions in DTI, which up to now have been seen as sponsoring specific industries, will be replaced by market divisions which focus on the markets for a range of goods and services rather than specific supplier industries. Emphasis

will be given to issues which span all industry and commerce, especially in technology.

My Lords, the changes which are announced in the White Paper reflect the objectives which we set for DTI last year. Real change, to give Britain a lasting basis for prosperity, requires individuals to alter the way in which they manage their businesses and approach their work. The best way to accomplish this is to influence people's attitudes, to help them acquire the skills and information which they need to compete effectively and to give them the scope and opportunity in open markets to compete. The White Paper policies which I have outlined today represent this consistent and co-ordinated strategy for enterprise. DTI - the Department for Enterprise, will now carry this enterprise strategy forward.

My Lords, that concludes this statement.