PREM 19/1648

PART 4

MT

CONFIDENTIAL FILING

Non-Tariff Barriers + Restraints on IMPORTS, Britain's International trade Policies Consideration of export problems Recycling the OPEC Surpluses.

TRADE

PART 1 APRIL 1980

PART 4 JUNE 1984

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~5.6.84~~		~~22.2.85~~		~~31.5.85~~			
~~7.6.84~~		~~27.2.85~~		~~10.6.85~~			
~~25.6.84~~		~~4.3.85~~		~~18.6.85~~			
~~29.6.84~~		~~11.3.85~~		~~27.6.85~~			
12/7/84		~~14.3.85~~		~~4/7/85~~			
~~22.7.84~~		~~21.3.85~~		~~5.7.85~~			
~~5.9.84~~		~~28.3.85~~		27.6.85			
~~18.9.84~~		~~4.4.85~~		PART ENDS			
~~3.10.84~~		~~18.4.85~~					
~~28.11.84~~		~~22.4.85~~					
~~5.12.84~~		~~23.4.85~~					
~~12.12.84~~		~~25/4/85~~					
~~21.12.84~~		~~26/4/85~~					
~~4/1/85~~		~~2.5.85~~					
~~21.1.85~~		9.5.85					
~~24.1.85~~		~~10.5.85~~					
~~29.1.85~~		~~11.5.85~~					
~~30.1.85~~		~~16.5.85~~					
~~7.2.85~~		~~20.5.85~~					
~~12.2.85~~		~~21.5.85~~					
		~~24.5.85~~					

PART 4 ends:-

CDP to FCO 27/6/85

PART 5 begins:-

FCO to CDP 1/7/85

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
EX(85) 7	20/05/1985
EX(85) 6	16/05/1985
EX(85) 4	15/05/1985
EX(85) 3	15/05/1985
CC(85) 13th Meeting minutes, item 2	18/04/1985
E(CP)(85) 7	15/03/1985
EX(85) 2	11/02/1985

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed J. Gray Date 16/6/2014

PREM Records Team

CONFIDENTIAL

Ale SH

CC PC

10 DOWNING STREET

From the Private Secretary 27 June 1985

BOSPHORUS BRIDGE

Thank you for your letter of 24 June. Although it is now after the event, I should record that the Prime Minister was content for the Foreign Secretary to bring to an end the rather unsatisfactory exchanges over the Bosphorus Bridge at his meeting with the Japanese Ambassador yesterday.

I am copying this letter to John Mogg (Department of Trade and Industry) and Richard Broadbent (H M Treasury).

C D POWELL

Peter Ricketts, Esq.,
Foreign and Commonwealth Office

CONFIDENTIAL

CST

cc NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

DW72
Secretary of State for Trade and Industry

24 June 1985

Charles Powell Esq
Private Secretary to the
Prime Minster
10 Downing Street
London
SW1

CDP
3/7.

Dear Charles,

BOSPHORUS BRIDGE

You wrote to John Mogg on 10 June, reporting on an approach by Richard Needham MP following his recent visit to Tokyo. He suggested that Cleveland Bridge had been tactless, and that there was an opportunity for UK cable manufacturers. As you know, it now looks clear that Cleveland Bridge will secure no sub-contract work from the Japanese for this subject.

2. First, we have no reason to believe that Cleveland Bridge have been 'tactless', even if the Japanese have been surprised by the strength of Government reaction. We have been in close contact with the company, and there has been nothing in their approaches that we have seen which suggest any stronger reaction than has been taken at Governmental level. Indeed, Cleveland Bridge's approach, in the last few weeks, has deliberately been one of conciliation and attempts to begin detailed discussions. This has failed.

3. Second, Cleveland Bridge's bid did ~~not~~ include some £6-9 million of cables to be sourced from a separate UK company, Ryland Whitecross (Warrington). Once Cleveland Bridge have been informed by IHI that they will not be receiving any sub-contract work, we will encourage the Warrington company to make an approach to the Japanese. But I must say, we are not confident : the Japanese consortium already seems to have ample in-house capability.

4. In short, we do not altogether accept the interpretation and optimism conveyed back from Tokyo to Mr Needham.

5. I am copying this to Colin Budd (FCO).

Yours sincerely,
Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

Trade : Non Tariff Barriers Pt 4

25.VI AM85

Copied to Sit/IC

(2)

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister

This suggests that we sign off the dispute on the bridge, by a stiff interview between the Foreign Secretary & the Japanese Ambassador.

24 June, 1985

Dear Charles,

Bosphorus Bridge

CDP 24/6

I enclose a commentary on Mr Nakasone's latest letter to the Prime Minister as you requested in your letter of 5 June to Colin Budd. This has been cleared with the DTI and HM Treasury. As you will see, it is our intention to pursue the question of associated financing in OECD.

Agreed MT

The analysis supports the conclusion in the Secretary of State for Trade and Industry's minute of 17 June to the Prime Minister, that we should find a way to terminate exchanges with the Japanese Government (particularly at Prime Ministerial level) but in a way which leaves them in no doubt of our strong feelings. Unfortunately, the method which the Prime Minister agreed to (your letter of 18 June to John Mogg) is no longer open to us as the Chancellor of the Exchequer has had to cancel his visit to Tokyo.

Sir Geoffrey Howe agrees with Mr Tebbit that the arguments for and against summoning the Japanese Ambassador here to round off the affair are finely balanced, the more so since the Japanese are showing considerable concern at reports that the UK is leading the EC towards a strong condemnation of Japan in the Milan European Council. During his visit to Tokyo, Sir Antony Acland was forcefully told of these concerns by his opposite number in the Japanese MFAon 19 June. However, the Ambassador has himself now asked to call on the Foreign Secretary this week to discuss EC/Japan trade issues in advance of the Milan Summit.

Sir Geoffrey has arranged to see the Ambassador on 26 June. I understand that Mr Tebbit would have no objection to Sir Geoffrey taking this opportunity to draw a line under the Bosphorus Bridge episode. If the Prime Minister is also content, Sir Geoffrey will do so.

He would propose to make our concerns clear with some straight speaking. Although we have little to gain (and more than most to lose) by standing out alone in criticism of Japan, or by appearing to the Japanese to be leading the pack against them, the 19 June Foreign Affairs Council declaration, (copy attached) will have shown clearly that our EC partners are just as concerned as we are.

/I

I am copying this letter to John Mogg (DTI) and Richard Broadbent (HM Treasury).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

SECOND BOSPHORUS BRIDGE: COMMENT ON MR NAKASONE'S LETTER OF 1 JUNE

1. Japanese aid to be seen as part of OECD's efforts to assist Turkey because of the importance of Turkey to world peace and stability.

It is true that Japan was encouraged to provide special assistance to Turkey in the early 1980's. Britain also provided exceptional amounts of aid at that time to assist economic adjustment in Turkey.

But the Japanese soft loan offer of $200M which exceeds the amount of special assistance they provided in the early 1980's, was made specifically in respect of the Section 2 contract of the project which included the bridge. Had the project not been awarded to a Japanese consortium the loan would not have been available for other projects in Turkey. To that extent even if a Japanese consortium had not offered the lowest price there would have been a strong financial inducement to the Turkish authorities to award the business to Japan unless another country could match the Japanese aid offer. The nature of the Japanese offer was therefore potentially trade distorting.

2. The terms of the Yen loan were not exceptionally concessional.

Japan has a large bilateral aid programme, about three times the size of the British bilateral aid programme. The poorer countries generally receive grant aid. Grants in 1983 amounted to $1 billion or 41% of Japanese bilateral aid. Where Japan provides aid to stronger developing countries for political and commercial reasons, primarily in the Far East, it does so on loan terms. For example in 1983 Japan disbursed some $560 million of loans in Thailand, Malaysia and Indonesia and a further $300 million in China. The yen loan to Turkey had a grant element of 37%: this is common for countries with similar income per head levels. Japan makes soft loans to Indonesia on more concessional terms: the interest rate is normally 3½%, giving a grant element as calculated by OECD of about 50%.

3. Turkish Government decision to divide project into 4 contracts and to include road component in Section 2 with the bridge.

This is supported by the note prepared by Mr Brown of Freeman Fox circulated by Mr Powell. We have little doubt that Japan would have offered a soft loan for the bridge alone had it been the subject of a separate contract. It was the bridge that was commercially attractive, not the roads.

4. Japanese Consortium made lowest bid.

This is correct both for the project as a whole and for the Section 2 Contract. Within the Section 2 contract the Cleveland cost figure for the bridge was marginally lower than the Japanese. But contracts have substantial mobilisation and overhead costs: the division of these between different components of a contract is somewhat arbitrary and tenderers may allocate them differently. The only real test of Cleveland's price competitiveness for the bridge would have been a separate tender.

5. Associated Financing : Yen loan was development assistance and not credit offered for export promotion.

The implication of Mr Nakasone's letter is that the loan was not part of an associated financing transaction. According to OECD Development Assistance Committee Guidelines, transactions which associate aid, in law or in fact, with other officially supported funds (notably export credits) are regarded as Associated Financing.

In respect of the Section 2 contract only we believe that the yen loan covers the Japanese content of this contract and that therefore taken alone it was not associated Financing.

Official Japanese representations have been made arguing that in terms of the project as a whole their overall financial package was not Associated Financing on the grounds that :-

i. the soft loan offer on Section 2 contract was not conditional upon a Japanese consortium winning the other contracts: this may be true but given the Turkish authorities' intention to let the whole project to one consortium this was the practical effect.

ii. Japanese commercial finance was not officially supported export credit: on a strict interpretation of the DAC Guidelines this point is valid. But where aid is used in association with private banking loans which also finance a country's exports it has been agreed that for the sake of transparency each transaction should be reported to the DAC.

These issues will be pursued within the OECD. If the Japanese financial package is interpreted as Associated Financing they can be criticised for initiating such a large offer but they have not broken the DAC rules governing its use.

6. <u>Interest rates on Commercial loans not under regulation of OECD Consensus</u>.

The commercial loans which formed part of the overall Japanese financial package for the project are not officially supported export credits i.e they are not insured by Japanese export credit agency (EXIM Bank). Japanese banks extending loans presumably guaranteed by Turkish government can be expected to charge higher interest rate than that for an export credit guaranteed by EXIM Bank. It is believed that these loans will largely finance non-Japanese goods and services including costs incurred in Turkey.

Non Tarriff Barriers : Trade
Pt 4

CONFIDENTIAL

GPS 350
CONFIDENTIAL
FRAME EXTERNAL
DESKBY 190830Z
FM LUXEMBOURG 181953Z JUN 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 160 OF 18 JUNE 1985
AND TO IMMEDIATE UKREP BRUSSELS, DTI
INFO IMMEDIATE TOKYO, PRIORITY BRUSSELS, COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN, ATHENS, WASHINGTON, UKMIS GENEVA.

G FM UKREP BRUSSELS

MIPT
EC/JAPAN

1. FOLLOWING IS THE DRAFT COUNCIL DECLARATION REFERRED TO IN MIPT:

(1) THE COUNCIL EXPRESSED ITS CONCERN OVER THE OUTCOME OF RECENT DISCUSSIONS BETWEEN THE COMMISSION AND THE JAPANESE AUTHORITIES WHICH RESULTED YET AGAIN IN ONLY VERY LIMITED PROGRESS IN ADRESSING VARIOUS LONG STANDING REQUESTS MADE BY THE EUROPEAN COMMUNITY TO OPEN UP THE JAPANESE MARKET.

(2) THIS LACK OF RESPONSE TO THE CONCERNS OF THE COMMUNITY HAS TO BE ASSESSED AGAINST THE BACKGROUND OF THE RESPONSIBILITIES WHICH JAPAN PREEMINENTLY SHARES WITH HER OTHER WESTERN PARTNERS TO PRESERVE AND STRENGTHEN THE MULTILATERAL TRADING SYSTEM, FROM WHICH JAPAN HAS SO GREATLY BENEFITTED BUT TO WHICH SHE HAS HITHERTO FAILED TO MAKE A CONTRIBUTION CORRESPONDING TO HER ECONOMIC AND COMMERCIAL STRENGTH.

(3) THE COUNCIL RECALLED THE COMMUNITY'S DECISION TO SUSPEND EARLIER GATT PROCEEDINGS AGAINST JAPAN WHILE BILATERAL DISCUSSIONS CONTINUED AND THE JAPANESE AUTHORITIES PROCEEDED WITH THEIR INTENDED MARKET OPENING MEASURES.

(4) HOWEVER, JAPAN CONTINUES TO REMAIN OUT OF STEP WITH HER TRADING PARTNERS IN TERMS OF PROPENSITY TO IMPORT MANUFACTURES. FURTHERMORE MOUNTING TRADE AND CURRENT ACCOUNT SURPLUSES ARE NOW BEING ACCUMULATED BY JAPAN AND CAN BE EXPECTED TO CONTINUE TO INCREASE FOR THE FORESEEABLE FUTURE. IN CONSEQUENCE, THE MULTILATERAL TRADING SYSTEM FINDS ITSELF UNDER INCREASING STRAIN, AND PROTECTIONIST PRESSURES ARE MOUNTING.

CONFIDENTIAL

5

CONFIDENTIAL

(5) THE COMMUNITY ACCORDINGLY LOOKS TO THE GOVERNMENT OF JAPAN TO PUT INTO EARLY AND CONCRETE EFFECT ITS VARIOUS RECENT TRADE POLICY DECLARATIONS, AND NOTABLY THAT OF 9 APRIL 1985. THE THREE YEAR ACTION PROGRAMME CURRENTLY UNDER ELABORATION IN TOKYO WILL BE CREDIBLE ONLY IF IT EMBRACES A CLEARLY VERIFIABLE COMMITMENT TO A SIGNIFICANT, SUSTAINED INCREASE IN IMPORTS INTO JAPAN OF MANUFACTURERS AND PROCESSED AGRICULTURAL PRODUCTS. SIMILAR IMPORTANCE IS ATTACHED TO THE PROPOSED LIBERALISATION OF JAPANESE FINANCIAL MARKETS AND THE INTERNATIONALISATION OF THE YEN.

(6) THE COUNCIL INVITES THE COMMISSION TO PREPARE A COMPREHENSIVE REVIEW OF COMMUNITY/JAPAN RELATIONS WITH APPROPRIATE RECOMMENDATIONS FOR ACTION, AS A BASIS FOR DISCUSSION AND DECISION IN THE AUTUMN OF 1985.

FCO ADVANCE TO:- (ADVANCED AS REQUESTED)
FCO - SHEPHERD
DTI - WILLIAMS, LANE, PRYOR, MADELIN (ITP), HUTTON, DUNNING
WINDEYER (OT2)

UKREP DIST - LOUGHEAD, SPENCER / ECON, EXTERNAL, INDUSTRY

MILES

FRAME EXTERNAL
ECD(E)
FED

COPIES TO:
ADVANCE ADDRESSEES

CONFIDENTIAL

010/112

ce/PC

NBPM
CDP 10/6.

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1E 6RB

18 June 1985

Dear Minister

IRAQ - TURKEY PIPELINE

attached

Thank you for your letter of 13 June about ECGD cover for the Turkish leg of the proposed Iraq-Turkey oil pipeline. This letter confirms what my private office told yours on Friday.

We have agreed that ECGD should take on no further exposure on Turkey until a further assessment of the market, which should be completed as quickly as possible, demonstrates that Turkey's prospects have improved to such an extent that additional cover is justified. I therefore entirely agree that BPEC's application for buyer credit support for the Turkish leg should be rejected and I am glad to see that they think that they will be able to get the private markets to take the Turkish payment and transfer risks and the medium term credit risks. Hopefully BPEC will be successful in this.

The two risks that the market cannot cover, the unfair calling of the on-demand bonds and contract frustration, both involve a Turkish risk which could possibly, though remotely, be triggered by a Turkish payments crisis. In view of the national interest in securing this business, you proposed providing cover against these risks. Provided that you expected to be able to hold the line on refusal to take on any other Turkish risks, including pre-credit risks, pending the further assessment of the market, I agreed, exceptionally, that you should cover these two risks as you proposed. This is the most that can prudently be justified in present circumstances and I hope that no further demands will be made for ECGD cover in respect of this part of the project.

On the Iraqi leg, I agree that the supplementary insurance against contract frustration may be set against the £200 million ceiling.

Copies of this letter go to members of EX.

Yours sincerely

J Broadbent

for PETER REES

[Approved by the Chief Secretary]

bc PC. ECL

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

18 June 1985

BOSPHORUS BRIDGE

The Prime Minister has considered your Secretary of State's minute about the decision of IHI not to place any sub-contract work for the second Bosphorus Bridge with Cleveland Bridge. She agrees that we should find a way to terminate exchanges with the Japanese Government on this which leaves them in no doubt of our strong feelings. She agrees that action by the Chancellor during his forthcoming visit to Tokyo, if he agrees, would be a most effective way to do this.

I am copying this letter to Rachel Lomax (H.M. Treasury) and Peter Ricketts (Foreign and Commonwealth Office).

(Charles Powell)

John Mogg, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

BM.

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

Prime Minister
CDP
18/6

17 June 1985

Dear Charles,

Turkey: Bosphorus Bridge

I enclose a letter from the Turkish Prime Minister to the Prime Minister which was delivered today by the Turkish Ambassador to Lady Young. The Turks seem to have done little to put our case to the Japanese during Mr Ozal's visit to Tokyo. During the discussion with Lady Young, the Turkish Ambassador filled out somewhat Mr Ozal's reference to further possibilities for British firms in Turkey. He referred to highways and railways and expressed concern about what he described as ECGD's "timid" approach to Turkey. He singled out Rapier where the Turks were looking for credit to finance their second contract (we understand, incidentally, that British Aerospace are at present in negotiation with the Turks on this contract).

We will let you have advice shortly on Mr Ozal's invitation to the Prime Minister to visit Turkey.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

CONFIDENTIAL

CCPC

FCS/85/184

NBPM
[illegible]

CHIEF SECRETARY TO THE TREASURY

The Iraq-Turkey Pipeline

1. I have seen Paul Channon's letter of 13 June to you about BPEC's request for ECGD to consider a limited package of insurance in their bid for the Iraq-Turkey Pipeline project.

attached

2. I agree with Paul Channon's proposal to indicate support for BPEC in principle. As you know from our other correspondence on major projects in Turkey I wish the Turks to understand that we remain interested in their market.

3. I am copying this minute to members of EX.

GEOFFREY HOWE

Foreign and Commonwealth Office

17 June 1985

CC Sec P.C ①

Prime Minister
Content?
CDP 17/6

CONFIDENTIAL

PRIME MINISTER

Yes mt

The Japanese press reported on 12 June that the IHI-led consortium has decided not to place any sub-contract work for the second Bosphorus bridge with Cleveland Bridge. IHI have confirmed this to our Tokyo Embassy.

2 The press reports attribute reasons for the decision to:

(i) unfavourable reaction of the Japanese companies to British pressure;

(ii) fear of setting a precedent which would encourage similar pressure in other third country business;

(iii) possible delays to the project resulting from sub-contracting work to British companies.

3 Following on from Mr Nakasone's unyielding letter of 1 June, this outcome, though extremely disappointing, is not altogether unexpected.

4 But the manner in which the decision has been made public is particularly aggravating. In his latest letter to you on 1 June, Mr Nakasone stated that Cleveland Bridge's participation was 'a matter to be settled among the private companies concerned', implying that talks would get under way. In fact the only response to an approach made three weeks ago by Trafalgar House to IHI at main board level has

JH1CLI

999-49

CONFIDENTIAL

been a short holding telex. Trafalgar House have not, even now, been informed of the reported decision.

5 There are arguments we could mount to challenge the reported IHI justification for its decision. There are certainly grounds for complaint at the way the matter has been handled by the Japanese companies. However, IHI's attitude comes as no surprise; their prime objective after all was, in all too familiar fashion, to capture another industrial sector. Given that and the tone of Mr Nakasone's response, neither we, the Foreign Office nor the company see any effective way of persuading IHI to change its position. In addition, Cleveland Bridge apart, there are some limited opportunities for other UK sub-contract work, including possibly bridge cables and some steel supply. These could be jeopardised if we continue to press Cleveland's case. Despite these new developments, therefore, I think your inclination to discontinue the correspondence with Mr Nakasone, while pursuing the wider issues in OECD, remains the right course.

6 The question then remains of how your exchanges should be terminated. It has been suggested that I might call in the Japanese Ambassador to make our position clear, concentrating on our concern for UK-Japan trade relations: this episode has vividly highlighted the problem. However, it is not clear that very much would be gained from this - the arguments for and against such an interview are finely balanced. Given agreement that the correspondence with Mr Nakasone should be brought to a close, I suggest that my department should consider with the FCO how best to do so in a way that leaves the Japanese Government in no doubt of our views in respect of both our bilateral trade relations in

JH1CLI

999-49

general, and the kind of 'aid dumping' employed on the bridge bid in particular. Nigel Lawson's forthcoming GIO meeting in Tokyo might possibly provide an opportunity for doing this.

7 I am copying this to Geoffrey Howe and Nigel Lawson.

NT

N T

17 June 1985

Department of Trade and Industry

JH1CLI

Trade: Non Tariff Barriers Pt 4

19/116/17166

CC PC

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

Await Chief Sec's reply
CM

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1P 3AG

13 June 1985

Dear Peter,

THE IRAQ-TURKEY PIPELINE

BPEC have approached ECGD for medium-term credit support and supplementary insurance in respect of the Iraq-Turkey pipeline. This application has been considered by EGC who have agreed that ECGD could support buyer credit finance for the Iraqi leg, but that buyer credit support should be declined for the Turkish leg in line with our policy on Turkey. Your officials will be familiar with the background to the project, and details of terms, values, etc were circulated to EGC.

BPEC have appealed against this decision, and I have rejected any reconsideration of the basic issue. However, BPEC have asked whether ECGD could consider a limited package of insurance, which would exclude direct Turkish payment and transfer risks but would complement the funds and insurance they believe they can obtain from the private market.

IRAQ

BPEC have also asked us for supplementary insurance against contract frustration in respect of the Iraq leg. In normal circumstances, this would present ECGD with little difficulty, but the potential liabilities cannot be accommodated within the agreed market limit of £250m for long delivery contracts on cash terms against which such liabilities would usually be set. The maximum potential liability for ECGD here could be £39.1m against available cover of £30m. I do not, at this stage, wish to propose an increase in the £250m limit for cash contracts, nor on the other hand would we wish it to be blocked for other small-scale business by being allocated to this project. I propose instead that we set the liabilities against the £200m ceiling which EGC has already agreed for medium term pipeline liabilities which are taken on outside the limits established by the UK-Iraq Financial Protocol.

TURKEY

BPEC's bankers, Morgan Grenfell, believe that they will be able to arrange finance for BPEC's Turkish responsibilities from a combination of the private market and export credits from overseas. Although Turkey has recently been in the market to raise finance on its own books, Morgan Grenfell believe that the prospect of participation in Government-guaranteed finance for the balance of the project will be an adequate carrot to persuade lenders to take on Turkish risk on their own books. Whether they can or not, of course, remains to be seen.

BPEC have also received indications from the private insurance market for Turkish payment and transfer risk in the context of their contract, but there appear to be two problems:

1 their total indications are about \$50m, which would have to cover liabilities on both their contract and bonds. Their uncovered Turkish exposure on the contract is \$100m, and on bonds \$25m. There is therefore a gap of around \$75m between market capacity and amounts which BPEC would wish to insure;

2 the market will not cover losses arising out of causes originating in Iraq, for example cancellation of the project by the Iraq Government leading to suspension of work in Turkey and breach of contract by the Turkish buyer.

BPEC have therefore proposed that ECGD should limit its insurance on the contract to civil war risks, and to risks of loss in Turkey originating in Iraq. In other words, the private market would take the direct Turkish payment and transfer risks on the contract itself. (The lenders will, of course, also be taking the Turkish medium term credit risk). However, in order to overcome the problem of limited market capacity, BPEC have proposed that we should give unfair calling cover in respect of the on-demand bonds. Although this will still leave a gap of around \$50m of uncovered exposure, BPEC consider that through a combination of contractual conditions, and tailoring private market insurance to cover the maximum negative cash flow on their contract, they can reduce their own exposure to a tolerable level.

The BPEC package excludes from any ECGD cover the Turkish payment and transfer risks which are our major concern. There remain risks which could, however, be triggered by a foreign exchange or debt rescheduling crisis. These are as follows:

(i) it could be argued that in an acute foreign exchange or political crisis in Turkey, the Government could reach sufficiently desperate straits that it will call all on-demand bonds held by state buyers as a means of generating foreign exchange, or for purposes of political retaliation of some kind. I do not consider that this is a significant risk. The Turkish Government has never called an on-demand bond in our experience, and no country has called bonds as a result of a debt rescheduling situation. Furthermore, Turkey is not in the same category as eg Iran or Libya where the organised calling of bonds is a more significant risk.

(ii) the pipeline is scheduled for construction during the next 18 months, when arguably Turkey's external debt problem will be at its peak, and the likelihood of another foreign exchange crisis is high. If Turkey were to default on interest payments due on lending during this period, it is conceivable that the commercial banks and overseas Government credit agencies could shut down the loans being used to finance the project. Although ECGD would not be covering the direct payment or transfer risk under BPEC's contract, the project could be suspended, and if stoppage of work is acrimonious with a dispute between the parties, it is possible that bonds could be called. It is also possible that cessation of work in Turkey could lead to action by the Iraq Government to bring the project to a halt in their country, leading to losses both on Iraq guarantees and those on Turkey given that part of the BPEC proposal is that ECGD should cover Turkish losses arising out of causes in Iraq. However, I consider that such a chain reaction - stemming from Turkish payment difficulties - is somewhat unlikely. The commercial lenders are most likely to be secured by an escrow arrangement on the rental income from oil throughout and it will therefore be in their interest to see the project completed; similar considerations would apply to Government credit agencies whose reluctance to call default will be reinforced by the political implications of such an action. This latter argument is perhaps reinforced by experience derived from the construction of the first Iraq-Turkey pipeline during the late '70s's when Turkey's economic position was arguably far worse than now and its debts were being rescheduled. The project was completed on time and without interruption.

On balance, I consider that the strength of BPEC's national interest case, which has already been aired at official level, justifies ECGD taking on these indirect risks arising out of the BPEC package, and subject to EX's views, I would propose to indicate our support in principle.

Timing is now becoming very urgent. The list of contenders is likely to be whittled down to two this weekend. BPEC are hopeful of being one of the two final bidders, but face strong competition from the Italians who pipped them at the post for the Iraq-Saudi pipeline. They will almost certainly be asked to firm up on proposals for finance submitted with their tender, but their chances of success will be much diminished unless ECGD can support some supplementary insurance for Turkey, and normal cover for Iraq. I would therefore be most grateful for your reply before the weekend.

I am copying to members of EX.

Yours

Paul

PAUL CHANNON

Pete ed

CC DTI

10 DOWNING STREET

THE PRIME MINISTER

13 June 1985

Dear Mr. Maxwell,

When you came to see me on 31 May you suggested that £6 million credit for the PVC project at Wloclawek should be reactivated. I asked Paul Channon to look at this again but we feel that it would not be right to release this credit.

There is a general understanding among Poland's western creditors, including the UK, that none of them should give Poland new credit until arrangements have been completed to deal with past debts. For the UK to revive an old credit for the PVC project would be seen as a breach of this understanding. This has to be seen against the background of claims of some £500 million already paid by ECGD in respect of Poland, with a similar amount likely to be payable over the next few years.

Yours sincerely

Margaret Thatcher

Robert Maxwell, Esq., M.C.

SS

CONFIDENTIAL

fle ABo
L03AFA
cc Sir P Cradock

10 DOWNING STREET

From the Private Secretary

10 June 1985

BOSPHORUS BRIDGE

Richard Needham, M.P., came to see me today, following a recent visit to Tokyo, to dicuss the Bosphorus Bridge contract. You will recall that he is active in the 2000 Group and a strong proponent of strengthening relations with Japan.

Most of what he had to say was of the water-over-the-dam variety, but there were two specific points which might be followed up:-

(a) his information, from talking to various Government agencies and to IHI in Tokyo was that Cleveland Bridge's recent efforts to secure some part of the work on the Bosphorus Bridge as a sub-contractor had been clumsily handled and were proving counter-productive. He talked of "intimidating" and "threatening" telexes. I am not sure how closely DTI are monitoring the company's activities: but if you are in touch, it might be worth urging a bit more tact.

(b) He claimed to have firm information that British firms would have a good chance of getting the contract for the bridge cables. I am not sure whether Cleveland Bridge supply cable. If not, it might be worth encouraging appropriate British firms to bid.

I am copying this letter to Colin Budd (Foreign and Commonwealth office).

CHARLES POWELL

John Mogg, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

05-06-07 16:11

2%1407ADTH4 A B
825701 FCOHSP G

FOR M. TOWERS, PRESS OFFICE

BY FAX.

BOT 03/07

cc: BI, JI, IM
Mr Thornbull
Mr Powell

LDN 550/07

OO FCO (DESKBY 071500Z)

OO DTI (DESKBY 071500Z)

GRS 600
UNCLASSIFIED
DESKBY 071500Z
FM TOKYO 071224Z JUN 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 415 OF 07 JUNE
AND TO IMMEDIATE DTI (FOR PS/MR PATTIE, PRESS OFFICE, OT2 AND PEP)

BOSPHORUS BRIDGE: PRESS STATEMENT BY MR PATTIE

1. IN THE COURSE OF HIS OPENING STATEMENT AT AN ON-THE-RECORD BRIEFING ATTENDED BY GRIBBEN (TELEGRAPH), HAMILTON (OBSERVER), TOWNSEND (TIMES), MIKE SMITH (GUARDIAN), SHODDY (FT), DEIOHNO (ELECTRONICS TIMES) AND HORSLEY (LOCAL BBC CORRESPONDENT), MR PATTIE SAID, WITH REFERENCE TO MR NAKASONE'S REPLY TO MRS THATCHER ON THE BOSPHORUS BRIDGE:

QUOTE:

WHETHER OR NOT THE LETTER EVER WILL BE PUBLISHED..... IS NOT FOR ME TO SAY BECAUSE I DON'S KNOW. I CAN'T REVEAL THE TEXT OF IT TO YOU BUT YOU'RE AWARE THAT THE CRITICISM OF THE JAPANESE PACKAGE BY THE BRITISH GOVERNMENT ..... CENTRED ON THE EXTENT OF THE SOFT LOAN PART OF THE OVERALL PACKAGE - ABOUT 4 TIMES THE SIZE OF WHAT HAD BEEN OFFERED BY THE UNITED KINGDOM. NOW THE JAPANESE GOVERNMENT IN THEIR LATEST COMMUNICATION - AND THIS IS THE ONLY REFERENCE TO IT WHICH I WILL MAKE - ARE SEEKING TO DESCRIBE THIS AS DEVELOPMENT ASSISTANCE RATHER THAN CREDIT WHICH IS OFFERED FOR EXPORT PROMOTION. FRANKLY WE DO NOT FIND THIS A SATISFACTORY EXPLANATION. I'M BOUND TO SAY THAT I THINK IT'S LIKELY TO PRODUCE SOMETHING IN THE ORDER OF HOLLOW LAUGHS IN LONDON. WE FEEL THAT CREDIT-DUMPING OF THAT SORT IS INCONSISTENT WITH THE JAPANESE GOVERNMENT'S RECENT STATEMENTS THAT THEY ARE SEEKING TO RECTIFY THE TRADE IMBALANCE WITH THE WEST, AND AS NORMAN TEBBIT HAS REPEATED IN THE HOUSE THIS WEEK........THE CONSEQUENCES FOR WORLD TRADE COULD BE SERIOUS IF PROTECTIONIST MEASURES ARE TAKEN LATER THIS YEAR, AS THEY WELL MIGHT BE, BY THE AMERICAN CONGRESS. AND THEREFORE OF COURSE THE BRITISH GOVERNMENT IS LOOKING VERY KEENLY, AND ANTICIPATING VERY KEENLY, WHAT WILL BE IN THE JULY MEASURES......THE WORD THAT I'VE HAD USED TO ME - NOT A WORD THAT I'VE BEEN USING TO JAPANESE MINISTERS BUT THE WORD THAT'S BEEN USED TO ME - IS THE WORD ''TANGIBLE''. THEY ARE SAYING THAT THEY WOULD BE SEEKING TO PRODUCE SOMETHING THAT WOULD BE ''TANGIBLE''. NOW OBVIOUSLY EVERYTHING IS GOING TO DEPEND ON WHAT THIS PACKAGE ACTUALLY CONTAINS. BUT THERE IS MOUNTING CONCERN IN BRITAIN AND I THINK IN OTHER EUROPEAN COMMUNITY COUNTRIES AS WELL THAT WE'VE HAD THESE KINDS OF ASSURANCES IN THE PAST. THEY DON'T SEEM TO BE HONOURED IN THE EVENT, AND THEREFORE THE LIKELIHOOD OF MEASURES BEING TAKEN - AND I HAVE TO EMPHASISE OF COURSE THAT THE UNITED KINGDOM IS NOT IN THE BUSINESS OF TAKING UNILATERAL MEASURES: ANYTHING THAT WE WOULD BE INVOLVED IN, IF AT ALL, WOULD BE AS PART OF EUROPEAN COMMUNITY ACTION - BUT WE HAVE TO BE CONCERNED THAT THE AMERICAN CONGRESS, WHICH APPEARS TO BE QUITE EXCITED ABOUT THIS ISSUE, COULD WELL START THIS AUTUMN TO TAKE SERIOUS STEPS, AND THAT WOULD I THINK NOT BE IN THE GENERAL BEST INTERESTS OF WORLD TRADE. WHERE THE CLEVELAND BRIDGE COMPANY IS CONCERNED, WE WOULD HOPE THAT ON A COMPANY-TO-COMPANY BASIS THEIR WELL-KNOWN EXPERTISE IN THE AREA OF BRIDGE CONSTRUCTION WOULD BE RECOGNISED AND THAT THEY WOULD HAVE AN OPPORTUNITY TO PARTICIPATE IN THE PROGRAMME ON A SUB-CONTRACT BASIS, BUT I DO EMPHASISE THAT THAT IS COMPANY-TO-COMPANY AND NOT SOMETHING WHICH I THINK WOULD RIGHTLY BELONG IN THE GIFT OF THE JAPANESE GOVERNMENT OR SOMETHING WHICH WE WOULD EXPECT THE JAPANESE GOVERNMENT TO SEEK TO DELIVER.

S/DP
I don't think we should limit ourselves in this way. VRAJs measures in financial sector can be unilateral AT 4/6

UNQUOTE.

2. MR PATTIE REFUSED TO BE DRAWN FURTHER ON THE CONTENTS OF THE LETTER.

3. MR PATTIE MADE THE SAME POINT ON MR NAKASONE'S LETTER IN A SEPARATE RADIO INTERVIEW WITH THE BBC.

GIFFARD

CF. pps

Prime Minister ②
To note
AT 7/6

CCPC

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5542
SWITCHBOARD 01-215 7877

JU617
Secretary of State for Trade and Industry

6 June 1985

Andrew Turnbull Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Andrew,

Could we let Robert Maxwell know the reasons not

PVC PROJECT AT WLOCLAWEK

Following the meeting with Mr Robert Maxwell on 31 May, the Prime Minister asked if the Minister for Trade could quickly examine the proposal that the £6m credit which remains unused from the loan on the PVC project at Wloclawek could be reactivated, preferably in time for Lord Jellicoe's visit to Poland (8-12 June).

The project is one of two unfinished projects (the other being the URSUS tractor project) caught by HMG's measures against Poland announced in February 1982 when all existing officially guaranteed credit was placed in abeyance. Discussions have subsequently been proceeding in the Paris Club about the rescheduling of Poland's 1982-1984 debts which include the PVC project. It has been the position of all the major Western credit countries that Polish requests for further credit will not be considered until a debt rescheduling agreement has been signed. This position was recently endorsed by UK ministers when the Chancellor of the Exchequer wrote to the Foreign Secretary on 10 May copying to colleagues and the Prime Minister.

Further credit for the PVC project before a rescheduling agreement is signed could undermine the firm position to which we have been adhering in the Paris Club and could give the wrong signals to the Poles, who have been pressing for new credit before signature. With claims of some £500m already paid by ECGD on Poland and a similar amount likely to be payable over the next few years, even the matter of making £20m of new short term credits available will need to be referred to Ministers for decision when, and if, the Poles sign the debt agreement.

Yours sincerely
Maureen Dodsworth

MAUREEN DODSWORTH
Private Secretary

991-1

PRIME MINISTER **Ankara**

SUBJECT
cc Ops
Master

June 5, 1985

PERSONAL MESSAGE
SERIAL No. T105AA/85

My Dear Prime Minister

I have received your letter of May 8, 1985, expressing the British interest in having a part in the construction of the Second Bosphorus Bridge.

We appreciate the desire of Cleveland Bridge to make a tangible contribution to our development efforts. I want to assure you that the final decision has been made after a careful scrutiny of the offers made by the different consortia.

Regarding the proposal by Cleveland Bridge to join in the consortium as a sub-contractor, I assume that a final decision on this question would depend on the Japanese and British sides reaching a satisfactory agreement. Nevertheless, during my recent visit to Japan I raised the issue with Prime Minister Nakasone. I must tell you with all candor that the Japanese Prime Minister did not appear to be forthcoming. I am sure you also had the opportunity to sound out the Japanese stand in your encounter with Mr. Nakasone in Bonn.

However, I would like to submit to your consideration that there are further possibilities for British firms to join their efforts with their Turkish counterparts to carry out other large infrastructure projects in Turkey.

There are many similarities between our economic experiences and our approaches to our economic difficulties in the recent past.

The Right Honorable
Margaret THATCHER, M.P.
Prime Minister of the
United Kingdom
LONDON

./.

Please also be assured of our appreciation of the mutually beneficial Turkish-British economic cooperation to this date and our determination to build upon this heritage in the future.

I would be most glad to have the opportunity of sharing our experiences and discussing with you the possibilities of increased economic cooperation and trade and other subjects of common interest, which would further strengthen the excellent relations and bonds of friendship between our countries. To this end, it would be a great pleasure and an honor to play host to you in Turkey.

Sincerely

Turgut ØZAL

FCS/85/167

NBPM
CDP 2/6.

CHIEF SECRETARY, HM TREASURY

ECGD Cover For Turkey

1. I have seen Paul Channon's letter of 29 May to you about Kellogg's bid for ECGD cover for work on an ammonia plant in Turkey.

2. While Paul Channon is best placed to judge the overall picture there is a risk that to follow the line proposed will be seen by the Turks as a lack of interest in their market particularly when Kellogg had an inside track. It is also clear, as Paul Channon recognises, that we shall again be subject to public criticism here (pace the Bosphorus Bridge), well founded or not, that we are not doing enough to support British industry in their efforts abroad.

3. Whilst Kellogg may not be able to make a better national interest case on industry and employment grounds than a number of other cases seeking limited financial resources there are a number of features to be advanced in their favour. I understand that several millions pounds worth of ODA equipment has already been supplied in support of the project but not so far used. While this equipment is in good condition now it cannot be expected to remain so indefinitely. It would mean a satisfactory end if ECGD cover were now to be instrumental in the equipment being used and the project completed. It also seems that if Kellogg win this contract it will undoubtedly enhance their chances of future business in Turkey. Lastly, while other projects are at various stages of

/negotiation

negotiation this project is very near to fruition and should be landed.

4. I hope these considerations can be taken into account in respect of Kellogg. But whatever the outcome of their case it seems vital to finalise ECGD's review of Turkey. British companies need to know their chances of doing business in this important market. Every month of delay while Turkey is effectively off medium term cover is likely to erode our position.

5. I am copying this to EX members and Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
5 June, 1985

5 JUN 1985

FILE CONFIDENTIAL

DCA
54
bc PC

10 DOWNING STREET

From the Private Secretary 5 June 1985

SECOND BOSPHORUS BRIDGE

Thank you for your letter of 4 June enclosing a further message from the Japanese Prime Minister about the Second Bosphorus Bridge.

BF The Prime Minister would be interested to see a detailed analysis of the points made in Mr. Nakasone's message but her inclination is not to continue the correspondence. She would not, however, wish to give the Japanese the impression that we are letting the wider issue drop. She would certainly wish us to pursue discussion of associated financing in the OECD.

I am copying this letter to John Mogg (Department of Trade and Industry).

(Charles Powell)

Colin Budd, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

CST

CONFIDENTIAL

Foreign and Commonwealth Office

London SW1A 2AH

4 June, 1985

Prime Minister
An olive branch, but without yielding an inch. There seems no point in a further reply, but we should pursue discussion of associated financing in the OECD.
CDP 4/6

Dear Charles,

Second Bosphorus Bridge

I enclose a further message in unofficial English translation from the Japanese Prime Minister delivered by the Japanese Ambassador to Sir William Harding this afternoon. The original text, which is (unusually) in Japanese, will be delivered later this week.

The Ambassador had not received instructions to make any specific points in handing over the letter. However he drew attention to the paragraph in which Nakasone points out that the terms of the yen loan were not exceptionally concessional; the Ambassador said that the interest rate for yen loans to Indonesia for example, of which he happens to be aware, was 3½%. He also emphasised the Japanese Government's readiness to discuss associated financing in OECD, though in general terms, given that their belief is that the yen loan was not a case of associated financing.

Sir William Harding said that he would not comment on the substance of Nakasone's letter, which would require study. However he expressed appreciation for the frankness with which Nakasone had expressed himself, and said that it reflected the relationship of confidence between the two Prime Ministers. With reference to the last page of the letter which describes the wider issues of the economic relationship, Sir W Harding said that it was very important that the further measures promised to improve access to the Japanese market should be effective.

I am sending copies of this letter and enclosure to John Mogg (DTI) and Paul Haston (Minister of State's Office, DTI).

Yours ever,

Colin Budd

C D Powell Esq
10 Downing Street

(C R Budd)
Private Secretary

CONFIDENTIAL

EMBASSY OF JAPAN
UNITED KINGDOM

London, 3rd June 1985

Dear Prime Minister,

I am asked by Prime Minister Nakasone to transmit to you the unofficial translation of his letter to you, dated 1st June 1985, concerning the Second Bosphorus Bridge Project.

I have pleasure in enclosing herewith this text.

Yours sincerely,

Toshio Yamazaki

Toshio Yamazaki
Ambassador

The Rt.Hon. Margaret Thatcher, MP,
Prime Minister and First Lord of the Treasury,
London.

SUBJECT.
cc OPS
master

CC 131.

PRIME MINISTER'S
PERSONAL MESS...
SERIAL No. T103A/85

(UNOFFICIAL TRANSLATION)

1 June 1985

Dear Prime Minister,

I have received your message of 17 May through Ambassador Giffard in which you offered your comments on the circumstances surrounding the Second Bosphorus Bridge Project, following the explanatory Note of 10 May delivered by Ambassador Yamazaki.

In your message you mentioned the use of exceptional credit terms to secure the contract for Japan. With respect to your comments, I would like to bring to your attention the following points:

The Yen loan you mentioned is ODA extended in response to the strong request of the Turkish Government and solely for the purpose of promoting economic and social development in Turkey and the stabilization of the welfare of her people. You might recall that from 1979 to 1982, the member countries of OECD provided special assistance to Turkey as they considered it important for the maintenance of world peace and stability that Turkey, as a country located at the juncture of three continents, should exist as a stabilizing force in the Middle East. Japan also took a very active part in this assistance, extending in total a loan of 46.5 billion Yen and export credits amounting to 33.068 billion Yen during that period.

The Turkish Government continued to seek economic cooperation from Japan after that, and on 29 January this year, it made requests for Yen loans on four projects

/ including ...

including the Second Bosphorus Bridge Project.

In response to these requests, Japan chose to extend economic cooperation for the Second Bosphorus Bridge Project and to extend to the Turkish Government ODA for this purpose with a view to making her financial burden relatively small. This was decided in the light of the spirit of Japan's active participation in the OECD Special Assistance for Turkey and its policy to strengthen assistance to countries in regions with important bearing on world peace and stability. Account was also taken of the fact that Turkey had given utmost priority to the Second Bosphorus Bridge Project among the projects requested and that this project was judged significant for the economic and social development and the stabilization of the welfare of the Turkish people.

The terms of the Yen loan are not exceptionally concessional, with an interest rate of 5% per annum and a repayment period of 25 years including a grace period of 7 years, terms which were decided in accordance with Japan's policy for extending Yen loans, taking into consideration the terms of Yen loans to other countries having national income levels similar to Turkey.

The Project drew the interest of nine international groups and after two of these, one including a Japanese company, were disqualified at early stages in the tender, seven remained in competition. Four out of these seven tendered for the entire Project, including the Bridge, among which three included Japanese companies. One of these three groups consisted of Japanese, Italian and Turkish companies, another of Japanese, West German, Italian and Turkish companies, and the last one of

/ Japanese ...

Japanese, West German, Italian, Austrian and Turkish companies.

In inviting tenders, the Turkish Government divided the Project into four sections from the beginning and the Bridge itself was presented as part of Section 2 which included the 37 kilometres of immediate approach roads. From our point of view, if the Bridge alone had been originally presented as a single section, we would have decided to extend the Yen loan to the Bridge alone. In any case, it was solely the decision of the Turkish Government to divide the Project into 4 sections and to include the connecting roads in Section 2. The Japanese Government took no part whatsoever in that decision.

As for the result of the bidding, the group consisting of Japanese, Italian and Turkish companies offered the lowest bid for the entire Project, made up of four sections, as well as for Section 2 alone. Incidentally, I am informed that Japanese companies were included in two of the three groups which were unsuccessful in this tender, and that their offers were less favourable than that of the Cleveland Bridge which offered the second lowest bid.

We understand that the Turkish side finally decided to award the construction contract for the Project including Section 2 to the group consisting of Japanese, Italian and Turkish companies because they had made the lowest bid. On this point the Turkish Prime Minister Mr. Ozal, who recently visited my country, said in a press conference held in Japan that the Japanese group was successful because it had made the lowest bid with a large difference in price compared with the second-lowest bidder,

/ and ...

and that its success had nothing to do with the Japanese offer of credit.

You seem to consider that the Yen loan was a case of associated financing as defined by OECD and extended for the purpose of promoting Japan's exports, but it is clear from the foregoing explanation that the Yen loan was development assistance and not credit offered for export promotion.

In this connection, you also refer to the interest rates of commercial Yen loans, but these are not officially supported loans. The Japanese Government is not at all involved in matters concerning commercial loans and neither does it consider that it will be possible to intervene in such matters in the future. I also understand that the interest rates of commercial loans are not under the regulation of the OECD Guidelines. I wish to note that we are prepared to discuss associated financing in general in OECD as you have suggested.

That Cleveland Bridge has a high standard of technology is evident in the fact that it undertook the construction of the First Bosphorus Bridge. I believe, however, that whether or not it will participate in the project is a matter to be settled among the private companies concerned.

My understanding of matters concerning the Bosphorus Bridge Project is as stated above. To be frank, my views differ from what you have expressed in your comments, but I hope you will correctly understand the nature of the issue on the basis of my explanation.

If we look back over developments in Japan-U.K.

/ relations ...

relations following our meeting in London last June when we agreed further to promote our bilateral relationship, I think we can readily observe a very welcome trend of increasing dialogue and exchange at all levels, of which the first meeting of the 2000 Group held in February is a prominent example.

Although our economic relations are becoming increasingly close, the trade imbalance problem remains. I am fully aware of Japan's important role and responsibility in the world economy, and it is with this in mind that I have been seeking the further opening of our market in telecommunications and tobacco and many other sectors. Following a recent decision on external economic measures, I am at the moment drawing up the outline of an action programme to further improve access to our markets. I strongly hope that through the combination of such efforts on our side and your efforts to increase exports to Japan, our trade relations will develop towards an expanded equilibrium. At the same time our bilateral relations have seen steady progress in the area of industrial cooperation, and I am convinced that this favourable trend will contribute to the further promotion of our economic relations.

I myself wish to see a further advancement in the friendly and constructive Japan-U.K. relationship that we have been building together over the past years and sincerely hope that the current issue concerning the Second Bosphorus Bridge Project, by being given publicity based on misunderstandings, will not affect our bilateral relationship as a whole.

I am determined to continue my efforts in close cooperation with you to further strengthen the relations between our two countries.

Yours sincerely,

YASUHIRO NAKASONE
Prime Minister of Japan

252/16

Treasury Chambers, Parliament Street, SW1P 3AG

CDP 3/6.

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

31 May 1985

Dear Paul,

ECGD COVER FOR TURKEY

In Peter Rees' absence, I am replying to your letter of 29 May

Treasury Ministers were only prepared to agree to an inc in the country limit for Turkey in order to accommodate the wholly-exceptional Bosphorus Bridge case. Having lost that, Peter Rees proposed (in a letter of 3 May) that the limit should be cut back to £226 million - enough to cover the Akkuyu Power Station contract, if win it, but nothing else.

In the present situation, accurately described in your letter, I see no reason to alter that judgement. I therefore entirely agree that ECGD should continue to refuse cover to M W Kellogg Limited, as you suggest in your letter. I am copying this to other members of EX and Sir Robert Armstrong.

Yours ever,
John

JOHN MOORE

Prime Minister (2)

4/295/30561

cc PC

010

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON
SW1

29 May 1985

Dear Chief Secretary

ECGD COVER FOR TURKEY

attached

At a meeting of EX on 13 February, it was decided to reserve all available ECGD medium-term cover on Turkey for two projects: the Bosphorus Bridge and the Akkuyu Power Station. It was agreed that, pending further review, all other applications should be declined. In consequence of this, ECGD wrote on 28 February to all exporters who had been given provisional indications on a "first come, first served" basis, notifying them that the availability of cover had been exhausted for the time being and withdrawing the indications.

The widespread publicity given to the failure of the British bid for the Bosphorus Bridge has led a number of exporters to enquire whether the cover reserved for that project could be re-allocated in their favour. Clearly, the EX decision did not allow for this and in any event there is still some possibility that Cleveland Bridge may obtain some business as sub-contractors to the successful Japanese bidder, though this is highly uncertain. Several enquirers have therefore been told that the position remains that no cover is available for the time being. Originally it was agreed that a general review of the Section 2 limit position should await the outcome of current discussions between Turkey and the IMF, but as these have now broken down and seem unlikely to be resumed before late Summer at the earliest, it has been agreed amongst officials that the review should not be delayed further. We expect the conclusions from this review to emerge within a month of so.

We are, however, being strongly pressed by M W Kellogg Ltd for support to proceed with an order for which they claim to have advanced to the contract stage, and where there seems to be some risk of further adverse publicity if we maintain the position of declining support. The facts are briefly as follows. Kellogg signed a contract in 1975 to construct an Ammonia Plant at Gemlik, but work was later stopped and the contract suspended. Early in 1984, negotiations were opened for completing the work by conversion to natural gas feedstock. Kellogg reached conditional agreement late in 1984 for amending their original contract to provide for this, but effectiveness of the new contract was dependent upon approvals from the Turkish Ministries of Planning and Finance and upon suitable arrangements for credit finance.

999-3

Kellogg were notified on 28 February, like all others, about the withdrawal of ECGD cover. However, as they believed they were on the point of securing the necessary clearances at the Turkish end, they decided to go on with negotiations nothwithstanding. They say that the requisite Turkish approvals have now been given and only completion of credit arrangements stands in the way of the contract becoming effective. Because of the ECGD position, they have arranged to source all additional goods required from France, leaving only the services element with the UK. This would require ECGD cover of £6m. They say that at the moment their client is committed to proceeding with them, but if finance cannot be arranged even for this reduced UK portion he will be forced to turn elsewhere - almost certainly to France.

Kellogg are naturally making play with the argument that their business is virtually firm and it is unfair to refuse them cover because of reservations for other business which is a long way from firm and may never materialise at all. They cannot argue any moral commitment on the part of HMG, since they admit to having received the withdrawal of the ECGD indication and the decision to go on with negotiations was entirely their own.

On the one hand, therefore, we have Kellogg's likely public criticism that the Government have, first compelled them to put the bulk of the work to France; and secondly, they now stand to lose the design and management work as well. On the other hand, if we were now to provide cover, this could well lead to protests from other companies claiming that they could have done the same thing and were in effect being penalised for playing to the rules. There are in fact several other companies who believe themselves well placed to secure business when ECGD withdrew their indications, though none probably were quite as close as Kellogg's. However, it is not clear that Kellogg could make a better national interest case on industry and employment grounds than any of the others, and certainly I do not regard their business as having anything like the same claim to priority treatment as Bosphorus Bridge and Akkuyu. In all the circumstances, in view of colleagues' decision on Turkey, I believe the right course is to maintain the answer already given to Kellogg that ECGD cover cannot be provided for their order. We would simply have to ride any protests. Unless you or other colleagues think differently, I propose to reply accordingly to Kellogg by 31 May, which is the deadline by which they must know one way or the other.

I am copying to EX members and Sir Robert Armstrong.

Yours sincerely

Matthew Cocks

for PAUL CHANNON
(approved by the Minister
and signed in his absence)

TRADE: Non tariff barriers: Pt 4

29 MAY 1985

PM

GR 650

CONFIDENTIAL

CONFIDENTIAL

DESKBY 241200Z

FM TOKYO 240900Z MAY

TO IMMEDIATE FCO

TELNO 368 OF 24 MAY 85

AND TO IMMEDIATE DTI

INFO EC POSTS, WASHINGTON, UKMIS GENEVA, ANKARA

YOUR TELNO 228 : EC-JAPAN AND BOSPHORUS BRIDGE.

1. ECONOMIC COUNSELLOR SPOKE ACCORDINGLY TO OGAWA, DIRECTOR OF THE FIRST INTERNATIONAL ECONOMIC AFFAIRS DIVISION IN THE ECONOMIC AFFAIRS BUREAU OF THE MFA. REFERRING BACK TO THE ORIGINAL SUNDAY TIMES ARTICLE AND THE CLARIFICATION WHICH HE HAD GIVEN HIM OF ITS CONTENTS (BASED ON OTTER 261) WRIGHT SAID THAT THE MFA COULD BE IN NO DOUBT FROM RECENT DEVELOPMENTS IN LONDON OF THE WORSENING OF THE ATMOSPHERE IN BRITAIN OVER ECONOMIC RELATIONS WITH JAPAN. OUR POINT IN SPEAKING TO THE MFA NOW WAS TO REMIND THEM THAT BOTH SIDES FACED AN IMPORTANT CONJUNCTURE WITH THE FORTHCOMING MEETING OF THE TEC, THE HIGH LEVEL TALKS, THE ACTION PROGRAMME AND MR NAKASONE'S VISIT TO BRUSSELS . QUANTIFIABLE RESULTS AND TANGIBLE PROGRESS WERE WHAT PEOPLE WERE NOW LOOKING FOR (OGAWA WAS VISIBLY DISTURBED BY THE EMPHASIS LAID ON THESE PHRASES).

2. OGAWA RESPONDED BY EMPHASISING THE EFFORT WHICH THE MFA WERE PUTTING INTO THE PREPARATION OF THE NEXT MEETING OF THE TEC AND THE ACTION PROGRAMME. THERE WAS NO MISUNDERSTANDING ON THEIR PART OF THE SERIOUSNESS OF THE SITUATION. THEY RECOGNISED THAT MR NAKASONE COULD HAVE A DIFFICULT TIME IN BRUSSELS. BUT EQUALLY, FOR REASONS WHICH WE WOULD WELL UNDERSTAND AND WHICH RELATED TO THE STRUCTURAL FAILURE OF JAPAN TO INCREASE ITS IMPORT PROPENSITY, HE COULD NOT GIVE ANY ASSURANCE THAT WE WOULD SECURE THE EARLY AND TANGIBLE RESULTS WE WANTED . BUT THERE WAS HEIGHTENED CONSCIOUSNESS WITHIN THE JAPANESE ADMINISTRATION OF THE PROBLEMS JAPAN WAS NOW UP AGAINST AND REAL EFFORTS WERE BEING MADE BY THE MFA TO BUILD ON THIS.

3. OGAWA WENT ON TO SAY THAT THE MFA WERE PERPLEXED BY THE RECENT FLARE-UP OF ''ANTI-JAPANESE FEELING'' IN BRITAIN. HE RECOGNISED THAT IT HAD BEEN PROVOKED BY DISSATISFACTION OVER BRITAIN'S FAILURE TO WIN THE BOSPHORUS BRIDGE CONTRACT . BUT THE MFA COULD NOT UNDERSTAND WHY JAPAN WAS STILL BEING SUBJECTED TO SUCH A BARRAGE OF CRITICISM. WE REPEATED ON STANDARD LINES HOW THE LOSS OF THE CONTRACT FOR THE BOSPHORUS BRIDGE HAD BROUGHT TO THE SURFACE A WIDESPREAD FRUSTRATION ABOUT JAPAN'S PERSISTENT SURPLUS AND THE INABILITY OF BRITISH COMPANIES TO PENETRATE THE JAPANESE MARKET. WE ADDED,

CONFIDENTIAL

/HOWEVER

CONFIDENTIAL

HOWEVER, THAT WE THOUGHT IT IMPORTANT THAT MR TEBBIT'S RECENT CBI SPEECH SHOULD NOT (NOT) BE SEEN AS ''ANTI JAPANESE FEELING''. HE HAD MADE CLEAR THAT HE WAS CONCERNED AT HOW JAPAN'S FAILURE TO PLAY ITS FULL PART IN THE INTERNATIONAL FREE TRADING SYSTEM WAS THREATENING THE EXISTENCE OF THAT SYSTEM. IN PARTICULAR, MR TEBBIT HAD DRAWN ATTENTION TO THE RISK THAT US ACTION AGAINST JAPAN MIGHT INEVITABLY LEAD TO MEASURES AGAINST JAPANESE GOODS IN THE EC. THIS DEMONSTRATED THE IMPORTANCE OF EARLY EFFECTIVE ACTION BY JAPAN.

5. OGAWA MADE TWO FURTHER REMARKS:

A) HE EXPRESSED THE VIEW (WHICH WE HAVE HEARD ELSEWHERE) THAT IF ARGUMENTS CONTINUED ABOUT THE CIRCUMSTANCES OF THE BOSPHORUS BRIDGE CONTRACT, THIS COULD LEAD TO A WIDESPREAD PERCEPTION IN JAPAN THAT BRITAIN'S ACTION WAS UNREASONABLE. IF THIS ATTITUDE SPREAD, THERE WAS A RISK THAT THE JAPANESE PUBLIC WOULD THINK THAT JAPAN WAS BEING ARRAIGNED UNREASONABLY AND THAT THIS COULD HAVE A NEGATIVE EFFECT ON JAPANESE COMPANIES, INCLUDING THOSE CONSIDERING INVESTING IN BRITAIN:

B) OGAWA REVEALED THAT THE MFA HAD THIS MORNING BEEN CONSIDERING WHETHER AND HOW PRIME MINISTER NAKASONE SHOULD REPLY TO MRS THATCHER'S MOST RECENT MESSAGE. OGAWA DID NOT INDICATE WHETHER A FINAL DECISION HAD BEEN TAKEN BUT HE SUGGESTED THAT THE BALANCE APPEARED TO BE MOVING IN FAVOUR OF A REPLY FROM MR NAKASONE.

GIFFARD

FRAME EXTERNAL
ECD(E)
FED

CONFIDENTIAL

File

EXPORT LOANS

Line to take

1 General Policy on 'soft' export finance. There has been no 'U-turn'.

Our policy remains as before to:-

(i) work in the longer term for a reduction of subsidies for exports through tighter international discipline on the use of soft financing;

(ii) be prepared in the meantime to support competitive British bids which are being undermined by offers of soft financing from other Governments.

2 Bangkok Buses. Leyland Bus has led the way so far on the strength of its own proposals. When a late Belgian offer of 'soft money' threatened to erode the British company's hard-earned position, HMG swiftly made countervailing support available.

3 Second Bosphorus Bridge. Our aid was provided to back the competitive British bid for the bridge itself. This was not sufficient to outweigh the very large Japanese soft loan which was available for other parts of the project. My views of the Japanese tactics are well known to this House and, indeed, the Japanese Prime Minister. I very much hope that Cleveland Bridge might still be able to play an important part in this project.

CONFIDENTIAL

EXPORT LOANS

Background - 22 May Guardian Article

An article in yesterday's Guardian (p.32) claims that the Prime Minister has ordered a 'U-turn' on soft loans for export bids as a result of Britain's failure to win the Second Bosphorus Bridge contract. It goes on to cite the aid made available for Leyland's bid to secure a £385 million bus project in Bangkok as an example of the new policy. In fact support for both these projects has been in line with existing Government policy of working at international level for a reduction in subsidies for exports, but at the same time protecting competitive British bids against excessive offers of soft financing from competing Governments.

In the case of the Bosphorus Bridge, the aid was focussed on the bridge itself where Cleveland Bridge were - without aid - competitive on price. On the Bangkok project, Leyland secured the lead position without aid only to have that threatened by a late Belgian offer, which was in breach of a no-aid agreement between the credit agencies involved in the bidding. Details on the latest position in respect of both projects are attached.

Background - Bangkok Bus Project

In late 1984 the Thais put to international tender a five year modernisation programme of the Bangkok Mass Transit Authority's (BMTA) bus operations, the predominant element being supply of around 4,000 buses. Competition came from Belgium (Van Hool), France (Renault), Spain (Pegaso) and a Singapore 'front' company, Singapore Motor and Leasing (SML), apparently being a Japanese, Korean, West German joint venture.

Confidential /Before the January bids were entered, an international agreement was reached that no aid would be offered to the Thais in support of bids./ A short list of two, apparently decided on technical appraisal, was decided early March with Leyland placed ahead of SML. Only the short list prices are known: SML are considerably cheaper than Leyland's £385m. But the subsequent negotiations have only been held with Leyland.

In these negotiations the Thais consistently pressed for aid, which Leyland and ourselves refused, until late April when the Belgians, in an effort to re-enter the bidding, made an aid offer amounting to some £20m for an element of the project worth about £80m.

The Belgian offer put us in an awkward position, (for though in breach of the no-aid agreement), it was technically within the international rules being linked to business of £80m, compared to the £385m project Leyland is trying to win. Ministers agreed to provide aid to prevent Leyland being put unfairly at a disadvantage. However, to keep within the rules, the UK offer was tailored strictly to match the Belgian one ie. approximately £20m in respect of about £80m of business.

Present Position

/A UK matching offer was presented to Thai Minister of Communications, Samak, on 10 May. Samak suggested collaboration between Leyland and Van Hool including an order for a few hundred articulated buses with Leyland running units. Leyland have rejected the proposal, arguing their bid is an integrated whole and that articulated buses would be completely impractical for Bangkok streets./

CONFIDENTIAL

Leyland are still front-runners but their proposals have yet to be approved by the Thai Cabinet which is expected to consider them in the next few weeks.

Background - Second Bosphorus Bridge

Latest developments are:

1 The Prime Minister's reply to Mr Nakasone's explanatory note has been delivered. Our Ambassador took the opportunity to stress again our desire that Cleveland Bridge should collaborate with the Japanese firms on the project. There has not yet been a response. This can be expected following Mr Nakasone's discussions with Mr Ozal (Turkish Prime Minister) in Tokyo this week.

2 After a promising start, discussions at company level have been stalled following the recent political exchanges. Cleveland's contact in the IHI and NKK, two of the Japanese firms in the winning consortium, are now saying that they cannot pursue discussions further with the British firm, because the matter has been 'elevated' out of their hands. Cleveland are planning to make fresh approaches at higher levels in each of the Japanese firms.

3 We await the reaction to the Prime Minister's letter before making recommendations on the next steps.

4 Note: all above details are confidential.

P.01548

CONFIDENTIAL

PRIME MINISTER

Fixed Rate Export Finance (FREF) and the Aid and Trade Provision (ATP)

(EX(85)3, 6 and 7)

BACKGROUND

Revised ground rules for the operation of ATP were agreed as recently as last September, and were to be reviewed after two years operation. (The details were set out in the Secretary of State for Trade and Industry's
FLAG A letter of 13 September to the Chief Secretary.) Since then however there have been disagreements over a number of individual aid cases, some of which, for example the 2nd Bosphorus Bridge and the Samanala Wewa power station, have had to come to EX. These have revealed a difference of views on the basic principles underlying ATP and aid for exports generally, and Ministers agreed to bring the broad issues to EX in parallel with the long standing remit to reconsider export promotion services (item 2 on the agenda). The third aspect of the problem the state of the Export Credit Guarantee Department (ECGD)'s finances, is to be discussed separately in July. A detailed Note by Officials on Export Credit policy has been circulated with Mr Tebbit's Private Secretary's
FLAG B letter of 17 May.

Proposals

2. Mr Tebbit argues, in EX(85)3, that both FREF, (which is operated by ECGD), and ATP are essential if our exporters are to compete successfully, and that ATP needs to be made more flexible and the available funds significantly increased if its effectiveness is to be maximised. He therefore proposes:

a. the maintenance of FREF on the present basis;

b. that ATP should be recognised as primarily an instrument of trade rather than aid policy;

c. the removal of the 45 per cent initiation limit (applied to cases where the United Kingdom is the first to offer mixed credit) and other (unspecified) bureaucratic procedures;

d. a graduated increase in ATP allocation (at present £66 million), to at least double its present level by 1987/88, principally to support business in China, Indonesia and SE Asia;

e. that officials prepare proposals for a loan facility, for cases where importing countries specify soft loans rather than mixed credit.

3. The Minister without Portfolio is concerned that the United Kingdom is losing orders to competitors who offer soft loans over very long periods. Like Mr Tebbit, he argues the need for a significant increase in the ATP budget and for greater flexibility. In particular he proposes moving away from the present system of either 100 per cent aid or a mixture of 25 per cent aid plus export credit towards a combination of grants, low-cost loans, export credit and support for joint ventures in order to be able to compete on the same basis as other countries.

4. The Chief Secretary argues, in EX(85)7, that FREF, which is estimated to cost about £400 million in 1985/86, should be reviewed in time for decisions to be taken in this year's Public Expenditure Survey (PES). He opposes any increase in public expenditure to provide more ATP. He is prepared to accept an increase financed from the Aid Programme, and that new methods of blending ATP grants with ECGD or commercial money should be explored. He suggests that a proportion of ATP be reserved for matching competitors' offers, in order to avoid end-year pressure on the budget of the kind that has happened in the past. He puts forward the following conditions.

a. Use of ATP only in countries which are good credit risks.

b. Honouring of OECD rules.

c. No initiation in countries which are not regular recipients of mixed credit.

d. No public announcements which might undermine our OECD efforts to curb international trading subsidies.

MAIN ISSUES

5. The main issues are as follows.

i. Should FREF be reviewed?

ii. Should a more flexible and aggressive policy be adopted towards the ATP programme?

iii. If so, what detailed changes need to be made and how far should the ATP budget be increased.

FREF

6. The operation of the Fixed Rate Export Finance scheme is explained in Annex A of EX(85)3. The main costs are a result of past decisions, and it will be difficult to reduce them below the predicted level quickly. The cost of future business will depend on the difference between United Kingdom interest rates and those in other countries; there is a predicted net inflow to the Exchequer in 1988/89. Mr Tebbit argues that because the terms are governed by an OECD "Consensus", this acts as a restraint on others, as well as allowing United Kingdom exporters to compete. The Chief Secretary points out that the scheme is indiscriminate, and supports a narrow sector of United Kingdom industry. He suggests a study of reforms, including a more selective approach, in time for decisions during this year's PES.

7. If Ministers decide to study possible improvements to FREF further, it might be convenient for them to be taken alongside the review of ECGD's finances generally which is to be completed by July.

ATP

8. The main argument for a more flexible and aggressive policy towards the ATP programme is that the United Kingdom's restraint in export subsidies in form (trying to preserve the fiction of a genuine aid element provided for developmental reasons combined with commercial credit), in stance (preferring to match rather than initiate), and in amount, results in lost business and reduced jobs. The counter-argument is that it is not in the interests of United Kingom or other industrialised countries to sell our goods and services at uneconomic prices; that the right approach is to get rid of such distortions; and that any attempt by the United Kingdom to increase our subsidies will be self-defeating because our major competitors, with their greater resources, will be able to outbid us.

9. If the Committee concludes that there is a case in principle for a more flexible and aggressive policy, they may well wish for further study of how the various changes proposed would work in practice before reaching final decisions. If so it would be helpful to give some guidance for this work, eg:

i. if the 45 per cent initiation limit is removed, should we nonetheless restrict initiation to an agreed list of countries already receiving mixed credits?

ii. should there be a new loan scheme?

iii. should we stay within the OECD rules? (Mr Tebbit and Lord Young are unclear on this and on how far the rules are actually being broken by other countries)

iv. should ATP, however organised, be confined to countries which are good credit risks?

v. should a proportion of ATP be reserved for matching, or should business be treated on its merits as it arises, perhaps with limited flexibility between years?

vi. should ATP be rationed, to provide end-year flexibility?

The ATP budget

10. Mr Tebbit and Lord Young argue that ATP is good value for money, as compared, for example, to Selective Employment measures. The Chief Secretary disagrees, although he accepts that ATP is more cost effective than some other (unspecified) public expenditure.

11. The decision on expenditure depends in part on whether an aggressive policy is to be adopted. If Ministers ask for further work on the proposed changes in policy, this could be accompanied by more information on the costs of particular changes. It is of course, likely to be very difficult to find extra resources on the scale envisaged by Mr Tebbit and Lord Young, in this year's PES; and it would not be appropriate to enter into commitments now to additional expenditure in 1986-87 and subsequent years, in advance of the Survey.

HANDLING

12. The Committee seem likely to agree that FREF be reviewed, either as part of the forthcoming discussions on ECGD, or separately. The timing of either course will put it in the PES context. The main discussion is thus likely to be on ATP. It may be convenient to separate discussion of the form which ATP should take from the size of the programme.

13. You will wish to invite the Secretary of State for Trade and Industry to introduce his paper, supported by the Minister without Portfolio. The Chief Secretary could then be invited to speak on his paper, putting the case against radical change. Thereafter the Foreign and Commonwealth Secretary and the Minister for Overseas Development will wish to comment on the effect of the present arrangements, and any changes, on the aid programme and on relations with customer and competitor countries

CONCLUSIONS

14. You will wish the Committee to reach conclusions on the following:

i. whether to maintain FREF on the present basis, or to commission a review;

ii. whether, in principle, ATP should be made a more flexible and aggressive instrument of trade policy.

iii. if so, what guidance should be given for further work on:

a. whether to remove the 45 per cent initiation limit and allow greater use of mixed credits;

b. whether to remove other controls so as to allow the United Kingdom to match terms offered by competitors on the same basis;

c. whether officials should prepare proposals for a new loan facility;

d. the size of the ATP Budget.

PG

P L GREGSON

21 May 1985

PRIME MINISTER 21 May 1985

FIXED RATE EXPORT FINANCE AND THE AID AND TRADE PROVISION

Norman Tebbit wants:

1. More money to be spent on the ATP (doubling it from its present level of £66 million).

2. To be allowed to use more of it for "initiation" (or "retaliating first") in the export subsidy war.

David Young agrees, and also wants aid to be offered to China in the form of soft credit.

Is this sensible?

Subsidising exports won't create many jobs: Jim Prior admitted as much in the House on 15 May, when pressing his employer's case. It will escalate the subsidy war and encourage importers to follow Indonesia and China.

Subsidies are not, as David Young asserts, about "transforming competitiveness". One subsidised order leads only to the next. Neither are these subsidies superior to our own infrastructure projects. When we build ourselves a motorway, we enjoy it. When we give away a power station, foreigners enjoy that.

If we have to respond to calls from the projects lobby for greater help, let us at least work out how far we should go. You recently asked that the Manpower Group should consider the cost-per-job of all proposed employment measures. This proposal ought to be assessed in this way.

Where is the money coming from?

Little is said in the papers about where this money is coming from. There is no need for new money, for there are two obvious alternative sources:

1. Norman Tebbit could transfer some PESC provision to ODA if he considers that money will support industry better in this way than, for example, by selective financial assistance.

2. ODA should switch some funds from 100% grant aid to 25% ATP grants. The poorest countries should continue to receive 100% project funding, but creditworthy countries, such as India, should not. India is a significant exporter of wheat, and an aid donor itself. It doesn't need free power stations.

We recommend that you:

1. Invite colleagues to consider how far we should go in aiding projects, in line with acceptable cost-per-job

limits (some of our rivals' offers to China are virtually gifts, and cannot be sensible).

2. Ask Timothy Raison to see how much 100% aid could be converted into ATP.

3. Ask Norman Tebbit to consider transferring some of his PESC provisions to increase the ATP.

NICHOLAS OWEN

CONFIDENTIAL

PRIME MINISTER 21 May 1985

EXPORT PROMOTION SERVICES

DTI have carried out, or commissioned, some competent studies to see how effective these services are. The verdict is that they are effective: DTI claim that the £40 million spent annually leads to an additional £2,000 million of exports.

DTI have grasped the point about promoting profitable exporting: there is no virtue in encouraging a firm to export if it doesn't pay. DTI were specifically asked whether the firms which they have helped to enter new export markets take root and prosper there. It appears that 50-60% of new market entrants are still in the market 2-4 years later - a reasonable score.

Now that this analysis is complete, DTI should consider reallocating their resources, to expand the best, contract the worst. We ought also to consider to what extent should these services pay for themselves? At present, they cover only one tenth of their total (FCO inclusive) costs. DTI is increasing its charges slightly but not to the point where "the small firm is turned away". Are we content with this? By all means offer free services to small, first-time exporters, in the interests of job-creation. But there is no reason why the regular user of what is a well-regarded and successful service should not contribute more.

Nicholas Owen

NICHOLAS OWEN

CONFIDENTIAL

P.01547 RESTRICTED

PRIME MINISTER

Export Promotion Services
(EX(85)4)

BACKGROUND
The Secretary of State for Trade and Industry has a long standing remit to review arrangements for export promotion. In August last year he sought your comments on a paper intended to form the basis for an EX discussion. Your Private Secretary's letter of 5 September recorded your view that the paper was rather thin, and requested more convincing material on the effectiveness of export promotion expenditure.

FLAG A

2. EX(85)4 examines both the justification for, and organisation of, Government help for exporters. Such assistance is largely provided by, or under the control of, the British Overseas Trade Board (BOTB.) The main services provided are:

- advice on market conditions and prospects;
- practical and financial help in setting up an operation and getting established in overseas markets.

The net cost is £95-99 million a year over the PES period, split roughly 60:40 between overseas posts and BOTB/DTI.

3. Mr Tebbit's main conclusions are as follows.

(a) Modest public expenditure to assist small and medium sized firms to break into markets is a good investment, but subsidising the normal selling process by established firms should be avoided;

(b) Up to 75% of the help provided goes to small companies; this emphasis should be maintained and developed;

(c) The present organisation is broadly right, although there is scope for detailed improvements;

(d) The programme is cost effective; tentative estimates suggest additional exports of over £2 billion a year result, with a ratio of 1:50 between costs and additional exports.

Proposals

4. Mr Tebbit invites colleagues;

i. to agree the following guidelines for export promotion efforts:

(a) services should, in principle, be available to all firms for all markets; but

(b) should be concentrated on small to medium sized firms, newcomers to markets, and good payers;

(c) the private sector to be encouraged to help itself as far as possible, but Government to carry out activities best carried out centrally or which draw on the resources available in FCO posts;

(d) to seek value for money, including from a vigorous charging policy.

ii. to endorse the approach and organisation described in EX(85)4;

iii. to note that the detailed operation of the services is being reviewed.

MAIN ISSUES

5. There is likely to be general agreement among the Committee that the Government should, like our overseas competitors, continue to provide export promotion services,

and that they should be targeted on small firms, and those entering the export business or new markets for the first time. The main issues for discussion are therefore likely to be:

(i) whether the present organisation is the right one;

(ii) the range of services to be provided and BOTB's charging policy;

(iii) the size of the resources to be devoted to export promotion, in the light of the evidence on its cost-effectiveness.

Organisation

6. Details of BOTB's operations are set out in Annex A, and of its organisation and funding in Annex B of EX(85)4. As far as we are aware, no one is likely to question the basic structure of the BOTB itself, which is designed to draw heavily on the (unpaid) assistance of experienced industrialists, or the arrangement whereby support for exporters abroad is based on the resources available in posts.

Services and Charges

7. If it is accepted that help should be targeted on small and new exporters, who face substantial entry costs, then the basic principles of BOTB charging policy - a range of free basic information and advice aimed at helping firms assess the potential, backed up by more specific, chargeable services - is sensible. Views may however differ on the level of charges. These have been steadily increased to the point where, for example, they now cover, on average, 50% of direct costs incurred at overseas trade fairs; the eventual aim is to raise this

to 75%. Obviously there is a point at which the basic aim of helping small firms could be endangered by a tough charging policy; Mr Tebbit's aim is to charge as much as the market will bear. The Chief Secretary might wish to argue for charges on a wider range of services, as well as for swifter increases in the general level of charging. It may be that there is scope for skewing of charges in a way which will benefit new and small exporters, and discourage established exporters who should be standing on their own feet.

Resources and Cost Effectiveness

8. The evidence underlying Mr Tebbit's assessment of BOTB's cost-effectiveness is summarised in Annex C. It is tentative, and does not extend to the wider effects on the economy. It seems unlikely however that significantly better evidence could be produced without disproportionate cost and effort. Judgements about the volume of exports which would not have taken place without help from BOTB are inevitably going to involve an important subjective element. The figures do show that a high proportion of users are small firms, that many are new exporters, and that 2-4 years after receiving BOTB assistance to enter a new market, some 50-60% of companies are likely to be still exporting to it.

9. The BOTB budget is set to decline in real terms over the PES period. This, together with the recent depreciation of sterling, will lead to some cut backs in services, even after higher charges. The Chief Secretary will probably argue that the efficiency drive Mr Tebbit is now promising will provide scope for further reductions, but he is unlikely to press the point in detail at this stage, preferring to wait until the public expenditure discussions.

HANDLING

10. There may already have been some discussion relevant to export promotion services under Item 1 of the agenda, given the need to maintain a consistent approach to export policy across the board. If so, you might like to draw the threads together briefly before inviting the Secretary of State for Trade and Industry to introduce his paper, and the Chief Secretary to respond. Thereafter all Ministers present are likely to wish to comment briefly.

CONCLUSIONS

11. You will ~~wish~~ the Committee to reach conclusions on the following:

(i) whether to endorse the broad approach to, and organisation of, export promotion services described in EX(85)4;

(ii) whether to endorse the guidelines for export promotion services set out in paragraph 18 of EX(85)4;

(iii) what, if any, guidance to offer on the following matters to be discussed further as part of the public expenditure round:

(a) BOTB's charging policy;

(b) the level of resources to be devoted to export promotion by the BOTB and by Posts, in the light of evidence about cost effectiveness and the detailed review to be conducted by the Secretary of State for Trade and Industry.

PG

P L GREGSON
21 May 1985

CRO.

CENO

JF8050

CONFIDENTIAL

Arrived too late

NBPM at this

stage.

C.D.J. 22/5

PRIME MINISTER

SUPPORT FOR EXPORTS

I have reviewed our schemes for supporting exporters, and my conclusions are set out in the two papers I have circulated to the EX Committee. But I would stress:

(a) The future costs of Fixed Rate Export Finance through ECGD are much reduced, and we should retain this facility.

(b) On aid, our competitors exploit the system to their own commercial advantage. We by contrast observe the international rules meticulously, and throw in one or two more self-imposed constraints for good measure. Our purist approach, correct though it may be in theory, is losing business for British companies. Recent cases like the Bosphorus bridge and Bangkok buses show this all too clearly. Unless we wake up, we shall not exploit the goodwill of the Hong Kong Agreement and your visit to South East Asia, as well as other opportunities which will come up in the more credit-worthy developing countries.

(c) At the same time we must not weaken support for our smaller and new exporters: we are increasingly selective and testing value for money, but these companies have scope to expand market share as well.

(d) The US, French and Germans also run assistance schemes for military sales. This is one of our most important export areas, with proven long-term follow-on benefits. We should be looking at what more we can do to match the support which other Governments give.

2 I am sending copies of this minute to members of EX and to Sir Robert Armstrong and Michael Heseltine.

NT

N T

21 May 1985

Department of Trade and Industry

MINISTRY OF DEFENCE
WHITEHALL LONDON SW1A 2HB

Telephone 01-218 6621 (Direct Dialling)
01-218 9000 (Switchboard)

Minister of State
for Defence Procurement

D/MIN/AB/3/13

21st May 1985

Dear David,

In Michael Heseltine's absence I have seen your paper 'Aid for Trade' (EX(85)6), which is to be considered tomorrow morning by the Ministerial Committee on Exports.

Though I am not, I understand, eligible to come to EX, I should like to lend strong support to your thesis. It is quite clear from our experience in the MOD in supporting overseas Defence sales that there is a need to be flexible with credit terms. Defence exports, which usually consist of high value items, are as much in the national interest as civil exports, and the arguments in your paragraphs 6 to 9 apply equally to them - more so in some cases, perhaps, since for example:

a. the follow-on orders for spares and support during in-service life often double the original order value, and are normally <u>cash</u> business;

b. where we need to soften credit terms at all, we do not need to do so by much. We do not look for the very soft terms that our competitors offer for civil projects (eg your Annex A).

/ There ...

The Lord Young of Graffham

There is one other aspect of this matter which I hope can be pursued, namely the greater participation by the Banks in extending credit for overseas sales. I believe there is more that they can do on their own; but particularly there would be obvious advantages in using ECGD money to leaven that from the private sector.

I am sending copies of this letter to the members of EX and to Sir Robert Armstrong.

Yours ever

Adam

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JF8092

Secretary of State for Trade and Industry

PS/

20 May 1985

NBPM
CDP 20/5.

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Charles,

BOSPHORUS BRIDGE

Thank you for your letter of 9 May enclosing a confidential note by Freeman Fox on the background to the bidding for the Second Bosphorus Bridge. I have drawn this to the attention of my Secretary of State.

2 The Freeman Fox analysis gives an interesting insight into the cut and thrust of competition for an international project of this magnitude. While some of the opinions expressed, particularly on Cleveland's tactics might be open to question, the note confirms the main conclusions that we had drawn from the case, namely:

(i) the Japanese were prepared to put up a very large subsidy, (four times the amount of ours) to buy the business;

(ii) the Japanese did not, however, break the international rules on concessional finance;

(iii) given the Turks' desire to include connecting motorways in the project, the Japanese could have virtually won the contract on price alone.

(iv) The reference to the price evaluation is also of interest: it confirms that the UK were certainly fully competitive, and if there is a marginal difference in the Freeman account this could well be simply a consequence of the different assumptions used. I should add that key officials have discussed the situation informally with the London IHI (the leading Japanese company) representative, who has not contested the assertion that Cleveland were the most competitive on the bridge itself. But this further illustrates the problems of getting to the heart of such complex cases.

3 We have taken Freeman Fox's views into account in preparing a reply for Mr Nakasone, particularly their judgement that there was still an opportunity for the UK to secure some of the work.

4 I am copying this letter to Colin Budd (FCO).

Yours sincerely,

Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

TRADE: Non-Tariff Barriers: Pt 4

20 MAY 1985

10 DOWNING STREET

Prime Minister

This is a full agenda & you are short of time.

The key questions are:

(i) Should Fixed Rate Export Finance be reviewed? Answer probably yes, with report in July.

(ii) What is the right form for ATP?

(iii) What is the right size for ATP?

CDP.

E.R.

②

PRIME MINISTER

While it may help to make a start on these papers, only one side of the argument is available at present. The costs per job can often be very high with export subsidies.

AT 17/5

EX

There is an important meeting of EX on Wednesday, for which some of the papers are already to hand. They are:

(i) Samanala Wewa Dam

A paper by FCO/ODA recommends against ATP for this because it does not meet Sri Lanka's most pressing needs: Sri Lanka may be unable to meet its financial contribution if the present troubles continue: there are higher priorities for ATP elsewhere.

DTI are likely to circulate a paper challenging this recommendation.

(ii) Aid and Trade Provision

Papers by Mr Tebbit and Lord Young. Mr Tebbit recommends removing the (self-imposed) initiation limit and doubling ATP by 1987/88. Lord Young recommends reducing grant aid and using aid funds for 'flexible financing packages', including a substantial increase in ATP.

The Treasury are likely to put in a dissenting paper.

They have. They are prepared to see more of the Aid Programme diverted to ATP, without increasing the total. They are also prepared to see ATP grants blended with ECGD credit. CDP.

(iii) Export Promotion

Paper by Mr Tebbit which in effect recommends no change in Export Promotion services and practices other than greater selectivity, to concentrate on small and medium-sized firms, newcomers to markets, and markets where payment is prompt.

CDP

17 May 1985

Subject cc master ops

file

MJ

cc FCO

10 DOWNING STREET

THE PRIME MINISTER

17 May 1985

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T92/85

Dear Prime Minister,

Thank you for the explanatory note on the Second Bosphorus Bridge project which Mr Yamazaki delivered last week. As you know, I have taken a close interest in this project and I am grateful that you have done likewise.

As I said when we met in Bonn, we have a great respect for Japan's international economic performance. At the same time we need to solve the problems which Japan's trade surplus causes to the world trading system. Japan's trade imbalance with her major trading partners causes great strains and threatens the progress we have made towards a new round of trade negotiations. For this reason we welcome your publicly-stated determination to rectify Japan's trade imbalance. But I have to say that I find the circumstances surrounding the Bosphorus project, and in particular the use of exceptional credit terms and aid to secure the contract for Japan, to be seriously inconsistent with this determination.

The Second Bosphorus Bridge project has been the subject of complicated and detailed negotiations between the Governments and the commercial firms involved. It is not surprising that we should differ in the interpretation of

BM

some of the surrounding circumstances. But there are a number of points in your note on which I should comment.

As regards the connecting roads, you pointed out that 37 kilometres of immediate approach roads were included with the bridge in the original concept. I of course accept your assurance that the linking of the motorways in Sections 1, 3 and 4 to the bridge project itself was a decision taken solely by the Turkish Government. But the decision to provide such a high level of concessional finance on other sections of the contract was one for your government and the Japanese-led consortium. I continue to believe that the British technology in bridge-building available through the Cleveland Bridge bid is second to none.

You have queried the grant element embodied in our aid. In fact our aid offer was in line with the agreed guidelines, at 25 per cent of the UK officially-supported content, subsequently increased to the same level as your offer. It was made to match the offers previously made by other competitors, in accordance with OECD rules, and contrary to the inaccurate reports in the Turkish press.

I note your comments on the circumstances which led to the yen loan of 51.6 billion yen. Nevertheless its nature, purpose and relationship to other non-aid finance would seem to place it in the category of an associated finance package as defined by OECD. I was interested, too, to learn from Cleveland Bridge that the interest rates on the balancing commercial yen loans were higher than normal consensus rates. I believe these are issues which require further clarification. This might best be done under the OECD study on transparency and improved discipline.

Your note states the Japanese Government's view that what matters is to construct a bridge as good as the first Bosphorus bridge with the full co-operation of all the companies concerned. I entirely agree. Cleveland Bridge have the skill and experience to do it. It would be in the interest of the successful consortium and of the Turkish Government that Cleveland Bridge should be associated with this project. Prime Minister Ozal has assured me that he would be content if this were to happen and believes that IHI are also interested in this possibility. You may wish to pursue the matter when you see Prime Minister Ozal.

With best wishes

Yours sincerely

Margaret Thatcher

His Excellency Mr Yasuhiro Nakasone

ORO

CONFIDENTIAL BF// EX1 folder

~~ECNO~~ MEA

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JF8091

PS *Secretary of State for Trade and Industry*

17 May 1985

Mark Addison Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Mark,

The attached note by officials on Export Credit policy, and cross-referenced to in our Cabinet Committee Memorandum, was put to Ministers for information and endorsement in March this year.

2 It should be included in the Prime Minister's briefing for next Wednesday's meeting.

3 Copies of this letter go to the Private Secretaries of the members of EX and to Sir Robert Armstrong.

Yours sincerely,

Robert Coll

ROBERT COLL
Private Secretary

EXPORT CREDIT POLICY

Note by Officials

The main objective of UK policy in international export credit discussions is to phase out export subsidies progressively, on a multilateral basis. Officials have recently reviewed where and how progress might be made towards achieving this objective over the next 2 years in order to exploit the opportunities offered by major international meetings, eg within the framework of the EC (since export credits are an area of Community competence) at the OECD, at other Ministerial and official meetings and in bilateral contacts. This note sets out the objectives which officials propose to pursue.

<u>Long Term Objectives</u>

2. Ministers' objective of phasing out subsidy can only be met over the longer term by securing a closer alignment of the interest rates in each currency permitted by the OECD Export Credit Consensus ("the Consensus") to market rates in that currency, coupled with free and equal access to the main trading currencies. In addition, trade distortions caused by the practice of using tied bilateral aid either in association with official export credits or in the form of straight aid loans on relatively hard terms must continue to be attacked by pressing for OECD agreement on more effective control over their use, leading to their elimination in areas where they distort trade competition.

3. The substantial recent and projected expenditure on these programmes, shown in the 1985 Public Expenditure White Paper, is:-

£ million	81-82	82-83	83-84	84-85	85-86	86-87	87-88
ECGD interest support costs	587	539	330	441	200	70	-50
Aid and Trade provision	54	47	28	66	66	66	66

Changes in the Consensus since 1983 have substantially reduced the scope for interest rate subsidies on new business, as long as sterling and US dollar interest rates remain about (or below) the international average. But the predominance of pre-1983 business during the forecast period means that the figures above for the cost of interest support depend critically on assumptions about relative interest rates. (On current assumptions, the provisions for 1985-86 will be substantially exceeded). In view of this, the effect of the further improvements which we hope to achieve will only be very gradual.

Tied concessional finance

4. The blending of by aid donors of aid funds with commercial funds including export credit (in the UK normally from the use of the Aid and Trade Provision as part of a mixed credit) takes a variety of forms internationally with a range of levels of grant elements above the minimum 20% allowed under OECD rules. This can cause trade distortion and divert aid from its proper use. Moreover, the trend is for the diversity and scale of such activities to increase, and for developing countries to use their purchasing power to demand such financing. OECD concern over the past 2-3 years has resulted in good statistical information recording, after the event, individual tied concessional financing transactions. In this situation, the essential steps towards improved control are greater "transparency", so that all countries' practices are equally disclosed, preferably in advance of financial offers being made, and "discipline" to control the scale and purposes for which they are used.

5. (a) Transparency could be improved by making the notification procedure prior to any financial offer more efficient, by achieving a more comprehensive definition of tied concessional finance and by instituting "face to face" consultation, ie early meetings on particularly difficult cases, if possible prior to any financial offer being made, in the hope of agreeing a common line. The aim is to make it less attractive for a country to offer tied concessional finance by giving competitors a greater chance to match.

(b) Discipline would be achieved by raising the minimum grant element within a coherent internationally agreed framework, so as to make tied concessional finance more costly without merely diverting further aid funds towards richer countries and trade distorting activities. These steps could include an overall increase and differentiation by recipient country. Agreement in the OECD Development Aid Committee on measures to ensure that aid is used effectively, eg by fostering international competitive bidding procedures, would also assist in eliminating trade distorting uses of aid funds.

International progress

6. Despite the 1984 OECD Ministerial remit to work for improvements, in both transparency and discipline, France and Italy have opposed any new measures to increase discipline. A hard-won EC mandate to improve transparency alone, notably to bring Japanese, German and Austrian practices within the net, was opposed by Japan, and did not go far enough to meet the US at the December 1984 Consensus meetings, when they insisted on an increase in discipline through a higher minimum grant element for all tied concessional finance in addition to improved transparency. Since then, we have sought to persuade the US to accept the EC proposal and bring pressure on Japan to do so as well. The US have indicated that they would be disposed to follow this course, in return for a significant EC move on discipline. We are pressing for the latter within an EC context, but the chances of achieving this are slim, not least because the US Administration have now apparently decided, because of budgetary considerations, not to institute a system of matching, despite Congressional and business pressure for them to do so. This will mean that the major providers of tied concessional finance will feel less vulnerable to US counter-measures.

Interest Rate Support Costs

7. The changes in the Consensus in 1983 ended the era of uncontrolled interest rate subsidy, and the extent of this is now controlled by the system of automatic changes in the

Consensus matrix to bring these into line with average commercial market rates. At present, Consensus rates for "poor" markets are determined by the weighted cost of medium term Government bond yields in SDR currencies. These are adjusted every six months, according to the formula agreed in October 1983. Intermediate and rich markets pay approximately 1.1% and 2.2% more respectively. The current matrix of rates is:

	up to 5 years	Over 5 years
"Poor" markets	9.85%	9.85%
"Intermediate" markets	10.7%	11.2%
"Rich" markets	12.0%	12.25%

Credit insurance agencies may not offer rates lower than this matrix except for low interest rate currencies, as described below.

Differentiated Rate System (DRS)

8. Further reductions in interest rate support would be achieved if the system applied at present to low interest rate currencies (eg the yen) were extended to all currencies. The present Consensus allows countries with commercial rates of interest below the matrix to apply such lower rates to export financing. At first sight this may seem to give exporters using these currencies an unfair advantage, but, over time, currencies with low interest rates tend to appreciate in value against other currencies thereby offsetting the apparent advantage, although, in the short term, the offset will not be exact. A Differentiated Rate System (DRS), with Consensus rates for all currencies tied to current commercial rates, would put all countries on the same footing except to the extent that purchasers chose to focus more on the nominal interest rate than on the likelihood of exchange rate changes.

9. Experience suggests that many purchasers will for a variety of reasons, one being that borrowing unsubsidised high interest rate currencies has the effect of accelerating the repayment schedule of the loan, place more emphasis on the nominal interest rate; but there are other reasons why the UK might wish to support a DRS. If, over the medium term, UK interest rates remain broadly in line with average world interest rates (and thus in line with export credit interest rates) the scope for UK subsidies is limited. Countries with high interest rates are however permitted to subsidise more heavily to UK exporters' relative disadvantage. Provided there is free access to low interest rate currencies (imperfections exist under the present arrangements, and these may be exacerbated if further currencies are used), de facto abolition of all subsidies would leave the UK in little worse position than at present vis-a-vis countries with low interest rates, and would improve our competitive position against currencies with higher interest rates than ours. However for the time being France and Italy are strongly opposed to further constraints on their ability to offer subsidies and too great an insistence by the UK on a full DRS might therefore jeopardise the Consensus. But recent developments in the financial markets, particularly the growth of interest rate and currency swaps allowing the crystalisation of the subsidy and its transfer from one currency into another (eg Yen at a subsidised rate of 6% pa rather than the commercial rate of 7.7%), may lead to new pressures for the adoption of a DRS.

<u>Maintenance of the Consensus</u>

10. The UK is restrained from pressing more quickly for the abolition of export subsidies by the concern that France and Italy might block the EC's continued adherence to the Consensus, thus endangering its existence. Officials believe that the following advantages of the Consensus make it worth preserving:-

(i) unregulated subsidy offers, which would place the strongest economies at an advantage, are avoided;

(ii) buyers expect, and will accept, less generous credit terms than in an unregulated situtation;

(iii) subsidy costs are reduced;

(iv) tensions in international trade and political relationships are eased;

(v) a breach of the GATT anti-subsidy code is avoided.

As a result, gradual measures give the greatest chance of achieving, and the best means of approaching, the ultimate objective of the elimination of export credit subsidies.

PRIORITY OBJECTIVES

11. In accordance with this approach, officials have identified the following objectives which offer the best chance of progress in the short term:

(i) Tied Concessional Finance As detailed above, officials are seeking to build on the existing EC mandate on transparency with measures on discipline acceptable to the US as a first step towards phasing out trade-distorting practices altogether. Japanese acceptance of the EC transparency proposals will be crucial. Moreover there is a risk that the gap between any new EC proposals on discipline (which, because of the position of France and Italy are likely to be modest) and over-ambitious US demands may prevent early progress.

(ii) Sector Agreements The negotiation of separate agreements on credit terms for the following sectors to which the Consensus does not yet apply:

a. Agriculture The US has been unwilling to discuss limitations on all agricultural export credits until the EC has agreed to discuss major changes to the Common Agricultural Policy. Talks on the latter will begin shortly in GATT. Many EC countries have expressed reluctance in their turn to concede to the Americans on mixed credits until the latter have agreed to an agricultural sector discussion. Officials will try to resist such linkage, and have pressed the US at least to take part in export credit negotiations.

b. <u>Aircraft</u> A sector agreement on aircraft would represent an improvement on the present situation, but radical changes are unlikely to be negotiable. Negotiations have just begun, with the EC position based on a mandate agreed by ECOFIN last December. Separate negotiations are being held for large commercial aircraft and for other aircraft. Progress on smaller aircraft is likely to be very slow, but for larger aircraft it is possible that agreement between the EC and the US (the only prducers) could be achieved more quickly, but on a relatively unsatisfactory basis in terms of subsidy cost.

c. <u>Nuclear Power Stations</u> An agreement concluded last August is now effective, but contentious details are still being discussed.

d. <u>Ships</u> Ministers have agreed that the UK should press to move negotiations for ships over 100 grt from the industry group to the export credits group within the OECD. This could eventually lead to the present exceptionally favourable and heavily subsidised terms for export credits for ships being brought into line with the overall Consensus.

(iii) <u>Consensus Participation</u> In order to minimise wasteful international competition in export credits, officials have suggested to EC member states that the Commission should propose at the next Consensus talks that a number of non-OECD exporting countries (Brazil, Israel, Mexico, South Africa and South Korea) be invited to join the Consensus. This proposal, at least for some of the countries suggested, is likely to be sympathetically considered by EC member states and by other OECD countries, although the reaction of the proposed countries themselves is uncertain.

(iv) Interest rate commitments Commitments to a particular interest rate issued by an Export Credit Agency are normally held for 6 months. Matrix rates are reviewed half yearly. Exporters benefit by applying for commitments at the end of a half yearly period if rates are expected to rise; yet exporters expect to benefit immediately should rates fall. Officials intend to argue that forward interest rate commitments should be replaced by a system where the applicable interest rate is that prevailing at date of contract signature. This change would reduce exporters' ability to exploit fluctuating rates to the detriment of the Exchequer. The proposal would reduce subsidy costs, and improve transparency, since all competitors would be committed to current rates of interest.

(v) DRS for "rich" markets It may be possible to establish a DRS for sales to OECD countries, where current matrix rates involve little or no subsidy in sterling and US dollars (the main currencies used by ECGD), even though a more wide-ranging DRS is not currently feasible. Officials consider that this may be negotiable, probably on the basis of using agreed Commercial Interest Reference Rates for each currency, in return for the extension of the current limit on the credit term from 5 years (exceptionally 8½ years) to, perhaps, 10 years. Although the direct savings in the cost of interest support would, under current assumptions, be very small, this would restrict the use of subsidy by countries with high interest rate currencies, particularly France and Italy, and would also be a first step towards a wider DRS. However if other countries with export banks (notably Canada, Sweden and Norway) are not to benefit more because of their ability to fund themselves in a range of currencies at the finest rates, it is proposed that an initiative on this should be deferred until the Bank of England and the Treasury have completed their enquiry into the scope for a UK export bank.

Tactics

12. If Ministers agree, Officials would decide their tactics in the light of these priorities for the regular meetings in Brussels and Paris and would hope to be able to advance discussion of short term priorities at the March meeting of the OECD Consensus Group and in other bilateral contacts. Inevitably, our EC and OECD partners will be seeking balancing concessions across this whole field, and we shall need to be able to respond flexibly within this pattern of objectives. Ministers would be consulted as necessary in the light of the outcome of these negotiations before the OECD Ministerial meeting in April.

13 March 1985

TRADE: Non tariff barriers: Pt 4.

(attachment to DTI to MEA 17/5).

17 MAY 1985

RESTRICTED

ESC

Foreign and Commonwealth Office

London SW1A 2AH

16 May 1985

Dear Charles,

Second Bosphorus Bridge Project

/ I enclose the draft of a message to Mr Nakasone for
/ which you asked in your letter of 10 May. I also enclose a factual commentary on the operative parts of the Japanese note, prepared principally by the DTI.

We see our first priority in this matter as to secure a share of the business for Cleveland Bridge. But we must also take account of the important and more general question of Japan's overall trading performance. The problems are thrown into sharp relief by the specific example of the Bosphorus Bridge Project. The Prime Minister has already spoken very firmly on this at the Bonn Summit. We need not be inhibited from pressing this general point home to the Japanese by the fear that it might be counter-productive: the experience of the US strongly indicates that the Japanese are most likely to respond to sustained but carefully calculated pressure.

In order to secure both our immediate and long-term objectives we believe that the tone of the message should be firm but not combative. In addition it should avoid pursuing detailed criticisms of actions by Japanese firms or the Japanese Government which we cannot substantiate. The DTI's commentary makes clear that we have no evidence to undermine the Japanese account of the facts both on price and on the scope of the project as defined by the Turks. Japanese actions over the yen loan are more open to question. This reflects the practice of the Japanese, and indeed others, in sailing close to the wind as regards OECD rules. Undoubtedly the funding was clearly and expressly aimed at winning the project. The draft message brings out our disagreement with the Japanese interpretation on this count. It indicates that we are considering pursuing the matter in the OECD. The Japanese will not welcome exposure there.

/I

C D Powell Esq
No 10 Downing Street

I am sending copies of this letter to John Mogg (Department of Trade and Industry) and Paul Haston (Minister of State's Office, Department of Trade and Industry).

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

AMA

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

Prime Minister

DEPARTMENT: **TEL. NO:**

Reference

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

..................In Confidence

CAVEAT......................

Enclosures—flag(s)...........

TO:

Prime Minister of Japan

Your Reference

Copies to:

SUBJECT:

Thank you for the explanatory note on the Second Bosphorus Bridge project which Mr Yamazaki delivered last week. As you know, I have taken a close interest in this project and I am grateful that you have ~~been able to do the same~~ done likewise.

As I said when we met in Bonn, we have a great respect for Japan's international economic performance ~~and for the dedication which lies behind it~~. At the same time we need to solve the problems which Japan's trade surplus causes to the world trading system. Japan's trade imbalance with her major trading partners causes great strains and ~~can only~~ threatens the progress we have made towards a new round of trade negotiations. For this reason we welcome your publicly-stated determination to rectify Japan's trade imbalance. But I have to say that I find the circumstances surrounding the Bosphorus project, and in particular the use of exceptional credit terms and and aid to secure the contract for Japan, to be seriously inconsistent with this determination.

The Second Bosphorus Bridge project has been the

/

subject of complicated and detailed negotiations between the Governments and the commercial firms involved. It is not surprising that we should differ in the interpretation of some of the surrounding circumstances. But there are a number of points in your note on which I should comment.

As regards the connecting roads, you pointed out that 37 kilometres of immediate approach roads were included with the bridge in the original concept. I of course accept ~~absolutely~~ your assurance that the linking of the motorways in Sections 1,3 and 4 to the bridge project itself was a decision taken solely by the Turkish Government. But the decision to provide such a high level of concessional finance on other sections of the contract was one for your government and the Japanese-led consortium. I continue to believe that the British technology in bridge-building available through the Cleveland Bridge bid is second to none.

You have queried the grant element embodied in our aid. In fact our aid offer was in line with the agreed guidelines, at 25% of the UK officially-supported content, subsequently increased to the same level as your offer. It was made to match the offers previously made by other competitors, in accordance with OECD rules, and contrary to the inaccurate reports in the Turkish press.

I note your comments on the circumstances which led to the yen loan of 51.6 billion yen. Nevertheless its nature, purpose and relationship to other non-aid finance would seem to place it in the category of an associated finance package as defined by OECD. I was interested, too, to learn from Cleveland Bridge that the interest rates on

DSR 11C

the balancing commercial yen loans were higher than normal consensus rates. I believe these are issues which require further clarification. This might best be done under the OECD study on transparency and improved discipline.

Your note states the Japanese Government's view that what matters is to construct a bridge as good as the first Bosphorus bridge with the full cooperation of all the companies concerned. I entirely agree. Cleveland Bridge have the skill and experience to do it. It would be in the interest of the successful consortium and of the Turkish Government that Cleveland Bridge should be associated with this project. ~~I know that~~ Prime Minister Ozal has assured me that he would be content if this were to happen and believe that IHI are also interested in this possibility. You may wish to pursue the matter when you see Prime Minister Ozal.

cc fc

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU470
Secretary of State for Trade and Industry

16 May 1985

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

CDP 16/5

Dear Charles,

BOSPHORUS BRIDGE

You wrote to Colin Budd on 10 May to ask for a reply to Mr Nakasone's message of 10 May.

... Officials here and in FCO have drawn up the attached agreed draft. My Secretary of State is content with this draft. I understand you specifically asked for his clearance.

Yours sincerely,
Maureen Dodsworth

MAUREEN DODSWORTH
Private Secretary

991-1

GRS 900

RESTRICTED

RESTRICTED [FRAME EXTERNAL]

FROM WASHINGTON 152325Z MAY 85

TO PRIORITY FCO

TELEGRAM NUMBER 1576 DATED 15 MAY

INFO PRIORITY UKREP BRUSSELS, UKMIS GENEVA, PARIS, BONN, ROME, THE HAGUE.

EC:US AGRICULTURE: EXPORT PIK

mb

SUMMARY

1. AGRICULTURE SECRETARY BLOCK AND SENATOR DOLE ANNOUNCE INTRODUCTION OF A DOLLARS 2B COMMODITY EXPORT BONUS PROGRAMME TO LAST FOR THREE YEARS. FIRST SALES TO BE ANNOUNCED BY JUNE 1. PROGRAMME AIMED AT MARKETS QUOTE UNFAIRLY UNQUOTE TAKEN BY EC, BRAZIL AND OTHERS.

DETAIL

2. BLOCK AND DOLE GAVE A JOINT PRESS CONFERENCE ON THE HILL THIS AFTERNOON TO ANNOUNCE THE INTRODUCTION OF AN QUOTE EXPORT ENHANCEMENT PROGRAM UNQUOTE UNDER WHICH DOLLARS 2B WORTH OF SURPLUS COMMODITIES IN CREDIT COMMODITY CORPORATION STORE WILL BE USED OVER THE NEXT THREE YEARS AS SUBSIDIES ON EXPORTS OF US AGRICULTURAL PRODUCTS. ANNOUNCEMENTS ON AN INITIAL SERIES OF SUCH SALES WILL BE MADE BY JUNE 1. DETAILS OF THE LONGER TERM APPROACH WILL BE WORKED OUT OVER THE NEXT FEW WEEKS. TWO CRITERIA WILL APPLY TO THE NEW SCHEME. SALES MADE UNDER IT MUST BE QUOTE ADDITIONAL UNQUOTE AND THEY QUOTE MUST BE TARGETED TO MARKETS IDENTIFIED AS THOSE WHICH WERE TAKEN OVER BY COMPETING NATIONS WITH THE USE OF UNFAIR TRADE PRACTICES UNQUOTE. (TEXT OF STATEMENTS BY BAG).

3. BLOCK SAID AT THE BRIEFING THAT CCC STOCKS COULD BE USED TO SUBSIDISE EXPORTS OF ALL AGRICULTURAL COMMODITIES E.G. EXPORTS OF POULTRY (WHICH IS NOT IN CCC STORE) COULD BE CROSS SUBSIDISED BY A BONUS OF WHEAT CORN OR SOYABEANS (WHICH ARE). NO NAME HAS YET BEEN CHOSEN FOR THE NEW SCHEME. BLOCK SAID IT WOULD NOT BE CALLED BICEP (DOLE'S PREFERRED TITLE) NOR EXPORT PIK.

4. THE INITIAL PHASE OF THE SCHEME IS APPARENTLY TO BE OPERATED UNDER EXISTING LEGISLATION. DOLE WILL NOT, AT LEAST FOR THE MOMENT, BE INTRODUCING HIS BICEP LEGISLATION (OUR TELNO 1528), THOUGH IN HIS STATEMENT TODAY HE INSISTED ON THE NEED FOR QUOTE AN ADVISORY COUNCIL UNQUOTE INCLUDING FARMERS TO QUOTE MONITOR THE OPERATION UNQUOTE OF THE NEW SCHEME. THE SENATE AGRICULTURE COMMITTEE WHICH HAS NOW BEGUN MARKING UP THE FARM BILL, REPORTED OUT YESTERDAY LEGISLATION TO GIVE COVER FOR A GENERAL EXPORT PIK PROGRAMME AND, SEPARATELY, TO EXEMPT BLENDED CREDIT FROM CARGO PREFERENCE. IT IS UNCLEAR WHETHER IN THE LIGHT OF TODAY'S ANNOUNCEMENT THE FIRST BILL WILL STILL BE PUSHED TO AN EARLY VOTE ON THE SENATE FLOOR.

/ 5.

RESTRICTED

5. USDA ARE SAYING THAT THEY ARE CONFIDENT THAT CARGO PREFERENCE (UNDER WHICH 50 PERCENT OF CONCESSIONAL SALES MUST GO IN UNCOMPETITIVE US BOTTOMS) WILL NOT APPLY TO THE NEW PROGRAMME. THOUGH THEY CONFIRM THAT THE NEW PROGRAMME WILL BE A SELECTIVE RATHER THAN A GENERALISED EXPORT SUBSIDY SCHEME, THEY CLAIM THAT NO DECISIONS HAVE YET BEEN TAKEN OVER TARGET MARKETS, THOUGH THERE IS SOME TALK OF LATIN AMERICA AS WELL AS THE MIDDLE EAST. LESHER (EX-USDA) WHO HAS BEEN WORKING CLOSELY WITH DOLE ON THE SCHEME, TOLD FIRST SECRETARY (AGRICULTURE) THAT THE INITIAL SALES WOULD PROBABLY BE FAIRLY SMALL AND AIMED AT BRAZILIAN AND, POSSIBLY, ARGENTINIAN MARKETS AS WELL AS THE EC'S. POULTRY WAS THE PRODUCT EXAMPLE HE CITED.

COMMENT

6. USDA HAVE NOW RECOVERED SOME OF THE INITIATIVE ON EXPORT PIK IN THAT, AT LEAST IN THE INITIAL PHASE, THEY, RATHER THAN AN INDEPENDENT COMMISSION, WILL BE RUNNING THE SCHEME AND UNDER EXISTING LEGISLATIVE AUTHORITY. THEY HAVE ALSO BEEN SUCCESSFUL IN INSISTING ON A SELECTIVE RATHER THAN A GENERALISED SCHEME. BUT THEY WILL NOW BE ON THEIR METTLE TO MAKE IT WORK.

7. PARADOXICALLY, AS THE MOMENTUM BEHIND THE SCHEME HAS GATHERED, DOUBTS HAVE SURFACED ABOUT ITS LIKELY EFFECTIVENESS. CHICAGO WHEAT PRICES FELL 5C A BUSHEL YESTERDAY WITH FEARS OF LOWER PRICES AS SURPLUS STOCKS FLOOD ON TO THE MARKET. BOTH MEAT AND COTTON PRODUCERS ARE COMPLAINING THAT IT WILL GIVE AN UNFAIR ADVANTAGE TO OVERSEAS PROCESSORS WHO WILL GET US RAW MATERIALS MORE CHEAPLY THAN THE DOMESTIC INDUSTRY.

8. FCO PLEASE PASS TO SHEPHERD AND WARREN (ECD(E)), PRYOR (DTI) AND HADLEY, COCKING, LOWSON AND RING (MAFF).

WRIGHT

FRAME EXTERNAL

ECD(E)
NAD

COPIES TO:

MR PRYOR, DTI

MR HADLEY)
MR COCKING) MAFF
MR LOWSON)
MR RING)

A J Export Policy file

PRIME MINISTER'S VISIT TO SE ASIA: FOLLOW-UP ON PROJECTS

POINTS TO MAKE

Defence

1. The companies most involved have all followed up intensively the matters discussed .

2. Senior Representatives of the Defence Sales Organisation of the Ministry of Defence visited SE Asia immediately afterwards .

3. Malaysian Deputy Minister of Defence visited this country in the past week to have discussions following up the matters discussed during my visit.

4. A transfer of technology agreement between British Aerospace and Indonesia on the Rapier missile programme will be signed next week. Hope that this will form the basis of future orders to add to those already placed by Indonesia.

5. Negotiations on several projects in Indonesia and Malaysia are progressing satisfactorily and there is every expectation that these will lead to substantial orders.

Malaysia - Water Supply Project

Discussions the PM had with the Malaysian Government have been vigorously followed up by the company - Biwater Shellabear - who are very hopeful that they will lead in the next few months to a very large export order for the UK.

CAPITAL GOODS EXPORTS WITH SPECIAL GOVERNMENT SUPPORT
(ATP, BILATERAL AND SPECIAL ECGD ETC)

GEC	-	£1411m
NEI	-	£528m
Davy McKee	-	£751m
Babcock	-	£461m
Grand Total		£3151m

£m.

GEC

Castle Peak, Hong Kong	760
Victoria Dam Sri Lanka	113
Duva } South Africa	120
Majuba	300
Bhakra Power Station India	130
Bangladesh	10

plus in consortium

Cairo Sewerage System Egypt	60
Colombo Airport	18
	1511

999-80

ECGD

EXPORTS INSURED

1979 - 1984/85
(financial years)

£105 billion

This includes provisional figures of £16,847 billion for 1984/85 financial year.

It is not Departmental policy to issue figures of ECGD support for individual companies.

DAVY CORPORATION

Year to 31 March	Exports from UK
	£m
1979	233
1980	229
1981	190
1982	185
1983	183
1984	201
Total UK exports 79-84 inclusive	1,221

NEI OVERSEAS EXPORTS

Year to 31 March	£m
1979	112
1980	127
1981	145
1982	160
1983	160
1984	179
	883

GEC OVERSEAS EXPORTS

Year to 31 March	£m
1979	745
1980	803
1981	965
1982	1,097
1983	1,138
1984	1,209
	5,957

BABCOCK OVERSEAS EXPORTS

Year to 31 March	£m
1979	151
1980	146
1981	136
1982	141
1983	152
1984	161
	897

BOTB NET EXPENDITURE TO EXPORTERS

1979-80	21.2m	
1980-81	18.6m	
1981-82	19.6m	
1982-83	22.6m	
1983-84	22.2m	
1984-85	28.3m*	Gross.
1985-86	27.7	38.8
1986-87	27.4	40.5
1987-88	27.1	40.7

*provisional

ATP payments/Offers According to Lead Contractors

Company	Export Value	ATP Input	% of ATP total
	£s. M.	£s. M.	
GEC	192.989	50.199	14%
Davy International	251.500	48.448	14%
NEI	340.626	45.918	13%
Balfour Beatty	137.402	35.720	10%
			51%
British Shipbuilders	58.54	18.685	5%
BMC	80.067	15.067	4%
Babcock	50.035	12.600	4%
Hawker Siddeley	45.800	12.585	4%
STC	34.673 (+)	12.111	3%
Rolls Royce	28.000	10.020	3%
Wimpey	35.000	10.000	3%
British Aerospace	40.432	9.318	3%
BRE-Metro	51.798	9.809	3%
JBE	32.269	8.302	2%
Seltrust Engineering	14.550	7.181	2%
	1393.681	305.963	87%
34 other companies	212.279	44.113	13%
	1605.960	350.076	100%

SECOND BOSPHORUS BRIDGE
COMMENTARY ON JAPANESE EXPLANATORY NOTE

Although we do not know the full details of the winning financial package, we have examined closely such information as we have available. While probably within the rules, the package does have some unusual features such as higher than normal interest rates on the Japanese commercial loans complementing their soft loan. According to our calculations, these higher rates would yield an additional $14m and although theoretically this could have been used to subsidise price it falls far short of the $40m price differential on Section 2.

1. <u>Price</u>

We agree that the Japanese bid was cheaper, both for the total project and for Section 2, including the bridge. Our point was that Cleveland Bridge's price for the bridge alone was slightly lower, $111m against $114m by IHI. But it is correct that the Turks were not entertaining bids for the bridge alone.

2. <u>Scope of Project</u>

There has been suspicion that, encouraged by hints from the Japanese firms, (not the Government) that soft money would be available, the Turks decided to add to the project an extra 160km of motorway. The Japanese tactics seemed aimed at sweeping up the bridge in an enlarged project, for which they were prepared to provide more financing than the UK. The Japanese note denies this. There is no way of proving the charge.

3. <u>The Japanese Financial Package</u>

The Japanese soft money is confined to Section 2 of the project leaving them open to the charge that this was only available on condition that a Japanese-led consortium were awarded Sections 1,3 and 4 of the project. If this were the case it could be criticised as being contrary to OECD agreements, although there were no other official Japanese export credits involved. Their defence is that

/they

they were asked by the Turks for a Yen loan on the whole project, but were unable to produce sufficient finance. Consequently they restricted the soft loan to Section 2, and they deny that this was conditional upon a Japanese-led consortium winning other parts of the contract. If in fact there was no such conditionality, as the Japanese claim, then this OECF (the Japanese Overseas Economic Cooperation Fund) loan did not contravene any OECD agreements.

The Japanese aid loan comes from their large bilateral aid programme. However, offers of partially concessional aid, such as the OECF loan on Bosphorus, can have the same effect as mixed credits. Within OECD we have argued that the discipline applying to mixed credits should also apply to concessional tied aid with a subsidy of less than 50%. Hitherto the Japanese resisted such a move, but they recently appear to have accepted that this will have to be the case. The recent OECD Ministerial agreement in April provided for prior notification within the consensus of all offers of tied aid including mixed credits with a grant element of less than 50%. The Japanese offer was made prior to this agreement. The Japanese classify the OECF loan on Bosphorus as "LDC-untied". This means that the loan is available to Japanese or LDC firms. As the Turkish firm in the winning consortium does not have bridge construction expertise, the loan is effectively tied to the Japanese firms in that consortium. We are seeking a new definition of "tied aid" credit within the consensus which would embrace this sort of transaction.

4. <u>The UK Financial Package</u>

The grant element of our mixed credit was within the rules (25% initially) and at the end of the day was the same as the equivalent for the Japanese loan. The Japanese volume of aid was far greater - about four times our amount. The Turks could not expect that part of the Japanese Yen loan would have remained available for the approach roads and motorways, had the bridge element been isolated and awarded to Cleveland Bridge. Therefore there was no chance of the Turks adopting this course.

Department of Trade and Industry

15 May 1985

js2abe

Trade: Non Tariff Barriers Pt 3

GRS 405

CONFIDENTIAL

CONFIDENTIAL

FM ANKARA 111600Z MAY 85
TO IMMEDIATE FCO
TELEGRAM NUMBER 240 OF 11 MAY
AND TO IMMEDIATE DTI (FOR PEP AND OT5)
INFO IMMEDIATE TOKYO

YOUR TELNO 158: SECOND BOSPHORUS BRIDGE

1. I SAW MR OZAL THIS AFTERNOON AND GAVE HIM THE PRIME MINISTER'S MESSAGE (TEXT IN YOUR TUR).

2. IN REPLY MR OZAL SAID THAT THERE WAS CERTWINLY NO OBJECTION ON THE TURKISH SIDE TO CLEVELAND BRIDGE BEING INCLUDED IN THE WORK AS SUB-CONTRACTORS IF THEY AND THE JAPANESE FAVOURED IT. HE WAS PREPARED TO SAY AS MUCH TO MR NAKASONE.

3. I SAID THAT I WAS GRATEFUL FOR THAT, BUT THERE WAS A DIFFERENCE BETWEEN SAYING THAT THERE WAS NO TURKISH OBJECTION AND PUSHING POSITIVELY WITH MR NAKASONE IN FAVOUR OF CLEVELAND BRIDGE PARTICIPATION. MR OZAL SAID THAT HE COULD NOT ''PUSH''. IHI WERE INTENSELY INTERESTED IN BUILDING THE BRIDGE AND HE DID NOT THINK THAT PUSHING THEM OUT IN FAVOUR OF CLEVELAND BRIDGE WOULD BE POSSIBLE. I STRESSED THAT THAT WAS NOT THE INTENTION. WHAT WAS IN MPND WAS THAT CLEVELAND BRIDGE SHOULD CARRY OUT PARTS OF THE WORK IN AGREEMENT WITH IHI. THEY HAD ALREADY SPOKEN TO THE JAPANESE. WE BELIEVED THAT CLEVELAND'S PARTICIPATION WOULD STRENGTHEN THE CONSORTIUM AND ENHANCE THE PROSPECTS OF THE BRIDGE BEING BUILT TO THE VERY TIGHT SCHEDULE MR OZAL HAD SET.

4. MR OZAL CONFIRMED THE INTENTION TO HAVE THE BRIDGE BUILT BEFORE THE ELECTIONS IN 1988. HE SAID AGAIN THAT HE WOULD BE PREPARED TO SPEAK TO MR NAKASONE. BUT I JUDGE THAT HE INTENDS TO DO SO IN TERMS OF ''NO TURKISH OBJECTION'' RATHER THAN IN A MORE POSITIVE SENSE.

5. IN SUBSEQUENT DISCUSSION MR OZAL SAID THAT THERE WOULD BE OTHER PROJECTS IN THE FUTURE. FOR EXAMPLE THE TURKISH GOVERNMENT MIGHT WELL WISH TO CONSTRUCT A BRIDGE OVER THE NARROWEST POINT OF THE GULF OF IZMIT TO PROVIDE MUCH FASTER ACCESS FROM ISTANBUL TO BURSA AND EVENTUALLY IZMIR. HE AGREED THAT THIS WAS ONLY AN IDEA, BUT IN EFFECT HE WAS SAYING THAT CLEVELAND BRIDGE SHOULD NOT LOSE INTEREST IN TURKEY.

6. MR OZAL WAS RELAXED AND FRIENDLY. I DID NOT RAISE THE QUESTION OF WHETHER THE JAPANESE HAD PLAYED FAIR OVER THE PROVISION OF CREDIT. TO HAVE QUERIED THOSE CREDITS IN THE CONTEXT OF THE PRIME MINISTER'S MESSAGE WOULD, I THINK, HAVE BEEN COUNTER-PRODUCTIVE. BUT IN CONSIDERING FUTURE TACTICS VIS-A-VIS THE JAPANESE WE SHOULD KEEP IN MIND THE IMPORTANCE OF NOT ALIENATING THE TURKS.

RUSSELL

LIMITED.

SED
FED.
PS
PS/LADY YOUNG.
PS/MR RENTON.
MR. JENKINS.

COPIES TO.

PEP } DTI
OTS }

TRADE No Tariff

10 DOWNING STREET

Prime Minister

I think that you will find this interesting. It is written by a distinguished British consultant engineer who was retained by the Turkish Govt as their consultant on the Bosporus Bridge project. It shows that by most criteria the Japanese / Italian offer was lower: though it says nothing about how the Japanese offer was financed.

CDP 10/5.

NEIL THORNE
DR W. BROWN
consultant to the Turkish Govt;
(Freeman Fox).

CONFIDENTIAL

Bosporus II Bidding
Background to Project

Whilst the Turkish contract is referred to as the second Bosporus Bridge, in fact the bridge itself is a relatively small part of the total contract - around 20%; the rest is for some 200 km of urban and rural motorways.

Plans for motorways in Turkey have been under discussion for the last 20 years, but progress has been slow, a mere 40 km being completed during that period.

When the present Turkish Government was elected in November 1983 they determined to make progress in many areas of infrastructure development, including power stations, dams, roads, etc, and to harness private enterprise to assist. Power station projects etc. were offered on a finance, construct and collect concept. It was therefore in keeping with this policy that in June 1984 the Minister of Public Works (a businessman prior to joining the new Government) should be receptive to suggestions that the sections of motorway as were reasonably defined or already designed should be linked to the Second Bridge project, then under active design (FF&P were commissioned as Engineers in December 1983) and the whole made the subject of a finance, construct, toll concession undertaking.

Two Turco-American Management Finance groups made such tentative suggestions.

There was a degree of scepticism within the Highways Department but the Minister became quite enthusiastic, pressing at least the concept of finance and construct while retaining the option for repayments through toll collection, should such an offer be made.

It thus became common knowledge in August 1984 that the Turks were pushing for the whole scheme - Bridge plus 200 km - and what is more, contractors were showing genuine interest.

The Minister realised that his trump card was the Bridge, and for two main reasons:

(a) the prestige value to the contractor concerned

(b) that its British design would be most advanced and would add to the experience of the contractor.

The Japanese industry in particular was well aware of this and had been following the project closely for many years. As long ago as 1978, when work on a second bridge nearly went ahead, the Japanese expressed willingness to fund it.

Thus it was clear that while the roads alone would, where credit was concerned, provide limited international interest, link it to the Bridge and insist, as far as possible, that the two were inseparable, then there was a chance that acceptable foreign credit would be forthcoming.

From the Turkish point of view it was not an unreasonable gamble. They see the provision of good motorway communications as essential to their economic growth.

Nevertheless, they did waver somewhat in that the overall contract was eventually divided into 4 sections, largely for internal administrative reasons. Section 2 included the Bridge and about 40 km of urban roads (see later).

The Turks informally encouraged interested contracting groups to make presentations and to discuss possibilities with them last September/October, and of course many did. The Cleveland Bridge Co. actually held a press conference at the Ritz in London before moving on to Ankara, and spoke of at least £200M credit being available via the American Express Bank.

Just before Christmas, documents clearly outlining the scheme were issued to practically all the groups who had expressed any interest, for them to develop their ideas of consortia etc, and also something more definitive about the provision of credit.

The project was still divided into 4 sections, and consortia were invited to apply for prequalification for any or all, but with the clear preference for groups requesting prequalification for all. Replies were required by end January '85.

By this time, it was common knowledge that the Japanese Government were prepared to provide a soft loan for at least $150M.

Not unnaturally many groups applied for all sections but in the event only 4 were prequalified on technical grounds and 3 of these included at least one Japanese and one Italian company, the latter inclusion clearly indicating a strong interest from that country.

The CBE consortium included US, German, as well as Turco-British involvement. It could easily have included Italian, Spanish, French etc, or even Japanese. The composition represented the contractors' own assessment of their best chance of success, both on cost and credit.

It was clear to me, however, as it must have been to others, that credit for the road sections would have to come from "export credit" facilities, largely non-convertible into Turkish Lira. This meant that, contrary to previous concepts, the project should deliberately emphasise imported items rather than locally made products, i.e. imported steel beams for small motorway bridges, rather than reinforced concrete, and also lavish provision of modern earthmoving and roadmaking plant at the expense of local labour. Turkey has so little plant of this type. The Turks were aware of this aspect. I indicated these possibilities to CBE and when the definitive tender documents were prepared and issued in February to the prequalified groups I introduced a clause which permitted such changes to be made at the contractor's desire.

The tender documents, although still dividing the project into 4 sections, made it absolutely clear that the project would be let as one single contract and if necessary would be so negotiated.

It was also stated that as part of the evaluation, the various tender sums, including repayment terms, would be reduced to a present value.

Additionally, offers of credit had to be backed by genuine statements from Government or other financial institutions.

Tenders

The Tenders were returned on April 16th and there were only two serious offers, summarised below.

	(Italian/Japanese/ Turkish)	(British/German) US/Turkish)
	$ Millions	$ Millions
Section 1	93	114
Section 2	270	312
Section 3	76	101
Section 4	112	149
Total	551	676

Thus there is a large difference in price but of course credit terms could influence the award. The Italian/Japanese contractor is lower on all sections.

The credit offers from the Japanese/Italian group were straightforward and from best memory were as follows:

Soft Loans

$200M 5% @ 25 yrs 7 yr grace - Japan
$30M $2\frac{1}{2}$% @ 15 yrs " " " - Italy

Export Credit

$140M - standard terms from Italy - 12 yrs

Commercial Loans

$70M fixed interest from Japanese banks - 10% - 7 yrs
£110M Euroloan. To be arranged in London by Chase Manhattan.

The credit proposals from CBE group were less well defined but included a generous UK government straight grant of $12M coupled with $48M export credit, export credit from Germany - $40-50M, Ex Im bank credit of possible $255M from US, together with possible export credits from Brazil and Yugoslavia of $50M & $100M. Additionally a Euroloan of perhaps $300M was suggested for it was recognised that the export credit was only available for a proportion of the exports (only 65% in case of Ex Im - 85% elsewhere) and that in any case had to be related to export of real hardware or services, all of which may not have been possible from all the sources.

Nevertheless in evlauating present values the maximum use was made of Export Credit.

There was some debate in Ankara about the discount rate to be applied, and I failed to persuade their Treasury and planning officials to use a different rate for Yen, $ and £.

With a single rate, the disparity between the two tenders moved from 1.23 to over 2.

However, on closer examination of part only of Section 2 (the section including the Bridge), the situation becomes less adverse. Certain figures, as presented, might be interpreted to indicate the cost of the bridge alone, notwithstanding that some of the tenderers, including the Italian/Japanese, clearly stated that they should not be isolated from the rest. It is well understood within the industry that contractors often move overhead allowances and balancing items to different sections of the project for various reasons, including cash flow. Thus costs may be moved from late to early start items, in this case from bridge approach roads which have a late start to bridge supply items, etc.

If one were to ignore this and hence produce a hypothetical situation, at first sight, for the Bridge only such figures are:

CBE	Italian/Japanese		Others	
111.1	122.7		114.4	119
-	1.4	less % reduction forming integral part of offer		
111.1	121.3			

Thus it might be thought the UK bid for the bridge alone was lower. All this is theoretical and in any case as a minimum the bridge needs some 15 km of road to be effective. With this added the basic figures move to 194-180 in favour of the Japs.

Unfortunately, when it came to a detailed evaluation, it transpired that the CBE offer was incomplete and one item was only provisional. Strict adherence to the rules would have meant rejection. The Japanese offer had an obvious heavy balancing item for the whole of section 2, and which they had been at pains to point out in their submission.

On the best possible bias to UK therefore the comparative figures are:

CBE	Italian/Japanese
112.5-113	111-112

A slight lead to the Japs, but really nothing to choose between them. Only if one were to deduct the UK grant is there a lead.

However, when such credit terms (including increased UK grant) were included and the two evaluated with a 5% difference in discount rate against the Yen (something which I insisted upon, but which the Turks would never accept), the CBE offer became some 16% higher.

The idea of just separating the Bridge structure is of course quite unreal as it is to say the Japanese cannot build the bridge. (They have completed, or have under construction, many suspension bridges in Japan.) Whilst one would have some preference to UK experience, I simply could not press this as far as CBE wanted and will no doubt continue to say I should have.

It was clear that the best way to achieve UK contractor involvement was by joining the Japs.

To my mind vital time was lost while CBE/Trafalgar House pontificated about what I should tell the Turks to do while at the same time trying to pull political strings in Ankara.

The Japanese loan is good for Turkey, so is the Italian support and I fail to see how anyone in Ankara could do anything else than accept it. To remove the bridge from the Japs would obviously undermine the credit offer.

What I did, however, was to bring the Japanese and UK representatives together and point out to the Turks that there were real possibilities of reducing the Euroloan content if more export credit worthy items were to be incorporated in the whole project, indicating in general terms how this might be achieved by certain design changes, particularly on the road structures. This was accepted and the Italian/Japanese team asked to try to do so.

Thus, although the prestige value of the project may have gone elsewhere, all need not be lost to UK manufacturing, if the export credit remains* and prices are reasonable.

* possibly without

Certainly the Japanese and Turks are unhappy at recent Ministerial comment and publicity, but they may well overcome that resentment if the commercial terms are right.

On the other hand, the Italian steel fabricators are eager to pick up more and there is nothing to indicate that they have reached their ceiling on export credit to Turkey.

Of note is that the Italian member of the group IMPREGILO includes as its leader IMPRESIT. This company is a branch of the FIAT organisation who not only make trucks etc but through their associate company Allis-Fiat roadmaking equipment.

WCB/MB
9.5.85

RESTRICTED

MJ2ALJ

10 DOWNING STREET

From the Private Secretary

10 May 1985

Dear Colin,

Second Bosphorus Bridge Project

Thank you for your letter of 9 May, enclosing a message from Mr. Nakasone. The Prime Minister would like to send a robust, well-argued reply with plenty of facts to counter his early next week. I should be grateful if work could be put in hand on this.

I am sending copies of this letter to John Mogg (Department of Trade & Industry) and Paul Haston (Minister of State's Office, Department of Trade and Industry).

Yours sincerely

Charles Powell

Charles Powell

Colin Budd Esq
Foreign and Commonwealth Office.

RESTRICTED

2

Prime Minister
A far from helpful reply. I suspect some of the information it is specious. I will ask for a factual rebuttal of some of the arguments to be worked up.
C.D.P. 9/5

Foreign and Commonwealth Office

London SW1A 2AH

9 May 1985

Dear Charles,

Second Bosphorus Bridge Project

I enclose a message from Nakasone to the Prime Minister which the Japanese Ambassador delivered to Richard Luce this evening.

Mr Luce thanked the Ambassador for the message and undertook to ensure that it reached the Prime Minister without delay. He made three further points:

(a) The British Government were concerned that the provision of aid to the Turkish Government had been closely linked to the award of the contract to the Japanese consortium.

(b) As the Prime Minister had pointed out to Nakasone, there was concern in Britain that Japanese companies benefitted from the profits they made from their sales in Britain while British companies had only limited access to Japanese markets. Such unfair practice caused considerable resentment.

(c) Cleveland Bridge Limited had an excellent reputation and still hoped for some participation in the Project. The Ambassador undertook to convey this point to his Government.

The Ambassador underlined the following points in Nakasone's explanatory note:

(a) It was not true that the British bid, either for the whole project or for the bridge section on its own, had been lowest.

(b) Nor was it true that the Japanese companies had asked the Turks to put the bridge and associated contracts into a single package.

/(c)

Charles Powell Esq
10 Downing Street

(c) No mixed credit had been involved in the Japanese financing package. The Japanese Government had openly and fairly provided Turkey with a soft loan for development purposes. That was a quite different matter.

Replying to Mr Luce's points, the Ambassador claimed that his Government were now doing their best to liberalise Japanese markets. Mr Luce replied that the British Government would be looking for early practical results.

In your letter of 8 May you said that before sending a further message from the Prime Minister to Nakasone it would be better to wait for a progress report on the Cleveland-Japanese consortium discussions. The latter are still going on. We will keep you posted.

I am sending copies of this letter and enclosure to John Mogg (Department of Trade and Industry) and Paul Haston (Minister of State's Office, DTI).

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

VC3ADØ

MA

cc Hickmet, MP
FCO
DTI

10 DOWNING STREET

THE PRIME MINISTER

10 May 1985

Dear Michael,

Thank you for your letter of 30 April about Cleveland Bridge's bid for the Second Bosphorus Bridge.

I was very disappointed that Cleveland Bridge were unsuccessful in bidding against the Japanese, despite their well-earned reputation on the first bridge, and despite their very competitive bid for the second bridge alone.

I share your concern about the Darlington factory, and I can assure you that the Government are supporting the company's efforts to secure a share of the bridge section, either on a joint venture or on a sub-contract basis. I have been in touch with the Turkish Prime Minister to encourage this and our Embassy in Tokyo are taking supporting action with the Japanese government. I hope that, even at this late stage, such a solution can be achieved so that some of the work will come to Britain.

On the wider question of support by governments for large export projects, this is a difficult issue which is kept under regular review in such international fora as the OECD. For our part, we are working towards tighter international guidelines in this field. I was particularly concerned at the level and volume of support provided by the Japanese government on the second bridge, and, as you will

SRW

know, I raised the matter vigorously with Mr. Nakasone in the margins of the Bonn Economic Summit last week.

I am copying this letter to Richard Hickmet.

Yours
Margaret

Michael Fallon, Esq., M.P.

CONFIDENTIAL

Xte Xb

(original attachment to CDP)

10 DOWNING STREET

From the Private Secretary

9 May 1985

BOSPHORUS BRIDGE

I enclose a copy of a note on the Bosphorus Bridge contract prepared by Dr. Brown of Freeman Fox. It has been given in confidence to Michael Alison by Neil Thorne: and we should not admit to having it, at least until we get it from some other source. I found it a valuable account and propose to show it to the Prime Minister over the weekend. Some of the information in it might be useful in working up a reply to Mr. Nakasone.

I am copying this letter and enclosure to Colin Budd (Foreign and Commonwealth Office).

CHARLES POWELL

John Mogg, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

PRL.

SUBJECT

cc Master OPS.

PRIME MINISTER'S PERSONAL MESSAGE
SERIAL No. T83/85

EMBASSY OF JAPAN
UNITED KINGDOM

London, 9th May 1985

Dear Prime Minister,

I am asked by Prime Minister Nakasone to refer to your conversation with him in Bonn on 4th May concerning the 2nd Bosphorus Bridge Project, and to deliver to you an explanatory note on this matter.

I have pleasure in attaching the note herewith.

Yours sincerely,

Toshio Yamazaki

Toshio Yamazaki
Ambassador

The Rt.Hon. Margaret Thatcher, MP,
Prime Minister and First Lord of the Treasury,
10, Downing Street,
London, S.W.1.

EXPLANATORY NOTE ON THE
SECOND BOSPHORUS BRIDGE PROJECT

10th May 1985

1. Prime Minister Thatcher pointed out that a British consortium had made the lowest bid for the second Bosphorus Bridge Project. According to the statement by the Turkish Government regarding the results of the bidding, however, the lowest bid was made by the consortium consisting of Japanese, Italian and Turkish companies and the second lowest bid by a consortium consisting of UK, West German, US and Turkish companies. The prices of the lowest and second-lowest bidders for the Project as a whole and Section II (namely construction of the bridge and its connecting roads), respectively, are as follows (in US$1,000):

	All Sections	Section II
Lowest bidder's price	551,261	269,999
Second-lowest bidder's price	676,424	312,741

As is clear from the above figures, the difference between the lowest and second-lowest bids is considerable. These price differences are clearly admitted by all the companies concerned in the Project, including Turkish companies.

2. The Japanese Government had been studying the possibility of extending a yen loan to Turkey since

.../...

receiving a formal request to do so from the latter in January of this year. The Turkish request was to finance, by yen loan, the entire project consisting of the following four sections:

1st being 73 km of highway;
2nd being second Bosphorus bridge with 37 km of connecting roads;
3rd being 41 km of highway; and
4th being 63 km of highway.

Since the feasibility of the entire Project has been confirmed by the mission sent by the Overseas Economic Co-operation Fund (the Government's yen loan executing agency), but because it was impossible to finance the entire Project by yen loan as requested by the Turkish side, the Japanese Government, from the point of view of promoting friendly relations between Japan and Turkey, has pledged that it is prepared to extend a yen loan up to the amount of 51.6 billion yen in respect of only the second section of the Project, namely the bridge and its connecting roads.

Nine international consortia took part in the tender, which covered all four sections of the Project. Japanese companies participated in four of the nine consortia. It should be noted that it was to the Turkish Government, and not to the lowest bidder group, that the Japanese Government offered the loan.

It is simply not true that the Japanese Government or companies have alledgedly approached the Turkish side with a view to having the connecting roads included in the second section in addition to the

.../...

bridge itself. It was solely a decision made by the Turkish side.

It seems that the UK side takes the view that, if the second section had consisted only of the bridge itself, excluding the connecting roads, it would have been advantageous for the UK consortium. However, it should be noted that the Turkish decision to divide the project into sections in the way described above, had left no option of taking up the bridge alone.

3. Upon a strong request made by the Turkish Government, the consortium which made the lowest bid seems to have made a financial arrangement for Sections 1, 3 and 4. This arrangement, however, is purely private in nature, privately undertaken by the companies concerned. There has been no consultation among the Governments of Japan, Turkey and Italy concerning the above arrangement.

4. The 51.6 billion yen loan which the Government of Japan has pledged to provide for the second section of the Project is official development aid; it is not an associated finance which is subject to OECD regulations. Incidentally, the grant element of the yen loan that the Government intends to provide is 36.7% (interest rate 5.0%, with a reimbursement period of 25 years including a 7 year period of grace), whereas, according to our information, the Government of the United Kingdom seems to have proposed the provision of a fund with a much lower grant element. It is evident that the said yen loan is far removed from commercial terms both in respect of modality of fund provision and grant element.

.../...

5. The Government of Japan is aware of the fact that Prime Minsister Thatcher has a strong personal concern in this matter, but it believes that what matters is to construct a bridge as good as the first Bosphorus bridge with the full co-operation of all the companies concerned.

6. The UK side seems to be of the view that there may have been a possibility of separating the bridge and connecting roads so as to place only the former to international tender, and that the Japanese Government might have put pressure on the Turkish side by taking the position that it would not grant a yen loan unless the bridge and the roads were combined. But this view is contrary to the facts; there was no possibility to tender for the bridge alone, separate from the connecting roads. Furthermore, the Turkish side was demanding that tenders should cover the whole Project, encompassing Section I to Section IV. The Japanese Government has in no way applied pressure to the Turkish side by implying that it will not provide a yen loan unless the contract is made for both the bridge and the roads leading to it.

TRADE Non-Tariff

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

9 May 1985

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear Charles,

SECOND BOSPHORUS BRIDGE

I am sending a draft reply to the letter of 2 May from Mr Fallon MP and Mr Hickmet MP about this project.

2 As you know efforts are now being concentrated on securing some of the bridge work for Cleveland either on a joint venture or sub-contract basis. Towards that end the Prime Minister has written to Mr Ozal, the Turkish Prime Minister. At the same time, our Embassy in Tokyo is talking to the Japanese Ministries of Foreign Affairs and Trade and Industry in an attempt to advance Cleveland's case. Meanwhile the company itself is having discussions with the Japanese firms in the winning consortium.

Yours sincerely,
Maureen Dodsworth.

MAUREEN DODSWORTH
Private Secretary

JH2ANV

991-1

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO:

Michael Fallon Esq MP

c.c. Richard Hickmet Esq MP

VC3/7/30

SECOND BOSPHORUS BRIDGE

Thank you for your letter of 30 April 1985 about Cleveland Bridge's bid for the Second Bosphorus Bridge.

I was very disappointed that Cleveland Bridge were unsuccessful in bidding against the Japanese, despite their well-earned reputation on the first bridge, and despite their very competitive bid for the second bridge alone.

I ~~appreciate~~ share your concern about the Darlington factory, and I can assure you that ~~both we and the company are urgently exploring the possibility of~~ the Government are supporting the company's efforts to secure a share of the bridge section, either on a joint venture or on a sub-contract basis. I ~~very much~~ hope that, even at this late stage, such a solution ~~this~~ can be achieved so that some of the work will come to Britain.

I have been in touch with the Turkish Prime Minister to encourage this, and our Embassy in Tokyo are ~~speaking to the Japanese~~ supporting our Embassy ~~in~~ and Tokyo are taking action with the Japanese government.

On the wider question of support by governments for large export projects, this is a difficult issue which is kept under regular review in such international fora as the OECD. For our part, we are working towards tighter international guidelines in this field. I was particularly concerned at the level and volume of support provided by the Japanese Government on the second bridge, and, as you will know, I raised the matter vigorously with Mr Nakasone ~~at~~ in the margins of the Bonn Economic Summit last week.

I am copying this letter to Richard Hickmet.

JH2ANW

TRADE: Non Tariff Barriers
pt 4

17096 - 2

GRS 325
CONFIDENTIAL
DESKBY 090900Z
FM FCO 082000Z MAY 85
TO IMMEDIATE ANKARA
TELEGRAM NUMBER 158 OF 8 MAY
INFO IMMEDIATE TOKYO
SECOND BOSPHORUS BRIDGE

1. PLEASE PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO OZAL.

BEGINS. I HAVE FOLLOWED VERY CLOSELY THE EFFORTS OF A LEADING BRITISH COMPANY, CLEVELAND BRIDGE, TO SECURE IN CO-OPERATION WITH TURKISH AND OTHER COMPANIES THE CONTRACT TO BUILD THE SECOND BOSPHORUS BRIDGE. SO I LEARNED WITH CONSIDERABLE DISAPPOINTMENT THAT YOU INTEND TO AWARD THE CONTRACT TO A CONSORTIUM LED BY A JAPANESE FIRM.

IT IS OF COURSE FOR YOUR GOVERNMENT TO CONSIDER THE VARIOUS OFFERS, AND DECIDE WHAT IS THE MOST FAVOURABLE OUTCOME FOR TURKEY. AT THE SAME TIME, I AM SURE YOU WILL AGREE THAT CLEVELAND BRIDGE HAS VERY CONSIDERABLE EXPERIENCE GAINED BOTH FROM THE FIRST BRIDGE AND WORLDWIDE, AND THEREFORE OFFERS PROVEN EXPERTISE AND TECHNICAL CAPABILITY. IT ALSO, I UNDERSTAND, OFFERED THE LOWEST PRICE FOR THE BRIDGE ITSELF. IF CLEVELAND BRIDGE'S CAPABILITY COULD STILL BE HARNESSED TO THE NEW PROJECT, THIS WOULD GREATLY ADD TO THE STRENGTH OF THE CONSORTIUM. CLEVELAND BRIDGE THEMSELVES HAVE, I UNDERSTAND, ADVISED YOUR OFFICIALS THAT THEY BELIEVE THREE TO FOUR MONTHS COULD BE CUT OFF THE TIME REQUIRED TO CONSTRUCT THE NEW BRIDGE. THIS SEEMS TO ME TO BE AN IMPORTANT CONSIDERATION.

IN THESE CIRCUMSTANCES, CLEVELAND BRIDGE HAVE PROPOSED THAT THEY MIGHT BE INCLUDED IN THE CONSORTIUM EITHER BY MEANS OF A JOINT VENTURE WITH THE JAPANESE FIRM CONCERNED OR PERHAPS AS A SUB-CONTRACTOR NOMINATED BY THE TURKISH GOVERNMENT. CLEVELAND BRIDGE ARE EXPLORING THIS WITH THE CONSORTIUM.

IF YOU WERE TO FAVOUR THIS APPROACH AND WERE PREPARED TO SPEAK TO THE JAPANESE AUTHORITIES AND, IN PARTICULAR, TO OUR

COLLEAGUE, MR NAKASONE, DURING YOUR FORTHCOMING VISIT, I AM SURE THAT THIS COULD SECURE A RESULT WHICH WOULD BE MOST ADVANTAGEOUS FOR TURKEY.

I VERY MUCH HOPE THAT YOU WILL BE ABLE TO GIVE THIS PROPOSAL FAVOURABLE CONSIDERATION. ENDS.

HOWE

NNNN

DISTRIBUTION

LIMITED

SED

FED

PS

PS/LADY YOUNG

PS/MR RAISON

MR JENKINS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T82/85

cc Master
OPS.

10 DOWNING STREET

THE PRIME MINISTER

8 May 1985

My dear Prime Minister,

I have followed very closely the efforts of a leading British company, Cleveland Bridge, to secure in co-ooperation with Turkish and other companies the contract to build the Second Bosphorus Bridge. So I learned with considerable disappointment that you intend to award the contract to a consortium led by a Japanese firm.

It is of course for your Government to consider the various offers, and decide what is the most favourable outcome for Turkey. At the same time, I am sure you will agree that Cleveland Bridge has very considerable experience gained both from the first bridge and worldwide, and therefore offers proven expertise and technical capability. It also, I understand, offered the lowest price for the bridge itself. If Cleveland Bridge's capability could still be harnessed to the new project, this would greatly add to the strength of the consortium.

Cleveland Bridge themselves have, I understand, advised your officials that they believe three to four months could be cut off the time required to construct the new bridge. This seems to me to be an important consideration.

In these circumstances, Cleveland Bridge have proposed that they might be included in the consortium either by means of a joint venture with the Japanese firm concerned or perhaps as a sub-contractor nominated by the Turkish Government. Cleveland Bridge are exploring this with the consortium.

If you were to favour this approach and were prepared to speak to the Japanese authorities and, in particular, to our colleague, Mr. Nakasone, during your forthcoming visit, I am sure that this could secure a result which would be most advantageous for Turkey.

I very much hope that you will be able to give this proposal favourable consideration.

Yours sincerely

Margaret Thatcher

His Excellency Mr. Turgut Ozal

JC VC (6)

10 DOWNING STREET

From the Private Secretary

8 May 1985

BOSPHORUS BRIDGE

The Minister for Trade minuted the Prime Minister this evening proposing that she send a message to Mr. Ozal to support the efforts of Cleveland Bridge to win back some part of the Bosphorus Bridge project. The Prime Minister has signed the message in slightly amended form. I enclose it with this letter and should be grateful if it could be telegraphed overnight to Ankara for delivery.

The Prime Minister thinks that the message should also be copied to our Embassy in Tokyo as background to the instructions which I understand are being sent to them to pursue the matter with the Japanese Government. She also thinks that she should in the fairly near future send a message to Mr. Nakasone to follow up their conversation in Bonn. But it would be better to see first how the discussions between Cleveland Bridge and the successful Japanese consortium develop over the next day or so.

I am sending copies of this letter and enclosure to John Mogg (Department of Trade and Industry) and Paul Haston (Minister of State's Office, DTI).

(CHARLES POWELL)

C R Budd Esq
Foreign and Commonwealth Office

c. FCO

PRIME MINISTER

BOSPHORUS BRIDGE

Cleveland Bridge are trying to win back some part of this project, either by forming a joint venture with the successful Japanese consortium or by being nominated by the Turkish Governhment as a preferred sub-contractor. We have received advice from our Post in Ankara that a message from you to the Turkish Prime Minister, or from Norman Tebbit to the Deputy Prime Minister, would be necessary if Cleveland Bridge were to receive the support they need from the Turks.

.. The advice telegram from the Post is attached.

2 If Cleveland Bridge were successful in their efforts they would not only gain a share in this contract but would also retain their position as world leader in the building of long span bridges. We understand that the Turks would be disposed to be helpful but that they need a push in the right direction. In the circumstances, and given Norman's absence in the United States, I recommend that you send a message

.. along the lines of the attached draft.

P.C.

PAUL CHANNON
8 May 1985

Department of Trade & Industry

Encls

JH3BSI

999-49

48

DRAFT REPLY FOR THE PRIME MINISTER TO SEND TO:

H.E. **MR TURGUT OZAL**

PRIME MINISTER

REPUBLIC OF TURKEY

I have followed very closely the efforts of a leading British company, Cleveland Bridge, to secure in co-operation with Turkish and other companies the contract to build the Second Bosphorus Bridge. So I learned with considerable disappointment that [the bidding had in the event been won by] you intend to award the contract to a consortium led by a Japanese firm.

[I fully accept that this decision has been taken in the light of a full assessment of] It is of course for your Government to consider the various offers, and decide what is [~~and~~ represents in your Government's view] the most favourable outcome for Turkey. At the same time, I am sure you will agree that Cleveland Bridge has very considerable experience gained both from the first bridge and worldwide, and therefore offers proven expertise and technical capability. ~~If this~~ Cleveland Bridge's capability could still be harnessed to the new project, [such a step] this would greatly add to the strength of the consortium.

It also, I understand, offered the lowest price for the bridge itself

Cleveland Bridge themselves have, I understand, advised your officials that they believe three to four months could be cut off the time required to construct the new bridge. This seems to me to be an important consideration.

In these circumstances, Cleveland Bridge have proposed that they might be included in the consortium either by means of a joint venture with the Japanese firm concerned or perhaps as a sub-contractor nominated by the Turkish Government. Cleveland Bridge are exploring this with the consortium.

[But] if you were to favour this approach and were prepared to speak to the Japanese authorities and, in particular, to our colleague, Mr Nakasone, during your forthcoming visit, I am sure that this ~~would be helpful~~ matter could ~~secure~~ secure a result which would be most advantageous for Turkey. ~~[I myself touched on this when I saw him recently in Bonn]~~.

I [hope] very much that you will be able to give this proposal favourable consideration.

RRRT CU DEN

IMMEDIATE

D/BY

D W F F 020/07

ADVANCE COPY

K 07/1403Z

OO FCO (FOR DTI) DESKBY 071415Z

DTI VICTORIA ST

OO FCO DESKBY 071415Z

ECGD.

OO FCO (FOR TREASURY) DESKBY 071415Z

OO FCO (FOR ECGD) DESKBY 071415Z

OO TOKYO

VIA HSM

GRS 440
DESKBY 071415Z
CONFIDENTIAL
FM ANKARA 071330Z MAY 85
TO IMMEDIATE DTI (FOR PEP AND OT5)
TELEGRAM NUMBER OTTER 049 OF 07 MAY.
INFO IMMEDIATE FCO (FOR SED AND TRED), TREASURY, ECGD AND TOKYO.

MY TEL OTTER 048 AND TELECON WILKINSON/RHODES (PEP): SECOND BOSPHORUS BRIDGE.

1. WE HAVE CONSIDERED THE POSITION FURTHER WITH FAULKNER AND ADLER AND AGREED THAT IF CLEVELAND BRIDGE ARE TO HAVE A REAL CHANCE OF JOINING UP WITH THE JAPANESE CONSORTIUM TURKISH GOVERNMENT SUPPORT FOR THIS IDEA WOULD BE A VALUABLE CARD. AS YOU WILL SEE FROM PARAGRAPH 3(E) OF MY TUR, YUSUF OZAL WAS NOT PREPARED TO COMMIT HIMSELF ON THIS THOUGH HE DID NOT RULE OUT THE POSSIBILITY. BUT IT EMERGED FROM OUR CONVERSATION WITH YUSUF OZAL THAT THE TURKS WERE GOING TO BE RELUCTANT TO RISK UPSETTING A PACKAGE WHICH, FINANCIALLY AT LEAST, IS HIGHLY FAVOURABLE TO THEM. IT WILL, I THINK, THEREFORE REQUIRE A HARD PUSH IF THE TURKS ARE TO BE PERSUADED TO ACT ON OUR BEHALF.

2. IN MYTEL NO. 226 TO FCO I SUGGESTED A MESSAGE FROM EITHER THE PRIME MINISTER TO THE TURKISH PRIME MINISTER OR FROM MR TEBBIT TO THE DEPUTY PRIME MINISTER. WE SUBSEQUENTLY AGREED WITH THE DEPARTMENT THAT IN VIEW OF THE AWARD OF THE CONTRACT A MESSAGE ON THE LINES THEN ENVISAGED WOULD NOT BE APPROPRIATE. BUT WE NOW HAVE A SITUATION IN WHICH CLEVELAND BRIDGE ARE PUTTING FORWARD NEW IDEAS WHICH DO NOT SEEK TO CONTEST THE AWARD OF THE CONTRACT TO THE JAPANESE GOVERNMENT, NOR TO UNSCRAMBLE THAT CONTRACT BY SEPARATING THE BRIDGE AND ROAD-WORKS ELEMENTS IN THE PACKAGE. WE CAN FAIRLY CLAIM THAT BY SEEKING CLEVELAND BRIDGE PARTICIPATION ON SUITABLE TERMS EITHER IN THE JOINT VENTURE WITH THE JAPANESE OR AS A NOMINATED SUB-CONTRACTOR WE ARE AIMING AT ENHANCING THE TECHNICAL CAPABILITY OF THE CONSORTIUM TO ENSURE THAT THE BRIDGE IS BUILT ON TIME.

3. IN THESE CIRCUMSTANCES I THINK THAT A TOP LEVEL MINISTERIAL MESSAGE WOULD BE VALUABLE. IF THE TURKS ARE PREPARED TO BE HELPFUL THE BEST OPPORTUNITY FOR THIS WOULD CLEARLY BE DURING OZAL'S FORTHCOMING VISIT TO TOKYO. HE LEAVES FOR JAPAN ON 18 MAY AND WILL INCLUDE IN HIS PARTY YUSUF OZAL AND THE DIRECTOR-GENERAL OF HIGHWAYS. THE FOREIGN MINISTRY WILL BE REPRESENTED BY THE UNDER-SECRETARY TEZEL. THE PRIME MINISTER HIMSELF WILL BE FAMILIAR WITH THE CONTRACT AND HE WOULD BE THE MOST EFFECTIVE INTERLOCUTOR WITH THE JAPANESE. I RECOMMEND THEREFORE THAT THE PRIME MINISTER MIGHT SEND A MESSAGE TO MR OZAL ON THE LINES OF THE DRAFT IN MY MIFT. I DO NOT THINK THAT ON THIS SUBJECT A MESSAGE THROUGH HALEFOGLU, WHO HAS NOT BEEN INVOLVED, WOULD BE EFFECTIVE.

RUSSELL

NNNN

10 DOWNING STREET

From the Private Secretary 2 May 1985

SECOND BOSPHORUS BRIDGE

I enclose a copy of a letter to the Prime Minister from Mr. Michael Fallon MP and Mr. Richard Hickmet MP about the contract for the Second Bosphorus Bridge.

BF I should be grateful for a draft reply by 8 May.

Charles Powell

John Mogg, Esq.,
Department of Trade and Industry.

Ack'd 2/5

R1/5

MICHAEL FALLON, M.P.

HOUSE OF COMMONS
LONDON SW1A OAA

30th April 1985

cc: MA
FCO
DTI

Dear Margaret,

Second Bosphorus Bridge

You will I know be as disappointed as I was to learn, following our meeting earlier this year, that Cleveland Bridge looks like being unsuccessful in its bid for this important project.

I know that the company was very satisfied with the level of support that our Government was able to offer in their negotiations with the Turkish Government; despite this, a letter of intent has now been issued to the rival Japanese consortium.

I hope that before the contract is finally signed our departments will continue to press the British bid, at least for the bridge section itself which would mean a large amount of work for the Darlington factory. If the contract is split in this way or if this can be done on a sub-contract basis, I hope that the appropriate level of cover and aid can again be offered.

The extent to which the Japanese consortium underpriced the other bids also suggests a need for more rigorous international guidelines on the support that governments can offer on such large projects.

In this case the Italian company that formed part of the Japanese consortium was able to offer terms on the roads section that can only have been hugely subsidised. I suggest that action to promote such guidelines might now be urgently initiated at fora such as the forthcoming annual economic summit which both Japan and Italy attend.

Yours

Michael

Richard
(Richard Hickmet)

The Rt. Hon. Margaret Thatcher FRS MP
10 Downing Street,
Whitehall,
London S.W.1.

MO 32/4

NBPM
OD 30/4

FOREIGN AND COMMONWEALTH SECRETARY

CUSTOMS RELIEF ON IMPORTS OF DEFENCE EQUIPMENT

Thank you for your minute of 4th April about the Commission's decision to issue Reasoned Opinions against the UK and a number of other Member States on the waiver of duty on imports of certain defence equipment.

2. I understand from officials that the FRG may now be seeking an accommodation with the Commission and, as a result, will not be among the recipients of Reasoned Opinions. This clearly weakens the hitherto united front against the Commission, particularly as the FRG would have been a very valuable ally in this argument. Nevertheless, for the reasons set out in your letter, I agree that we should use all means to try to deflect the Commission. I have therefore written as you proposed to my colleagues in the FRG, Italy, Denmark and the Benelux countries.

3. I am copying this minute to the other members of OD and to Sir Robert Armstrong.

Ministry of Defence
26th April 1985

Trade Pt 4

Non-Tarriff Barriers

CC PC

FCS/85/112

CDP 25/4

CHIEF SECRETARY TO THE TREASURY

Aid and Trade Provision: Turkey: Second Bosphorous Bridge

1. Paul Channon has sent me a copy of his letter dated 22 April proposing an increase in the ATP grant for the Second Bosphorus Bridge to £14.85 million. I am writing to confirm my agreement to this, although I have some doubts as to whether this, of itself, will be sufficient to secure the contract for Cleveland Bridge.

2. I am copying this to EX members and to Paul Channon.

GEOFFREY HOWE

Foreign and Commonwealth Office

25 April 1985

Trade: non Tariff : Pt 4

017/106

~~10~~

Treasury Chambers, Parliament Street, SW1P 3AG

PQ. 24/4.

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H OET

23 April 1985

Dear Minister

ATP TURKEY:
SECOND BOSPHORUS BRIDGE

Thank you for your letter of 22 April.

I understand that, although the subsidy we have offered is greater than that offered by the Japanese Government, the yen's low commercial interest rate makes the "grant element" of their package higher than ours.

I therefore hope you will look at the possibility of using either yen or deutsch-mark finance as an alternative to an increase in the ATP grant. However if such a package proves to be impossible to put together in the time available, I am prepared to treat the Bosphorus Bridge as a special case and to agree the increase in ATP you propose, even though this brings the total subsidy element higher than would normally be justified. I understand that there are sufficient funds available.

I hope that in any similar circumstances in future the possibility of finance in a low-interest-rate currency could be pursued at an earlier stage.

I am copying this letter to EX members and Timothy Raison.

Yours sincerely

R Broadbent

for **PETER REES**

[Approved by the Chief Secretary]

TRADE: Non-Tariff Barriers
Pt4

010

COMMERCIAL IN CONFIDENCE

33/224/18582

cc NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5144
GTN 215)
Switchboard) 215 7877

From the Minister for Trade

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Great George Street
LONDON
SW1

Pl. await Chief Secretary's reply & submit
CDM

IBF

22 April 1985

Dear Peter,

SECOND BOSPHORUS BRIDGE

Bids for this project were published at the end of last week, and show that Cleveland Bridge have succeeded in submitting a price which is some 3% better than their Japanese opposition. But whilst they have shown themselves able to compete on purely commercial terms, the Japanese Government's associated finance package seems certain to lose us the contract unless we can match its terms on at least the bridge part of the project. Following discussions between our officials, I am writing to seek your urgent agreement that we should provide additional support for Cleveland Bridge which might still give them a chance of successfully exploiting their competitive edge on the bridge.

Consortia interested in this project had been required by the Turkish Government to bid for the bridge and quite extensive associated roadwork, packaged together as four contracts. But the central focus for all has been 'Contract 2' which covers construction of the bridge itself and the immediate approach roads. The Japanese consortium have submitted a $270m bid for this second contract, which is some 20% keener than the Cleveland Bridge-led consortium price of $313m. But Cleveland Bridge's own input is limited to the bridge itself, on which their $111m bid beats the Japanese one of $114m. Cleveland Bridge's chances of success therefore depend upon their ability to separate the bridge from the rest of the contract, and meet the Japanese finance terms.

The Japanese OECF Yen loan, which is clearly directed towards securing the bridgework, amounts to $206m repayable over 25 years at an interest rate of 5% and with a seven year grace period. According to the OECD formula, this yields an implied grant element of 37.1% for the bridge, compared with the UK grant element of 25.1% provided by the £10.04m ATP.

The Japanese loan is separate from their existing OECF pledge to Turkey. It is quite obviously a distortive measure designed to secure the business for Japanese companies. They will doubtless claim that the loan is an untied developmental facility within their bilateral aid programme. We, and Cleveland Bridge, are therefore exploring the possibility of gaining access to this loan since ostensibly it is available to all-comers. But realistically this option will almost certainly be impracticable because of the obstacles which are placed in the way of British companies securing Yen financing. Thus, as matters

999-3

stand, the Japanese consortium is likely to secure the bridge contract at a higher price than the UK bid through cynical use of an OECF loan.

To match this Japanese device, I wish to improve our support for the Cleveland Bridge bid on the bridge by being prepared to offer:

(i) an increase in ATP of some £4.8m to £14.85m; and

(ii) extending the credit period from 8½ to 10 years.

These two measures will produce an overall UK grant element of 37.1% on OECD terms to match the Japanese offer, but - because of the increased ATP - should act to reduce the ECGD DML exposure from £27m to about £26m.

Our Ankara post advises that we need to make an improved offer to the Turkish Government to meet the Japanese concessions this week. Otherwise, they consider that the entire package - and most importantly the bridge - will be awarded to the Japanese.

I consider that the industrial and commercial considerations which underlay our original ATP support for this contract justify the increase now proposed. I understand that this could be accommodated within the existing ATP budget. We have consistently viewed this case as one of matching the Japanese input. Now that Cleveland Bridge have so clearly shown themselves able to match the Japanese on commercial terms, I am sure that we should show ourselves ready to match the Japanese Government's soft loan.

In the circumstances, I would be grateful if you were able to agree my proposals in time for us to inform the Ankara post this Wednesday, 24 April.

I am copying this letter to EX members and Timothy Raison.

Yours,

PAUL CHANNON

Paul

TRADE: Non Tariff Barriers: Pt 4

23 APR 1985

(2)

10 DOWNING STREET

Prime Minister

VRAs

You will want to be aware of Norman Tebbit's paper. He proposes to conduct a cost-benefit analysis of each of our 23 VRAs, to decide which are really justified and deserve government support.

CDP 16/4.

O.D.

CDP o/r

NBPM

CDP 13/4.

FCS/85/89

SECRETARY OF STATE FOR DEFENCE

Customs Relief on Imports of Defence Equipment

1. There have been disturbing developments in our long-standing dispute with the Commission over our practice of granting a waiver of import duty on certain imports of defence equipment.

2. As you know, Article 223(1)(b) of the Treaty of Rome allows any Member State to take "such measures as it considers necessary for the protection of the essential interests of its security which are connected with the production of or trade in arms, munitions and war material". For many years there has been disagreement within the Community about whether this Article entitles Member States unilaterally to waive import duties on articles of defence equipment imported from third countries and falling within categories defined in a list drawn up by the Council in 1958. The Commission have long argued that this practice is not justified, and have sought to establish a distinction between those imports of an inherently military nature and those which, though intended for military use, are capable of other applications.

3. Earlier initiatives on this issue by Davignon in 1977-80 were successfully resisted. Francis Pym, then Secretary of State for Defence, agreed (in his letter to Ian Gilmour of 2 October 1979) that our interests would be best served by continuing to resist, and by stiffening the resistance of other Member States likely to be affected. Although we managed

persuade the Commission to shelve the issue on that occasion, they have now returned to the charge. In October 1984, the UK and six other Member States (FRG, Italy, Denmark and the Benelux countries) received Article 169 mise en demeure letters alleging that all were in breach of Treaty obligations for operating a waiver. We contested the Commission's claim vigorously in our letter of 3 December 1984 on the grounds that

- the United Kingdom procedures were consistent with Article 223 of the Treaty;

- the Treaty leaves to the explicit discretion of Member States the determination of what constitutes their security interests: the Commission has no locus;

- the transfer of resources involved in paying duty would correspondingly diminish the amount available for the defence of the United Kingdom;

- individual procurement decisions would be distorted by considerations other than those of national security;

- to supply information about the costs and quantities of material imported (which would have to include information about the uses to which it would be put, and why alternatives were not suitable) would be contrary to essential security interests; and

- the distinction that the Commission had tried to draw between items of an intrinsically military nature and those which could also be used for civilian purposes was false.

4. We lobbied the other Member States involved in the hope that they would take an equally firm line, but they have so far been insufficiently active to persuade the Commission that opposition from Member States is such as to justify suspending further proceedings against them. The Commission consequently have decided to take at least the next step towards action before the Court. At their meeting on 27 March they endorsed a recommendation that Reasoned Opinions should be issued against all the Member States involved. Lord Cockfield has been sympathetic to our concerns, but he has received virtually no support from his colleagues, and is in a difficult position on an issue falling within his portfolio, on which his functions are semi-judicial, which he inherited from the last Commission, and on which he cannot appear to be arguing a case of concern only to the British. The Reasoned Opinions must issue within three months and are likely to be submitted to Lord Cockfield before the end of April.

5. This is a potentially serious development. We have a good legal case. But if, in the event of the Commission bringing the case before the European Court of Justice, the Court were to decide against us and other Member States we could find ourselves faced with having to pay duty on a coniserable proportion of our imports of defence equipment. I have seen no authoritative estimate of the additional costs that this would entail, but given the level of our imports of defence equipment from non-EC countries I imagine that the sum could well be substantial. As customs duties form part of Own Resources the sums in question would not simply be transferred to the Exchequer: an equivalent amount would be paid into the European Community budget. There would be further serious implications for those Member States whose international commitments in

Memoranda of Understanding on bilateral defence collaborative projects involve reciprocal waivers of customs duty.

6. How serious the diversion of resources would be is for you to say. But I am sure that you would agree that we must continue to object strongly to the element of Community preference that would thereby be introduced into procurement decisions, as Malcolm Rifkind did when the question arose recently in the Dooge Committee. Such a development would be inconsistent with our strongly held views of the respective functions of the Alliance and the Community. It would also be inappropriate at a time when we are concentrating on reaffirming the transatlantic link (in the face of Congressional pressure to cut back US commitments in Europe), and when we are encouraging the Americans to remove some of the obstacles on their side to a more balanced two-way street in defence equipment trade. It might, I suppose, be objected that the impetus which you and your colleagues have given to European defence procurement collaboration in the IEPG represents a form of European preference. But the IEPG is closely linked with the Alliance, and the clear objective is to strengthen the European defence industries and technological base as a contribution to the common defence.

7. I am concerned too about the underlying issue of principle. An adverse judgement in the European Court would insert a wedge into our hitherto successful policy of excluding the Community from competence in all matters relating to defence, and the Commission could be expected to do all it could subsequently to enlarge the breach. While we believe that our case in law is, as I have said, a good one, the Court tends to interpret exceptions to the Treaty restrictively, and I should much prefer not to have to submit our case to the test.

8. Our lobbying so far in capitals has revealed that the Danes and the Dutch have some sympathy for our view. The Italians were also initially constructive. But we must now mobilise support at a political level among those directly concerned. It would therefore be very helpful if you were to write to your colleagues in the other six countries affected by the Commission's proposal (FRG, Italy, Denmark and the Benelux countries), drawing their attention to this problem and seeking their assistance. Woerner should be particularly important in this. I understand that the Germans, Dutch and Italians at least buy a greater proportion of their defence equipment from the Americans than we do: they should be very concerned by the implications of the Commission's action. I would not have thought that it would be necessary to write to Member States other than those immediately affected: while the Commission's line reflects French interests, especially their attachment to 'Community preference' in this area, it is the Commission, not the French, that we are attempting to outflank. To write also to them and others not in the Commission's line of fire might even risk provoking a counter lobbying campaign.

9. It would be worth pointing out to your colleagues that it will be harder to persuade the Commission not to proceed with the case once they have issued the Reasoned Opinions. The time to lobby is now, before the papers have been prepared for signature. We would therefore hope that Defence Ministers in the six other Member States concerned might encourage their colleagues in Foreign Ministries to exert sufficient pressure not only on their Commissioners but also directly on Lord Cockfield, as Commissioner responsible, to dissuade the Commission from issuing the Reasoned Opinions at all.

Even if, in spite of such lobbying, Reasoned Opinions were issued, it would be reassuring to know that your Defence Minister colleagues would seek then to ensure that their governments would reply to the Reasoned Opinion in robust terms.

10. It would also be worth pointing out to your colleagues the link between this case and the separate decision which the Commission took on 27 March to issue a Reasoned Opinion against the United Kingdom on the Commission's claim to customs duty on five Tristar aircraft which were imported duty free by British Airways in 1980 and 1981, used initially for civil purposes but subsequently sold to the Ministry of Defence for military use. We have contested the Commission's claim, primarily on the commercial policy grounds that the customs union provisions of the Treaty do not require the raising of a customs duty on the end use of the Tristars. But we have also reserved our right to argue that even if they did, Article 223 would allow exemption from customs duty. Although the legal basis of the Commission's action on Tristars rests solely on end use, if it were to succeed, the wider issue of Member States' rights under Article 223 would necessarily also be prejudiced. This too, therefore, should be a matter of concern to other member states and not just to us. We hope that they will join in urging the Commission not to proceed on Tristars - and would, if necessary, intervene in any eventual court case to support our position.

11. I think it would also be helpful if Nigel Lawson were to alert his German, Italian and Dutch opposite numbers (and possibly other colleagues) to the disturbing implications of the Commission's action on Article 223 for the allocation of finite resources in national budgets, since it will increase

the pressure on defence budgets. I imagine that Finance Ministries in some, if not all, Member States affected would share their Defence colleagues' wish to resist this Commission initiative.

12. I have no doubt that we need to do everything in our power to muster support on this. It would be absurd of the Commission to pursue action of this kind at a time when all European countries are struggling to accommodate within their defence budgets escalating costs of projects and programmes. The end result could only be to reduce the resources available for the European Allies to devote to defence.

13. I am copying this to other members of OD and Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
4 April, 1985

13/34/67761

CC PO PC

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

(4)

Prime Minister
MEA 10/4

Malcolm Rifkind MP
Minister of State
Foreign and Commonwealth Office
LONDON
SW1A 2AH

4 April 1985

Dear Malcolm.

NEW GATT ROUND

Thank you for your reply of 28 March to my letter of 21 March.

I am in substantial agreement with what you say. On the arguments for and against fixing a target date for the new GATT Round, I agree that there are points to be made on both sides, and that controversy should be played down. The Americans, however, have made clear to us the help which an agreed date would give them, in containing their own domestic protectionist pressures; and in that task we do, of course, have an interest in helping them.

I am therefore proposing, subject to any unexpected sensitivities displayed by our Community partners, to speak at the OECD Ministerial on the lines of the brief agreed between our officials. This envisages my expressing sympathy with the point that a target date would help to concentrate minds, stimulate thinking on the construction of a balanced agenda, and provide a spur for LDCs who do not want to be left out.

I am copying this letter to the recipients of yours.

Yours,
Paul

PAUL CHANNON

Trade Pt 4

Non-Tariff Barriers

(4)

CC NO PC

Foreign and Commonwealth Office

London SW1A 2AH

From The Minister of State

28 March 1985

Prime Minister
CDP 28/3

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1 Victoria Street
LONDON SW1H QET

The matter takes on a new urgency in view of the votes in the U.S. Congress on Thursday

Dear Minister,

PROPOSED NEW GATT ROUND

In Geoffrey Howe's absence in Lisbon I am replying to your letter of 21 March, about the discussion at the March Foreign Affairs Council on a new round of multilateral trade negotiations.

I agree that the outcome was the best that could have been achieved in the circumstances. The German attitude on agriculture made an already difficult hand even more tricky. Yet the Council's statement was pretty good on services; on Japan; graduation of the newly industrialised countries and the trade and finance link, and, in spite of its shortcomings, the text represented a clear step towards what seems already to be thought of as "the Brussels Round". As you say, agriculture is clearly going to be a difficult issue within the Community, and it was good that you were able to toughen up the language to avoid it being construed as a retreat from the EC's commitments on the work of the GATT Committee on Trade in Agriculture.

Clearly the 19 March text will not be the end of the process within the Community, but it is probably a sufficient basis for discussion of the new round which will now continue at the European Council, the OECD Ministerial, the IMF Committee meetings, and the Bonn Summit. The Americans, as reports of De Clercq's visit to Washington show, are not fully satisfied. That is no surprise. Both the US Trade Representative's office and the Department of Agriculture interpret the Community line as negative on the two key issues of agriculture and timing. On the other hand there are voices in the Administration prepared at least to regard the outcome as a glass half-full.

/At

At the Sherpas meeting last weekend, I understand that the US side, while acknowledging that the text was not as bad as they had feared, did stress that it was insufficient because it failed to commit the Community to launch the new round by a specific date. The meeting agreed that, given the divergence of view (on which the Frenchman insisted, resting pat on the Council text) it would be premature to try to draft any language on this aspect for the Bonn Summit. This will be left for their meeting at the end of April, after the OECD Ministerial.

Subsequent discussion at senior official level in Paris to prepare the OECD Ministerial did, however, seem to show that, whether or not everyone is formally committed to a new round, the bandwagon is in a sense already rolling; preparatory negotiations have already begun. No-one called in question that there will be a new round, although the content and timing are still not clear. The French did not try to impede discussion. It would be wrong to minimise the difficulties ahead on this issue: there is still a problem of pace. We shall have a tricky hand to play between now and the Bonn Summit. But I believe that our tactics should be to play down the controversy over the date for the formal launch: it is essentially secondary. The Americans, Canadians and Japanese will continue to give it a higher priority than it deserves, because they believe that setting a date is the main if not only way to bring in the reluctant LDCs and NICs. I suggest that our line should rather be:

(a) to argue that we need the round as soon as possible, both to head off political pressures for protectionism or alternative approaches in the US and in order to achieve our own aims (on services, graduation, etc); but

(b) to continue to stress that trying to rush the fixing of a date both risks having the opposite effect on the LDCs and NICs from that which the advocates of that course intend, and is really unnecessary since work towards a new round is already engaged. A decision on a date is not needed until the ad hoc senior officials meeting of the GATT, for which the Community has called, is held in a few months;

/(c)

(c) to stress that what is important is to make progress towards agreement on the content of the new round, drawing the LDCs and NICs as much into the discussion as we can.

I am sending copies of this letter to the Prime Minister, members of OD and Sir Robert Armstrong.

Yours sincerely,

Brian Donaldson

for Malcolm Rifkind
(approved by Mr Rifkind and signed in his absence by his Assistant Private Secretary)

Trade Pt 4

Non Tariff Barriers

11/213/2083

CC PK NO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

(2)

From the Minister for Trade

Prime Minister
CDP 22/3

CONFIDENTIAL

The Rt Sir Geoffrey Howe QC MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

21 March 1985

PROPOSED NEW GATT ROUND

Norman Tebbit wrote to you on 4 March about the line we should take at the Foreign Affairs Council (Trade Ministers) on the question of a new round of multilateral trade negotiations. You and other colleagues might like to know what emerged, although you may by now have seen the reporting telegrams.

I think that, on the whole, we can be well satisfied with the Council declaration that was finally agreed, although the negotiations were difficult and at times I thought that we would not secure an acceptable text. The Council committed itself to "participate in the launching of a new Round" and to enlisting "the support of its trading partners . . . with the objective that a broad consensus on subject matter and participation should be secured at the earliest possible date". Thus the Community accept that there is a need for a Round and will actively advocate its launch. This is a significant step forward from the previous position and means that the Community can play a positive role both at the forthcoming meeting of OECD Ministers and at the Bonn Summit.

We obtained positive language on the inclusion of services in a GATT Round and on the need for "a better balance of rights and obligations as between all Contracting Parties", which is of course a reference to our objective of graduating the newly industrialised countries. We also obtained a strong paragraph on the pressing need for Japan to do much more to bring her import propensity into line with that of other major trading partners.

The agreed paragraph on finance, which we thought would be a major problem, came out satisfactorily weak and will be a disappointment to the French and those in the Commission (including Delors) who wanted a tight link between reform of the international monetary system and trade.

999-3

The main difficulty, which took up most of the Council's time, was the passage on agriculture. The French, the Commission and all the other Member States, except for the Dutch, were determined to leave nothing to chance; they pressed hard for language that came perilously close to reneging on the Community's acceptance of the Report of the GATT Committee on Agriculture, which was approved last November. We managed to get a few useful improvements to the text (including a specific reference to the GATT decision of last November) but by the late evening of Tuesday, my Dutch colleague (who was magnificent throughout) and I were totally isolated. We were faced with the choice of accepting a less than wholly satisfactory text on agriculture or no declaration. I concluded that there was no prospect at a later meeting of moving the majority, and that to leave with no declaration would risk unravelling the whole package.

The difficulty we had in agreeing Community positions on some of the main subjects that will be included in the GATT Round and which are prime objectives for the UK, notably agriculture and services, augurs badly for the future. It is clearly going to be very difficult to agree Community positions that are acceptable to us and which are negotiable with other Members of the GATT. I was also disturbed at the amount of prior consultation and co-ordination of positions that took place between the French and the Germans. The start of the meeting was delayed by half an hour waiting for the French and Germans to appear. Herr Bangemann's various interventions on agriculture and, more surprisingly, in support of French pressure to set pre-conditions for the formal launch of a Round, were distinctly unhelpful.

I am sending copies of this letter and the attached full text of the Council's declaration to the Prime Minister, to Members of OD and to Sir Robert Armstrong.

PAUL CHANNON

999-49

FOREIGN AFFAIRS COUNCIL (TRADE MINISTERS MEETING): 19 MARCH: DECLARATION ON PROPOSED NEW GATT ROUND

Suggestions for a new round of multilateral trade negotiations have been the subject of careful international consideration for the past two years. They received particular attention at the meeting of the OECD Ministers in May 1984, at the London Economic Summit in June 1984 and at the meeting of the contracting parties of the GATT in November 1984. Such multilateral negotiations have been a regular feature of the GATT since its inception.

2 The Council recalls that a new Round, while of the utmost importance to a strengthening of the open multilateral trading system and to the expansion of international trade, will not of itself be sufficient to such purposes. Thus the Community, in the perspective of a new Round, and while working to achieve the broad consensus requisite for its launching, will urge that the following separate but related desiderata receive serious parallel consideration. Thus:

a in order to ensure credibility, reaffirmation will be necessary of the international commitments variously accepted at the Williamsburg and London Economic Summits, and at the last meeting of OECD Ministers in Paris and of the GATT contracting parties in Geneva:

- effectively to halt protectionism and resist continuing protectionist pressures (standstill);

- to relax and dismantle progressively trade restrictions as economic recovery proceeds (roll-back);

- to pursue the 1982 GATT Work Programme as complemented by the decisions of the contracting parties in November 1984.

b solutions to imbalances whose origin lies in the monetary and financial areas cannot be found in trade negotiations. Determined concerted action is required to improve the functioning of the international monetary system and the flow of financial and other resources to developing countries. Results in the monetary and financial areas should be sought in parallel with results in the trade field.

3 Despite previous trade rounds, Japan's growth of imports of manufactured goods has nowhere matched her export growth. Like concessions to Japan have not produced like results, and in consequence, an imbalance of benefits currently exists between Japan and her principal partners. It is therefore a pressing political necessity for Japan to bring her import propensity into line with that of other partners, by means of domestic structural and other adjustments as well as by measures at the frontier.

4 As regards negotiations on agriculture in the new Round, the Community is ready to work towards improvements within the existing framework of the rules and disciplines in GATT covering all aspects of trade in agricultural products, both as to imports and as to exports,

Non-Tariff Barriers, TRADE Pt4.

taking full account of the specific characteristics and problems in agriculture. The Council is determined that the fundamental objectives and mechanisms both internal and external of the CAP shall not be placed in question.

5 On possible new topics for negotiation, the Council considers that trade in services seems suitable for inclusion. Problems of counterfeit goods and the defence of intellectual property also deserve consideration. Other possible new items should be examined on their merits.

6 The Council affirms the need for reciprocity and a better balance of rights and obligations as between all contracting parties. The Council considers that too selective an approach to individual negotiating points should be avoided. A balanced package of topics for negotiations should be agreed in which all participants will find advantages for themselves. In principle, items should be negotiated and the results implemented in parallel and not in succession.

7 Against this background, and in the light of the desiderata and other relevant considerations mentioned above, the Council considers that a new Round would help to promote world economic recovery and growth and would reinforce the multilateral structures and disciplines of the GATT. Subject to the establishment of an adequate prior international consensus on objectives, participation and timing, the Community declares its readiness to participate in the launching of such a new Round. The Community will accordingly now enlist the support of its trading partners, particularly among the developing countries, to this end. The Community further proposes that the new Round should be inaugurated in Brussels. The Community recognises that a precise date for the formal launching of a new Round cannot be fixed now. A step-by-step approach will best permit solid progress to be made. To initiate the progress the Community renews its proposal of last May for an ad hoc GATT meeting, in the coming months, preferably at the level of senior officials from capitals, to intensify consultations about a new Round and with the objective that a broad consensus on subject matter and participation should be secured at the earliest possible date.

CC NO
PC
NBPM
CDP, 15/3.

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Geoffrey Howe QC MP
Secretary of State
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

14 March 1985

Dear Geoffrey

A NEW GATT ROUND

I strongly agree with the general line set out in Norman Tebbit's letter of 4 March and your own reply of 11 March. In particular I agree that we will need to work hard to identify potential concessions to the NIC's, in order to bring them to the negotiating table. I understand that Norman Tebbit is bringing forward his proposals on the MFA in the near future.

Ministers have already agreed the main line of our approach,in the ES discussion last April. It is important that we maintain the momentum towards greater liberalisation which began at Williamsburg. This is an essential complement to our international financial strategy as well as to our internal competition policy.

My immediate concern is however with the link which the French (and others) are seeking to establish between trade and finance. Clearly, there is a connection: that is why we have agreed that trade should be on the agenda of the April meetings of the Interim and Development Committees (to which GATT representatives have been invited). The link will be emphasised again at the Bonn Summit and at the OECD Ministerial meeting. But we must continue to insist that all these issues are addressed in the appropriate institutions (IMF, IBRD, GATT, etc), which is where real progress can be made. I am a little disturbed at the recent hints (mentioned in Norman's para 8) that the Community might insist on a World Monetary Conference as a precondition of a new GATT round. I doubt if the French (or indeed the Commission) will get much support for this in the Council. Indeed the Germans (at the Anglo-German Economic Committee this weekend) were robust on this point. But we must watch this one carefully. I am sure that at the Council, you and Paul Channon will be able to avoid being manoeuvred into any such commitment.

On the more general issues discussed I think there is a good case for putting a higher priority on dealing with Non-Tariff Barriers. The increasing protectionism of recent years has largely come through NTBs. They therefore represent, along with the American frustration at their growing Trade deficit, the most potent threat to the present trading system. There also seems a strong case for supporting the Germans call for a GATT round starting early in 1986, rather than the vague proposals by the Commission which do not include a specific date.

I am copying this letter to the Prime Minister, Norman Tebbit, other OD colleagues and Sir Robert Armstrong.

Yours ever,

PETER REES

Trade Pt 4

Non-Tariff Barriers

FROM THE PRIVATE SECRETARY

cc NO
PC

HOUSE OF LORDS,
SW1A 0PW

11th March 1985

N BPM
CDP
11/3.

Dear Callum,

A New GATT Round

— with CDP

Mr. Tebbit copied to the Lord Chancellor his letter of 4th March to the Foreign Secretary setting out the line which he thinks United Kingdom Ministers should take at the Foreign Affairs Council on 18 and 19 March in considering the launch of a new GATT Round. The Lord Chancellor has asked me to say that he very much supports Mr. Tebbit's approach. In particular, he supports negotiations aimed at further liberalising international trade in services; legal services are making an increasingly healthy contribution to our international balance of trade.

I am copying this letter to the Private Secretaries to the Prime Minister, other OD Ministers and Sir Robert Armstrong.

Yours sincerely,

Richard.

R. C. Stoate

M. C. McCarthy Esq.
Private Secretary to the
Secretary of State for
Trade and Industry
1 Victoria Street
London S.W.1

Trade PT 4

Non-Tariff Barriers

CC NO
PC

NBPM
CDP
11/3.

FCS/85/54

SECRETARY OF STATE FOR TRADE AND INDUSTRY

A New GATT Round

1. Your letter of 4 March, reviewing our current position on preparations for a new GATT round, and setting out the line Paul Channon and I should take at the 18-19 March Foreign Affairs Council, was welcome. We need a clear but realistic idea of what we want to achieve as we embark on the series of meetings leading up to the Bonn Summit.

2. I agree very much with your approach. It is a logical development of the position on which we agreed at ES in April last year, and the references to a new GATT round in the 1984 OECD Ministerial and London Summit declarations. It is incidentally also consistent with the approach endorsed as long ago as the Williamsburg Summit in 1983. The overriding interest for the United Kingdom is to preserve the sytem of comparatively free trade represented by the GATT. Perhaps the main threat to that system is the mounting protectionist pressure by the United States to which you refer.

3. The US Administration argue that the prospect of a new round is necessary if they are to keep this pressure under control. This is the main reason why we should, as the Prime Minister indicated in Washington, support them in pressing towards a new round. Otherwise the Americans may well become disillusioned with the GATT, opt out of the multilateral trading system, and use their economic muscle to drive separate bargains with their trading partners. We would all be the losers.

4. But it is clear that the Americans have not yet thought through their detailed objectives or their tactics. We must encourage them to work out both what they want to achieve in a new round and how to get other countries to participate. Simply trying to bully the LDCs and NICs into it, as the Americans tried to do at the Contracting Parties meeting in November, will not be enough. The Americans need instead to apply the right pressures in the right places and in the right way. There are signs in Geneva that they are beginning to appreciate this.

5. We and the Americans want to achieve practical objectives, such as opening up the Japanese market and imposing GATT disciplines on the newly industrialising countries. I think that we must expect in return to come under pressure to make concessions in sensitive areas, such as steel and textiles. Your forthcoming papers on the MFA and VRAs will be the main contribution to developing our policy here, and will doubtless bring out the extent to which liberalisation is to our economic advantage, whatever counter concessions the NICs and others make.

6. Our immediate requirement, in view of the forthcoming meeting of the Foreign Affairs Council, is to swing the Community behind the idea of a new round so that it can cease to play the equivocal role now forces on its representatives in Geneva and elsewhere. The French and the Italians are instinctive protectionists, which we and the Germans are not. And a number of Member States, especially France, are very reluctant to expose the CAP to demands that it be brought under international discipline. (As increasingly successful grain exporters ourselves, our own interests in this are not clear cut). The Commission are playing a generally constructive role, which is encouraging.

/Delors

Delors cannot, however, be relied upon to resist the link which the French have recently reiterated between progress towards a new round and a world monetary converence. Even De Clercq has emphasised the relationship between trade and monetary problems - which is undeniable, but not intrinsic to a new round. Kohl may be hoping that the French would not want to spoil his Bonn Summit by pressing their case. We must hope, without too much confidence, that he has better luck than we had in London. In any case this should not deter us from aiming for a positive statement from the March Council, to enable the Community to support the US at the OECD Ministerial and Bonn Summit.

7. I propose, in order to help to achieve this, to try to put the arguments to Dumas, Andreotti and if possible Delors, before the Council discussion. Paul Channon might usefully do the same with his French and Italian counterparts. The next Sherpas' meeting will also provide an opportunity to persuade the sceptical of the need to move, and the Americans of the importance of thinking through both the tactics and the substance if we are together to succeed in launching a new round soon.

8. I am copying this to the Prime Minister, to other OD colleagues and Sir Robert Armstrong.

Foreign and Commonwealth Office

11 March, 1985

GEOFFREY HOWE

Trade Pt 4

Non-Tariff Barriers

PPO - R13/3

Cf ppos 7 ~~CH~~ NO

From: Richard Hickmet, M.P.

HOUSE OF COMMONS
LONDON SW1A OAA

NBPM

Rt Hon Mrs Margaret Thatcher MP
Prime Minister
10 Downing Street
London SW1

7 March 1985

Dear Prime Minister,

Thank you for your letter of 27 February 1985 which I was delighted to receive.

I am so pleased that because of Government action, Cleveland Bridge will be able to tender competitively with the Japanese and the Italians for the building of the second Bosphorus Bridge.

I believe that the British will build the bridge and that it will be of immense value, not only to British industry, but also to British prestige in Turkey and the Middle East.

Yours ever,

Richard.

Trade PT 4

Non Tariff Barriers

CONFIDENTIAL

(2)

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

4 March 1985

The Rt Hon Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

Prime Minister
This is in line with your views and will, I hope, lead us to a more active effort in support of a new GATT round.
CDP 5/3

D Geoffrey.

A NEW GATT ROUND

One of the main trade policy issues in 1985 will be the extent to which we can make progress towards the launch of a new GATT Round. The European Community will be considering its position on this at the Foreign Affairs Council on 18-19 March. The conclusions reached there will set the tone of the contribution to be made by Community Member States at the OECD Ministerial on 11-12 April and at the Bonn Economic Summit on 2-4 May. This is a convenient moment for me to review our position and to set out the line which I think the United Kingdom through Paul Channon, should take at the Foreign Affairs Council.

2 We reached agreement at ES on 3 April last year on the trade policy objectives which the United Kingdom should pursue through a new Round. These are essentially liberalisation of trade in services and agricultural products, "graduation" of the newly industrialised countries, further opening of the Japanese market and the removal of remaining tariff peaks.

3 There is no guarantee that all, or any, of these objectives can be secured. The developing countries will resist any erosion of the privileged status they currently enjoy in GATT: and they are currently insisting on unacceptable pre-conditions for their participation in a Round. The developed world, including ourselves, will have to be ready to contemplate concessions as part of a balanced outcome. We must expect to come under pressure on textiles and on our voluntary restraint arrangements for controlling certain imports. I shall be circulating papers to colleagues shortly on the future of the Multi Fibre Arrangement and on the conclusions of my review of our VRA's. I think it is generally in the UK interest to move towards liberalisation in the textiles regime - and to aim for more realistic safeguard provisions within GATT which could come to replace the present

JH2AHW

999-1

"grey area" measures. But we will want to extract the maximum negotiating advantage in a new GATT Round from any moves we decide to make.

4 As we recognised in ES, there could be substantial risks in a new Round of multilateral trade negotiations. We may ultimately be asked to give more than we gain. This particular danger may be all the greater now that our national position looks likely to be subsumed into the common position of a Community of Twelve, with a more Mediterranean centre of gravity. Another risk is that the whole enterprise could simply fail - leaving the GATT enfeebled.

5 But since our earlier discussion a further factor has come into prominence. This is the growing disenchantment of the United States with the multilateral trade system as it now operates through GATT. Faced with growing protectionist sentiment, fuelled by the current strength of the dollar and a massive trade deficit, the US Administration needs to be able to assure its business community that the GATT will shortly make a serious effort to deal with perceived distortions in the current trade rules. This requires early agreement to a Round. Otherwise there is, in my view, a real danger that the US may be tempted to walk away from the multilateral system and to find some alternative basis for the conduct of trade policy.

6 A US retreat into multilateral or bilateral arrangements would, over time, bring the whole GATT edifice down. This cannot be in the United Kingdom's interest. It has traditionally been, and remains, one of the main objectives of our trade policy to maintain the authority of the GATT. We must aim to keep the Americans on board the multilateral process through endorsement of a new GATT Round designed to underpin and reinforce that authority. The Prime Minister gave positive support to proposals for a new Round during her recent visit to Washington. I am convinced that the risks we could face in the course of multilateral trade negotiations are outweighed by those with which we would be confronted if the GATT lacked the self-confidence to embark on a new Round.

7 The immediate need is to bring the European Community to a position of whole-hearted support for a new Round. Opinions within the Community remain divided. Germany, Denmark and the Netherlands take broadly the same position as we do. But France and Italy are more reserved. They probably do not have any specific goals to pursue through a Round: they are suspicious as regards services and opposed to moves on agriculture which might threaten the CAP. It is important to overcome the doubts of these countries. We should seek a declaration by the OECD Ministerial that the developed countries as a whole are convinced that a new Round of multilateral trade negotiations in GATT would now be timely - and that the appropriate preparatory process should be initiated with a view to an early launch. We want the European Community to put its weight

behind the US in calling for such conclusions. The message could then be reinforced by the Bonn Economic Summit.

8 A great deal will depend on the attitude of the new Commissioners. Commissioner de Clercq looks to be pushing in the right direction. But there is a question mark over the thinking of President Delors. He seems attracted by the traditional French thesis that monetary and financial stability should take primacy over, or at least have equal weight with, further moves on the trade front. The French have at various stages in the past hinted that their support for a new GATT Round would be dependent upon prior agreement that there should be a world monetary conference to deal, inter alia, with the problem of exchange rate instability. This purported link between trade and monetary issues could be awkward to handle (especially since there is unease among our own businessmen about the current volatility of exchange rates). I should like to enlist the help of the Treasury in marshalling the rebuttal arguments to this French approach - which could, represent a serious delaying factor.

9 I think we must aim for some tangible advance on the rather cautious references to a new GATT Round in the conclusions of last year's OECD Ministerial and the London Economic Summit. The stress at that time was on building a consensus as between developed and developing countries on the principle of a new Round. We now need to impart a greater sense of urgency. The sensitivities of the developing countries need to be respected. But we should leave these countries in no doubt that a new Round may well be crucial to the future of the open trading system: they themselves would be major losers if that system started to fall apart.

10 I am copying this letter to the Prime Minister, to other OD colleagues and to Sir Robert Armstrong.

Yours
Norman

NORMAN TEBBIT

JH2AHW

Trade: Non Tariff Barriers: Pt 4

3 MAR 1985

PRMES

REPORT
FROM THE FEDERAL REPUBLIC OF GERMANY

Feb. 27, 1985.

WORLD TRADE TALKS IN LUDWIGSBURG

Possible ways to strengthen Gatt (General Agreement on Tariffs and Trade) will be among topics to be dealt with by ministers from 14 countries meeting in Ludwigsburg near Stuttgart from March 1 to 3 to discuss world trade, economic recovery and national indebtedness.

Host and chairman over the three days from Friday to Sunday will be Dr. Martin Bangemann, Federal Minister of Economics. Britain will be represented by Mr. Paul Channon, Minister of Trade at the Department of Trade and Industry, and there will be representatives from the European Commission and Gatt. A number of international experts on trade and economic affairs will also attend. The conference has been convened by the London-based Trade Policy Research Centre.

The talks will begin on Friday evening and continue until Sunday afternoon. Some of the discussions will also centre on possible lines of approach for the world economic summit to be held in Bonn in May. Other topics will be cutting tariff barriers, easing the problems caused by international debt and closing the trade gap between the developing and developed countries.

Dr. Bangemann wrote in a letter to delegates: "The informal weekend meeting of a representative gathering of government ministers from North and South responsible for international economic affairs will provide the opportunity for us to analyse the state of the global economy. To sustain the world upswing we should comprehensively strengthen Gatt."

Countries taking part are Britain, Canada, France, the Federal Republic of Germany, India, Japan, Kenya, Korea, the Netherlands, Philippines, Singapore, Sweden, Turkey, United States.

PUBLISHED BY THE EMBASSY OF THE FEDERAL REPUBLIC OF GERMANY
23 BELGRAVE SQUARE LONDON SW1X 8PZ TELEPHONE: 01-235 5033 TELEX: 28191

MJ2ADQ (JR)

cc DTI
DM
720
DOE
ODA
CST
MA

10 DOWNING STREET

THE PRIME MINISTER

27 February 1985

Dear Richard

You wrote to me on 24 January, and subsequently came to see me with Michael Fallon on 7 February, to outline the importance of Cleveland Bridge's bid to build the second Bosphorus bridge. You hoped that the Government could provide the level of ECGD cover and aid assistance being sought by the company

I am pleased to tell you that ECGD will be able to provide support within the terms discussed with the company and its bankers, should it be successful in winning the contract. Should other Governments offer aid assistance to their companies in bidding for the contract, we shall inform the Turkish Government that this bid will qualify for assistance under the Aid and Trade Provision. In short, we are informing the company that they can expect to receive the kind of backing which they were looking for to maintain a substantial UK content in their bid and to counter any aid offered by other Governments.

I believe that the company are well satisfied with the assistance which we are prepared to provide. I very much hope that the second bridge can be the same success for the UK as the first one was.

I am sending a copy of this letter to Michael Fallon.

Yours ever

MARGARET

Richard Hickmet, Esq., MP.

CC NO

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

22 February 1985

David Barclay Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Dear David,

SECOND BOSPHOROS BRIDGE

Richard Hickmet MP wrote to the Prime Minister on 24 January urging the Government to give Cleveland Bridge every assistance in their bid for construction of the proposed second Bosphoros bridge. Specifically, this meant being ready to provide the necessary ECGD cover and ATP assistance. The Prime Minister subsequently had a meeting with Mr Hickmet and Mr Fallon MP on 7 February to discuss the matter.

2 At the EX meeting last Wednesday, 13 February, it was agreed that the bid by Cleveland Bridge should be assisted with some £10m ATP, and that ECGD should share the risk on the non-ATP assisted UK content of £30m.

3 The company has been told informally of the outcome, and we are now in the final stages of preparing an ATP offer to convey to the Turkish Government through our post in Ankara. We understand that the two MPs are naturally anxious to be informed of the latest position and a draft reply for you to send is attached. Since the formal ATP offer has yet to be made, and is conditional upon the competing aid assistance which we understand the Japanese are providing, the letter is deliberately couched in rather general terms.

4 I am copying this to Richard Broadbent (Treasury), Peter Rickett (FCO), John Ballard (Department of Environment), David Normington (Department of Employment) and Michael McCulloch (ODA).

Yours sincerely
Maureen Dodsworth

MAUREEN DODSWORTH
Private Secretary

JH1CAF

999-1

PM

DRAFT LETTER FOR ~~PS/PRIME MINISTER TO SEND TO:~~

Richard Hickmet Esq MP
House of Commons
London SW1

SECOND BOSPHOROS BRIDGE

You wrote to ~~the Prime Minister~~ on 24 January, and subsequently ~~met her~~ came to see me with ~~Mr~~ [Christian name] Fallon on 7 February, to outline the importance of Cleveland Bridge's bid to build the second Bosphoros bridge. ~~In particular,~~ You hoped that the Government could provide the level of ECGD cover and aid assistance being sought by the company.

I am pleased to tell you that ECGD will be able to provide support within the terms discussed with the company and its bankers, should it be successful in winning the contract. Should other Governments offer aid assistance to their companies in bidding for the contract, we ~~will~~ shall inform the Turkish Government that this bid will qualify for assistance under the Aid and Trade Provision. ~~No formal offer has yet been made~~. In short, we are informing the company that they can expect to receive the kind of backing which they were looking for to maintain a substantial UK content in their bid and to counter any aid offered by other Governments.

I ~~understand~~ believe that the company ~~is~~ are well satisfied with the assistance which we are prepared to provide. ~~and the Prime Minister~~ I very much hope that the second bridge can be the same success for the UK as the first one was.

I am sending a copy of this letter to ~~Mr~~ [Christian name] Fallon.

JH1CAG

TRADE : Non-Tariff Barriers: Pt 4.

25 FEB 1985

11 12 1 2 3 4 8 7 10 9

CEPC

(2)

JF7561

Prime Minister
Relevant to discussion of the Bosphorus Bridge contract in EX tomorrow
CDP 12/2

CONFIDENTIAL

PRIME MINISTER

ECGD FINANCIAL PROJECTIONS

I thought I should alert you and our colleagues to ECGD's latest financial projections to the end of this decade, which officials have prepared for Paul Channon's annual discussion of their business plan with Peter Rees.

2 The base case indicates that the Department's cumulative borrowing requirement will rise from the present £400m to more than £1bn in 1987/88, before beginning to reduce. We have, of course, to look at the size and quality of ECGD's reserves and surpluses, as well as their borrowing requirements. In the base case, the reserves, after falling last year, should rise for the rest of the decade from £600m to £900m. The base case is, of course, already included in all Treasury assumptions.

3 The biggest single factor influencing the outturn of ECGD business is the international debt problem. The base case assumes that the problem has been broadly contained and that debtors will, for the most part, honour their obligations. Officials have also prepared a rather more pessimistic scenario on the assumption that real interest

rates rise, forcing more countries into arrears and the need for softer terms, including relief on interest. The resulting claims on ECGD entail a borrowing requirement of almost £4bn by the end of the decade and a fall in reserves and surpluses to around £400m over the same period. If such a scenario were to happen, there would be other consequences for British banks, etc. ECGD would not be the only problem we would have to face.

4 If a disaster occurred, rendering the major third world debtors incapable of servicing their debts, there would be horrendous consequences for the US and UK banking systems, as well as for ECGD. Under this so-called "crisis" scenario, ECGD's borrowing requirement over this period could reach some £7bn and ECGD's reserves would be wiped out and indeed moved to a deficit of £600m.

5 I think it is too early to consider whether we need to take any action on the basis of these projections. Officials should be allowed to complete their analyses and I will then report to you again. But I would mention that against this sombre picture, the good news is that on reasonable assumptions, current business being undertaken by

ECGD on current terms and conditions is likely to pay its way overall, though there are a number of doubtful individual facilities which are under review.

6 I am copying this minute to Geoffrey Howe, Nigel Lawson, Michael Heseltine and Sir Robert Armstrong.

NT

N T

12 February 1985

Department of Trade and Industry

12 FEB 1985

EX(85)1
12 February 1985

COPY NO 2

CABINET

MINISTERIAL COMMITTEE ON EXPORTS

PROJECTS IN TURKEY : SECOND BOSPHOROS BRIDGE
AKKUYU 1 NUCLEAR POWER STATION

Memorandum by the Secretary of State for Trade and Industry

SUMMARY

Present ECGD credit cover for Turkey is limited, and insufficient to support the bids of UK companies on two major projects. These are:

(a) construction of the second Bosphoros Bridge - Cleveland Bridge (a Trafalgar House subsidiary) are bidding for leadership of the contract. This would involve £40m UK content. The bid is up against international competition, notably the Japanese who are offering aid-finance (Case summary an Annex A); and

(b) turbine generators for a nuclear power station, Akkuyu I. Parsons (an NEI subsidiary) are collaborating with Atomic Energy of Canada Ltd (AECL) for a contract with a UK content of £30 million. This is one of the two chosen tenders for final evaluation. The other is from KWU of West Germany (Case Summary at Annex B).

Cleveland Bridge, having lost the chance of a negotiated contract because cover was not agreed, must respond to the Turkish tender by March; Parsons must confirm their participation to AECL shortly.

BACKGROUND

2 Turkey has in recent years had a poor credit rating. ECGD went off cover following rescheduling of debts in 1978. Prospects were sufficiently improved for ECGD to restore cover, albeit on limited terms, in 1983, even though further rescheduling cannot be ruled out at this stage.

3 In view of uncertainties over Turkey's investment priorities and resources, both companies were allowed to pursue their bids on a "first-come first-served" basis within a restricted availability of medium-term ECGD country cover and on condition that they shared some of the risk with ECGD. Accordingly, both bids have been pared down to a minimum UK content.

4 Of the total £206 million ECGD medium-term cover for Turkey, only £24 million remains. Both ECGD's share of the face value of the contracts sought and the associated interest payments over the periods of the loans would need to be met. As a result, the remaining credit cover of £24 million is not enough for the UK element of either bid, particularly that of Parson's which has a longer loan period.

5 As regard the Bridge, it is proposed to match the aid offer from the Japanese with £10 million ATP. The remaining £30 million of the total £40m UK contract value would be shared equally with the private sector. The remaining liabilities for ECGD - taking account of interest payments over the period of the loan - would therefore virtually be containable within the remaining ECGD limit. After our failure to agree this package, which lost Cleveland Bridge the opportunity to gain a negotiated contract, it is now a question of putting together a bid against aid-assisted Japanese competition.

6 The Turkish Government, after a long period of relative inactivity, have now indicated that they wish to pursue final negotiations on the Akkuyu I nuclear station. Parson's bid, as part of the Canadian consortium, has been pared down to a UK content of £30 million, again with liability shared with ECGD on a 40 per cent private sector, 60 per cent ECGD basis. But, largely because of the longer loan period, there is insufficient ECGD cover available for the company to take advantage of their short-listed position.

7 The increase in ECGD's credit limit which would be necessary to allow both companies to pursue their bids would be a further £47 million, as shown by the table below:

	Face value of Contract to be covered by ECGD	Total potential ECGD Liability, including interest payments over loan periods.	*Assumes £10m ATP
Cleveland Bridge	£15m*	£27m	
Parsons	£18m	£44m	
(a) Total ECGD Liability		£71m	
(b) Currently available ECGD cover		£24m	
(c) Increase sought in ECGD cover		£47m	

ISSUES

8 (a) Industrial and Commercial Aspects. Each bid would:

(i) involve some 2,000 man years of work in areas of high unemployment, particularly the North East;

(ii) be important to sustain modern production plants; and

(iii) reflect major efforts undertaken by both companies to advance their sales opportunities.

Apart from their readiness to share country risk, both companies have spent substantial sums preparing proposals, establishing co-operative arrangements, and presenting their bids. Cleveland Bridge's credentials for major structural steel projects are high, and Parson's last turbine orders overseas were won against the Japanese in Singapore and Iraq.

A choice between the two is extremely difficult. As things stand both companies draw the conclusion that we are not prepared to give them the same support as their competitors receive from their Governments. It should be noted that there are other companies with current indications of ECGD cover for Turkey. They, together with any newcomers, would have to be told that ECGD cover had been exhausted for the present and would be bound to complain about what they would describe as preferential treatment for the two companies.

(b) Diplomatic Aspects.
Coming so soon after the public controversy surrounding Tornado and Airbus, the apparent UK reluctance to support Turkey at a time when their Government has taken realistic economic steps is bound to weaken our position across the field of commercial and political relations.

CONCLUSION

9 Increased ECGD exposure of £47 million in the market must be weighed against the industrial/commercial and political benefits of these two potential contracts. I consider that both bids are of sufficient importance to justify acceptance of the risk involved in providing the support proposed. The Secretaries of State for Employment and Environment have also underlined the employment aspects in adding their support for these proposals.

The Committee is, therefore, asked to approve:

(a) provision of £10 million ATP against Cleveland Bridge's bid; and

(b) an increase in the present ECGD cover for Turkey of some £47 million sufficient to accommodate both bids.

N T

Department of Trade and Industry
12 February 1985

ANNEX A

SECOND BOSPHOROS BRIDGE

BACKGROUND

Cleveland Bridge are bidding with a local Turkish firm, ENKA, for construction of this bridge and some 37-300 kilometres of associated roadwork. While, in another market, Cleveland might have gone for a higher UK value contract, in view of the credit limit, they have reduced the scope of their package to some £40 million and relied upon foreign sub-contractors for some of the basic bridge, and all of the road-related, work.

Normally Cleveland would be well-placed, having an unsurpassed reputation world-wide for long-span bridge work and having successfully completed the first Bosphoros bridge in 1973. But the main Japanese competition, determined to break into the international market, are offering concessionary finance equivalent to some 40+ per cent of their price, i.e loan of up to US$200 million over 25 years at 4.25-4.75 per cent annual interest. (A copy of the Japanese offer obtained from confidential sources is at Appendix I).

To help counter this, Cleveland Bridge have sought the minimum ATP support of £10 million on the £40 million UK content (including steel, cable, fabrication and management). The company, to reduce further the liability on ECGD, have - with their banks - agreed to take a seven and half year horizon of risk without ECGD cover on 50 per cent of the contract value, after ATP has been allowed for. They are, in addition, raising £500 million for the civil construction.

IMPLICATIONS

Cleveland Bridge hold a technological lead in long-span bridge construction over the Japanese, who are their most formidable potential competitors. If Cleveland Bridge were forced to withdraw from the bidding for the second bridge the Japanese would develop and apply new techniques and exploit their success over Cleveland in bidding for future business around the world. Future business is currently valued at over £250 million in the next 5/10 years.

As one of the main gateways to Turkey, the second bridge will be a prominent example of UK design and engineering skills. In employment terms, some 2000 man years in the UK would flow from the contract, notably at Cleveland's modernised Darlington plant where capacity is now seriously under-utilised and redundancies are already taking place.

Cleveland Bridge could - in the absence of ATP - reduce the UK content to a project management role for other countries' supply of the hardware. But, even if they were successful in this, the UK would gain little employment or diplomatic and commercial advantages with Turkey.

Department of Trade and Industry
12 February 1985

APPENDIX 1

PRE-QUALIFICATION FORM

PROPOSALS

Please state any proposals about the construction technique, finance and duration of the work with regard to the realization of the project, otherwise state "not applicable".

We are submitting below our proposal on the subject of the financing required for realizing the project :

Our group would like to undertake the construction of the whole four lots,which are:

1) Kınalı - Mahmutbey Motorway section of the Kınalı - Adapazarı Motorway (Thracian Motorway),
2) 2nd Bosphorus Bridge and Crossing,
3) Çamlıca - Gebze Motorway (Anatolian Motorway),
4) İzmit - Adapazarı - Kazancı Motorway (Anatolian Motorway)

and secure their financing.

Our group is in position to secure financing covering the whole value of our tender, under favorable payment conditions.

We would like to draw your attention to the following two points which will enable obtaining financing under favorable conditions :

1) We are in position to obtain a Japanese Yen Credit of $ 200 Million U.S.Dollars equivalent value, which will be used exclusively for financing the 2nd Bosphorus Crossing lot of work, covering the Bridge and the related crossing motorways. In case your Administration agrees to, the subject Yen Credit can be realized upon request of the Turkish Government.

   Terms and conditions can be as follows :

   - Yearly interest rate 4,25 - 4,75 %
   - Back payment period 25 years including 7 years grace period
   - Amount : up to $ 200 million

2) The financing we are going to secure for the 1st, 3rd and 4th lots and possibly for the motorway part of lot 2 can be as follows :

   - 15 % by Italian Government credit under conditions indicated below,
   - Another 15 % as an export credit loan.

PROPOSALS

Please state any proposals about the construction technique, finance and du of the work with regard to the realization of the project, otherwise state "not applicable".

The U.S.Dollar based Italian Government Credit can be obtained under the following conditions, in case this is requested by the Turkish Government from the Italian Government.

- Yearly interest rate 2 % - 2,5 %
- Back payment period 17 years including grace period
- Amount 15 % of the tender value for the subject lots.

The export credit loan will be under the current consensus agreement terms and its amount will also be the 15 % of the tender value of the same lots.

It is planned to complement the rest of the financing requirement from commercial credits.

We are submitting to your kind attention the above scheme which for the whole of four lots meets your credit requirements under most favorable terms and conditions to your Administration regarding interest rates, back-payment periods and grace periods.

We have set up our programs with the goal of completing the whole project by July 1988.

In setting up this Association, the combined strength of the partners,

- In their strong staffs of skilled personnel,
- In extensive plants and equipments in their ownership,
- In their financial strength,
- In their deep experience in the construction and manufacturing fields for similar works,
- In their use of the latest and most actual technical means and in the additional support which will be brought in by their associated companies and subcontractors,

will insure the reliable and perfect realization of this most important project.

Our Turkish Partner is entitled to contact your Administration on behalf of our Association, in case any information or clarification is required regarding our prequalification application.

Yours respectfully,

Sezai Türkeş Feyzi Akkaya Construction Co.

Ishikawajima-Harima Heavy Industries Co. Ltd.

Mitsubishi Heavy Industries Ltd. T. Ukawa

Nippon Kokan K.K.

Impregilo S.p.A. (Impresit Girola-Lodigiani)

ANNEX B

AKKUYU I

Background

Parsons are in a consortium led by AECL of Canada for the Akkuyu I nuclear power plant which has a total value of £1 billion. KWU of Germany are the principal competitors. Within the consortium Parsons has responsibility for the turbine element worth £150 million in total. Because of the credit restraint they have arranged to source as much as possible overseas. They have retained only the turbine generators supplied from this country, worth some £30 million. Further scaling down of the UK content is impossible.

Negotiations on this contract are now at an advanced stage following tenders in early 1984. Both KWU and AECL have had to offer to operate the plant and to put up equity for an operating company. The money to pay the companies for equipment supplied by them will be raised by electricity sales. Parsons' equity contribution would be about $3.3 million and, with their banks, they have agreed to take a 12 year horizon of risk on 40% of the contract value without ECGD cover.

Implications

Parsons' contract for turbine supply would provide about 2,000 man years of work, mainly in the North East, where the company is facing redundancies through shortage of orders. Collaboration with AECL in the nuclear field is one of the company's principal commercial strategies. This would be undermined if they were to withdraw at this late stage. A £40 million bid to collaborate with AECL for the next nuclear

JH3BJL

station in Canada would immediately be jeopardised and other prospects in Portugal, Korea and Yugoslavia would also be affected. Moreover, as GEC previously withdrew from a larger share of the AECL bid for Akkuyu for lack of UK credit support, the Canadians would become reluctant to consider turbine generator supply from the UK again. To date the UK has supplied the majority of AECL's turbines. The loss of this customer in present very competitive market conditions would be serious.

On the wider political front the Canadian government have consistently pressed us to support their Anglo/Canadian power sector ventures. Parsons' withdrawal, particularly if it handed the Turkish contract to KWU, would be likely to affect Anglo/Canadian industrial collaboration more generally.

JH3BJL

P.01491

PRIME MINISTER

2nd Bosphorus Bridge
(EX(85)1 and 2)

BACKGROUND

Cleveland Bridge (CB), a Trafalgar House subsidiary, are bidding to construct the Second Bosphorus Bridge in Istanbul. The United Kingdom (UK) content of the contract, which involves steel, cable fabrication and management work amounts to some £40 million. CB built the first bridge in 1973, and have a worldwide reputation for long-span bridge construction. But the main Japanese competition, anxious to break into the international market, are offering soft finance which amounts to a price subsidy of around 50 per cent. To help counter this, CB have sought Aid and Trade Provision (ATP) support of about £10 million. A decision is needed urgently.

2. The Minister for Overseas Development has approved ATP of 25.1 per cent of the UK content up to a maximum of £10.4 million, on a conditional matching basis, provided that Export Credits Guarantee Department (ECGD) cover for the deal can be agreed. The Chief Secretary is opposed to granting ATP. A further problem is that, following the British Aerospace (BAe) Airbus deal, present ECGD credit cover for Turkey is almost exhausted. The Chief Secretary has agreed that the present £200 million ceiling may be increased by £6 million to accommodate the Bosphorus Bridge order, but other projects, including a promising order for Norther Engineering (NEI) for turbines for a nuclear power plant at Akkuyu risk being squeezed out.

Canadians

3. A similar issue has arisen over cover for Talbot's car assembly contract with Iran. A separate note is annexed to this brief.

Proposals

4. The Secretary of State for Trade and Industry proposes in EX(85)1:

a. ATP of £10 million for the CB project;

b. increasing the ceiling for ECGD cover by £47 million to £253 million, in order to accommodate both the CB and NEI projects.

5. The Chief Secretary's main concern is the overall state of ECGD's finances. EX(85)2 proposes:

a. holding the ECGD ceiling for Turkey at "about £200 million" (we understand this includes the £6 million increase to £206 million already tentatively agreed in respect of the CB project);

b. a tough line on ad hoc increases in cover for risky markets;

c. consideration of spending Ministers sharing the risks of any increased cover;

d. discussions between the Chief Secretary and the Minister for Trade on steps to improve ECGD's financial position.

MAIN ISSUES

6. The main issues are:

i. ATP for the 2nd Bosphorus Bridge;

ii. the appropriate level of ECGD cover for Turkey (and hence the fate of the NEI project);

iii. ECGD's overall financial position.

2nd Bosphorus Bridge

7. You have discussed the employment implications for the North East project with Messrs. Fallon and Hickmet, the MPs for Darlington and Scunthorpe. The details are set out in paragraph 8i of EX(85)1. CB argue that losing this contract will put at risk other potential business of over £250 million in the next 5-10 years. Against this, the Treasury have pointed out that the reason for the loss of the contract - the size of the Japanese subsidy - will be generally known, and need not undermine CB's reputation. CB could reduce their bid to a project management function, and source overseas with foreign subsidised materials. Mr Tebbit argues that to do this would be sensitive in terms of employment, and undermine the attraction of the contract in respect of our diplomatic and longer term commercial relations with Turkey.

8. The Foreign Office support the project as a symbol of Anglo-Turkish co-operation, and an opportunity to demonstrate British technology. They are concerned about the political impact of failure to support it, following on from the refusal of ECGD cover for the Tornado contract in November last year.

ECGD Cover for Turkey

9. ECGD cover for Turkey was only resumed in 1983, following the 1978 financial crisis. The limit £200 million was fixed in April 1984. When the Government decided to accept the Airbus order in December, this was in the knowledge that BAe would take up a high proportion (£169 million), leaving little flexibility to accommodate

other projects. The Chief Secretary argues that the Turkish economic outlook does not justify a further increase in ECGD's exposure, and that the limited cover remaining should be taken up by business on more commercial terms such as the prospective NEI order. The latest Joint Intelligence Committee (JIC) assessment suggests that there is a risk of further rescheduling.

NEI Akkuyu Project

10. The NEI project is at an advanced stage of negotiation, and, the Department of Trade and Industry (DTI) judge, has similar industrial and commercial merits to CB's. Some 2,000 man years work would flow from the contract, also with a bias towards hard-pressed plant in the North East. Withdrawal would jeopardise NEI's chances of winning a £40 million contract in Canada and weaken other, more distant, prospects of business in partnership with the Canadians. In order to go ahead with their present bid, NEI need ECGD cover of about £42 million; this would necessitate an increase in the country limit whether or not the CB order is also covered.

ECGD's financial position and procedures

11. We understand that the Chief Secretary is more concerned about ECGD's overall financial position, and about the way in which cases come up for decision, than about either the CB or NEI projects. At best, ECGD's deficits will add £377 million to the Public Sector Borrowing Requirement (PSBR) in 1985/86, with cumulative borrowing reaching £1100 million by 1988. The Comptroller and Auditor General qualified ECGD's last two sets of accounts because of insufficient provision for possible future losses. Further cover for Turkey can only worsen ECGD's exposure; there are other cases in the pipeline in addition to CB and NEI.

12. On procedure, the Chief Secretary wants to get away from the present system of setting a country ceiling and then taking projects largely on a "first-come, first-served" basis. This inevitably leads to pressure on the ceiling at the year-end. Ad hoc increases are than conceded on what are generally worthy projects, with the result that ECGD's overall position is made more risky. He would prefer to protect ceilings by better phasing of commitments, achieved through greater selectivity in accepting projects. Where, exceptionally, the limits were eased, he would like to see spending Ministers sharing some of the risks. (Talbot's Iranian contract is an example of how this might work in practice; see the Annex to this brief).

13. The Chief Secretary and Mr Channon are due to discuss such questions shortly and the Sub-Committee will not wish to pre-empt this detailed examination. They might however wish to offer some general guidance on the conduct of the review.

HANDLING

14. Although it is the Chief Secretary's general disquiet about ECGD's finances which has dictated his stance on the specific cases before the Sub-Committee, and which are his main concern, it is unlikely that there will be time for more than a preliminary discussion of this. The CB, NEI (and to a lesser extent Talbot) cases require urgent decisions. With this in mind you will want to invite the Secretary of State for Trade and Industry and the Chief Secretary, Treasury to introduce their papers. The Foreign and Commonwealth Secretary has just returned from Turkey, and can comment on the impact on our relations with Turkey. The Minister for Overseas Development can advise on the ATP aspects.

CONCLUSIONS

15. You will wish the Sub-Committee to reach conclusions on the following matters:

i. whether to grant ATP for the 2nd Bosphorus Bridge;

ii. the level of ECGD cover for Turkey;

iii. whether to offer guidance on:

a. the handling of similar future cases;
b. revision of ECGD's procedures generally; and

iv. (if there is time) whether to grant increased cover for Talbot's Iranian contract, and if so on what basis.

PG

P L GREGSON

12 February 1985

ANNEX

TALBOT'S IRANIAN CONTRACT

If there is time it may be convenient to deal with another ECGD case involving disagreement between the Treasury and Department of Trade and Industry, the details of which are set out in paragraphs 5 and 6 of the Chief Secretary's paper.

Proposals

2. Talbot have asked for a temporary increase in cover of £15 million, to £50 million while new payment arrangements are made with the Iranians. The Chief Secretary is prepared to agree this temporary increase, but only on condition that the Department of Trade and Industry bear part of the risk (£15 million over 2 years) of the guarantee being called on their Public Expenditure Survey (PES) programme. Mr Tebbit has refused, and the workforce has been laid off.

Main Issues

3. We understand that the Chief Secretary is more concerned with improving procedures for the handling of ECGD cases than with the details of this particular case. He wishes to establish, through this example, that where increases in country limits are agreed, he can ask other Ministers to share the risks of increased cover. The main advantage, from his point of view, would be that spending Ministers would be likely to exercise greater caution in putting forward additional candidates. There may be some scope for an agreement with Mr Tebbit which established this principle, but on the basis of a figure lower than £15 million. On the other hand Mr Tebbit is unlikely to concede what could be an expensive precedent easily, and it may be that this general concept will have to be remitted for further study by the Chief Secretary and Mr Channon.

ECGD FINANCES

ECGD's surpluses or deficits are treated as notional deposits or borrowings from the Consolidated Fund. The table in paragraph 2 of EX(85)2 shows forecast deficits (notional borrowings) from the Consolidated Fund as at 31 March each year, after receipts are netted off and including notional interest payments. It thus shows the balance rather than cash flows.

2. The PSBR impact of ECGD deficits is the difference between the Year 1 deficit and the Year 2 deficit, less notional interest. Thus:

		£m
1985/86 cash balance		885.4
1984/85 cash balance (not shown in the paper)	-	451.6
		433.8
less notional interest	-	56.9
		376.9
rounded		377

3. Mercifully there is no dispute between Departments about these figures, which originate from ECGD.

CONFIDENTIAL

PRIME MINISTER 12 February 1985

EXPORT CREDITS: COUNTRY LIMITS

The Chief Secretary ought to be supported in the discussion at EX. ECGD's finances are deteriorating fast; the cash outflow will be nearly £400 million next year. We provided cover to countries such as Poland, Yugoslavia, Mexico, Brazil and Nigeria which seemed sound in the 1970s but turned out to have feet of clay. We need to respect country limits to prevent matters deteriorating even faster. If there were risky markets where we are well below the limit, we could exceed the limit in others and still balance the portfolio; but this is not the case.

We suggest that both the projects in Turkey be supported, provided that MoD and DTI agreed to press no other projects for Turkey in 1985/6 and we drop the £10 million ATP for the Bosphorus Bridge. Surely ATP is not necessary to secure the project, remembering that Cleveland Bridge built the first Bosphorus bridge. And in any case, why are we providing aid to a middle-income, European country?

The Iran case is less attractive because the buyer has already defaulted. At the best of times it would be a bad principle to direct ECGD to act in a way which jeopardises their financial obligations. In view of ECGD's current financial position, this course is even harder to defend. There must be a chance that Talbot will carry the risk itself and continue production; or alternatively, it could re-employ the laid-off workers once this hiatus is past.

The Chief Secretary suggests that DTI should take on some of the risk in this case. But does this help? Our exposure is not lessened just because it is shared around Whitehall. (However, if E(X) supports the cover for Iran, DTI should share the risk.)

Conclusion

We recommend supporting the bids for Turkey, with no ATP, and rejecting the bid for Iran.

Nicholas Owen

NICHOLAS OWEN

E.R.

PRIME MINISTER

EX

1. You are familiar with the papers on the Bosphorus Bridge project. The Foreign Secretary will just have returned from Turkey. Only the Chief Secretary is blocking; and he more to draw attention to ECGD's growing financial problems than on the merits.

2. Strictly speaking no decision is needed on the NEI order. But you will want to consider whether to raise the ceiling for Turkey to accommodate this bid if necessary - if only to avoid another EX shortly.

3. There is also a tricky point on Iran (see Annex to the Cabinet Office brief) which may have to be deferred.

4. Finally the Chief Secretary will want to bring to colleagues' attention the increasingly serious financial position of ECGD and to introduce his proposed new procedures to protect ceilings. This needs to be sent for further study and discussion between the Chief Secretary and DTI.

C.D.P.

12 February 1985

CDP

OTO

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213 6400

Switchboard 01-213 3000

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Great George Street
LONDON SW1

12 February 1985

Dear Peter

file with CDP

PROJECTS IN TURKEY: SECOND BOSPHORUS BRIDGE AND AKKUYU POWER STATION

I have seen copies of the recent correspondence on this subject and strongly support Norman Tebbit's view that we should agree an increase in the ECGD cover limit sufficient to accommodate both Cleveland Bridge and NEI, and in addition should provide ATP of some £10 million for the bridge bid.

Virtually all the 4000 man years work which would flow from these two contracts would go to areas of very high unemployment. Much of it would go to plants in the North East, one of the most economically depressed parts of the country. Not only does it have the highest unemployment rate of all regions in Britain (Northern Region, excluding Cumbria: 20.3%, only slightly below Northern Ireland's rate of 21.3%), it has a disproportionate number of jobs in traditional sectors, such as coal mining and shipbuilding, which must be vulnerable. Redundancies are currently running at over 2000 a month, twice the national average. There is a widespread feeling in many sectors of the community in the North East that the Government has not shown sufficient concern about their plight.

I understand that 500-600 redundancies could result if Cleveland Bridge fail to win the Bosphorus Bridge contract and that all 1000 jobs at the Darlington plant could be at risk because of the effect this would have on the company's chances of winning other overseas business in the future. There must also be a risk of significant job losses at NEI if they fail to win their contract. I gather that NEI are at present totally dependent on export orders, that there are very few such orders around and withdrawing from the Akkuyu project would jeopardise their chances of winning other business in partnership with the Canadians.

I am copying this letter to the Prime Minister, Patrick Jenkin, Geoffrey Howe, Paul Channon and Sir Robert Armstrong.

Trade: Non Tariffs barriers: Pt 4

12 FEB 1985

From: Richard Hickmet.

2

010

c/f 1/Ps.

Prime Minister

HOUSE OF COMMONS
LONDON SW1A 0AA

8:2:85

12/2

Dear Prime Minister,

Thankyou so much for seeing Michael Fallon & myself about the Bosphorus Bridge.

It was good of you to listen to all that we had to say.

I was particularly pleased to hear your comments about Scunthorpe. They have done really well in in the steelworks & I know the town

would appreciate hearing your comments

in person!

Yours ever,

Richard.

SUBJECT

c. Master Set

10 DOWNING STREET

From the Private Secretary

7 February 1985

SECOND BOSPHOROUS BRIDGE

Mr. Michael Fallon MP and Mr. Richard Hickmet MP saw the Prime Minister this afternoon to press the case for credit cover and ATP for Cleveland Bridge's bid for the second Bosphorous Bridge. They did so very articulately, stressing the employment aspects and the importance of the contract for Britain's overall standing in Turkey. They recalled that the Turks had paid for the first bridge in three years. They stressed the urgency of a decision: indeed they hoped that one could be announced during the Foreign Secretary's forthcoming visit.

The Prime Minister explained our misgivings about Turkey's creditworthiness, and the competing claims for limited quantities of credit cover and ATP. A decision would have to balance competing claims. She would ensure that it was taken soon, though there was no prospect of a decision in time for Sir Geoffrey Howe's visit.

The next step in presumably an early meeting of EX.

I am copying this letter to Richard Broadbent (Chief Secretary's Office, HM Treasury), Colin Budd (FCO) and Richard Hatfield (Cabinet Office).

Charles Powell

Callum McCarthy, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

E.R.

PRIME MINISTER

BOSPHOROUS BRIDGE

Michael Fallon, MP, and Richard Hickmet, MP, are coming to see you on Thursday to press the case for credit cover and ATP help for Cleveland Bridge to win the contract for the second Bosphorous Bridge. They are up against heavily subsidised Japanese competition.

The background is explained in the attached papers. The problem in summary is:

(i) Turkey is a poor credit risk;

(ii) only £20 million cover out of the £200 million ceiling remains unused. Sale of Airbus to Turkey used £169 million.

(iii) there are many companies seeking business in Turkey which would use up the remaining £20 million many times over. Cleveland Bridge are asking for £26 million (+£10 million ATP). But NEI also have power station business for which they want £45 million credit cover.

(iv) Treasury are unwilling to increase the ceiling (particularly given ECGD's poor trading position). If a decision has to be made on competing bids, they would prefer NEI's unsubsidised business to the Cleveland Bridge's subsidised business.

(v) DTI want to support both Cleveland Bridge and NEI which would mean increasing the ceiling to £245 million.

(vi) loss of either order would cause unemployment in the North East.

An attempt is being made to settle between DTI and Treasury, but will probably fail. In that event, until we can get Ministers together for a decision in EX, you can do little more than promise the MPs that the case for Cleveland Bridge is recognised but it has to be judged against competing claims.

C.D.P.

5 February, 1985.

CONFIDENTIAL

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215
SWITCHBOARD 01-215 5422

JF7510

Secretary of State for Trade and Industry

5 February 1985

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Buildings
Parliament Street
LONDON
SW1P 3AG

Dear Peter,

PROJECTS IN TURKEY : SECOND BOSPHOROUS BRIDGE AND AKKUYU POWER STATION

In your letter of 14 January to Paul Channon you reiterated your opposition to ATP support being offered for the £40m UK content sought by Cleveland Bridge in its bid for the second Bosphorous bridge. I believe that this is a particularly important project and that we should now meet, with Geoffrey Howe, to try and resolve the issue. If not, I would want to go to EX.

2 I understand that our officials have been in touch and that this Thursday seems the most suitable time. Without rehearsing all the arguments once again, I would like to pick up some of the points raised by your last letter and what I hope we might be able to agree at our meeting.

3 You say that a "heavy subsidy" is needed for Cleveland Bridge to win. I agree that ATP is necessary, but it is not a "heavy subsidy". We are seeking the norm of 25.1 per cent, which is a great deal less than the 40% plus grant element being offered by the Japanese on a more extensive $200m loan.

4 Should there be any doubt about the Japanese intentions, you should see the attached copy of their bid. I should emphasize that this is <u>not</u> a publicly available document and should be given a very restricted circulation. You note that other business is being pursued by UK companies in Turkey, of which NEI's Akkuyu bid is the most significant. But, first, any contract award to NEI is a more distant prospect than you suggest. Negotiations are certainly at a fairly advanced stage, following the initial bids a year ago.

999-1

KWU, of Germany, remain in close contention. Second, the whole of the ECGD cover at present available is some £20m short of NEI's requirements, which have been reduced to an absolute minimum by substantial overseas sourcing. Supporting Cleveland Bridge does not displace NEI: the company is already blocked by inadequate cover.

5 As things stand, therefore, neither NEI nor Cleveland Bridge are really in a position to pursue either contract. However I think there is justification for supporting both projects. The case in favour of Cleveland Bridge has already been spelt out extensively. Success for NEI would pave the way for further collaborative efforts with the Atomic Energy Company of Canada. To choose one project now seems to make no commercial sense, and would attract vigorous criticism that we are not prepared to give our project industry - and the jobs that depend upon it - anything like the same kind of support that our competitors do.

6 To give both Cleveland Bridge and NEI the Government backing they need to maintain their bids would involve agreeing:

(i) an increase in the ECGD limit sufficient to accommodate both bids, should they be successful. We currently estimate this at an additional £45m; and

(ii) ATP of some £10m for the bridge bid.

7 I am copying this to the Prime Minister, who has seen the previous correspondence and will I understand be meeting some of our own backbenchers this week about the Bosphorous bridge, and to Geoffrey Howe, Leon Brittan, Tom King and Patrick Jenkin who have expressed an interest in the case.

Yours,
Norman

NORMAN TEBBIT

PROPOSALS

NB Covering note TPM SS/DTI to CST . 5/2

Please state any proposals about the construction technique, finance and duration of the work with regard to the realization of the project, otherwise state "not applicable".

We are submitting below our proposal on the subject of the financing required for realizing the project :

Our group would like to undertake the construction of the whole four lots, which are:

1) Kınalı - Mahmutbey Motorway section of the Kınalı - Adapazarı Motorway (Thracian Motorway),
2) 2nd Bosphorus Bridge and Crossing,
3) Çamlıca - Gebze Motorway (Anatolian Motorway),
4) İzmit - Adapazarı - Kazancı Motorway (Anatolian Motorway)

and secure their financing.

Our group is in position to secure financing covering the whole value of our tender, under favorable payment conditions.

We would like to draw your attention to the following two points which will enable obtaining financing under favorable conditions :

1) We are in position to obtain a Japanese Yen Credit of $ 200 Million U.S.Dollars equivalent value, which will be used exclusively for financing the 2nd Bosphorus Crossing lot of work, covering the Bridge and the related crossing motorways. In case your Administration agrees to, the subject Yen Credit can be realized upon request of the Turkish Government.

   Terms and conditions can be as follows :

   - Yearly interest rate 4,25 - 4,75 %
   - Back payment period 25 years including 7 years grace period
   - Amount : up to $ 200 million

2) The financing we are going to secure for the 1st, 3rd and 4th lots and possibly for the motorway part of lot 2 can be as follows :

   - 15 % by Italian Government credit under conditions indicated below,
   - Another 15 % as an export credit loan.

PROPOSALS

Please state any proposals about the construction technique, finance and du'
of the work with regard to the realization of the project, otherwise state
"not applicable".

The U.S.Dollar based Italian Government Credit can be obtained under the following conditions, in case this is requested by the Turkish Government from the Italian Government.

- Yearly interest rate 2 % - 2,5 %
- Back payment period 17 years including grace period
- Amount 15 % of the tender value for the subject lots.

The export credit loan will be under the current consensus agreement terms and its amount will also be the 15 % of the tender value of the same lots.

It is planned to complement the rest of the financing requirement from commercial credits.

We are submitting to your kind attention the above scheme which for the whole of four lots meets your credit requirements under most favorable terms and conditions to your Administration regarding interest rates, back-payment periods and grace periods.

We have set up our programs with the goal of completing the whole project by July 1988.

In setting up this Association, the combined strength of the partners,

- In their strong staffs of skilled personnel,
- In extensive plants and equipments in their ownership,
- In their financial strength,
- In their deep experience in the construction and manufacturing fields for similar works,
- In their use of the latest and most actual technical means and in the additional support which will be brought in by their associated companies and subcontractors,

will insure the reliable and perfect realization of this most important project.

Our Turkish Partner is entitled to contact your Administration on behalf of our Association, in case any information or clarification is required regarding our prequalification application.

Yours respectfully,

Sezai Türkeş Feyzi Akkaya Construction Co.

Ishikawajima-Harima Heavy Industries Co. Ltd.

Mitsubishi Heavy Industries Ltd.

Nippon Kokan K.K.

Impregilo S.p.A. (Impresit Girola-Lodigiani)

Trade: Non-Tariff Barriers Pt 4.

5 FEB 1985

12 1 2 3 4 5 6 7 8 9 10 11

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215) ....
(Switchboard) 215 7877

From the Minister for Trade

4 February 1985

David Barclay Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Mr Powell

Dear David

SECOND BOSPHOROUS BRIDGE: MEETING WITH MICHAEL FALLON MP AND RICHARD HICKMET MP

Thank you for your letter of 29 January. I enclose a suggested line for the Prime Minister to take when she meets Mr Fallon and Mr Hickmet to discuss the second Bosphorous bridge. The line has been agreed with the Treasury and the FCO. It is necessarily brief given the differences which still exist between Treasury, and ourselves and the FCO.

2 The background to the case remains as outlined in the note attached to my letter of 28 January. This was supplemented by Richard Broadbent's letter of 30 January.

3 I shall forward a reply for the Prime Minister to send to Mr Hickmet, but we would prefer first to await the outcome of the Prime Minister's meeting and other Ministerial considerations which may follow in the hope that this will allow something more substantial to be sent to him.

4 I am sending copies of this letter and enclosure to Peter Ricketts (FCO), John Ballard (Department of the Environment), David Normington (Department of Employment), Richard Broadbent (Treasury), and Hugh Taylor (Home Office).

Yours ever
Steve

STEPHEN NICKLEN
Private Secretary to the
Minister for Trade

JH1BVB

999-3

BRIEFING FOR PRIME MINISTER'S MEETING WITH MR M FALLON MP AND MR R HICKMET MP

TURKEY: SECOND BOSPHOROUS BRIDGE

Line to take

1 Express sympathy for case outlined by MPs. This case is, however, complex and there are several factors which must be taken into account.

2 ECGD's existing credit cover for Turkey is tight and there are many potential demands upon the cover still available.

3 The ATP case in support of Cleveland Bridge cannot be looked at in isolation. Other business competing for ECGD's available cover must be taken into account.

4 The matter will be resolved as quickly as possible.

4 FEB 1985

003/104

CONFIDENTIAL

c. Mr Wiggins
Cabooff.

CDP 30/i

Mr Powell
Towe
Duns
30/.

Treasury Chambers, Parliament Street, SW1P 3AG

D Barclay Esq
10 Downing Street
LONDON
SW1

30 January 1985

Dear David

SECOND BOSPHORUS BRIDGE

Steven Nicklen sent me a copy of his letter of 28 January, about the Prime Minister's coming meeting with Mr Fallon and Mr Hickmet, when they are likely to lobby her about the Cleveland Bridge bid for the Second Bosphorus Bridge.

The note enclosed with Steve's letter was not cleared with the Treasury although we do not seriously dissent from it. Following your letter yesterday we will be agreeing a line to take with the Department of Trade and Industry.

The Chief Secretary thinks it particularly important however to remind the Prime Minister of the background to the present position.

Including cover for contracts on cash terms the ceiling for ECGD cover in Turkey is £200 million. Some £180 million of this is already committed, £169 million in respect of British Aerospace business mainly relating to the order we recently approved for Airbus. As we knew at the time, committing such a high proportion of cover to one supplier would face us with difficult decisions about allocating the remaining £20 million of cover. Business worth many times this is under negotiation. The Bosphorus Bridge would use all that remains plus a small increase (£6 million). It would also require a £10 million ATP subsidy.

The Turkish economy ran into serious trouble some six years ago, and there were a number of concerted international rescue operations, to which the UK contributed. As a result, no further ECGD cover was granted for some years. Cover was resumed in July 1983, on the basis of a marked improvement in their prospects and performance and the amount of cover that could be made available was increased in April 1984 in response to the demand for cover. Recently there have

CONFIDENTIAL

been signs of faltering. The Joint Intelligence Committee reviewed the situation recently, and concluded that there was a risk of further rescheduling. In the circumstances the Chief Secretary is most reluctant to go beyond the limit of £200 million.

There are lots of claimants for this cover. The Bosphorus Bridge is the first one in time; but there is also a major NEI bid for a nuclear power station (which will require, on present assumptions, increasing the limit to about £225 million, rather than the £206 million needed for the bridge); and more distantly, BAe have still not given up hope that they might be able to secure some limited amount of cover for the Tornado contract (the original proposal for which Ministers agreed last November should be refused). In addition there is a lot of smaller business.

ECGD's accounts for 1983-84 will be published tomorrow. They will show a marked deterioration in the trading position in that year, which is expected to continue during the current year and in 1985-86 (for which the Chief Secretary has just received the Estimate). The Chief Secretary will be discussing ECGD's financial prospects with Mr Channon shortly, on the basis of a new Business Plan. Meanwhile he thinks it would be most unwise to increase ECGD's exposure in <u>any</u> risky market, and particularly Turkey. For that reason, he will argue at the EX meeting against any further increase, beyond that necessary to accommodate either the Bosphorus Bridge or (possibly) the NEI power station if the size of the contract can be scaled down; certainly not both. Given a free choice, he would obviously prefer the one which does not require a £10 million ATP subsidy.

For these reasons we will be seeking to agree a line to take with the Department of Trade and Industry that makes no commitments to the two MPs who are seeing the Prime Minister next week, pending proper consideration by EX.

I am copying this letter to Peter Rickett (Foreign Office), John Ballard (Department of Environment), David Normington (Department of the Employment), and to Steve Nicklen (Department of Trade and Industry)

Yours ever

Richard

R J BROADBENT
Private Secretary

TRADE
Non-Tariff
Pt 4

30 JAN 1985

CF - BM

c. Mr. Wiggins
Cab Off.

10 DOWNING STREET

From the Private Secretary

29 January, 1985.

Second Bosphorus Bridge: Meeting with Michael Fallon, MP, and Richard Hickmet, MP

I am writing to confirm our telephone conversations earlier today in which I said that the Prime Minister had agreed to meet Mr. Michael Fallon, MP, and Mr. Richard Hickmet, MP, about the second Bosphorus Bridge. The meeting had originally been arranged for this Thursday, 31 January, but has been postponed until next week (probably 5 February) because of the censure debate.

I enclose a copy of a letter to the Prime Minister from Mr. Hickmet which sets out his case in some detail. I should be grateful if you could provide a draft reply for the Prime Minister to send after the meeting.

I should also be grateful if you could provide a brief for the meeting. This could perhaps be based on the attachment to your letter to me of 28 January, updated as necessary, and supplemented by a line to take agreed with the Treasury.

I am sending copies of this letter and enclosure to Peter Ricketts (Foreign and Commonwealth Office), John Ballard (Department of the Environment), David Normington (Department of Employment), and Richard Broadbent (Chief Secretary's Office, HM Treasury).

David Barclay

Steve Nicklen, Esq.,
Department of Trade and Industry.

Mtg.

David

Re: meeting with Richard Hickmet
and Michael Fallon - 4.00 p.m.
on Thursday, 31st January

I attach the letter which came to Michael. You very kindly said that you would arrange for briefing.

Tessa
29.1.84

CONFIDENTIAL

c. The Wiggins for Mtg

From the Minister for Trade

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215)
(Switchboard) 215 7877

David Barclay Esq
Private Secretary to the Prime Minister
10 Downing Street
London
SW1

28 January 1985

Dear David

SECOND BOSPHOROUS BRIDGE

1 I understand that Mr Fallon and Mr Hickmet, the Members for Darlington and Scunthorpe, are seeking a meeting with the Prime Minister to explain their constituency interests in Cleveland Bridge's bid to build the Second Bosphorous Bridge in Turkey.

2 The two MPs met my Minister last week. He has also had a separate meeting with Mr Doug Hoyle MP. Mr Fallon's constituency includes the Cleveland Bridge steel fabrication plant, and Mr Hickmet's the BSC plant which would provide the steel for the bridge. If Cleveland Bridge were successful in their bid, the Darlington plant would benefit by at least 750 man years work and over £12m sales. The plant at present employs about 1,000 men. It has recently declared 90 redundancies, and more are threatened. The Scunthorpe work would involve some 125 man years, and sales of at least £6m.

3 Cleveland Bridge have been pursuing the contract for nearly a year, but are facing extremely stiff Japanese competition. The Japanese are less experienced in long span bridge building, but are offering a loan on particularly advantageous terms which amount to a subsidy of about 50%. As a result, Cleveland Bridge and this Department feel that they have no chance of following up on their success in building the first bridge without assistance from the Aid and Trade Provision (ATP). As the attached background note explains, we have so far failed to reach inter-departmental agreement that this assistance should be provided. Mr Channon has advised my Secretary of State to take the case to EX.

4 I am copying this letter and attachment to Peter Ricketts (Foreign and Commonwealth Office), John Ballard (Department of the Environment), David Normington (Department of Employment) and Richard Broadbent (Treasury).

Yours ever

Steve

STEVE NICKLEN
Private Secretary to
the Minister for Trade (PAUL CHANNON)

999-3

CONFIDENTIAL

CONFIDENTIAL

SECOND BOSPHOROUS BRIDGE: CLEVELAND BRIDGE BID

Cleveland Bridge, a Trafalgar House subsidiary, are bidding to construct the Second Bosphorous Bridge in Istanbul. The UK content of the contract, which involves steel, cable, fabrication and management work amounts to some £40m. Cleveland built the first bridge (1973) very successfully, and have a worldwide reputation for long-span bridge construction. But the main Japanese competition, anxious to break into the international market, are offering soft finance which amounts to a price subsidy of around 50%. To help counter this, Cleveland Bridge have sought ATP support of £10m.

The Problem

Present ECGD credit cover for Turkey is limited: the British Aerospace share of Airbus sales in December 1984 drastically reduced the cover available. As a result, it has been impossible to reach agreement that ATP be offered on a contract that would take up all the remaining credit cover. A decision is needed by early February to allow Cleveland Bridge to respond to the Turkish Government tender, and it is likely - following inconclusive ministerial correspondence - that the issue will be taken to EX.

Background

Some 2,000 man years would flow from a successful bid by Cleveland Bridge for the contract. It would have a particular impact on employment in the North East, where Cleveland Bridge's Darlington fabrication plant is facing redundancies against a dwindling order book. Cleveland argue that without this contract they would be at a real disadvantage in bidding for other overseas business, totalling over £250m in the next 5-10 years. Cleveland Bridge could seek to reduce their bid to a project management function, and instead source overseas with foreign subsidised materials. To do this would be sensitive in terms of employment, and would undermine the attraction of the contract in respect of our diplomatic and longer term commercial relations with Turkey. The first bridge is a national landmark, and acclaimed as an example of British technology and co-operation. For this reason, the request for ATP has been supported by the DTI and FCO.

The Treasury is opposed to offering ATP. It has argued that the Turkish economic outlook does not justify an increase in ECGD's exposure in the market, and that the limited cover remaining should be taken up by business on more commercial terms. As an example of such business, it has specifically referred to NEI's interest in sourcing turbine generators as part of a Canadian led consortium negotiating a contract for a £1bn nuclear power plant in Turkey.

CONFIDENTIAL

The NEI bid is at advanced stage of negotiation, and has very similar industrial and commercial merits to that of Cleveland Bridge's. Again, some 2,000 man years work would flow from the contract, also with a bias towards hard-pressed plant in the North East. If NEI were to withdraw they would jeopardise the chances of winning a £40m contract in Canada and weaken other, more distant, prospects of business in partnership with the Canadians. But in order to go ahead with their present bid, NEI need a £18m increase on the present ECGD limit. This, as with the ATP for the Cleveland Bridge bid, we understand the Treasury would also resist.

As matters stand, therefore, neither company can pursue its intended bid. For this reason, following inconclusive ministerial correspondence, it seems likely that the issue of Turkish cover and the related question of ATP for the market will need to go EX shortly.

PEP1/DTI
2155454/5212

28 January 1985

999-80

From: Richard Hickmet, M.P.

HOUSE OF COMMONS
LONDON SWIA OAA

For Mtg.
C. Mr Wiggins
Cab Off

Rt Hon Margaret Thatcher MP
The Prime Minister
10 Downing Street
London SW1

24 January 1985

Dear Prime Minister,

SECOND BOSPHORUS BRIDGE, TURKEY

I am writing to you as a matter of urgency about the Turks' decision to build a second Bosphorus bridge.

The first Bosphorus bridge was designed by Freeman, Fox & Partners and built by the Cleveland Bridge Company and paid for itself within three years. Every Turk is proud of the first Bosphorus bridge and is aware of the fact that it was designed and built by this country.

The Turks now want us to build the second Bosphorus bridge and Trafalgar House, the holding company for Cleveland Redpath Engineering Limited, will win the contract provided adequate ECGD cover can be provided and also, most importantly, if an AT&P grant (Aid for Trade Promotion, I think) is provided.

The total contract, including approach roads of 240 kilometres is worth US$500 million of which some US$150 million to US$170 million would be exported to Turkey. The contact is worth to Cleveland Redpath £45 million and it is of fundamental importance to that company if they are to maintain their world dominance in bridge building that they win the contract. In addition, and most importantly bearing in mind the political implications of the North East, the contract is of vital importance to the future employment of the 1,008 employees who work in Darlington for that company.

In addition, all the steel to be used in the construction of the bridge will be made by BSC Scunthorpe in my constituency. The contract will take 4 days of the total steel production of BSC Scunthorpe.

/2

The Turks want the British to build the bridge but we are facing strong competition from the Japanese, who are prepared to offer the sort of cover and aid which Cleveland Redpath are seeking from the Government.

The grant required is in the order of £11 million sterling with the ECGD cover on a 60:40 basis for the balance. I understand that the Treasury is most reluctant to make such a grant although I understand that the DTI firmly support this project.

I cannot stress the importance of this contract as far as British prestige is concerned. Although the sums involved are far less, it is of much greater prestige value than the sale of British Aerospace Airbus to Turkey. Every vehicle that crosses the Bosphorus into the Middle East and beyond or from the Middle East and into Europe will be crossing two bridges, both built by the British. As a shop window for our exports to an expanding economy which we should support, it would be of unrivalled value.

I do hope that Michael Fallon and I might come and see you to discuss this matter if there is any clarification required. It is a matter of urgency as I understand the Treasury will be making a final decision within the next day or two.

Yours ever,

Richard.

w a Tariff

c R Wiggins

1) ~~LAT~~
2) NBAM

002/112

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

Paul Channon MP
Minister for Trade
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1

24 January 1985

Dear Minister,

THE SECOND BOSPHORUS BRIDGE

Norman Lamont wrote to me, in your absence, on 14 January.

This is a matter of priorities. I said in my letter of 11 December that if you accorded top priority to the Airbus order, as in the event you did, we would face difficult decisions because it would pre-empt almost all the available cover in a bad market.

Now we face those decisions. I do not think Bosphorus Bridge is the next highest priority.

The Bosphorus Bridge project would use up all remaining cover for Turkey. The order could only be obtained by heavy subsidy with ATP money. The effect would be to displace commercial orders won by British industry in free competition. I have just heard, for example, that the NEI consortium (led by Atomic Energy of Canada Ltd) has probably been awarded the Akkuyu nuclear power station contract. This will involve UK exports of £30 million with substantial employment benefits. I think it would be wrong to allow this order to be displaced by a subsidised order for the Bosphorus Bridge.

I know you will still be concerned about Cleveland Bridge's future, but this must be viewed in context. Despite recent problems, Trafalgar House's Steel Division, of which Cleveland Bridge is the dominant part, has increased turnover by fourteen hundred per cent in the past decade. You particularly mentioned future contracts in China, US and Portugal totalling over £300 million and your worry that Cleveland Bridge would be seen to have been 'beaten' by the Japanese for the Bosphorus contract.

However, I am sure that other governments will not be impressed by a firm that required a 50 per cent subsidy to beat Cleveland Bridge, whose reputation is well established.

I have also seen Geoffrey Howe's minute of 21 January. I appreciate his concern for our relations with the Turkish Government, but surely we shall be making a substantial contribution to their economic rehabilitation if we secure the power station contract?

The limitations on cover mean that a straight choice between NEI and Cleveland Bridge is likely to be required, since either would use up all that remains. This is a difficult decision, but I hope you will agree that we should not provide ATP for the bridge. This will ensure that priority is given to the unsubsidised NEI contract. If you can show good reasons for not supporting NEI, I would be prepared to consider a scaled-down UK involvement in the Bosphorus Bridge contract, if this were feasible, but only if it would still leave significant cover remaining for commercial business.

I am copying this letter to the Prime Minister and to Geoffrey Howe.

Yours sincerely

Paul Pegler

p PETER REES

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

TRADE
Non-Tariff
Barriers Pt 4

c. Mr. Wiggins.

FCS/85/10

Weapons
Dub
21/1

CHIEF SECRETARY TO THE TREASURY

Turkey: Second Bosphorus Bridge

1. I have seen Norman Lamont's letter of 14 January asking you to reconsider your position on ECGD and ATP cover for Cleveland Bridge's bid for the above project (your letter of 21 December to Paul Channon). I support this request.

2. In her letter of 28 December, which I understand you received too late to take into consideration in reaching your earlier decision, Janet Young set out the reasons why we set so much store on a successful Cleveland Bridge bid for this project and would like to see it accorded a high priority.

3. The Ministerial decision to refuse cover on the proposed sale of Tornado has already been fully aired in the UK and Turkish press and some unwelcome inferences drawn. The Turks will certainly consider it very odd indeed if we do not pull out all the stops to secure this business and will begin to question the seriousness of our oft-repeated wish to participate fully, and to our mutual benefit, in their economic rehab litation and recovery. You will recall that the BOTB mission to Turkey last autumn which was led by the Duke of Kent was intended to get over just that message.

/4.

4. Timothy Raison has now approved a revised package involving ATP provision of 25.1% of the UK content up to a maximum of £10.4 million, on a conditional matching basis, provided that the complementary ECGD cover which is needed can be agreed. Against that background, I hope that you will feel able to reconsider your decision.

5. I am sending copies of this letter to the Prime Minister and Norman Lamont.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
21 January 1985

TRADE:
Non Tariff
pt 4

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5186
GTN 215)
(Switchboard) 215 7877

From the Minister of State for Industry

Norman Lamont MP

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

1) ~~PT to me~~
2) ~~Await CS reply~~
CM

14 January 1985

Dear Peter

THE SECOND BOSPHOROUS BRIDGE

You wrote to Paul Channon on 21 December about the Second Bosphorous Bridge contract in Turkey which Cleveland Bridge are trying to win. You felt able to agree a small increase in ECGD cover on Turkey, but not the £10m ATP which Cleveland - and ourselves - judge essential if they are to stand any chance of success against competition supported by aid.

I hope that you might reconsider the position. I have this week met representatives from Trafalgar House, Cleveland's parent. Quite apart from the jobs created and safeguarded in the North East and North West, there are three main reasons why the contract is of particular importance. The issues involved go beyond a narrow consideration of the present ECGD limit for Turkish business.

First, as Janet Young has emphasised since your reply, the project is of real political importance. The first bridge is a national landmark. We built it. We do not wish to be upstaged by the Japanese winning the second bridge.

Secondly, it maintains Cleveland Bridge's world position as a long span bridge builder. They will certainly lose reputation if they lose the contract, and the Japanese will gain. Such a bridge is almost certainly within Japanese potential capability, but to date they have not had the chance to prove it internationally. More importantly, Cleveland will find it extremely difficult to maintain - let alone develop - their own capability if they lose the contract. Their engineering and design teams will break up, with expertise lost to Cleveland's overseas competition. Their ability to compete for prospective business in China (a £100m contract) the USA (£200m+) and Portugal (£25m+) will be significantly diminished.

MONANP

Thirdly, Cleveland's capabilities have, to a significant extent, been assisted by UK developments over the last 20 years. They built the Forth, Severn and Humber road bridges. Against the increasing calls for UK infrastructure work - most recently and clearly voiced this week both in Parliament and the NEDC - we have said that civil engineering and construction companies can benefit from overseas opportunities. This is just such an opportunity, and politically a very visible one. Yet we are witholding from Cleveland the opportunity that £10m ATP would provide for them to bid on anything approaching equal terms with their Japanese competition.

Cleveland will not win without some aid input. The Japanese have made a dead-set at the contract. Recognising the nature of the international market, the Japanese Government are providing Nippon Steel with financial assistance which has allowed an offer to the Turks of the loan in excess of £80m at 4% interest over 25 years. The company have received this backing despite the fact that its own assets and turnover dwarf the Trafalgar Group's. Without some aid offer on our part, and our £10m proposal is substantially less than the Japanese, the Turkish Government will find it extremely difficult to resist the Japanese bid. They will conclude, understandably, that we are not prepared to make the necessary effort to win the business.

Cleveland have shown their commitment and have marketed aggressively over recent months, up to the Turkish Prime Minister. They have made arrangements to raise over £100m in loans over and above those covered by ECGD to meet the local costs of the associated road network. They have offered 50% risk-sharing on the balance of the off-shore bridge element against the ECGD norm for the market that 40% of risk be taken by the commercial parties. As Airbus showed the 40% figure is itself proving very demanding for the British banks.

The ATP we are proposing is a good deal less than the Japanese offer. Cleveland recognise this, but believe that it allows them the opportunity to edge the Japanese out. The only way they can bid without ATP is to source all their materials and equipment elsewhere, and hope to win aid from other governments. By so doing, however, they will effectively be transferring jobs and technology overseas - quite possibly, irretrievably. Loss of fabrication work would be a severe blow to their modern facility at Darlington where up to a 1000 jobs would be put at risk. Indeed, they have already begun lay-offs. In these circumstances, work sourced abroad would be much criticised.

With this rather fuller explanation of our position, I hope that you will now feel able to agree our ATP proposal of 25.1% on a UK content of £40m.

MONANP

I am copying this to the Prime Minister and Sir Geoffrey Howe.

Yours

Norman

NORMAN LAMONT

MONANP

999-49

TRADE : Non-Tarriff Barriers : Pt 4

018/110

CCND

Treasury Chambers, Parliament Street, SWIP 3AG

NBPM

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1 - 19 Victoria Street
LONDON SW1H OET

21 December 1984

Dear Minister

ATP TURKEY: SECOND BOSPHORUS BRIDGE

Thank you for your letter of 17 December. attached

Although there is no justification for any increase in ECGD's total exposure in Turkey I would not stand out against the relatively small increase (£6 million) you propose on the limit if this were necessary to secure important business on commercial terms.

I cannot accept, however, that the small amount of cover remaining should be used for an ATP case. I understand that UK firms are competing for orders in Turkey worth a total of £360 million. The prime purpose of the ATP is to increase UK exports, not to replace commercial orders by subsidised ones. I made it clear in my letter of 11 December that increasing the cover for the Airbus deal involved a judgement about priorities. I would not, incidentally, , take quite such a pessimistic view as you on the effect of losing the Bosphorus contract on Cleveland Bridge's prospects of future business, in view of their established position in the construction of long-span bridges.

I am copying this letter to the Prime Minister and the Foreign Secretary.

Yours sincerely

for PETER REES

[Approved by the Chief Secretary]

010 077/2033

SSNO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215)
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

NBPM.
N 20/12.

Richard Broadbent Esq
Private Secretary to the
Chief Secretary to the Treasury
Treasury Chambers
Whitehall
LONDON SW1

18 December 1984

Dear Richard

ECGD COVER FOR RESCHEDULING COUNTRIES

As agreed at Mr Rees' meeting with Mr Channon on 14 December, Mr Channon has arranged for a written question to be tabled for tomorrow so that he can formally announce the details of the new measures before the recess. He understands that officials will need to continue the discussion about the precise accounting procedures in the New Year.

2 I attach the text of the answer officials here have proposed to the PQ which has been tabled by Mr Peter Bruinvels and which I understand has been cleared with Treasury officials. I also enclose a copy of the accompanying press release which gives more of the background and refers, as agreed, to the early resumption of ECGD cover for Brazil and for the Mexican private sector. This has been circulated in advance to Treasury officials and others most closely involved.

3 Mr Channon is overseas today. I will be showing him the draft answer and press release tomorrow and will contact you if he has any amendments.

4 Copies of the letter and enclosures go for information to the Private Secretaries to the Prime Minister, the Foreign Secretary, the Secretary of State for Defence, the Minister of Overseas Development and to Sir Robert Armstrong.

Yours sincerely

Stephen

STEPHEN NICKLEN
Private Secretary to the
Minister for Trade

999-3

ECGD POLICY TOWARDS RESCHEDULING COUNTRIES

Draft Written PQ to Trade Minister and Answer

Question: [Mr Peter Bruinvels MP (Leicester E)]

Mr Bruinvels to ask the Secretary of State for Trade and Industry what measures he will take to maintain ECGD support for UK trade with countries which have been forced to reschedule some of their officially guaranteed debts, but which, nevertheless are taking vigorous and effective action to deal with their economic problems?

Answer by Trade Minister

"I recognise the value of maintaining trading links wherever possible with such countries. Consequently I now intend to allow ECGD greater flexibility so that, in appropriate cases, cover may be restored at an earlier stage after the rescheduling of officially guaranteed debts. This cover will be given for exports of UK goods and services contributing to the economic recovery of the debtor country and will be provided under ECGD's Section 2 (National Interest) powers. However, in the light of previous assurances that have been given to Parliament about the use of these powers, I would make it clear that use of this discretion will be selective and only authorised where we are satisfied that the debtor country is taking appropriate action in dealing with its problems. I would stress that this does not represent any relaxation of ECGD's general standards of assessing country risks on overseas markets.

Whilst I would not expect that the provision of ECGD cover in these circumstances will lead to losses over the longer term, I recognise that the provision of new cover to countries carrying a heavy debt burden does involve a high degree of risk. For this reason it is intended to control its use especially carefully. However it has been agreed that

the financial outturn of this business will not affect the level of ECGD's
charges
premium/for other categories of business.

This modest improvement in ECGD's arrangements should not only assist UK exporters to maintain a stake in overseas markets which are in the process of recovering from debt service difficulties, it should also help in the present international debt situation by providing an incentive to the debtor countries to adopt vigorous adjustment policies, usually in conjunction with an IMF programme. Decisions on the resumption of cover for particular debtor countries will be announced by ECGD from time to time at an appropriate stage during the bilateral negotiations with the country concerned."

S.H. Twyford.

ECGD

Date 17.12.84

DRAFT PRESS NOTICE

ECGD TO RESUME COVER EARLIER FOR SELECTED DEBT RESCHEDULING COUNTRIES

Mr Channon outlines new measures to help UK exporters.

Mr Paul Channon, Minister for Trade today /~~Wednesday~~/ announced that the Export Credits Guarantee Department is to be allowed to resume cover at an earlier stage than before for selected countries which have rescheduled their officially guaranteed debts. This will help UK exporters to maintain a stake in overseas markets which are in the process of recovering from debt service difficulties. **The first two countries to benefit will be Mexico and Brazil.**

In answer to a written Parliamentary Question from /**Mr Peter Bruinvels MP (Leicester E)**/ asking what measures the Secretary of State for Trade and Industry will take to maintain Export Credits Guarantee Department support for UK trade with countries which have been forced to reschedule some of their officially guaranteed debts, but which, nevertheless, are taking vigorous and effective action to deal with their economic problems, Mr Channon said:

> "I recognise the value of maintaining trading links wherever possible with such countries. Consequently I now intend to allow ECGD greater flexibility so that, in appropriate cases, cover

may be restored at an earlier stage after the rescheduling of officially guaranteed debts. This cover will be given for exports of UK goods and services contributing to the economic recovery of the debtor country and will be provided under ECGD's Section 2 (National Interest) powers. However in the light of previous assurances that have been given to Parliament about the use of these powers, I would make it clear that use of this discretion will be selective and only authorised where we are satisfied that the debtor country is taking appropriate action in dealing with its problems. I would stress that this does not represent any relaxation of ECGD's general standards of assessing country risks on overseas markets.

"Whilst I would not expect that the provision of ECGD cover in these circumstnaces will lead to losses over the longer term, I recognise that the provision of new cover to countries carrying a heavy debt burden does involve a high degree of risk. For this reason it is intended to control its use especially carefully. However it has been agreed that the financial outturn of this business will not affect the level of ECGD's premium charges for other categories of business."

"This modest improvement in ECGD's arrangements should not only assist UK exporters to maintain a stake in overseas markets which are in the process of recovering from debt service difficulties, it should also help in the present international debt situation by providing an incentive to the debtor countries to adopt vigorous adjustment policies, usually in conjunction with an IMF programme. Decisions on the resumption of cover for particular debtor countries will be announced by ECGD from time to time at an appropriate stage during the bilateral negotiations with the country concerned."

Commenting later, Mr Channon said:

"Amongst the difficulties facing exporters, is the problem of the closure of well-established overseas markets because of the debt service problems of the importing countries. Like all official Export Credit Agencies, ECGD has been meeting heavy claims because of the inability of many developing countries to meet their debt service obligations. Consequently traditionally the Department has had to adopt a careful attitude towards the acceptance of new risks on some of these countries. It is difficult to forecast whether the worse of the debt crisis is over, but HMG has decided that it is important to encourage the efforts of debtor countries to adopt sensible economic adjustment policies."

"The policy change which I have announced to the House today means that in future where we are satisfied that the debtor country is taking vigorous and effective action to overcome its problems, ECGD cover will be resumed at an earlier stage. The availability of this new cover is to be strictly controlled. It does not mean, therefore, that there will be any general relaxation in ECGD's normal underwriting standards. Individual decisions on the amounts and purposes of these new credits will be made by ECGD from time to time at an appropriate stage in our bilateral relationship with the country concerned but normally this will not be until after completion of the bilateral debt negotiations. It is intended that the new credits will be used to support UK imports contributing to the economic recovery programme, rather than to promote new prestige projects which do not benefit the balance of payments of the importing country. But I am pleased to be able to announce today that the first countries to benefit from this measure will be Brazil and Mexico."

NOTES TO EDITORS

In the past it has been ECGD's practice to withdraw cover immediately a debtor country announced its intention to reschedule officially guaranteed debts; and cover has been only resumed when it was clear that the importing country has been honouring the bilateral rescheduling agreement and was able to service new trade debt. In some cases this has resulted in the suspension of ECGD cover for several years.

For Mexico, cover will be considered on a case-by-case basis for medium term business with suitable buyers inthe private sector. ECGD cover for public sector business was not withdrawn because Mexico did not reschedule officially guaranteed debts in this sector. Medium Term cover for Brazil was withdrawn in October 1983 but will now be resumed to support the sale of key imports to both public and private sector buyers. In both cases the bilateral negotiations for the rescheduling of earlier debts guaranteed by ECGD have been successfully concluded and the countries have agreed stabilisation programmes with the IMF.

JP

bc PC

10 DOWNING STREET

From the Private Secretary

17 December 1984

Dear David,

EXPORT CREDIT CONSENSUS: TIED AID CREDITS

Thank you for your letter of 14 December on this subject.

The Prime Minister recognises the importance of this issue but doubts whether President Reagan will be in a position to discuss it; and, anyway, the agenda for her talks with him is already very full. She would be grateful if the Chancellor and the Foreign Secretary could find other channels to bring our concern to the attention of the US Administration at a suitably high level.

I am copying this letter to Len Appleyard (FCO) and to Callum McCarthy (Department of Trade and Industry)

Yours sincerely
Charles Powell

(C.D. POWELL)

David Peretz, Esq.,
HM Treasury.

044/2446

ECNO

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

Telephone (Direct dialling) 01-215)
GTN 215) 5144
(Switchboard) 215 7877

From the Minister for Trade

BF // Await Chief Sec'y's reply.

The Rt Hon Peter Rees QC MP
Chief Secretary
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

17 December 1984

Dear Peter

ECGD COVER FOR TURKEY

— will request if required.

Thank you for your letter of 11 December agreeing to the provision of full ECGD cover for the sale of 7 Airbus Aircraft. I was grateful for this; but disappointed in the position you took in relation to the overall market limit, particularly as this affects the potential Bosphorus Bridge project. Whilst I believe that a further review of Section 2 cover for Turkey can be deferred until later in 1985, I would like to pursue the question of possible support for the bridge project, which I regard as an important export opportunity and am under pressure to discuss with Cleveland Bridge before Christmas.

2 Once we take account of ECGD's existing commitments on the market (both cash and credit business) including the new Airbus figure (£92m), the amount of ECGD cover left available is approximately £20m. There is a wide range of potential business available to us on the market. In recognition of ECGD's claims position on Turkey and the doubts about the future prospects for the Turkish economy, I would not want to press for any significant uplift in the Turkey market limit immediately (although I would hope that the further review next year will justify some continuing availability of cover). However, I would not want to jeopardize the chance of Cleveland Bridge winning the second Bosphorus Bridge project. I would, therefore, ask you to agree that the current market limits on Turkey might be overrun by a very modest amount (of some £6m or so) in order to enable ECGD to offer a first come first served indication on this project; and that you should agree we might offer ATP cover at the same time.

3 The Bosphorus Bridge project is a high profile, politically significant one, to which the Turks attach considerable priority. The Turkish Prime Minister has taken a close personal interest and has asked to see Cleveland Bridge to discuss their proposals. The Turks want Cleveland Bridge to build the second bridge because of their pre-eminence in the long-span bridging field and because they built the first one, which has proved a great success. The order is of particular importance to Cleveland Bridge since it would provide them with an important reference project which could lead to valuable orders in more commercial markets such as West Europe and North America. By

token, loss of the project would let the Japanese into a sector where Cleveland currently have a technological lead. It is also worth noting that the UK would lose good business in terms of steel section and cable supply and sophisticated fabrications. There is no doubt that the Japanese have for some time been trying to break into the long-span bridge sector and have, in the particular instance we are considering, offered attractive financing terms (a 25bn yen loan at 4% interest over 25 years with a 7 year grace period) which the Turks will find hard to turn down. The Japanese loan is specifically tied to the bridge offer, since it is outside their current £130m OECD pledge to Turkey. Given this degree of competition and the severe loss which failure to secure the contract would represent for Cleveland, I consider that the level of ATP proposed is fully justified. We have been presented with a proposal whereby the UK element in the construction of this bridge would total £40m. On the basis of a 25% ATP input (£10m) the commercial parties would be prepared to offer 50/50 risk sharing with ECGD on the remaining £30m. In our discussions we will see if the uninsured share might be increased further. Once ATP had been deducted, the ECGD share would thus be a maximum of £26m. Hence, a small flexibility on the top of the existing limit, would allow them to indicate support for this project.

4 I hope you will feel able to accept this compromise proposal on my part. It will not be without pain for us and British industry. We will need to withdraw indications above the £26m level for some people, notably NEI, who already have indications for larger amounts on a first come first served risk sharing basis. And, assuming that the bridge contract is won, a great deal of business will be lost for us. But I am prepared to accept this possibility, subject to a full review of the market in the New Year.

5 I am copying this letter to the Prime Minister and the Foreign Secretary.

Yours,

Paul

17 DEC 1984

7.26.

CC NO

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

14 December 1984

Charles Powell Esq
10 Downing Street
LONDON
SW1

Prime Minister
The Chancellor wants you to raise Tied Aid Credits with President Reagan. But I doubt that it will mean much to him. It is better pursued through other channels. Agree?
CDP 14/xii

Yes not

Dear Charles,

EXPORT CREDIT CONSENSUS: TIED AID CREDITS

As you know after our efforts during the Anglo French Summit and in the ECOFIN Council on Monday this week, the French were out-voted in their opposition to a Community mandate on tied aid credits fot the OECD Consensus meetings in Paris on 11/12 December.

As a result the Community were able to table an unexpectedly forthcoming package of proposals to increase transparency in this area, which was generally well received, although many countries, in particular the US, want to go further and restrict credits of this kind. However, the meeting ended in deadlock as the US refused to accept the Community proposals in the absence of parallel progress on discipline ie retriction. This let off the hook not merely the French but also the Japanese (whose nefarious practices in this field would have been exposed for the first time by the Community's proposals).

... We have told the Americans directly (the Chancellor's letter of 2 November to Secretary Regan attached) that we share their objectives in this area. But the line they took yesterday, if maintained, will effectively block further progress. The French will use the apparent American rebuff as a further argument against any further moves and there will be real problems in holding them to the present agreed Community mandate.

In these circumstances the Chancellor thinks it would be worth the Prime Minister raising this issue during her visit to Washington. She could urge the Americans to accept what is on offer from the Community as a first step. Without such acceptance, those in the Community who, like us, share the Americans' broad objectives, will not be able to press for further action.

I am copying this letter to Len Appleyard and Callum McCarthy.

Yours ever,
David

D L C PERETZ
Principal Private Secretary

2.3

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

2 November 1984

The Honorable Donald T Regan
Secretary of the Treasury
WASHINGTON D.C.

Dear Don

TIED AID CREDITS

Thank you for your letter of 9 October.

As you know, the United Kingdom firmly supports the objective of strengthening transparency and discipline in the use of tied aid credits. Indeed I believe our ultimate objective should be to phase out mixed credits and similar forms of associated finance altogether. I am therefore disappointed at the lack of progress since the OECD Ministerial meeting in May.

We are pursuing these questions within the European Community and I shall do my best to ensure that the Community has a constructive mandate for the next OECD Consensus meeting.

I think we have to recognise, however, that progress may not be as fast as either of us would like. It may be best to start by trying to get agreement on greater transparency, for example by establishing a more comprehensive definition of tied aid credits, improving prior notification procedures and providing for face-to-face consultations in appropriate cases. This does not mean that we should reduce our efforts to secure tight restrictions on tied aid credits - merely that we should be ready to take part in continuing discussions of the issues and be content to proceed gradually.

All good wishes for the 6th.

Yours

Nigel

NIGEL LAWSON

D003

CENO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

1 ~~SP~~ CH Lords
2 NBPM AT 12/12

The Rt Hon Peter Rees QC MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1

12 December 1984

Dear Peter,

EXPORT PROMOTION

Thank you for your letter of 28 November. I am quite happy that the wider issues of export policy to which you refer should also be covered in the EX discussion of export promotion services. There are a few points in your letter on which I comment now to avoid misunderstanding.

BOTB Export Promotion Services

The DTI and the Treasury are in regular contact about charges for services. The figure of 25% for cost recovery mentioned in your letter is rather misleading. It takes no account of those services where the exporter first pays the total costs and subsequently receives a contribution from the BOTB. For example, in the Outward Mission Scheme the only support which a firm receives is a contribution of around 45% towards the air fare costs. This shows as zero recovery in the BOTB budget.

The Board has a general policy of not contributing more than about 50% of direct costs. Over the last few years it has made major increases in revenue from charges, and is now consulting industry about proposals to achieve 75% recovery of specified direct costs incurred at overseas trade fairs, with discounts for newcomers

ECGD

Despite its current problems, similar to those of its counterparts in other countries, ECGD's trading operations are conducted with the aim of no net loss over the years. They do not represent a continuing subsidy. As you know, the 1983 agreement on OECD consensus rates brought the cost of interest rate support under closer control. Subsidies in this area are expected to be reduced over the PES period.

The Aid and Trade Provision

You also mention support through the Aid and Trade Provision. Most bilateral aid benefits exports but ATP is particularly effective. It commonly yields additional exports on normal commercial terms of three times the value of the aid given. The benefits go not just to the main contractors, but to the British sub-contractors and sub-sub-contractors down the line, many of them small companies. The £66m provision for ATP is modest compared with support provided by other countries such as France and Japan. With the Americans and others adopting or stepping up mixed credit practices, it is all the more important that we move constructively towards measures of limitation and control that could find international acceptance. My officials will be consulting other Departments on what steps might be taken.

I am sending copies of this reply to the Prime Minister and other members of EX Committee and to Sir Robert Armstrong.

Yours

PAUL CHANNON

Paul

Trade

PJ4

Non-Tariff Barriers

J1806

010

CEDO.

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

Albyn UAT 7/12.
~~AT~~ to see
CDP 6/xii

CONFIDENTIAL

Rt Hon Sir Geoffrey Howe QC MP
Foreign Secretary
Foreign and Commonwealth Office
Whitehall
LONDON
SW1H

5 December 1984

Dear Geoffrey,

GATT CONTRACTING PARTIES MEETING: 26-30 NOVEMBER

You may be interested to have a brief report on this session which represented the formal culmination of the two-year work programme commissioned by the GATT Ministerial meeting of November 1982. The session was at senior official level: the UK delegation was led by Mr Roy Williams of DTI.

2 The initial auguries were unpromising. Substantive progress since November 1982 had been meagre. The US delegation arrived in belligerent mood dropping vague threats that, if the multilateral framework of GATT could not produce "results" on items like trade in services, agriculture, the control of counterfeiting and trade in high technology items, the US would turn to bilateral or "plurilateral" negotiations outside GATT. Doubts were even expressed about the US contribution to the GATT budget. (I am struck by the irony of the US position taken at the same time as they were introducing import restraints on steel pipes and tubes, selectivity against the EC and almost certainly in breach of GATT rules.) For their part, the developing countries produced a litany of complaint about protectionist actions by the industrialised countries and demanded progress on a number of their preferred items in the 1982 work programme (textiles, removal of non GATT-legitimate protective measures etc) as a pre-condition for considering a new GATT round. In addition, they announced that the focus of such a new round would have to be the enlargement of access for developing countries' exports to the markets of developed countries - and that services could not be included.

999-3

CONFIDENTIAL

3 These confrontational positions could have produced a damaging stand-off along North-South lines. This would have undermined the GATT's credibility as a forum for dealing with practical trade issues and accentuated the (regrettably already emerging) tendency towards UNCTAD-isation. In the event, however, three days of intense negotiation produced agreement on procedures for future discussion which will at least keep a number of important issues alive in GATT. The European Community can take the credit for playing an important mediating role (and for keeping the Americans on board the multilateral process for the time being). Solutions on the substance of major issues are still some way off - and will probably have to await a new GATT round. In the meantime, the way will be prepared by a continuation of the 1982 work programme.

4 As regards the individual items, UK objectives were broadly secured. We did not expect to make great progress at this stage towards the liberalisation of trade in services. We wanted agreement to establish a working party as a first step towards GATT involvement. The developing countries opposed this: but in the end they moved from their initial position to the extent of accepting some formalisation of analytical work in GATT, the involvement of the Secretariat and a timetable for a report to the Contracting Parties. Bearing in mind developing country reticence about services and the fact that the 1982 Ministeral meeting came close to breakdown over this issue, this outcome is satisfactory. Despite their rhetoric, the Americans probably think the same. But there is, of course, no agreement yet as to actual negotiations on services within GATT.

5 The agreement reached before the session to take the work on agricultural trade a stage further was confirmed despite French threats to unpick it if they did not get their way on other things. It remains to be seen whether the will exists to subject agriculture to true GATT disciplines. We also made some progress on restraining trade in counterfeit goods. Against strong developing country opposition, it was agreed to carry out a study in GATT on how such trade could be contained.

6 There was general agreement that the safeguards issue should not be addressed until there was a better prospect of consensus. This was, of course, very welcome to us. A very mild text on the effects of fluctuating exchange rates on trade was adopted - in part to pacify the French. And the issue of trade in high technology items was remitted for further discussion.

CONFIDENTIAL

7 This session was not in a position to make any specific moves towards the launch of a new GATT round. The European Community cautioned against inflexible expressions of position as regards the contents of such a round - and looked forward to a growing degree of agreement on the elements for a balanced negotiation. The EC also called for a GATT meeting at senior official level in the course of 1985 to assess the extent to which a consensus had emerged to start a new round and to consider the question of objectives and timing. This call was supported by the US and Japan. The task of persuading the developing countries to join in this general strategy will be carried forward at informal GATT meetings early in the New Year.

8 All in all, the meeting of the Contracting Parties came out pretty well. But US frustration with the operation of GATT and excessive developing country demands for one-sided concessions will continue to strain the fabric of the multilateral trading system.

9 I am sending a copy of this minute to the Prime Minister, the other members of OD(E), Michael Jopling and to Sir Robert Armstrong.

Yours,

PAUL CHANNON

Pd

023/109

NB PM CCNO

29/11

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry
1 - 19 Victoria Street
London
SW1H QET

28 November 1984

Dear Paul

EXPORT PROMOTION

I have seen Norman Tebbit's paper on this, circulated to EX colleagues with his Private Secretary's letter of 30 August. I note that the Prime Minister has asked for further work to be done on the effectiveness of export promotion expenditure, and I am glad to see that you have mounted a special study of the cost effectiveness of the BOTB.

One test of this will be the exporter's willingness to pay for those services which can be directly identified and charged out to him: this applies both to the BOTB and the FCO. At present, across the BOTB services for which charges are raised I think about 25 per cent of the Board's gross out-goings are recovered. There is surely a case for recovering much more than this - indeed the bulk of the full cost - while still leaving some inducements to first time users. This argument also applies to the FCO expenditure, and would apply a market test to both these activities.

In addition, I think that expenditure on export promotion through the BOTB should be put in the broader context of the overall support provided by the Government for exports. This comprises a number of different elements, but adds up to a sizeable sum:-

		Public Expenditure 1984-85 (current Estimates) £ million
Export Promotion (net)		
DTI and BOTB	55	
FCO	62	
		117
Interest Support		400
ATP		66
TOTAL*		583

* excluding ECGD's contingent risks and the cost of meeting guarantees

The costs of interest support and ATP are concentrated on about 5 per cent of UK exports worth about £4½ billion a year. When EX Committee looks at your work on export promotion, it might consider whether the provision of subsidies on this scale for exports is justified and what might be done to reduce it. Given that some 95 per cent of exports (services and consumer goods) get little or no direct support, it might also consider whether it is right to provide such large subsidies for the narrow sectors of capital goods and defence equipment?

Overshadowing the cost of these subsidies are the enormous risks (now some £33 billion) carried by ECGD in the form of contingent liabilities for insured exports. Some £7-800 million of such liabilities have already crystallised on ECGD's balance sheet, and net claims paid (both buyer and political) are currently adding some £400 million to the PSBR. Not all of this will be recovered. In addition, the overall quality of ECGD's portfolio has been deteriorating as individual decisions over the past 2 years, each perhaps justifiable in isolation, have added to the proportion of risks in poor markets.

I therefore think that it would be helpful if, when EX Committee comes to consider export promotion, these wider issues could also be reviewed.

I am sending copies of this letter to Members of EX Committee and to Sir Robert Armstrong.

Yours ever Peter

PETER REES

Trade Pt 4
Non-Tariff Barriers

CONFIDENTIAL

File

S/O

FROM: N H SCOTT-BARRETT
DATE: 5 October 1984

AF 25/x

1. ~~MRS CASE~~
2. ECONOMIC SECRETARY

cc PPS
Chief Secretary
Financial Secretary
Minister of State
Sir Peter Middleton
Mr Littler
Mr Unwin
Mr Mountfield
Mr Lavelle
Mr Scholar
Mr Gray
Mr Hall
Mr Kelly
Mr Hannah
Mr Illet
Mr Lord

ECGD: LIABILITY TO 'TAKE-OUT' LOANS IN US DOLLARS AND DM

will request if required

Mr Channon replied on 11 September to your letter of 4 September in which you had proposed the ending of 'take-out' for new business. He shared your concern about the growth of 'take-out' liabilities, and accepted that the facility should be withdrawn for future business. However he was concerned that, before any approach to the banks, there should be an urgent review by officials of possible effects and alternative options.

2. This review has taken place, and a report (copy attached) was attached to Mrs Case's submission of 27 September. It was sent to Mr Channon by ECGD officials at the same time, and recommends that officials should now open discussions with the banks on how to implement the withdrawal of take-out for new business with the objective of achieving this by 30 November. Officials would report back to Ministers if these discussions suggested unacceptable consequences for the availability of dollar or deutschemark finance or problems in implementing the change without an increase in public expenditure through a higher margin.

3. We understand that the Mr Channon accepts these recommendations, and the way is now clear for the discussions to begin. ECGD officials would be in the lead, but Treasury and Bank officials would take part.

4. A draft letter is attached.

N H Scott-Barrett

N H SCOTT-BARRETT

DRAFT LETTER TO MINISTER FOR TRADE

ECGD: LIABILITY TO 'TAKE-OUT' LOANS IN US DOLLARS AND DEUTSCHEMARKS

Thank you for your letter of 11 September. I am glad that you are able to accept that 'take-out' should be withdrawn for future business.

In your letter, you asked for an urgent review by officials of the possible effects of withdrawal and of alternative options. You will by now have seen the conclusions of this review, with which I agree, and the way is now open for discussions with the banks to begin.

I therefore propose that our officials be instructed to open discussions as soon as possible with the banks on how to implement the withdrawal of 'take-out' for new US dollar and deutschemark loans with effect from 1st December 1984. No alternative facility would be offered, but officials would report back to us if the discussions suggested that there would be:-

(a) unacceptable consequences for the availability of dollar or deutschemark finance; or

(b) problems in implementing the change without conceding an increase in the margin, and hence additional public expenditure.

ECGD : TAKE OUT

At the bilateral meeting between the Chief Secretary and the Secretary of State for Trade and Industry on 6 September, the Chief Secretary asked that further discussion between officials on withdrawing take out facilities from ECGD guaranteed loans in US Dollars and deutschemarks should be pursued quickly so that consequent public expenditure implications could be taken into account in the current public expenditure exercise.

2. Officials from Treasury, ECGD, DTI and the Bank have now discussed further the effects and alternative options for ending take out. Our conclusions are as follows:-

(i) it is feasible to maintain the ECGD dollar financing scheme without the take out provisions, although ECGD's documents would need to be amended to ensure that they were not liable to meet the borrower's inability to make the accelerated repayments required if the bank were unable to renew its Eurocurrency funding ie take out by another route. The US dollar and deutschemark facility would not be altered in any other respect and the change would simply put ECGD-backed Eurocurrency loans on all fours with the terms of much other Eurocurrency lending, which is often unguaranteed;

(ii) the effect of withdrawal would be to pass the credit risk in the event of the collapse of currency markets from HMG to the borrower. This increase in risk might affect the willingness

(a) of banks to provide dollar finance;
(b) of overseas borowers to contract with UK suppliers in foreign currencies and therefore the latter's competitiveness; and
(c) the security of funding which UK suppliers currently enjoy.

Officials were unable to estimate the impact of these possible consequences for UK exports and for the interest make-up account (public expenditure). The change could affect UK banks more than US banks whose access to US domestic dollar deposits is easier;

(iii) it is not easy to see alternatives to take out which would be acceptable to HMG and which would also reduce any unacceptable impact on the availability of foreign currency finance. The banks however might have ideas and these could be discussed;

(iv) take out provisions should be retained at ECGD's option to protect the Exchequer where the cost of interest make up is deemed to be excessive. Before exercising this power, ECGD would consult the Treasury to enable reserve management as well as public expenditure considerations to be taken into account;

(v) take out in its present form should be withdrawn for both US dollar and deutschemark loans, ie both currencies where it is currently available. It is unclear whether the availability of take out plays a significant role in encouraging the use of deutschemark finance and hence lower public expenditure costs. The greater the success in increasing the use of deutschemark finance, the sooner it would give rise to the same reserve management and propriety issues and hence the need to withdraw the facility;

(vi) there is a strong possibility that the banks may seek an increase in the margin (currently between 3/8% and 7/8%) on US dollar lending payable by HMG, ie in their remuneration, to compensate for the additional risk. It has been suggested that 1/8% might be sufficient. There is no way of testing this or its potential cost since the latter depends on the volume of future foreign currency business which in turn will be affected by the withdrawal of take out. On current volumes, however, each 1/8% conceded would imply a continuing £6 million per annum public expenditure cost. In discussions with the banks it should therefore be resisted although a concession might have to be considered if this seemed the only way of securing an acceptable flow of dollar or deutschemark finance.

3. In the light of these conclusions, Ministers are invited to confirm that officials should open discussions with the banks on how to implement a withdrawal of take out for new US dollar and deutschemark loans. The objective would be to withdraw take out for loans made after the 30 November 1984. No alternative facility would be offered. Officials would report back to Ministers if discussions with the banks suggested that there would be

(a) unacceptable consequences for the availability of dollar and deutschemark finance; or

(b) problems in implementing the change without conceding an increase in the margin and hence additional public expenditure.

Spoke to Ruth Thompson. Agreed she would ensure no slippage in timetable. Agreed no further letter required from her AT 1/10

NBPM
AT
19/9
CC NO

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

18 Septemebr 1984

C D Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Charles,

- file with NO

EXPORT PROMOTION

Thank you for your letter of 5 September 1984 giving the Prime Minister's views on the paper on Export Promotion which my Secretary of State had approved. My Secretary of State fully agrees that it would not be right for colleagues to consider the cost effectiveness issue until a proper study has been completed. Work is in hand on this. The support for UK exporters at overseas trade fairs accounts for nearly half of the BOTB net export promotion budget. An assessment of cost effectiveness based on these studies cannot therefore be valid until this major area has been covered. Data on export orders that flow from these events at the moment is very sparse and unreliable and a system has just been implemented to collect reliable data from participants in these events. A reasonable sample will not be available until early next year and then it will require careful analysis.

2 My Secretary of State is of the view that it would be wrong to ask colleagues to consider the cost effectiveness of the export promotion programme on data that could be open to criticism as unrepresentative or biased. He therefore thinks that a discussion of this aspect should be held over until early next year.

3 My Secretary of State would be glad to know whether the Prime Minister is content with this way of handling the matter. I am sending copies of this letter to the Private Secretaries to the Members of EX.

Yours sincerely,

Ruth

RUTH THOMPSON
Private Secretary

JH5BAE

Trade Pt 4
Non Tariff Barriers

Trade Non-Tariff Barriers

GRS600

CONFIDENTIAL

CONFIDENTIAL
FRAME EXTERNAL
FROM UKREP BRUSSELS 181752Z SEP
TO IMMEDIATE FCO
TELEGRAM NUMBER 2920 OF 18 SEPTEMBER
INFO PRIORITY PARIS MADRID ROUTINE COPENHAGEN THE HAGUE ROME
DUBLIN BONN LUXEMBOURG ATHENS
INFO SAVING BRUSSELS

FOREIGN AFFAIRS COUNCIL, 17/18 SEPTEMBER

ENLARGEMENT: INDUSTRIAL SECTOR TARIFFS

SUMMARY

1. AGREEMENT TO TEXT (IN MIFT) STATING THAT THE COMMUNITY STICKS TO ITS POSITION ON THE GENERAL ABOLITION OF INDUSTRIAL TARIFFS, INCLUDING HIGH TARIFFS, AND THAT THE COMMISSION WILL HOLD EXPLORATORY TALKS WITH SPAIN. CONFIRMED THAT COMMISSION WOULD BASE ITS POSITION IN TALKS ON ITS QROPOSALS.

DETAIL

2. DUMAS (FRANCE) OPPOSED THE PRESIDENCY PROPOSAL THAT THE COMMUNITY SHOULD PRESENT TO THE SPANIARDS A DECLARATION BASED ON THE TEXT IN WD 266(E), ON GROUNDS OF PRINCIPLE (THE TRANSITIONAL PERIOD SHOULD PROTECT THE INTERESTS OF BOTH SIDES IN THE NEGOTIATION) AND OF THE LIKELIHOOD OF PROVOKING SPANISH DEMANDS IN OTHER SECTORS.

3. DAVIGNON (COMMISSION) POINTED OUT THE DANGER OF MOVING AWAY FROM THE COMMUNITY POSITION AGREED IN JUNE. THERE WAS NO REASON FOR THE COMMUNITY TO CHANGE ITS VIEW NOW: AND THE COMMISSION SUPPORTED THE TEXT. THE COMMISSION WOULD NOT PROPOSE MODIFICATIONS, SO ANY CHANGES WOULD HAVE TO BE ADOPTED UNANIMOUSLY BY THE COUNCIL. DUMAS ARGUED THAT THE COMMISSIN DOCUMENT WENT FURTHER THAN THE COMMUNITY POSITION IN JUNE. YOU EMPHASISED THE POLITICAL AND ECONOMIC IMPORTANCE OF THIS QUESTION TO THE UK, AND MADE IT CLEAR THAT A DECISION TO APPROVE THE DOCUMENT, AS PROPOSED BY THE PRESIDENCY, WAS ESSENTIAL FOR UK ACCEPTANCE OF THE PACKAGE.

4. DUMAS THEN ACCEPTED A SUGGESTION BY DAVIGNON THAT THE COMMISSION BE GIVEN AN EXPLORATORY MANDATE. DAVIGNON COMMENTED THAT WHILE THIS MIGHT RAISE SOME PRESENTATIONAL PROBLEMS WITH THE SPANIARDS, IT WAS UNLIKELY TO ENTAIL SUBSTANTIAL LOSS OF TIME. THE COMMISSION WOULD HAVE TO WORK ON THE BASIS OF CLEAR GUIDELINES SO AS TO AVOID ERODING THE COMMUNTIY POSITION.

CONFIDENTIAL

/5.

5. IN DISCUSSION OF A PRESIDENCY DRAFT, YOU DREW ATTENTION TO THE NEED TO AVOID ANY EROSION OF A POSITION ON WHICH THERE WAS CLEAR AGREEMENT BY ALL MEMBER STATES EXCEPT FRANCE. THE COMMISSION MUST OPERATE ON THE BASIS OF THE SPECIFIC PROPOSALS ON THE TABLE. YOU REAFFIRMED THE IMPORTANCE TO THE UK OF RESOLVING THE PROBLEM OF HIGH TARIFFS AT AN EARLY STAGE . THE COMMUNITY ITSELF WAS COMMITTED TO DOING THIS, AS A RESULT OF THE FRENCH PRESIDENCY'S EFFORTS.

6. ANDREOTTI (ITALY) COMMENTED THAT THE PRESIDENCY'S ORIGINAL FORMULA WAS BEST. THE LIST SHOULD IDEALLY BE AGREED BEFORE IT WAS PUT TO SPAIN. BUT HE HAD NO DIFFICULTY WITH THE COMPROMISE PROPOSED.

7. A PRESIDENCY TEXT WAS CIRCULATED LATER, AND ADOPTED WITH MINOR AMENDMENTS (TEXT IN MIFT). IN RESPONSE TO YOUR QUESTION, NATALI CONFIRMED THAT THE COMMISSION WOULD TAKE AS ITS STARTING POINT FOR THE DISCUSSION WITH SPAIN THE DRAFT STATEMENT IN WD 26(E).

8.MOEHLER(COMMISSION) SUBSEQUENTLY DISCUSSED THE HANDLING OF THE EXPLORATORY TALKS WITH US PRIVATELY. THE FIRST SPANISH REACTION WAS TO HIDE BEHIND THE ABSENCE OF A FORMAL COMMUNITY POSITION AND TO LINK THE HIGH TARIFFS WITH THE GENERAL MODALITIES OF TARIFF DISMANTLEMENT. MOEHLER FEARED THAT HE WOULD NOT GET FAR WITH SPAIN WITHOUT THE ADOPTION OF THE DECLARATION BY THE COUNCIL AND WOULD HAVE TO REPORT IN THIS SENSE TO THE 1/2 OCTOBER COUNCIL. WE AGREED THAT ADOPTION OF THE DECLARATION REMAINED OUR PRIORITY. MEANWHILE WE RELIED ON THE COMMISSION TO MAKE WHAT PROGRESS THEY COULD.

FCO ADVANCE TO:
FCO - PS/SOS PS/MOS PS/PUS RENWICK CROWE MISS EVANS ECDE
CAB - WILLIAMSON LAMBERT
DTI - BROTHERTON LACKEY ECIP WILLIAMS PS/MFT

BUTLER

FRAME EXTERNAL
ECD(E)

COPIES TO:
ADVANCE ADDRESSEES

(ADVANCED AS REQUESTED)

File with NO.

CONFIDENTIAL

NBPM
AT 14/9

PRIVY COUNCIL OFFICE

WHITEHALL LONDON SW1A 2AT

13 September 1984

Dear Paul

IMPORT, EXPORT AND CUSTOMS POWERS (DEFENCE) ACT 1939

Thank you for your letter of 21 August in which you informed me that it would be unlikely that we would need legislation to amend this Act during the coming Session. I now understand that the likelihood is so remote that you could agree to the removal of this Bill from the contingent section of the legislative programme. I am therefore writing to confirm that this will be done.

I am sending copies of this letter to the Prime Minister, the members of QL, the Secretaries of State for the Foreign and Commonwealth Office and the Environment, the Minister of Agriculture, Fisheries and Food, the Solicitor-General, First Parliamentary Counsel, and to Sir Robert Armstrong.

Yours
John

The Rt Hon Paul Channon MP
Minister for Trade
Department of Trade and Industry

CONFIDENTIAL

Trade non tariff barriers

JU987

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

13 September 1984

CONFIDENTIAL

PS/MST
PS/Sir AR
Mr Roberts
Mr Benjamin
Mr Hutton.
Ms Neville-Rolfe
Mr Chapman
Mr Salvidge
Mr Boxall

The Rt Hon Peter Rees QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
SW1P 3AG

D Peter

ATP MANAGEMENT

I am glad that officials from the Treasury, ODA and my Department have been able to reach an agreement on the ATP management issues, which they would recommend to their Ministers. Endorsement of this agreement set out in the attached note would avoid the need for discussion at EX. Although Paul Channon and I have some doubts about the necessity for some of the controls envisaged, the agreement could be a reasonable compromise between getting the best value from mixed credit support and avoiding possible adverse international comment on the levels of support. On this latter point there is scope for some lowering in the UK profile in mixed credit and associated financing simply by clarifying issues of terminology. In particular we must not allow the exclusion from OECD comparative tables of soft loans like those provided by the Japanese and other countries.

2 Unforeseen factors may always emerge, but otherwise we shall do our best to make these arrangements work effectively, noting the scope for dropping particular controls when the arrangements are reviewed in two years' time.

3 This new management framework should be put into operation as soon as possible. Key negotiations with the Indonesians on ATP projects and assistance to be counted against the "pledge" to Indonesia will take place in Jakarta next week.

4 I am copying this letter to the Prime Minister and to Geoffrey Howe, Nigel Lawson and Timothy Raison, as well as to Sir Robert Armstrong.

Yours
Norman

NORMAN TEBBIT

CONFIDENTIAL

CONFIDENTIAL

AID AND TRADE PROVISION - CHANGES IN MANAGEMENT FRAMEWORK

Clearance of individual cases

1 ODA would be provided with delegated authority with Treasury clearance of individual cases being required when:-

(a) the ATP would exceed £10m;

(b) the imputed subsidy levels would exceed 40 per cent;

(c) initiations would be made in "new markets", i.e, markets other than countries in the ECGD list of regular recipients of mixed credits or associated financing.

2 These conditions would be subject to review and modified if, for example, there were significant changes in OECD consensus rates, associated finance guidelines, or inflation.

ATP Budget Management

3 The scope for improving the current budget management formula with the use of O.R analysis and forecasting techniques is being examined, with the aim of enabling ODA to maintain ATP spend within the existing provisions yet avoiding the recurrence of substantial underspends.

Guideline/limit on initiations

4 The proportion of ATP that might be used for initiations would be subject to a guideline of 45 per cent on funds committed in all cases where offers are accepted. Cases would be defined as initiations, matchings or technical co-operation as reported to OECD, though should firm evidence of an earlier bid be subsequently obtained an initiation might be re-defined as a matching. DTI would provide other Departments with a quarterly report of funds committed by type of offer, also showing potential commitments through outstanding offers. Should the Treasury consider that the guideline is not being observed sufficiently closely they may require clearance of any further initiation cases.

JH3AXP

Pledges for individual countries

5 DTI and ODA would together ensure that any pledges (e.g £12m over three years for Indonesia) fitted in with in with the above management constraints: Treasury clearance of individual pledges would not be required.

Use of mixed credits on the bilateral programme

6 In two instances it has proved possible to obtain the industrial benefits from projects through mixed credit (at levels that could not be accommodated within the ATP allocations) rather than 100% aid. Such cases can increase the overall proportion of mixed credit within the UK's aid programme to levels that may attract international comment.

7 As a condition of the proportion of initiations being subject to a guideline of 45 per cent, it is agreed that there should be a strong presumption against the use of mixed credits on the bilateral programme and that such use could be justified only by quite exceptional circumstances, eg prior commitments or changes in international support patterns.

Review

8 These arrangements would be reviewed in two years' time. There would be a presumption that the guideline percentage would be reduced if meanwhile there had been significant use of the exception in para 7.

file

cc: EX:-
FCO
HMT
DTI
+ FCO.

BM

10 DOWNING STREET

From the Private Secretary

5 September 1984

EXPORT PROMOTION

You wrote to me on 30 August enclosing a paper approved by your Secretary of State on export promotion, and asking whether the Prime Minister would wish it to be discussed in EX.

The Prime Minister finds the paper rather thin and does not consider that discussion would serve a useful purpose until more convincing material is available on the effectiveness of export promotion expenditure. The Prime Minister notes that a further study of this is in hand. She hopes it can be completed as soon as possible, at which point she will wish for a discussion in EX.

I am sending copies of this letter to the Private Secretaries to members of EX.

(C.D. POWELL)

Miss Ruth Thompson,
Department of Trade and Industry

SH

E.R.

CONFIDENTIAL

PRIME MINISTER 3 September 1984

EXPORT PROMOTION

The paper offered by DTI on this subject is thin on analysis and does not merit an EX discussion.

The policy of export promotion is accepted uncritically. Exports should not be crudely equated with jobs because, as the paper acknowledges (but then ignores), although export orders mean more jobs for the lucky firms concerned, they can also affect other firms adversely - marginally higher Pound, higher taxes. Export promotion has more effect on the distribution of jobs in the economy than on their total number. Export promotion only makes sense if it leads to extra orders which cover their costs, including those of Government, by a worthwhile margin.

The only evidence offered in the paper that the policy is effective is a conclusion from a survey on the Export Intelligence Service (costing £5 million a year) that the EIS "leads to perhaps £1 billion of orders each year". We agree that the EIS probably pays for itself many times over: providing information is a natural role for Government and this is the last place to start looking for savings. The paper offers no help on the effectiveness of the bulk of the expenditure. The BOTB costs £27 million to run. In addition, DTI and COI spend as much again on export

CONFIDENTIAL

promotion and the FCO spends another £60 million. We are talking therefore about £100 million a year on export promotion, in addition to the £500 million subsidising capital export projects.

The kinds of things we would like to know are:

- Do the overseas missions (whose air fares are subsidised by 45%) consistantly pay off, in terms of additional, profitable exports?

- Do first-time exporters who are helped to attend trade fares abroad actually establish themselves in those markets? The stated aim of helping first-time buyers to establish themselves is surely right but are we succeeding?

We recommend that the policy on export projects should be discussed separately at EX. DTI should be encouraged to complete its assessment of export promotion (promised "early next year") as soon as possible and be considered by EX then. There is insufficient meat in this paper to warrant a discussion at this stage.

Nicholas Owen

NICHOLAS OWEN

1

CC:FO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215) ....
(Switchboard) 215 7877

PS/ Secretary of State for Trade and Industry

30 August 1984

CP

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

Prime Minister

A rather thin and complacent paper. Policy Unit ~~advice~~ NO attached.

Agree to postpone EX discussion until the fuller study of cost-effectiveness promised in para. 11 is available? And to urge DTI to hurry up with it?

CDP
3/9/84

Dear Charles,

EXPORT PROMOTION

Following our conversation yesterday about the question of collective consideration of the paper Andrew Turnbull commissioned in his letter of 1 June on Export Promotion, I enclose a paper, which my Secretary of State has approved, for EX colleagues' consideration. Mr Tebbit would be very willing to discuss the paper and its recommendations, but it may be that such a discussion will not, after all, be necessary.

2 It would be helpful to have your views and those of other interested Departments: I am therefore copying this letter and its enclosure to the Private Secretaries of EX colleagues.

CDP 4/9

Yes

Yours ever,

Ruth

RUTH THOMPSON
Private Secretary

Eileen Conn

CONFIDENTIAL

EXPORT PROMOTION

This paper responds to the Prime Minister's request (her Private Secretary's letter of 1 June) for a paper on export promotion. It reflects a review of policy which I carried out earlier this year.

2 Support for British export interests is a general objective of our international trade policy and related negotiations. The specific export promotion activities and expenditures which are the main subject of this paper are the services supervised by the British Overseas Trade Board (BOTB), for which in 1984-85 we have provided £27.5m, in addition to which are related staff costs, and the element of export promotion involved in Ministerial and other visits abroad. Further details of the export promotion organisation and expenditure are in the Annex.

3 In addition, there is the Aid and Trade Provision within the aid budget (£66m in 1984-85), and ECGD (£479m, of which the largest part (£454m) is the cost of interest rate make-up). The status and role of ECGD are currently under consideration in the context of the Matthews report, on which I shall be reaching conclusions soon.

Is Government involvement in export promotion worthwhile?

4 My answer is yes, on certain conditions. About 30 per cent of our gross national product goes to exports. More exports means more jobs, at least in the short term, even if this may be offset by consequential changes in the exchange rate in the longer term. And firms which succeed overseas will be better equipped to beat off competition from imports at home.

5 But Government involvement in export promotion uses resources of staff and money. It needs to be justified in terms of additional exports which would not otherwise take place. The BOTB operation should therefore:

[But there is considerable cost in this: about £60 mn. C.D.P.]

(i) be based largely on the contacts and knowledge of local markets of our Embassies and High Commissions, thus using, at no great extra cost, resources and expertise already in place;

(ii) concentrate on smaller firms, who often do not have the management resources or expertise to get into overseas markets on their own. (In fact over 80 per cent of firms using BOTB services have less than 200 employees);

(iii) be directed primarily at helping companies, of whatever size, to develop markets which, without BOTB backing, they might not otherwise penetrate - provided, of course, that these are markets which can pay for British goods and services.

6 These priorities are consistent with the existing BOTB policy of allowing the firms themselves to determine the

markets and products for which the individual BOTB services, as described in paragraph 8 below, are used. I am not seeking to substitute the judgements of Whitehall for those of the market-place. But I do want the BOTB, in structuring and promoting their services, to concentrate on these priorities.

Aims and Methods

7 So the aim should be, at modest cost, to stimulate and help British firms who need such help to get into new markets, or into existing markets with new products, so as to obtain continuing business without further support. It is not, and should not be, to provide continuing subsidies to the normal export selling process. Thus Government export promotion operates mainly at the margin. But it is a useful margin.

8 The main services provided are intended to help firms to identify promising markets for their products, to investigate detailed opportunities in those markets, and to start actual selling. Specifically:

- Commercial staff in overseas posts, many locally engaged and with local business experience, provide the advice and assistance abroad, and feed back market intelligence for dissemination in this country mainly through the computerised Export Intelligence Service (available to subscribers). In addition, commercial posts operate the Market Prospects Service, a specific study of a product in a market, using literature in the local language and, where possible, samples.

- Relevant branches of the DTI provide advice, often through Regional Offices,to help firms to identify promising markets for their products. Data banks are maintained in the Statistics and Market Intelligence Library and the Product Data store.

- Financial support is given for professional market research carried out by private sector firms or by the company themselves if they have qualified researchers. Administrative and financial support is provided for British stands at selected trade fairs and exhibitions, and outward and inward trade missions.

- Limited finance is provided for market entry with the risk shared between the firm and the Government.

9 For most of these services the policy is to charge as high a proportion of costs as is reasonable while not deterring smaller firms, for whom the risks and costs of the market entry process loom large.

Does it Work?

10 It is difficult to quantify with confidence the effect on exports of this activity. We cannot know for sure what would otherwise have happened. But it is the strongly held view of industry and business that the services provided are valuable and result in continuing export trade which would not otherwise be obtained. Such surveys as have been made support this. For example one survey estimated that the Export Intelligence Service, which costs in all about £5m, leads to perhaps £1 billion of orders each year.

JH5AHI

11 At the beginning of this year DTI officials began a new, more comprehensive attempt to assess more precisely against the full cost the achieved effect on exports of each export promotion activity. This study is due to be completed early next year. Inevitably parts of it will be judgmental.

Organisation

12 Since 1972 oversight of the detailed allocation of the resources in the programme has been given to the businessmen on the BOTB, currently chaired by Lord Jellicoe, with the Duke of Kent an active Vice-Chairman. Is the BOTB arrangement still sensible?

13 It is certainly unusual. In practice the Board has a measure of autonomy, in the detailed allocation of the budget. But I retain control over the total of this budget as part of the ordinary public expenditure process. I also control the numbers of BOTB staff. They are officials of my Department, who in many cases combine export promotion work with other responsibilities for trade relations with other countries.

14 I think that the arrangement is worth maintaining, for the following main reasons:-

(i) Over 250 experienced exporters, through membership of the BOTB and its 16 Area Advisory Groups covering the world, give their services free to helping and advising others. They are drawn from large and small firms, and from manufacturing and services. Without their participation, it would be much more difficult for any Government organisation to win the confidence of smaller firms in particular;

JH5AHI

(ii) The practical experience of these exporters should make the BOTB services more responsive to what firms really need;

(iii) The BOTB, as an official body which is not part of the Government, has a particular role in relation to countries with whom Ministerial contacts are difficult or impossible. In the last 12 months Lord Jellicoe has led trade missions to South Africa and Taiwan. He and others in the BOTB organisation receive numerous overseas visitors, influential in the placing of contracts, who welcome some official contact but may not justify Ministerial time.

The Future

15 I believe we should continue a programme of export promotion through the BOTB broadly on these lines. The amount to be spent will be for discussion in the usual way as part of the public expenditure survey. My present proposal is to hold the BOTB budget flat in real terms.

16 I also propose the following guidelines for the BOTB and all concerned:-

(a) to concentrate their services on smaller and medium sized firms, on markets where payments are likely to be made on time, and on export potential which, without Government backing, is unlikely to be realised. The Board itself supports this.

(b) while continuing to exploit the resources available in posts abroad, not to substitute for or compete with what the private sector can do for itself.

(c) subject to (b), to pay more attention to the growing "invisibles" sector and service industries.

(d) to seek to provide faster and better information services, especially earlier warning of overseas market opportunities, by developing further the use of technology in handling the market data obtained by posts and departments.

(e) to continue to strive for efficiency and effectiveness, by cost versus impact studies, and by charging as much as is reasonable for the services, subject to the objective of reaching and helping smaller firms with market entry problems.

Conclusion

17 I invite my colleagues to endorse the policy guidelines in paragraphs 15 and 16.

JH5AHI

ANNEX

DETAILS OF THE BOTB OPERATION

A THE BOTB ORGANISATION AND POLICY APPROACH

The BOTB is chaired by Lord Jellicoe and made up of businessmen with experience in exporting. It has two functions:

(i) to advise the Government on a wide range of policy issues affecting international trade and exports;

(ii) to oversee the export promotion programme from day to day.

2 The 17 industralist Board members come from a variety of backgrounds, including:

- major manufacturing and construction firms; the services sector (including the Chairman of British Invisibles Export Council);

- smaller firms (three from small companies, while a fourth, the Managing Director of Lucas, who is a former President of the Birmingham Chamber of Commerce, also takes a brief from the Association of British Chambers of Commerce. All four sit on the BOTB Finance Committee, which determines the allocation of money to specific services);

3 The BOTB services to exporters include:

- a wide range of information on tariffs, import restrictions, technical regulations, particular sales opportunities and so on;

- advice on market selection, entry and development, as well as on problems where diplomatic intervention may help;

- specific services such as support for British firms exhibiting at overseas trade fairs, market investigation and sales missions to export markets, and contributions to the costs of export market research.

4 In deploying their services, the BOTB priorities are:

(i) to help firms over the difficult period of getting into new markets. At that stage there is a high demand for reliable advice and information, and substantial risk, which may exceed the management and financial capability of the firm to handle.

(ii) to assist particularly the smaller and medium-sized firms, particularly newcomers to exporting or to particular markets, which have limited managerial and marketing resources.

(iii) to use primarily information available from the existing resources of Posts, but otherwise to draw on or complement facilities available in the private sector from banks or other specialists, and not to compete with them. But firms do not always make a profit in the initial stages of exporting or developing new markets.

The case for the subsidy element in the BOTB operation is that it helps them through this difficult initial period.

B USE OF BOTB FUNDS AND CHARGING POLICY

5 For the current year (19B4/B5) the BOTB budget provides for expenditure of £36.6m and income of £9.1m., a net budget of £27.5m. The net expenditure is for the following main groups:

	£m
Overseas trade fairs and exhibitions	11.1
Overseas store promotions, seminars etc	1.9
Outward and inward missions, support for trade fairs in the UK, Joint Commissions etc	2.5
Schemes to promote market research and market entry	3.5
Trade facilities (documentation and advice on technical requirements)	0.8
Support for UK firms bidding for major project orders (Overseas Projects Fund)	4.2
Support for UK and overseas export promotion organisations, education in exporting etc	1.2

Marketing and promotion of BOTB services to industry and publicity help for UK firms overseas	2.3
TOTAL	27.5

6 Charging policy is based on two themes. First, to provide a range of basic advice and information free of charge so that new firms can take the first steps before the potential commercial rewards of exporting can be reliably forecast. Second, to charge for specific definable services up to whatever level it is thought the market will bear, provided that the charges do not deter a significant number of those smaller firms it is the objective to help through the initial phase. The Board revises charges annually, and is due to complete a full re-examination of policy in this area later in the year.

7 Firms must show their commitment by a substantial input of their own funds. The subsidy to direct costs is usually not more than 50 per cent.

8 Some services are subject to a charge, such as UK group exhibitions at overseas trade fairs. Here an average recovery of 50 per cent of direct costs will be achieved in 1985/86 after 4 years of progressive increases.

9 Other services are subsidised through grants, such as the travel grant for missions (about 45 per cent of the air fare), which therefore only show in the budget as gross spend with the exporter paying the remainder direct.

JH5AHI

10 Where the BOTB subsidy helps firms to use a service available from the private sector (eg professional market research, travel costs to distant markets) there is no restrictive effect on private sector activity. Such effects may occur, however, where the BOTB provides directly at lower cost a service which is, or might be, available from the private sector. While there are other minor examples, such as the provision of technical advice on overseas market requirements, the main case is the design (but not construction) of stands for overseas trade fairs. In stand design the capability of the Fairs and Promotions Branch of my Department is larger than that of any single UK private sector company in this business.

C USE OF THE SERVICES AND REACHING NEW FIRMS

11 Based on the statistics for the fourth quarter of 1984 we expect the following activity during the year:

- 20,000 firms will be helped through specific BOTB services.

- Over 7,000 firms subscribe to the Export Intelligence Services, and surveys show that up to 20,000 firms see some of the data at some time.

- About 18,000 firms will be given export information and advice at meetings at DTI Headquarters or Regional Offices, or on visits to the firms' own premises.

12 Within the constraints of the budget and staff numbers, there is a recognised need for initiatives from time to time to interest the prospects for expansion through exports:

- Surveys show that 80 per cent of users of BOTB services have less than 200 employees.

- For overseas fairs, where records are available, a great majority of participants are not regular visitors to the fair, and 60 per cent are specifically first or second timers (60 per cent also have less than 100 employees). The presence of a few firms experienced in a market can in fact be helpful to newcomers.

- The ten DTI Regional Offices have a combined target of 3,600 new contacts with firms over exports in 1984.

- A mail shot earlier this year resulted in 1800 requests for literature and 750 for a visit or an interview at the Regional Office.

- A report on the use of services by small firms, prepared by two BOTB members, who themselves run successful exporting businesses, was published in July and is being followed by a £150 introductory offer, cashable against BOTB services, for any firm capable of exporting which has not already used BOTB services.

- As part of the repackaging of DTI services to industry, the BOTB export promotion services are themselves being promoted in four sub-groups covering Market Advice, Getting Into The Market, Specialist Advice and Help, and Help With Major Project Business.

Trade 1T4

Non Tariff Barriers

J306

CONFIDENTIAL

xCNO

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5144
GTN 215)
(Switchboard) 215 7877

From the Minister for Trade

The Rt Hon Viscount Whitelaw CH MC
Lord President of the Council
Privy Council Office
Whitehall
LONDON
SW1A 2AT

NoPM
22/8.

21 August 1984

Dear Willie

Pt 3

In his letter of 24 November last to John Biffen, Norman Tebbit referred to the challenge which was under way in the Courts to our continued use of the Import, Export and Customs Powers (Defence) Act 1939 for controlling imports and exports. You will be pleased to know that because the applicant has failed to pursue his case, the Court of Appeal has now ordered that the case should be dismissed. Since the issue can now only be revived if the appellant were to obtain leave from the House of Lords (and I am advised that such leave is unlikely to be given in the circumstances), it seems that this challenge to our use of the Act has ended without embarrassment.

You will also recall that we had a place in the 1984/85 Legislative Programme for possible new legislation for controlling imports and exports, contingent upon the outcome of the Court case. In view of the dismissal of the appeal, it now seems unlikely that we will need legislation on this issue during the coming session.

I am copying this letter to the Prime Minister and Geoffrey Howe, Leon Brittan, Patrick Jenkin, John Biffen, Michael Jopling, Michael Havers, Patrick Mayhew, John Wakeham and Bertie Denham; and to Sir Robert Armstrong.

Yours

Paul

PAUL CHANNON

CONFIDENTIAL

Trade: Non Tariff Barriers

SAHABZ

File

cc: FCO
DTI
SPC

10 DOWNING STREET

From the Private Secretary

12 July, 1984

The Prime Minister has asked me to thank you most warmly for the invitation, conveyed in your letter of 30 May, to attend the official opening of the Arab-British Chamber of Commerce. It was particularly considerate of you to leave the precise date to her choice.

The Prime Minister has reviewed her programme for the autumn and finds that she is already very heavily engaged indeed. In the circumstances, she feels that sadly she cannot accept your invitation. I understand, however, that the Secretary of State for Trade and Industry would be able to take up the invitation in her place, if this were agreeable to you. Might I suggest that you pursue this with his office.

C. D. POWELL

Sir Richard Beaumont, K.C.M.G., O.B.E.

NR

c/c

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

JU737

Secretary of State
for Trade and Industry

12 July 1984

P F Ricketts Esq
PS/Secretary of State for
Foreign & Commonwealth Affairs
Foreign & Commonwealth Office
London SW1A 2AH

Dear Peter

ARAB-BRITISH CHAMBER OF COMMERCE

The Secretary of State has seen your letter dated 29 June 1984. In the light of Sir Geoffrey Howe's comments, my Secretary of State has agreed to attend the October opening of the new premises of the Arab-British Chamber of Commerce.

Perhaps the Prime Minister's reply to the invitation could incorporate a suggestion that the Chamber contacts this office to arrange a suitable date.

I am copying this letter to Charles Powell at No 10.

Yours ever
Edward

EDWARD BLADES
Private Secretary

Trade: Non Tariff Barriers Pt 4

NBPM AT 12/7

MR TURNBULL 9 July 1984

CAR PRICES

The Chancellor and the Foreign Secretary have argued in favour of cheaper car prices in the UK, backing the EEC's original request which would have delivered this.

However, DTI has fought long and hard against cheaper cars. They have succeeded in getting the EEC to water down their proposals substantially. Instead of insisting on a full range of all motor vehicles being made available in all markets of the EEC - thus allowing people to shop across borders - it has now been confined to passenger cars only. And instead of the Commission automatically moving in where a producer's prices are more than 12 per cent higher than in the cheapest European market, the Commission is now prepared to say that it may act when price differences arise; but it will compare UK prices with French and German and not with Danish and Belgian markets, where the cars are much cheaper.

Even this horribly watered down proposal may not be acceped by the DTI. However, whether the DTI do accept it or don't accept it, they have succeeded in getting the Government a bad press. The Government has opposed cheaper car prices and the interests of the customers, and has attempted to thwart a sensible intervention from Brussels in favour of making the Common Market genuinely common and making it work. There are two substantial own-goals.

The best we can now do is to:

i. accept the EEC watered down proposals immediately; and

ii. make a robust statement that we do want UK manufacturers and distributors to bring their car prices down, as they are too high.

JOHN REDWOOD

Government Economic Service Working Paper No.70

(Treasury Working Paper No. 30)

Dmb
21/8

Measuring Import Penetration in the UK

by

Hugh Bredenkamp

HM Treasury
Parliament Street
London SW1P 3AG

June 1984

Government Economic Service Working Paper No.70
(Treasury Working Paper No. 30)

Measuring Import Penetration in the UK

by

Hugh Bredenkamp

HM Treasury
Parliament Street
London SW1P 3AG

June 1984

MEASURING IMPORT PENETRATION*

1. UK firms are in competition with foreign producers for market share both at home and abroad. As international specialisation has developed and the volume of trade expanded, it has become common practice to assess a country's economic performance in the light of certain summary trade statistics. For this purpose, import penetration is often used as an indicator of UK producers' success in the home market, and the share of UK exports in world trade as a measure of their export performance. Both measures can refer either to the economy as a whole or to individual sectors such as manufacturing.

2. The aim of this paper is primarily to consider the problems involved in measuring import penetration, to arrive at useful and consistent definitions and to present and compare the resulting figures with other published series. The figures presented here attempt to measure the average extent to which the appropriately defined potential market, or demand, for UK production is met instead by imports. They do not refer to the effect on imports of a change in the size of the market, which may well differ and would require assumptions about the effects of other determinants of import demand (that is, they measure average rather than marginal propensities to import). Nor should they necessarily be seen as measuring the proportion of expenditure by UK residents which "leaks" abroad. When the market is defined in terms of home sales, for example, a significant part of expenditure on imports is retained in the domestic economy through indirect taxation or as payments to UK distributors. However, full account is taken of the effects on UK producers of a switch in final demand between domestic output and imports.

3. There are two main conceptual problems involved in the measurement of import penetration: the definition of the "potential market", and the valuation and classification of output and trade on a consistent basis. Neither problem can be solved unequivocally, but it is important to set out and analyse the relative merits and pitfalls of the alternative methods and this is done in the following two sections. The conclusions we draw are then translated into simple algebraic expressions for import penetration, both for individual sectors and for the whole economy. There is then a short section on the data and the mechanics of constructing our chosen indices, spelling out our assumptions about the way the basic parameters change through time. The paper finishes with a section which presents and discusses the resulting figures, comparing them with other measures and considering briefly what conclusions can and cannot be drawn from them.

---

*I am grateful for comments from colleagues in the Bank of England, the Department of Trade and Industry, the Central Statistical Office and the Treasury. As usual, the views expressed here are my own and do not necessarily represent those of H.M. Treasury.

Defining the Potential Market for UK Output

4. One possible measure of import penetration is the ratio of imports to total final expenditure, which comprises domestic expenditure and exports or, equivalently, UK output plus imports. The inclusion of exports in the measure of market size can be justified on the grounds that scope exists for substitution between imports and UK output in the market for intermediate inputs used in the production of exports. For example, export demand for British cars generates domestic demand for car components (engines, headlamps etc), which can in turn be produced either at home or abroad. It could be argued that this element of demand should be included in our definition of the "potential market".

5. However, the level of exports is an element of realised (ex post) demand and is therefore inappropriate for inclusion in a measure of potential (ex ante) market size. Home demand, in contrast, is likely to be relatively little affected by factors which determine both the domestic output/imports split and the level of exports, eg competitiveness.[1] In principle, we could guess at the volume of exports consistent with the maximum attainable share of world trade and include that in the measure of market size, though the resulting figures for import penetration may be more difficult to interpret[2].

6. Instead, the market is defined here as domestic demand, ie it excludes exports from the denominator altogether, and in this sense is consistent with most other published measures. However, this has one further implication which is not generally followed through; namely that if the market for intermediate goods used in the production of exports is to be excluded, so also should be the imports which service that market. To continue our example, we would want to exclude from the numerator imported components used to produce British cars which are destined for export. The import content of exports, both direct (re-exports) and indirect (imported inputs), was therefore subtracted from total imports in the numerator and denominator.

1 Strictly speaking this is an assumption, since changes in the terms of trade will affect real incomes and, thereby, home demand. The argument is that the real income effects of a change in the terms of trade are small relative to the expenditure-switching effects.

2 It has been argued (J.J. Hughes and A.P. Thirlwall "Trends and Cycles in Import Penetration in the UK": Oxford Bulletin of Econ. and Stats. 1977, vol. 39 p.304) that the exclusion of exports from the denominator makes the measure of import penetration sensitive to movements in exports even when output and imports are unchanged. Our view is that this does not mean that domestic demand is a misleading measure of market size, but rather it brings out the need to look at import and export performance together (see p.13 below).

7. A measure of import penetration used at one time by the Bank of England (see BEQB September and December 1982) also excluded part of stockbuilding from the denominator - specifically, manufacturers' stocks of finished goods and work-in-progress. This was done on the assumption that these categories would necessarily have zero direct import content. However, the numerator - total imports of manufactures - included imported manufactures used as inputs to the domestic manufacturing sector. Consistency requires that the measure of market size should allow for the indirect import content of manufacturers' stocks of finished goods and work-in-progress, which will not generally be zero. It is, in any case, possible that the direct import content is also non-zero; for example, if a multinational imports finished goods from a foreign subsidiary and initially adds them to its own stocks. For these reasons, no adjustment for stockbuilding was made to the measure of market size used here.

8. Finally, care must be taken not to overstate the size of the market by double-counting intermediate imports when output and trade are measured in gross terms (ie including bought-in inputs). Thus if gross output of manufactures is included in the denominator, imports of manufactures used as inputs to domestic manufacturing are already accounted for and should not be included a second time in total manufactured imports.[3]

Valuation and Classification

9. The addition of output and imports in the measure of market size raises the question of consistent valuation. National accounts data for GDP, and contributions to it by individual industries, are compiled in terms of value-added or "net output". The volume of imports and exports, on the other hand, is measured in terms of sales or "gross output". It follows that import penetration ratios (IPRs) should either use output on a "gross-output-equivalent" basis, or convert imports and exports to "net-output-equivalents". The first method is the most commonly used, and involves multiplying net output in the denominator by a gross/net ratio calculated from input-output tables for a particular year (the last published figures relate to 1979).

10. There are, however, major problems with the measurement of gross output which arise from the fact that the gross output of one firm, industry or sector (as measured, say, by total sales) will necessarily include the gross output of other firms, industries or sectors in the form of intermediate inputs. Thus, any summation across firms, industries or sectors will generally involve some element of double-counting.

3 These inputs are not the subject of "intra-industry" transactions, and therefore their treatment differs from that of domestic inputs, as outlined in the following section.

11. The concept of gross output is therefore inherently ambiguous, since it depends on the extent to which intra-firm, intra-industry or intra-sector transactions are excluded. Consider a large input-requirements matrix such as the 99 industry-by-industry flow matrix presented as Table D in the 1979 Input-Output tables. The sum of the gross outputs excluding intra-industry transactions for the 99 industries gives one figure for total gross output. However, if the matrix were "shrunk", by aggregation across industries, to form, say, a four-sector economy, exclusion of intra-sector transactions (since there are fewer sectors) would lead to a different figure for total gross output. In general, gross output defined on this basis will depend on the level of aggregation.[4]

12. It was for this reason that we chose here to define gross output to include all intra-industry and intra-sector transactions registered in the available input-output tables. Although this means that gross output is invariant for any matrix derived from a given set of tables, it will still depend on the definition of the establishment used when compiling those tables from raw data.

13. In principle, the concept of net output avoids these problems. By definition, the value-added by one establishment cannot incorporate that of another, and so summation across establishments will not involve double-counting. On this basis, the concept of net output would be clearly preferable to that of gross output. In practice, however, we exchange one measurement problem for another - the problem of valuation of imports.

14. There are three aspects to this problem. Firstly, we have no practical way of calculating the average net/gross ratio for foreign producers as a whole. Assuming net/gross ratios vary from country to country, the average net/gross ratio for UK imports would depend not only on the commodity - composition of imports but also on their geographical source. Even if consistent data were available, the computational problems would be considerable.

15. Secondly, it can be argued that, in any case, it is not the actual net/gross ratio abroad which is the relevant concept when measuring the extent to which domestic net output is displaced by imports. Consider import penetration for the economy as a whole, and therefore the valuation of total imports (ie from all sectors of "the foreign economy"). One unit of imported foreign production will displace (1-x) units of net domestic output and x units of imported inputs, where x is the average ratio of imported inputs to gross output in the domestic economy.[5] However, the parameter x is largely free to vary between 0 and 1,

4 Total gross output will fall as the level of aggregation increases.

5 Note that we are not attempting here to allow for second-round macro-economic effects; there is a one-for-one relationship between increased imports and domestic output displaced. We also ignore the indirect domestic output content of imports.

according to economic factors (eg price or non-price competitiveness). Suppose, in a one-sector economy, the UK imports one extra car, worth £5,000. For given demand, this implies one less car produced domestically. If all raw materials, components and other inputs to domestic car production are themselves wholly domestically produced (x is zero), then clearly £5,000 of domestic net output will have been displaced. If, on the other hand, say, the tyres used on British cars are imported (x is non-zero) the effect of the additional imported car on total import penetration will automatically be smaller since, ceteris paribus, imports of tyres will fall as imports of cars rise. Thus any increase in total imports will potentially displace an equivalent volume of UK net output[6]; to the extent that x is non-zero, there will be an offsetting effect on the total volume of imports (as fewer intermediate imports are required). Hence the net/gross ratio assumed for total imports is unity.

16. When measuring import penetration in a particular sector (eg manufacturing), the reasoning is the same but the conclusion slightly different. In this case an increase in imports of, say, manufactures will not displace an equal volume of net output in domestic manufacturing to the extent that some of gross manufacturing output is value-added in the non-manufacturing sector.[7] The net output of the foreign manufacturing sector is therefore defined as gross output less intermediate inputs of non-manufactures (domestic and foreign), where the proportion of the latter in gross output is assumed to be the same as in the UK economy. Thus, the net/gross ratio for manufactured imports will be less than unity but greater than that for domestic manufacturing, where net output is defined to exclude all intermediate inputs.

17. The third aspect of the import valuation problem arises from the fact that it is still necessary to decide on a figure for gross output when calculating the appropriate sectoral net/gross ratios. It follows that if gross output is not uniquely defined, neither are net/gross ratios, and it is in this sense that the problem is shifted from the valuation of domestic output (when using gross-output-equivalents) to the valuation of imports (when using net-output-equivalents).

6 The assumption here is that there exist domestic substitutes for all imports to intermediate demand. In practice, of course, this will not always be the case.

7 The assumption throughout is that "technological coefficients" are unchanged through time, ie the same inputs are used in the same proportions. All that changes is the source of supply of those inputs. The concepts of "import content" and "non-manufacturing content" should not be confused.

18. In addition to the valuation problem, the use of output and trade data together also raises the question of consistent classification. Output data is currently based on the 1980 Standard Industrial Classification (SIC), while trade data conforms to the Standard International Trade Classification (SITC). Differences between the two, for example in their respective definitions of the manufacturing sector, are significant. We have adopted the SIC throughout, using "conversion factors" calculated from Overseas Trade Statistics in 1979, to create series for imports and exports on an SIC basis.[8]

Formal Definitions

19. The formulation of logically consistent measures of import penetration requires explicit recognition of the links between final and intermediate demands, and between the various sectors of the economy. A rigorous statement of the conclusions arrived at in previous sections therefore requires the use of matrix algebra, and this is set out in Annex I. It is possible, however, to convey the essence of these fairly complex expressions in less precise but perhaps more digestible scalar form.

20. Consider first the definitions of import penetration for the economy as a whole. When output is valued in gross terms, the import penetration ratio can be expressed as:

$$(1) \quad RWG = \frac{M - M_x}{Q - M_t + M - X} \qquad \text{WHOLE-ECONOMY GROSS}$$

where M = total imports

X = total exports

Q = total gross output

M_x = import content of total exports

M_t = import content of total domestic output

21. The numerator represents total imports, less the import content of exports. The latter includes both re-exports and intermediate inputs used in all stages of the production of exports. In the denominator, the market is defined as the sum of domestic gross output (less its import content, which is included in M) and total imports minus total exports. Note that, because exports are measured in gross terms, deducting X from the denominator impicitly removes the import content of exports, making numerator and denominator consistent.

---

[8]See Annex II

22. When both output and trade are valued in net terms, the expression looks slightly different:

$$(2) \quad RWN = \frac{M - M_x}{Y - \beta X + M - M_x}$$

where Y = total net output (= βQ)

β = net/gross ratio for total output

The numerator is unchanged, since the assumed net/gross ratio for imports is unity. In the denominator, with exports valued in net terms, it is necessary to deduct the import content of exports explicitly. However, gross exports are the sum of value-added domestically and total import content:

$$(3) \quad X \equiv \beta X + M_x$$

So;

$$(4) \quad RWN = \frac{M - M_x}{Y + M - X} \qquad \text{WHOLE-ECONOMY NET}$$

Note that if gross output were defined to exclude intra-sector transactions, net output would be equal to gross output less its import content and expressions (4) and (1) would be equivalent. This is explained further in paragraph 26 below.

23. For the constituent sectors of the economy, the expressions are analagous, but slightly more complicated:

$$(5) \quad RjG = \frac{M^j - M_x^j}{Q^j - M_t^j + M^j - C_x^j} \qquad \text{jth SECTOR GROSS}$$

$$(6) \quad RjN = \frac{\alpha^j \ (M^j - M_x^j)}{y^j + \alpha^i \ (M^j - M_x^j) - \beta^j C_x^j} \qquad \text{jth SECTOR NET}$$

where M^j = total imports of j

M_x^j = imports of j in total exports

Q^j = total gross output of j

M_t^j = imports of j in total output

C_x^j = domestic output of j in total exports

α^j = foreign net/gross ratio for the jth sector

β^j = domestic net/gross ratio for the jth sector

$\bar{Y}^j$ = net output of j ($= \beta^j Q^j$)

As before, the intention is to measure imports as a proportion of home demand, excluding both the domestic and foreign output content of exports.[9]

Data and Computation

24. As well as import penetration ratios for the whole economy, we report below separate estimates for the manufacturing and non-manufacturing sectors. For all data on trade and output, Treasury model variables were used as the starting point. The index of net manufacturing output used on the Treasury model conforms to the SIC (1980) definition and so, with appropriate scaling, could be used directly. For whole economy net output, the average estimate of GDP at factor cost (1980 prices) is used. The trade data on the model, however, has to be made consistent with the SIC definition of manufacturing, using "conversion factors" (see Annex II). This was done in preference to using Commodity Flow accounts trade data, mainly because it means that figures for import penetration can be readily computed from Treasury forecasts or simulations. For the current price series, it was necessary to construct a price index (deflator) for net manufacturing output. This was done using an average of the producer price index (PPI), which applies only to domestic sales, and the average value index (AVI) for exports of manufactures, weighted by the proportions of domestic sales and exports respectively in gross output. The result is only an approximation to the true deflator, partly because the PPI is base-weighted rather than current-weighted, and partly because we have assumed that price indices for gross output and net output are the same. The current price series in Table 1 are therefore less accurately measured than their constant price counterparts.

25. The parameters used in the calculations are derived primarily from Tables B and C of the 1979 Input-Output Tables, aggregated from 99x99 to 2x2 industry level. The program used to generate the figures for import penetration uses the matrix algebra expressions (8),

9 the apparent asymmetry between the whole economy import penetration ratios and their sectoral counterparts arises from (a) the fact that we exclude not the total (net or gross) output content of exports of j, but the "j content" of total exports, and that (b) the denominator of (6) cannot be simplified, using an expression like (3), to make it compare directly with the whole-economy version.

(10), (14) and (15) in Annex I. The net-gross ratios (V_D) are assumed to be constant (see footnote 7, p.5) at the average of 1974 and 1979 values, from Input-Output Tables[10]. However, each input-requirement coefficient (in A_D and A_I) is adjusted, for each observation, by the proportionate change in the relevant IPR in the previous period. The base period is 1979 Q1. This is a way of allowing the split between domestic and foreign sources of inputs to production to change over time, as import penetration of the total market (final and intermediate) changes.

Interpreting and Comparing the Figures

26. Table 1 presents annual average figures for import penetration calculated using the procedures outlined above.One obvious feature is that the net IPRs are very much larger than their gross counterparts, both for the whole economy and for individual sectors. Furthermore, a crude calculation based on national accounts data[11] suggests that import penetration for the whole economy, according to our definitions, was around 23 per cent in 1980. Intuitively, this figure should be the same whether we use net-output-equivalents or gross-output-equivalents. The reason why the figures for gross import penetration appear "low" is that double-counting of intra-sectoral flows inflates gross output, and thereby the measure of potential market size. Since this double-counting is removed in the net measure, the 1980 figure for net import penetration corresponds quite closely to that implied by the national accounts. In principle, we could make some adjustment to the numerator in the gross measure to allow for intra-industry transactions associated with the production of imports. This has not been done here. The scale of the series for net IPRs is therefore probably more meaningful than that for their gross counterparts.

27. A second, less obvious feature is that there is no simple way of weighting together the IPRs for the individual sectors to arrive at the appropriate whole economy figure. The problems arise because of the "partial" nature of the sectoral measures. For example, in the gross measure, total demand for manufactures includes gross domestic output of manufactures and imports of manufactures used by the non-manufacturing sector. Similarly, demand for non-manufactures includes domestic output plus non-manufactured imports used by producers of manufactures. Total demand in the whole economy measure, however, excludes these "cross-sector" terms since intermediate demand for one sector's

10 the net-gross ratio in manufacturing rose between the two years. It is assumed that this reflects the tendency for value-added (notably profits) to fall as a proportion of gross output when output is falling. Since 1974 and 1979 coincided with opposite points on the cycle, the "long-run" net-gross ratios are taken to lie between the values recorded for these years.

11 1983 Blue Book. Table 1.1. Assuming the total import content of exports is 20%.

Table 1

IMPORT PENETRATION: ANNUAL AVERAGE %

GROSS	Whole Economy		Manufacturing		Non-Manufacturing (including oil and services)	
	Constant Prices	Current Prices	Constant Prices	Current Prices	Constant Prices	Current Prices
1970	12.8	12.4	14.2	15.4	11.1	8.8
1971	13.4	12.1	15.0	15.3	11.6	8.9
1972	13.9	12.1	16.3	16.3	11.6	8.1
1973	14.2	14.1	17.1	19.6	11.4	9.0
1974	14.6	17.5	18.1	22.1	11.3	12.6
1975	13.8	15.0	18.5	20.9	10.1	10.1
1976	14.1	16.3	19.5	22.7	9.8	10.8
1977	13.8	16.5	20.4	23.3	8.8	10.2
1978	14.1	15.6	21.8	23.8	8.4	8.8
1979	14.8	16.0	23.8	25.2	8.5	8.7
1980	15.0	15.0	26.2	26.2	7.9	7.9
1981	14.9	14.6	27.5	26.3	7.4	7.7
1982	15.1	14.9	28.8	27.4	7.1	7.6

NET	Whole Economy		Manufacturing		Non-Manufacturing (including oil and services)	
	Constant Prices	Current Prices	Constant Prices	Current Prices	Constant Prices	Current Prices
1970	21.3	21.3	25.6	27.4	14.1	11.6
1971	21.9	20.8	26.6	27.1	14.7	11.7
1972	22.8	20.5	28.5	28.6	14.7	10.7
1973	23.2	23.3	29.7	33.0	14.4	11.7
1974	23.8	28.1	31.2	36.5	14.3	16.2
1975	22.5	24.2	31.6	34.9	12.9	13.1
1976	22.7	25.9	32.9	37.2	12.6	13.9
1977	22.4	26.5	34.1	38.0	11.4	13.2
1978	22.7	25.1	36.0	38.5	10.8	11.4
1979	23.8	25.6	38.4	40.2	11.0	11.4
1980	23.7	23.7	41.5	41.5	10.4	10.4
1981	23.4	23.0	43.0	41.7	9.8	10.2
1982	23.6	23.4	44.5	42.9	9.4	10.0

output by another is already accounted for in total domestic output (see footnote 3, p.3). This is set out more fully in Annex I, where the formal result is obtained that sectoral IPRs should be weighted together by share of sectoral in total demand ("market size"), where all demands are measured in foreign-gross-output-equivalents. The appropriate weights obviously change over time as the composition of output changes.

28. The IPRs have been calculated using both constant and current price data, and it is clear from Table 1 that movements in import penetration over time are heavily influenced by which set of prices is used. With import penetration defined essentially as imports over home sales, a current-price measure will rise faster than a constant-price one when import

prices are rising faster than domestic prices generally (where the latter includes import prices). This phenomenon is exhibited, for example, in the figures for manufacturing (net or gross); the current-price measure rises faster with the fall in the sterling effective exchange rate from 1971 to 1976, and rises slower than the constant-price measure during the 1977-1980 appreciation[12]. For the economist, both measures are of interest. The constant price measure, abstracting as it does from movements due purely to relative price changes, might be more relevant when considering the impact of trade on output and employment. The current price measure, on the other hand, is a better indicator of effects on national income since it incorporates changes in the terms of trade as well as in the volume of trade and output.

29. Presenting figures for the whole economy alongside those for manufacturing and other industries separately brings out the diverse trends in import penetration across sectors. For the economy as a whole, import penetration has been broadly flat in constant prices since the mid-1970s, after a small rise between 1970 and 1974. From Table 1 it is clear that this is the net result of a rising trend in manufacturing and a falling trend in the rest of the economy. The latter was evident even before the advent of North Sea oil in 1977-78, but has become more pronounced as net imports of crude oil have fallen. This, in turn, has been accompanied by faster growth in import penetration for manufactures since 1977. Note that these trends are rather less marked in the current price series, reflecting the tendency for volume and relative price movements to offset each other. For non-manufacturing, the current price series is strongly affected by high commodity prices (oil and non-oil) in the mid-1970s. Figures for non-oil non-manufacturing, ie mainly services and basic materials, using a crude measure not reported here, suggest that import penetration over the 1970s and early 1980s in these industries has been broadly flat in constant prices and declining slightly in current prices.

30. The Department of Trade and Industry regularly publish figures for import penetration in manufacturing, and sub-categories thereof (though not for other sectors of the economy). Table 2 compares their figures with those computed using the procedures outlined above. Both series measure imports as a percentage of home demand for SIC manufacturing in gross terms, and both are in current prices. However, the DTI series shown here is based on the 1968 SIC definition of manufacturing, since a full run of figures on the revised definition has not yet been published.

---

12 Between 1971 Q4 and 1976 Q4, finished manufacturers' import prices (UVIs) rose on average by 20 per cent pa, compared with 15 per cent pa growth in the GDP deflator. The corresponding figures for the period 1976 Q4 to 1980 Q4 are 5 per cent pa and 14 per cent pa respectively. Changes in the composition of imports will also effect the relative paths of the two series.

Table 2

IMPORT PENETRATION IN MANUFACTURING

	HMT (gross)[13]	DTI[14]
1971	15.4	17.1
1972	15.3	18.2
1973	16.3	21.4
1974	19.6	23.3
1975	22.1	21.9
1976	20.9	23.0
1977	22.7	23.9
1978	23.3	24.7
1979	23.8	25.7
1980	25.2	25.3
1981	26.2	27.4
1982	26.3	28.4

31. The two series will move differently if only because, as explained in paragraph 24, we have had to use an approximation to the deflator for gross output. However, the difference in the levels of the two series can be seen by comparing the 1980 figures (when the current price/constant price distinction is inoperative). The small discrepancy of 0.1 percentage points can be ascribed to (a) the inclusion of the import content of exports in the numerator of the DTI series and its exclusion from the HMT series, (b) the double-counting of intermediate imports in the denominator of the DTI measure,[15] and (c) the differences in the definition of the manufacturing sector.

32. The Bank of England's published figures (cf paragraph 7 above) for constant price import penetration in manufacturing are very much higher than those proposed here, for two reasons. Firstly, as with the DTI measure, the Bank's formula excludes the import content of exports in the denominator (implicitly, by subtracting gross exports) but not in the numerator. Secondly, the Bank adopt a different definition of gross output to that used

13 Corresponds to expression (5) above. The figures are taken from the current price series in Table 1.

14 Ratio 1, published in British Business prior to November 1983 (since then published figures have been on an SIC (80) basis). The main difference in classification is that the SIC(80) excludes mineral oil refining and solid fuel production from "manufacturing".

15 These two features will have an offsetting effect on the size of the DTI ratio: hence the small discrepancy.

here; namely they exclude manufactured inputs to manufacturing ("intra-sector" transactions) on the grounds that these would otherwise be double-counted. As we argued above, there is no definition of gross output which is both invariant to the level of aggregation and avoids double-counting, and the Bank's definition is therefore a defensible one. However it does mean that the resulting measure of market size will be considerably smaller (for manufacturing, intra-industry transactions[16] amounted to about one third of gross output in 1979), and the import penetration ratio larger.[17]

33. Aside from the problems of comparing different measures of import penetration, there is a more fundamental issue; namely, how figures for import penetration (on whatever measure) should be interpreted. On its own, import penetration can be seen as one characteristic of the structure of an economy (in the same way as, say, the proportion of the workforce employed in agriculture or services). But more usually import penetration is interpreted as being an indicator of trade performance in particular and of the "state of health" of the economy in general.

34. It is here that special care should be taken to consider other relevant economic factors. The contribution of international trade to domestic output and employment is represented, for given domestic demand, by the trade balance, which clearly depends as much on movements in exports as on the success of import-competing industries. For an individual sector, even a deteriorating trade balance need not be cause for concern if it reflects a shift in comparative advantage and is offset by an improving balance in other sectors. Furthermore, a higher level of trade (for a given balance) will tend to raise the level of both domestic demand and productive potential (through efficiency gains in consumption and production) and so lead to higher output and employment. These points demonstrate the need to consider import and export performance jointly, for all sectors of the economy. In addition, reference should be made to the cyclical position of the UK economy relative to that of the rest of the world. A deteriorating trade balance is often associated with the start of a recovery phase in which the initial effect of increased demand is to raise imports, and possibly to divert production towards the domestic market which would otherwise have been exported. Similarly, an improving balance may be as much the product of a recession as of improving trade performance.

16 ie as recorded in the input-output tables for "manufacturing industry" as a whole. At the SIC industry level, intra-industry transactions are excluded when compiling the tables.

17 The Bank measure excludes from the denominator the total import content of manufactured exports, while our measure excludes the manufactured import content of total exports. It is not clear "a priori" whether this will tend to exaggerate the size of the potential market, on our definition, or underestimate it.

35. It is also important to assess movements in the volume of trade alongside changes in the terms of trade. Consider a hypothetical economy with a floating exchange rate and no capital flows. In this case, an improved "trade performance" (e.g. better non-price competitiveness) will be reflected not in a higher trade balance, which must always be zero in value terms, but in better terms of trade. Indeed, since better terms of trade imply poorer price-competitiveness, the volume balance will be worse in equilibrium, though possibly at a higher level of trade. In general, an improvement in the terms of trade is one route through which international trade contributes to higher real incomes at home.

36. These points can be illustrated by reference to Table 3, which shows figures for the ratio of imports to home demand (TFE less exports) and the ratio of exports to output[18] for the whole economy excluding oil. Note that the constant (1980) price ratio is similar to the whole economy net measure defined in paragraph 22. The main differences are that the import content of exports is not excluded from the figures below and, of course, that the earlier figures include oil.

Table 3

STATISTICS FOR THE WHOLE ECONOMY LESS OIL

	Imports/Domestic Expenditure		Exports/Output	
	1980 Prices	Current Prices	1980 Prices	Current Prices
1970	15.8	20.4	20.4	22.2
1971	16.3	19.8	21.3	22.2
1972	18.0	20.1	21.0	21.2
1973	19.2	23.5	22.0	23.0
1974	20.3	27.3	24.1	26.8
1975	19.8	24.1	23.8	25.1
1976	20.4	25.7	24.9	27.5
1977	21.6	27.2	26.1	29.3
1978	21.8	25.8	25.5	27.8
1979	23.9	26.3	25.4	26.9
1980	24.4	24.4	26.2	26.2
1981	24.3	23.3	25.4	24.6
1982	24.7	23.7	25.0	24.1

Over the period 1970 to 1976, ie before North Sea Oil made a significant impact on the UK economy, the ratio of imports to domestic demand rose from 15.8% to 20.4% at constant prices. We can note firstly that, over the same period, the constant price export-output ratio for the non-oil economy also rose and by almost exactly the same amount (4.5 points,

18 TFE less imports. This is similar to the DTI exports/sales ratio (British Business; Ratio 3), except that here intermediate transactions are excluded

IMPORT PENETRATION AND EXPORT-OUTPUT RATIOS (%)

WHOLE ECONOMY EXCLUDING OIL

CHART 1

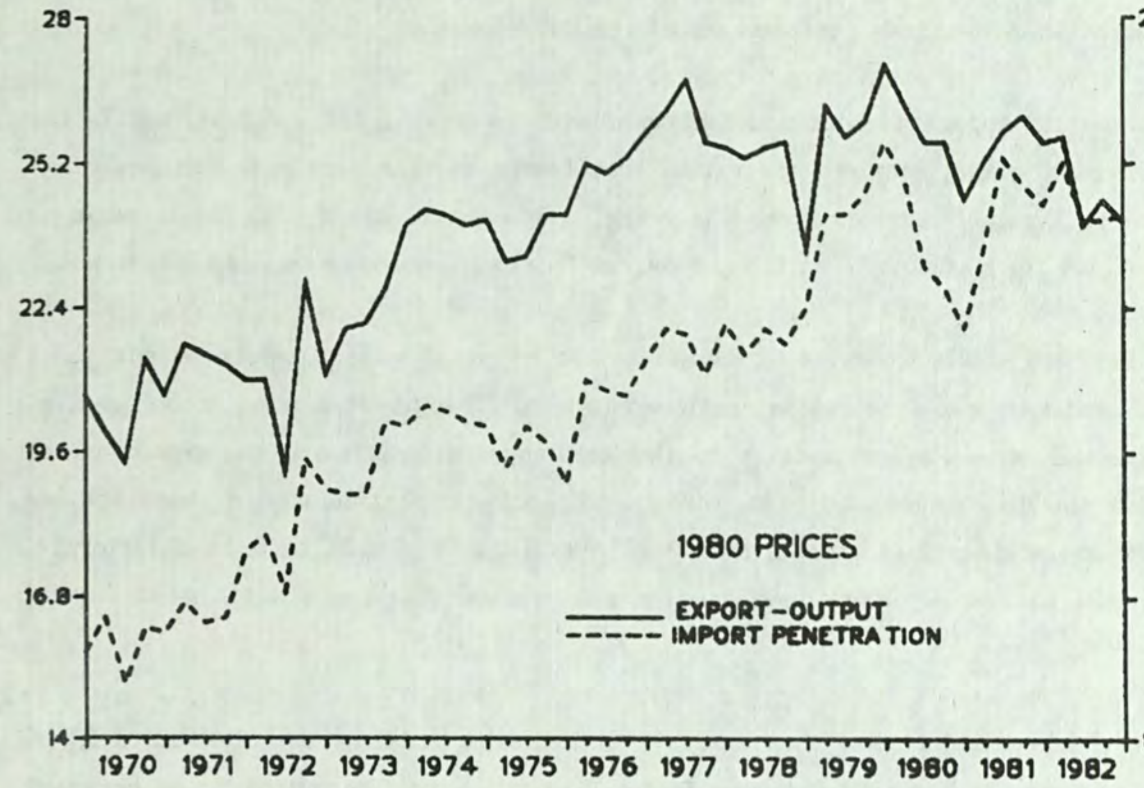
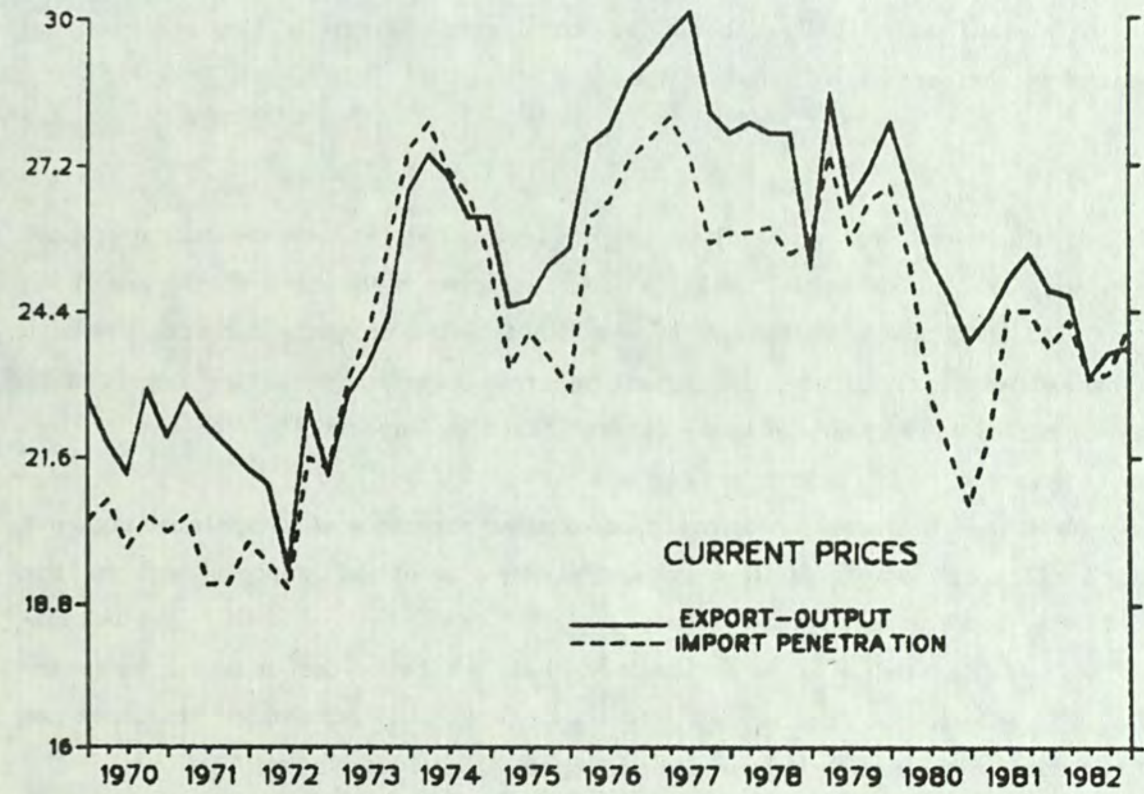


CHART 2



compared to 4.6 for import penetration). This suggests that the rise in import penetration over this period should be interpreted as a sign of increasing "openness" (consistent with a trend towards greater international specialisation, and perhaps affected by EC entry) rather than a deterioration in the trade performance of the UK economy.

37. Secondly, it is apparent from a comparison with figures in Table 2 that, within the non-oil sector as a whole, import penetration rose faster in manufacturing than in other non-oil industries (mainly services) over this period. This is consistent with the trend in an advanced economy for a structural shift in resources from secondary to tertiary industries.

38. From 1977 to 1982, however, growth in the constant price export-output ratio flattened off, while import penetration continued to rise. This phenomenon can be seen, at least partly, as the natural offset under a floating exchange rate regime to the growth in net trade in oil; as the oil balance improves, the non-oil balance (particularly in those sectors most exposed to international competition, e.g. manufacturing) will tend to deteriorate. The offset would necessarily have been greater still without the large outflow of capital during 1978-1982.

39. Finally, charts 1 and 2 show that since 1972 (i.e. after sterling was allowed to float) while import penetration has tended to rise faster than the export-output ratio at constant prices, movements in the terms of trade have been such that the current-price measures have not diverged - even during the 1973 commodity price boom. Hence the adverse effect of the non-oil trade balance on employment in the non-oil sector of the UK economy, through the 1970's and early 1980's, should be considered alongside the real income ("welfare") gains from better non-oil terms of trade.

Conclusion

40. The aim of this work was to analyse the problems involved in measuring import penetration, which are considerable, and to decide upon measures which are both informative and logically consistent (though we would not claim, uniquely correct). As with most other measures currently in use, the import penetration ratios presented here can be interpreted as estimates of the share of home demand taken by imports.

41. Where we hope they represent an advance on existing measures is in the more rigorous determination of "market size", in the consistent treatment of exports and in the comparison of the more usual gross measures with ones derived using net-output-equivalents. This notwithstanding, it is emphasized that, whatever the basis for different measures, import penetration describes only one facet of economic structure or development and may be misleading unless viewed as part of a wider picture.

Annex I

MATRIX ALGEBRA

All domestic output goes to intermediate demand, final domestic demand or exports;

(1) $$q = A_D q + f_D + f_x$$

Imports go either to intermediate demand or to final demand;

(2) $$P = A_I q + f_I$$

From which it follows that

(3) $$q = (I-A_D)^{-1} (f_D + f_x)$$

(4) $$P = A_I (I-A_D)^{-1} (f_D + f_x) + f_I$$

where q = (Nx1) vector of gross outputs

f_D = (Nx1) vector of final domestic demands

f_x = (Nx1) vector of export demands

p = (Nx1) vector of total imports

f_I = (Nx1) vector of final demand for imports

and A_D = (NxN) matrix of coefficients a_D^{ij}, where a_D^{ij} is the input of domestic output of i used to produce one unit of domestic output of j

A_I = (NxN) matrix of coefficients a_I^{ij}, where a_I^{ij} is the input of imports of i used to produce one unit of domestic output of j.

$(I - A_D)^{-1}$ = "Leontief inverse"

Where N is the number of industries or sectors in the economy.

For the whole-economy IPRs, the numerator of both gross and net measure is total imports less the import content (direct and indirect) of exports. This is given by;

(5) $$P - A_I (I-A_D)^{-1} f_x$$

The denominator of the gross measure is gross output less the direct and indirect domestic content of exports plus total imports, less those used to produce exports and those already included in gross output;

$$(6) \qquad q - (I-A_D)^{-1} f_x + P - A_I (I-A_D)^{-1} (f_D + f_x)$$

which, from (3) and (4), is equivalent to;

$$(7) \qquad (I-A_D)^{-1} f_D + f_I$$

Thus;

$$(8) \qquad RWG = \frac{i.\left[P - A_I (I-A_D)^{-1} f_x\right]}{i.\left[(I-A_D)^{-1} f_D + f_I\right]}$$

where i is a (1xN) unit vector.

The denominator of the net measure is the net-output - equivalent of total output less the direct and indirect domestic output content of exports plus all imports not going directly or indirectly into exports;

$$(9) \qquad \bar{V}_D \left[q - (I-A_D)^{-1} f_x\right] + P - A_I (I-A_D)^{-1} f_x$$

where $\bar{V}_D$ is an (NxN) matrix with domestic net/gross ratios on the diagonal and zeros elsewhere. (V_D is a 1 x N vector of the diagonal elements of $\bar{V}_D$)

Thus;

$$(10) \qquad RWN = \frac{i.\left[P - A_I (I-A_D)^{-1} f_x\right]}{V_D \left[q - (I-A_D)^{-1} f_x\right] + i.\left[P - A_I (I-A_D)^{-1} f_x\right]}$$

For the sectoral IPRs, the numerators are simple analogues of the whole-economy numerators (except that the net/gross ratio for imports is now less than unity). So, from all imports of commodity j we subtract intermediate imports of j used in the production of <u>all</u> exports;

$$(11) \qquad P^j - \left[A_I^{ji} \; .... \; \text{all } i\right] (I-A_D)^{-1} f_x$$

The denominator of the gross measure is equal to domestic output of j less that going to export, plus all imports not destined for export or already included in gross domestic output of j. The latter comprises imports to final demand and imported inputs of j used in all sectors other than j. Thus;

$$(12) \qquad q^j - B^j f_x + f_I^j + \left[A_I^{ji} \; .... \; \text{all } i \neq j\right] C^j f_D$$

The terms $\left[A_I^{ji} \; .... \; \text{all } i\right]$ and $\left[A_I^{ji} \; .... \; \text{all } i \neq j\right]$ are row vectors, the first being the entire jth row of the A_I matrix and the second being all elements in that row other than that on the diagonal. B^j is the jth row vector of $(I-A_D)^{-1}$ and C^j is an (N-1)xN matrix made up of all the rows of $(I-A_D)^{-1}$ other than the jth, so that:

$$\left[\begin{array}{c} B^j \\ \hline C^j \end{array}\right] \equiv (I-A_D)^{-1}$$

For the net measure, all intermediate imports for the domestic market are included explicitly, since domestic output is measured in net terms and so does not include its own import content. The denominator of the net sectoral IPR is therefore;

$$(13) \qquad V_D^j \left[q^j - B^j f_x\right] + V_I^j \left[P^j - \left[A_I^{ji} \; .... \; \text{all } i\right] (I-A_D)^{-1} f_x\right]$$

and;

$$(14) \qquad RjG = \frac{P^j - \left[A_I^{ji} \; .... \; \text{all } i\right] (I-A_D)^{-1} f_x}{q^i - B^j f_x + f_I^j + \left[A_I^{ji} \; .... \; \text{all } i \neq j\right] C^j f_D}$$

$$(15) \qquad RjN = \frac{V_I^j \left[P^j - \left[A_I^{ji} \; .... \; \text{all } i\right] (I-A_D)^{-1} f_x\right]}{V_D^j \left[q^j - B^j f_x\right] + V_I^j \left[P^j - \left[A_I^{ji} \; .... \; \text{all } i\right] (I-A_D)^{-1} f_x\right]}$$

where V_D^j and V_I^j are the net/gross ratios in the j sector, at home and abroad respectively.

The Formal Relationship between Whole-Economy and Sectoral IPRs

Consider the gross measures first. It is clear from expressions (8) and (14) that the numerators in the sectoral IPRs will sum to the numerator in the whole economy measure. This does not follow for the denominators only because of the last, "cross effect", term $\left[A_I^j \ldots \text{all } i \neq j\right]$. Since all terms are defined on a gross output basis, the imports represented by $\left[A_I^j \ldots \text{all } i \neq j\right]$ are accounted for by the term $q^j - B^j f_x$ in the aggregate measure, and therefore disappear as separate terms. For a two-sector economy, the whole-economy IPR can be expressed as a weighted average of sectoral IPR's;

$$(16) \qquad \frac{X}{y} \equiv \frac{y_1}{y} \cdot \frac{X_1}{y_1} + \frac{y_2}{y} \cdot \frac{X_2}{y_2}$$

where $x = x_1 + x_2$
but $y < y_1 + y_2$

This last inequality, which states that the sum of demands for each sector's output exceeds total demand for all output (when demand is in gross terms), implies that the set of weights for obtaining the whole-economy IPR from sectoral IPRs sum to more than unity.

The same is true of the net measures, but the "cross effects" problem appears not in the aggregation of components of domestic demand but in the valuation of imports. For the whole-economy, the net/gross ratio applied to imports is unity, since the whole of gross imports can be seen as displacing domestic value-added. But for each individual category of imports, we include only that part which displaces value-added in the particular sector to which the measure implies. Since the sectoral net/gross ratios for foreign production are all less than unity, it follows that no set of weights summing to one could produce an average whole-economy net-gross ratio of unity.

A set of appropriate weights can be constructed as follows. For the whole economy, total net output displaced by imports is (nationally) equal to imports for the domestic market - say, x. We can express x as;

$$(17) \qquad X = \sum_{i=1}^{n} \sum_{j=1}^{n} X_{ij}$$

where x_{ij} is net output of j displaced by imports of i, and there are n sectors in the economy.

$$\text{When } i=j, \quad X_{ii} = V_I^j \left[P^i - \left[A_I^{ii} \ldots\ \text{all } i \right] (I - A_D)^{-1} f_x \right]$$

It follows that, for each i;

$$(18) \qquad \sum_{j \neq i} X_{ij} = (1 - V_I^i) \left[P^i - \left[A_I^{ii} \ldots\ \text{all } i \right] (I - A_D)^{-1} f_x \right]$$

$$(19) \qquad \Rightarrow \sum_{j \neq i} X_{ij} = \frac{(1 - V_I^i)}{V_I^i} \cdot X_{ii} \quad \text{for each } i$$

We can express the whole-economy IPR as;

$$(20) \qquad \frac{X}{y} = \sum_{i=1}^{n} \left\{ \frac{yi}{y} \; \frac{Xii}{yi} + \sum_{j \neq i} \frac{Xij}{y} \right\}$$

where $\frac{Xii}{yi}$ is the ith sectoral IPR.

Substituting for $\sum_{j \neq i} X_{ij}$ from (19) gives;

$$(21) \qquad \frac{X}{y} = \sum_{i=1}^{n} \left[\frac{yi}{y} \cdot \left(1 + \frac{1 - V_I^i}{V_I^i} \right) \cdot \frac{Xii}{yi} \right]$$

$$(22) \qquad \Rightarrow \frac{X}{y} = \sum_{i=1}^{n} \frac{yi}{V_I^i y} \cdot \frac{X_{ii}}{yi}$$

The weight to attach to the ith sectoral IPR is therefore $y_i/V^i_I y$, where y_i is the size of the domestic market for i and y is the size of the total domestic market.

Intuitively, we convert our measure of the domestic market for the ith sector to foreign gross-output-equivalents so as to make it compatible with y, the whole-economy term. A set of weights can then be constructed, as for the gross measures, by taking the share of demand for each sector's output in demand for all output.

Annex II

TRADE ON AN SIC BASIS: THE DERIVATION OF CONVERSION FACTORS

To construct measures of import penetration for manufacturing and non-manufacturing, we need to define link equations which can generate data for exports and imports on an SIC basis, using SITC categories. This involves estimating parameters ("conversion factors") which represent the approximate proportion of each SITC category which would be classified as "manufactures" or "non-manufactures" in the SIC (1980).

When this procedure was done for the SIC (1968), for an earlier version of this paper, it was found that the conversion factors were fairly stable over time, with the exception of fuel. Since fuel has been taken out of "manufacturing" in the new SIC, it was assumed that a new set of conversion factors, computed from the 1979 Overseas Trade Statistics, could be applied to all periods.

The problems involved in reconciling the SIC and SITC definitions, particularly of manufactures, are considerable. It is often unclear, for example, at what stage in its processing an agricultural product ceases to be a "food" or "basic material" and becomes a "manufacture", on each classification. A further problem arises because of the treatment of trade in services in the Input-Output tables; in the balance of payments, all goods and services purchases by foreigners while in the UK are treated as exports of services, but in the Input-Output tables the purchase of a UK-produced manufacture by a foreign tourist is (correctly) included under "exports of manufactures". Similarly, purchases of fuel by UK shipping operators in foreign ports are treated as imports of fuel in the Input-Output tables, but imports of "shipping services" in the balance of payments accounts.

The reconciliation decided upon here is as follows;

Agriculture, Forestry: and Fishing (rows 1-2)	(a)	Divisions 00, 025, 041-045 0541-0545, 057	1473
	(b)	Division 121	279
	(c)	Divisions 22, 29	396
	(d)	Services	10
	(e)	Misc. Section 0	297
			2455

Fuels (rows 3-9)	(a)	Misc. Section 5-9	362
	(b)	Section 3	5407
	(c)	Services	1284
	(d)	error	-3
			7050
Manufacturing (rows 10-87)	(a)	Section 0 n.e.s	3431
	(b)	Section 1 less Division 121	479
	(c)	Sections 2 and 4 less Divisions 22, 29	3204
	(d)	Sections 5-9 n.e.s.	29009
	(e)	Services	1036
			36962

Services (rows 88-99): all services n.e.s.

The row numbers refer to rows in the 1979 Input-Output tables, trade divisions are defined in the 1978 Overseas Trade Classification, and the numbers refer to import values (BOP basis) in 1979. From these numbers the proportions of each major SITC category of imports in 1979 attributable to SIC manufacturing and non-manufacturing, respectively, were calculated. Similar calculations were done for exports, using the same SIC/SITC reconciliation. These conversion factors are set out below:

IMPORTS

SIC category	0+1	2+4	5-9	3	Services (BOP)
	SITC Sections				
AFF*	0.3144	0.0947	0	0	0.0001
Manufacturing	0.5994	0.7665	0.9463	0	0.0991
Fuels	0	0	0.0119	0.9351	0.1233
Services	0	0	0	0	0.7775

EXPORTS

SIC category	0+1 + 2+4	5-9	3	Services (BOP)
	SITC Sections			
AFF*	0.1606	0	0	0.0001
Manufacturing	0.8330	0.9627	0	0.0422
Fuels	0	0.0403	1.0	0
Services	0	0	0	0.9577

Note that, since we are expressing SIC imports of goods "free-on-board" to SITC imports of goods including carriage insurance and freight, the first four columns in the imports table do not sum to one. Overall, of course, total imports of goods and services will be the same on either classification.

*Agriculture, Forestry and Fishing.

GOVERNMENT ECONOMIC SERVICE WORKING PAPERS

		DATE OF PUBLICATION
No 1	The Standard Budget Balance Nicholas Hartley and Charles Bean Treasury.	February 1978
No 2	Some Effects of Exchange Rate Changes John Odling-Smee and Nicholas Hartley Treasury.	March 1978
No 3	The Italian Public Expenditure Systems Mrs Stephanie K Holmans Treasury.	May 1978
No 4	Determination of Consumer Expenditure in the UK Charlie Bean Treasury.	July 1978
No 5	Balance of Payments Flows and Monetary Aggregates in the United Kingdom Rachel Lomax and Colin Mowl Treasury.	August 1978
No 6	A study of UK imports of Manufacturers Jim Hibbard and Simon Wren-Lewis Treasury.	August 1978
No 7	The Economic Implications of Industrial Democracy Richard Clifton Department of Employment.	Out of Print (First Published November 1978)
No 8	Secondary Workers in the Cycle Ms H Joshi Department of Health and Social Security.	September 1978 OUT OF PRINT
No 9	A Bayesian Approach to the Control of Expenditure A D Roy Department of Health and Social Security.	September 1978
No 10	Employment in Manufacturing Industry in a Vintage Capital Model Mrs H Stamler, J Hutton and J Stern Treasury.	November 1978
No 11	The Unemployed in a period of high unemployment: some notes on characteristics and benefit status Jon Stern and Clive Smee Department of Health & Social Security.	Out of Print (first published November 1978)
No 12	Evolution and Basic Concepts of the Green Currency System H Fearn Ministry of Agriculture, Fisheries & Food	~~October 1978~~ OUT OF PRINT

No 13 Wives as sole and joint breadwinners
Lynne Hamill
Department of Health & Social Security
OUT OF PRINT (FIRST PUBLISHED) (November 1978)

No 14 An explanation of the increase in female one-parent families receiving Supplementary Benefit
Lynne Hamill
Department of Health & Social Security.
November 1978

No 15 Realisations and accruals of Capital Gains (with particular reference to Company Securities)
J R King
Inland Revenue.
~~November~~ 1978
OUT OF PRINT

No 16 Magazine Publishing: A case of joint products
H B Wanban-Smith
Price Commission..
November 1978

No 17 Financial Sector for the Treasury model:

Part 1: The model of the domestic Monetary System
Peter Spencer
Colin Mowl

Part 2: The model of external capital flows
Rachel Lomax
Michael Denham
~~December~~ 1978

No 18 The Newly Industrialising Countries and the Adjustment Problem
J P Hayes
FCO
Out of Print (first published - December 1978)

No 19 The Post-War Revival of Competition and Industrial Policy
J D Gribbin
Price Commission.
March 1979
OUT OF PRINT

No 20 Some Experiments with the Sing Nagar method of estimating equivalence sales
Dr L D McClements
Department of Health & Social Security.
December 1978

No 21 The Role of Competition in the 1977 Price Commission Act
J D Gribbin
Price Commission
January 1979

No 22 The Test Discount Rate and the Required Rate of Return on Investment
I C R Byatt et al
HM Treasury.
January 1979

No 23 A Fremework for Assessing the Economic Effects of a Green Pound Devaluation
Sheila Dickinson
James Wildgoose
Ministry of Agriculture, Fisheries & Food
February 1979

No 24 Employment Functions in UK Manufacturing Industry
P Morgan
Department of Employment
April 1979

No 25 The Treasury World Economic Prospects Model
S Davis
HM Treasury
May 1979

No 26 The Effects of Regional Policy on Manufacturing Investment and Capital Stock within the UK
R Miall and D Rees
Department of Industry
September 1979

No 27 The CAP and resources flows among member states
J M C Rollo and K S Warwick
Ministry of Agriculture, Fisheries and Food
September 1979
OUT OF PRINT

No 28 Public expenditure 1977/78 Outturn compared with Plan
C H Justsum and G Walker
HM Treasury
August 1979

No 29 An Econometric Model of Manufacturing Investment in the UK
C R Bean
HM Treasury
August 1979

No 30 The Concept of Personal Income in the analysis of income distribution
R Dinwiddy
Department of the Environment
January 1980

No 31 Public Expenditure 1978/79 Outtrun Compared with Plan
Mrs V Imber
HM Treasury
February 1980

No 32 Measuring the Effects and Costs of Regional Incentives
Mrs J Marquand
Department of Industry
OUT OF PRINT
February 1980

No 33 The Economic Effects of a Shorter Working Week
R I G Allen
HM Treasury
July 1980

No 34	Simulations on the Treasury Model C Mowl HM Treasury	October 1980
No 35	Geographic Variations in the Cost of Health Service inputs R Weeden Department of Health and Social Security	October 1980
No 36	The Opening and Closure of Manufacturing Units in the UK 1966-1975 S J Dunn Department of Industry	November 1980
No 37	The Costs of Alcohol Misuse Mrs S Holtermann A Burchell Department of Health & Social Security	February 1981
No 38	Inter-Plant Comparisons of Productivity and Earnings J M Ball N K Sketch Department of Employment	May 1981
No 39	**Government Economic Service Working Paper Number 39 is not available for distribution and has been struck off the list of GES Working Papers**	
No 40	Public Expenditure 1979-80 Outturn Compared with Plan Mrs V Imber HM Treasury	March 1981
No 41	Money and Prices: A Simulation Study using the Treasury Macro Economic Model P Richardson HM Treasury	March 1981
No 42	The Role of Money in Determining Prices: A Reduced Form Approach S Wren-Lewis HM Treasury	March 1981
No 43	The Effect of Road Investment on Economic Development in the UK M Parkinson Department of Transport	August 1981
No 44	The Impact of Indirect Taxes on Households Douglas Todd and Vivien Hamilton HM Treasury	April 1982

No 45	The Demand for Sterling M3 and Aggregates in the United Kingdom. Joe Grice and Adam Bennett Annex by Norman Cumming HM Treasury	December 1981
No 46	The Post Industry Act (1972) Industrial Movement into, and Expansion in, the Assisted Areas of Great Britain: Some Survey Findings F Herron Department of Industry	September 1981
No 47	A Model to Forecast Payments from the Redundancy Fund R G Bushell Department of Employment	January 1982
No 48	Inequalities in Health: Analysis of the 1976 General Household Survey A Burchell DHSS	November 1981
No 49	Relationship between Unemployment and Output W T Wells Department of Employment	February 1982 OUT OF PRINT
No 50	Survey of Employees in the Manufacturing Sector in the South-West D Nelson D Potter Department of Industry	January 1982
No 51	Competitiveness and Manufactured Exports: Some tests of the Treasury model specification Allen Ritchie John Hicklin HM Treasury	March 1982

No 52	Wages and Employment in Agriculture in England and Wales 1960-1980 Dr P J Lund, T G Morris J D Temple J M Watson Ministry of Agriculture, Fisheries and Food	March 1982
No 53	Probabilities of Employment on leaving work experience schemes David O'Connor MSC	March 1982
No 54	North Sea Oil and Structural Adjustment ICR Byatt et al HM Treasury	March 1982
No 55	Job Generation in British Manufacturing Industry: Employment Change by size of Establishment and by Region R D Macey OUT OF PRINT Department of Industry	June 1982
No 56	UK Trade in Manufacturing: The Pattern of Specialisation During the 1970s S R Smith, G M White, N C Owen and M R Hill Departments of Industry and Trade	August 1982
No 57	A Model of Private Sector Earnings Behaviour Simon Wren-Lewis HM Treasury	July 1982
No 58	Studies in Macro-Economic Forecasting and Model Building Part 1 - The Tracking Performance of the Treasury Model Andrew Britton Rod Whittaker Part 2 - Treasury Forecasts, Outturns and Policy Adjustments Andrew Britton Angela Campbell	

No 59	Expenditure, Wealth and the Rate of Interest Adam Bennett HM Treasury	January 1983
No 60	Wool Textilė Industry Scheme Stage II - An assessment of the effects of Selective Assistance under the Industry Act 1972 David Potter, Gareth Davis Department of Industry With an Econometric Analysis of Stages I and II Roger Gibbs Department of Industry	August 1983
No 61	The Clothing Industry Scheme - An assessment of the effects of Selective Assistance under the Industry Act 1972 John Lambert Department of Industry	August 1983
No 62	Visible Imports Subject to Restraint C D Jones Departments of Industry and Trade	August 1983
No 63	Risk, Uncertainty and Public Sector Investment Appraisal A T O'Donnell T E Rhodes HM Treasury	
No 64	Effects of Exchange Rate Changes on International Interest Rates Comparisons S W Matthews and R K Timmins HM Treasury	
No 65	How Many Pensionable Years? The Lifetime Earning History of Men and Women Heather Joshi DHSS and Centre for Population Studies London School of Hygiene and Tropical Medicine Susan Owen Department of Economics University College, Cardiff	October 1983
No 66	The Demand for Non Interest Bearing Money in the UK R B Johnston HM Treasury	March 1984

No 67. Some Experiments with Optimal Control on the Treasury Model — April 1984
C L Melliss
HM Treasury

No 68. The Effect of Re-establishment Centres on Subsequent Employment: An Evaluation — April 1984
Jon Stern and Andrew Burchell
Department of Health & Social Security

No 69. Incomes in and out of work 1978-82: some results using the DHSS cohort simulation model
Mrs S Ramsden and Ms J Mallender
Department of Health & Social Security

Further details about the papers in this series may be obtained by contacting the Head of the Secretariat, Committee on Economic Research and Training, Civil Service College, 11 Belgrave Road, London SW1V 1RB (Tel 01-834 6644 ext 326). GTN 2803 326

CONFIDENTIAL

cc K

Foreign and Commonwealth Office

London SW1A 2AH

Await reply from DTI CDP 29/6

29 June 1984

Dear Blades,

Arab/British Chamber of Commerce (ABCC)

The Prime Minister has considered the advice about the invitation from the Chairman of the ABCC to attend the opening of the Chamber's new premises in the autumn contained in my letter to Charles Powell of 21 June and yours of 15 June. She has decided not to accept the invitation and, subject to further comment from Sir Geoffrey Howe, to act on Mr Tebbit's recommendation that Mr Channon should attend in her place.

For the reasons given in my letter of 21 June, Sir Geoffrey Howe thinks it important that the Government should be represented on this occasion at Cabinet Minister level if at all possible. He therefore hopes that Mr Tebbit will be able to take this on. It is an important and delicate aspect of our established policy to maintain a balance in dealings with pro-Israel and pro-Arab bodies in this country. The Arabs and their supporters would certainly notice, and could well take offence, if the ABCC function were to be attended by a Minister of State, when the British-Israel Chamber (BICC) annual dinner (a routine event, unlike the ABCC function) on 4 June was attended by Mr Tebbit. If we do not treat the two bodies on an equal footing we risk unnecessary irritation in our dealings with sensitive Arab countries quick to find real or imagined causes of political bias towards Israel.

Sir Geoffrey considers that it would be best if Mr Tebbit were able to spare the time to attend this function. But if necessary he would be willing to try to attend himself if Mr Tebbit were unable to do so.

I am copying this letter to Charles Powell at No 10.

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

E Blades Esq
PS/Secretary of State
Dept of Trade & Industry

CONFIDENTIAL

Trade: Non Tariff Barrier A4

CONFIDENTIAL

File

bc: Sir P. Cradock

10 DOWNING STREET

From the Private Secretary

25 June 1984

ARAB-BRITISH CHAMBER OF COMMERCE

The Prime Minister has considered the advice about the invitation from the Arab-British Chamber of Commerce contained in your letter of 21 June and Edward Blades's letter of 15 June. The Prime Minister has decided not to accept the invitation. I shall write to Sir Richard Beaumont to inform him of this. I propose to tell him that Mr. Channon would be pleased to attend the opening of the Chamber's new premises unless you wish to comment further on the question of representation.

Charles Powell

Peter Ricketts, Esq.,
Foreign and Commonwealth Office.

CONFIDENTIAL

(1)

PRIME MINISTER

Arab-British Chamber of Commerce (ABCC)

The Arab-British Chamber of Commerce have invited you to be principal guest at the official opening of their new premises in the autumn (Flag A). Mr. Tebbit recognises that the ABCC is important to our commercial interests but thinks that an even-handed approach to Arab and Jewish organisations would be satisfied by the attendance of the Minister for Trade (Flag B).

Sir Geoffrey Howe however thinks you should accept in order to maintain balance (not least with your recent agreement to become Chairman of the North London Conservative Friends of Israel) (Flag C).

Having had dealings with the ABCC some years ago I find it hard to believe that it is really a body worthy of Prime Ministerial attention. The association with the Boycott is unfortunate.

Agree to turn down the invitation?

CDP

Regret

22 June 1984

Foreign and Commonwealth Office

London SW1A 2AH

21 June, 1984

Dear Charles,

Arab-British Chamber of Commerce (ABCC)

In your letter of 31 May you asked for advice on whether the Prime Minister should accept an invitation from the Chairman of ABCC to attend, as principal guest, the opening of the Chamber's new premises in the autumn.

The Trade and Industry Secretary has drawn attention to the important commercial role of the ABCC, and to the need to maintain a balance in government dealings with pro-Arab and pro-Israeli bodies in this country (Edward Blades' letter of 15 June to you). With these points in mind, Sir Geoffrey Howe considers that the Arabs and their supporters could take offence if the invitation to the Prime Minister to inaugurate the ABCC's new premises were to be taken up by the Minister of State for Trade, whereas Mr Tebbit himself attended the annual dinner of the British-Israel Chamber of Commerce on 4 June. The BICC dinner, unlike the ABCC function, is a routine event; and in trade terms the ABCC represents a much larger volume than the BICC.

Sir Geoffrey Howe believes that there is a case for according the ABCC the special gesture of Prime Ministerial attendance at the inauguration of their new premises. Following the Prime Minister's recent agreement to become Chairman of the North London Conservative Friends of Israel, and in view of Sir Geoffrey's planned visit to Israel at about the time of the ABCC function, such a gesture would serve to maintain the balance in our dealings with both sides. Sir Geoffrey Howe therefore hopes that the Prime Minister will be able to look favourably at this invitation, of which the date has been left completely open to suit her convenience.

I am copying this letter to Edward Blades (DTI).

Yours ever,

Peter Ricketts

(P F Ricketts)
Private Secretary

C D Powell Esq
10 Downing Street

Sir Richard BEAUMONT

8/6 GR's ?

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 215 7877

Secretary of State for Trade and Industry

15 June 1984

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
London SW1

~~Awaiting~~ FCO comments 1. 18/6
FCO. Reminded again 20/6.
Chased again Kay 21/6, 22/6.

Dear Charles,

ARAB-BRITISH CHAMBER OF COMMERCE

Thank you for sending me a copy of John Coles' letter of 31 May to Peter Ricketts.

2 The Arab-British Chamber of Commerce is an important commercial representative body in the UK of the 21 member states of the Arab League which take around 10% of our total annual exports. It plays a key role in assisting British exporters to meet the documentary requirements of Arab countries operating their boycott against Israel, and in minimising trading difficulties. Additionally, in parallel with similar chambers in some other European countries, it acts as the voice of Arab exporters in connection with possible difficulties that may be caused by European trade policy. Accordingly the Chamber deserves recognition at a senior level.

3 There is, however, the risk that the Israelis might take offence. We have considered this matter and are satisfied that HMG has treated the Arabs and the Israelis equally well, and without bias. My Secretary of State addressed the annual dinner gathering of the British-Israel Chamber of Commerce on 4 June 1984 and it would be justifiable to accord a comparable privilege to the Arabs.

4 My Secretary of State is conscious, however, that on commercial grounds alone there is insufficient reason for the Prime Minister herself to accept the invitation. Accordingly, unless the FCO

JH1AJU

advise that there are good political grounds for her to attend, Mr Channon would be pleased to do so on her behalf.

5 I am sending a copy of this letter to Peter Ricketts at the FCO.

Yours ever

EDWARD BLADES
Private Secretary

JH1AJU

15 JUN 1984

Prime Minister
To note
AT 7/6

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

Andrew Turnbull Esq
10 Downing Street
London SW1

7 June 1984

Dear Andrew

US PROTECTIONISM

In connection with the likely discussion during the Summit of trade protectionism and debtor countries, the Chancellor thought the Prime Minister might be interested to see the attached note of two current US examples.

She will be aware already that President Reagan is under a good deal of pressure domestically to impose restrictions which would damage export prospects of debtor countries. However, we must plainly be careful in references to this, given that the European Community, including the UK, maintains a number of restrictions which harm similar export prospects.

Nevertheless, against the background illustrated by the attached examples, we would like to hope that the President would find it helpful for the Summit to speak out strongly against further protectionist measures, and to acknowledge the importance of allowing export outlets to debtor countries.

Yours ever
David

D L C PERETZ
Private Secretary

TWO EXAMPLES OF US PROTECTIONISM

First, Brazil seeks further outlets for such exports as steel, footwear, fruit juices. She has been having success in the United States market, but this in turn has provoked vigorous US domestic opposition, partly invoking anti-dumping arguments, and Brazil has recently been driven to impose a 27.4 per cent export tax on certain major products. But the fear of further US restrictions which would inhibit Brazilian export prospects has by no means been removed.

Perhaps more striking is the case of Chile, which relies to an important extent on exports of copper. In January of this year 11 major United States copper producers petitioned for the imposition of copper quotas to protect domestic industry affecting mainly Chile, Zaire, Zambia and the Philippines (all important debtors). No decision from the President is expected until the end of September.

CONFIDENTIAL UNTIL PUBLICATION

File

File No: B60/2

COPY NO 35

5 June 1984

CENTRAL STATISTICAL OFFICE

BALANCE OF PAYMENTS

UNITED KINGDOM BALANCE OF PAYMENTS

IN THE FIRST QUARTER 1984

ADDENDUM (limited circulation)

The attached tables on the UK balance of payments up to the first quarter of 1984 will be published in June. Tables A to J will be published with the CSO Press Release on 7 June; the Appendix Tables will be published in the June issue of "Economic Trends".

Any enquiries about these figures should be made to 01-233 7063.

Central Statistical Office
5 June 1984

NIGEL LOUTH

SUMMARY BALANCE OF PAYMENTS

TABLE A — £ million

	1981	1982	1983	1983				198[illegible]
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Seasonally adjusted								
Visible trade (balance)	+3652	+2384	-500	+203	-460	-248	+5	-59
Invisibles (balance):								
Services	+4249	+3874	+4328	+1106	+1276	+1029	+917	+1068
Interest,profits and dividends	+1317	+1625	+1363	+424	-21	+585	+375	+269
Transfers	-1967	-2109	-2267	-144	-884	-538	-701	-440
Total	+3599	+3390	+3424	+1386	+371	+1076	+591	+897
Current balance	+7251	+5774	+2924	+1589	-89	+828	+596	+838
Not seasonally adjusted								
Current balance	+7251	+5774	+2924	+1156	-467	+932	+1303	+378
Investment and other capital transactions	-7351	-3356	-3863	-1425	+742	+1037	-4217	-649
Allocation of SDRs	+158	-	-	-	-	-	-	-
Official financing:								
Official reserves (drawings on,+: additions to,-)	+2419	+1421	+603	+652	-145	-33	+129	+77
Other official financing	-1732	-137	+213	-36	+13	+38	+198	+113
Balancing item	-745	-3702	+123	-347	-143	-1974	+2587	+81

A

CONFIDENTIAL UNTIL PUBLICATION

CURRENT ACCOUNT
Seasonally adjusted

TABLE B — £ million

	1981	1982	1983	1983 1st qtr	1983 2nd qtr	1983 3rd qtr	1983 4th qtr	1984 1st qtr
Credits								
Exports of goods	50977	55565	60658	14819	14752	14862	16225	16853
of which:								
oil	9107	10686	12526	3106	2960	2960	3500	3654
non-oil	41870	44879	48132	11713	11792	11902	12725	13199
Invisibles	29709	31824	34216	8698	8196	8596	8726	9001
Total	80686	87389	94874	23517	22948	23458	24951	25854
Debits								
Imports of goods	47325	53181	61158	14616	15212	15110	16220	16912
of which:								
oil	5996	6130	5524	1305	1404	1439	1376	1339
non-oil	41329	47051	55634	13311	13808	13671	14844	15573
Invisibles	26110	28434	30792	7312	7825	7520	8135	8104
Total	73435	81615	91950	21928	23037	22630	24355	25016
Balances								
Visible trade	+3652	+2384	-500	+203	-460	-248	+5	-59
of which:								
oil	+3111	+4556	+7002	+1801	+1556	+1521	+2124	+2315
non-oil	+541	-2172	-7502	-1598	-2016	-1769	-2119	-2374
Invisibles	+3599	+3390	+3424	+1386	+371	+1076	+591	+897
of which: Private sector and public corporations: services and I.P.D.	+6760	+7101	+7654	+1966	+1749	+2128	+1811	+1855
Current balance	+7251	+5774	+2924	+1589	-89	+828	+596	+838

CONFIDENTIAL UNTIL PUBLICATION

SERVICES
Seasonally adjusted

Table C — £ million

	1981	1982	1983	1983 1st qtr	1983 2nd qtr	1983 3rd qtr	1983 4th qtr	1984 1st qtr
Credits								
Private sector(1)								
Sea transport: Dry cargo	2155	2156	1956	501	483	479	493	513
Sea transport: Tankers	1629	1407	1219	269	287	326	337	288
Civil aviation	2359	2471	2665	654	672	665	674	697
Travel	2970	3168	3655	865	935	915	940	1005
Financial services	1971	2145	2590	714	676	622	578	662
Other services	5348	5818	6422	1562	1624	1577	1659	1656
Total	16432	17165	18507	4565	4677	4584	4681	4821
General government	439	437	488	135	136	114	103	124
Total credits	16871	17602	18995	4700	4813	4698	4784	4945
Debits								
Private sector(1)								
Sea transport: Dry cargo	2593	2772	3030	735	735	729	831	870
Sea transport: Tankers	1351	1133	945	260	210	229	246	239
Civil aviation	1922	2080	2237	539	561	567	570	580
Travel	3271	3640	4054	985	975	1048	1046	1074
Other services	2520	2865	3099	738	740	773	848	783
Total	11657	12490	13365	3257	3221	3346	3541	3546
General government	965	1238	1302	337	316	323	326	331
Total debits	12622	13728	14667	3594	3537	3669	3867	3877
Balance								
Private sector(1)								
Sea transport: Dry cargo	-438	-616	-1074	-234	-252	-250	-338	-357
Sea transport: Tankers	+278	+274	+274	+9	+77	+97	+91	+49
Civil aviation	+437	+391	+428	+115	+111	+98	+104	+117
Travel	-301	-472	-399	-120	-40	-133	-106	-69
Financial services	+1971	+2145	+2590	+714	+676	+622	+578	+662
Other services	+2828	+2953	+3323	+824	+884	+804	+811	+873
Total	+4775	+4675	+5142	+1308	+1456	+1238	+1140	+1275
General government	-526	-801	-814	-202	-180	-209	-223	-207
Total	+4249	+3874	+4328	+1106	+1276	+1029	+917	+1068

1. Including public corporations.

CONFIDENTIAL UNTIL PUBLICATION

INTEREST, PROFITS AND DIVIDENDS
Seasonally adjusted

Table D

£ million

	1981	1982	1983	1983				1984
				1st qtr	2nd qtr	3rd qtr	4th qtr	1st qtr
Credits								
Earnings on -								
Direct investment (1)	3555	3113	3560	764	895	1035	866	698
Portfolio investment	940	1580	2609	572	624	670	743	803
Sterling lending by UK banks and export credit	1343	1648	1869	495	462	463	449	509
Interest on UK banks' borrowing and lending in foreign currencies (balance)	1010	1454	513	126	186	32	169	72
Interest on bank deposits and lending overseas	627	635	567	144	130	148	145	145
Other(including oil companies)	2778	2642	2812	716	507	817	772	890
Total credits	10253	11071	11930	2817	2804	3165	3144	3117
of which:								
Private sector and public corporations	9305	10255	11309	2626	2673	3017	2993	2959
General government	948	816	621	191	131	148	151	158
Debits								
Earnings on -								
Direct investment (1)	1964	2152	2660	642	765	714	539	754
Foreign oil companies' investment in UK	2776	2621	3045	549	841	611	1044	824
Portfolio investment	969	1042	1118	268	274	293	283	289
Foreign currency borrowing by general government (2)	489	402	428	92	110	118	108	109
External sterling liabilities	1899	2253	2385	612	604	605	564	642
Other	839	976	931	230	231	239	231	230
Total debits	8936	9446	10567	2393	2825	2580	2769	2848
of which:								
Private sector and public corporations	7320	7829	8797	1968	2380	2127	2322	2379
General government	1616	1617	1770	425	445	453	447	469
Balance								
Total balance	+1317	+1625	+1363	+424	-21	+585	+375	+269
of which:								
Private sector and public corporations	+1985	+2426	+2512	+658	+293	+890	+671	+580
General government	-668	-801	-1149	-234	-314	-305	-296	-311

1. Earnings on direct investment exclude the earnings of oil companies.
2. Excluding foreign currency issues but including loans raised by all public bodies under the exchange cover scheme.

CONFIDENTIAL UNTIL PUBLICATION

TRANSFERS
Seasonally adjusted

Table E £ million

	1981	1982	1983	1983 1st qtr	1983 2nd qtr	1983 3rd qtr	1983 4th qtr	1984 1st qtr
Credits								
Private	927	994	1070	261	266	270	273	275
General government								
EC institutions:								
Budget refunds	693	1019	807	568	-	21	218	-
Other	965	1138	1414	352	313	442	307	664
Total(1)	1658	2157	2221	920	313	463	525	664
Total credits	2585	3151	3291	1181	579	733	798	939
Debits								
Private	1205	1262	1323	323	329	333	338	339
General government								
Bilateral aid	587	496	573	176	151	134	112	81
Contributions to EC	2188	2878	2999	655	790	642	912	777
Contributions and subscriptions to other international organisations	285	324	340	84	118	85	53	101
Pensions, benefits and other transfers	287	300	323	87	75	77	84	81
Total	3347	3998	4235	1002	1134	938	1161	1040
Total debits	4552	5260	5558	1325	1463	1271	1499	1379
Balance								
Total balance	-1967	-2109	-2267	-144	-884	-538	-701	-440
of which:								
Private	-278	-268	-253	-62	-63	-63	-65	-64
General government with EC institutions	-530	-721	-778	+265	-477	-179	-387	-113
Other general government	-1159	-1120	-1236	-347	-344	-296	-249	-263

1. Components and totals are rounded independently.

CONFIDENTIAL UNTIL PUBLICATION

VOLUME AND UNIT VALUE INDICES

Table F — 1980=10

	1981	1982	1983	1983 1st qtr	1983 2nd qtr	1983 3rd qtr	1983 4th qtr	1984 1st qtr
				Seasonally adjusted				
Volume indices (1)								
Exports of goods	99.2	101.5	102.3	102.3	100.3	99.3	107.4	109.5
Exports of goods less oil	96.3	96.9	95.5	95.9	93.9	93.1	99.1	101.0
Exports of services	94.3	92.1	92.8	92.5	95.3	91.7	91.5	93.7
Exports of goods and services	98.0	99.1	99.9	99.8	99.1	97.4	103.4	105.5
Imports of goods	96.1	100.7	107.6	104.5	106.6	106.6	112.7	113.2
Imports of goods less oil	98.4	105.0	114.1	111.2	112.4	112.6	120.2	121.4
Imports of services	98.4	98.5	96.0	93.4	94.1	96.3	100.0	97.5
Imports of goods and services	97.5	100.2	105.3	102.3	104.1	104.5	110.2	110.1
				Not seasonally adjusted				
Unit value indices								
Exports of goods	108.8	116.7	126.6	123.6	125.6	127.9	129.2	132.6
Exports of goods less oil	106.5	114.4	124.5	121.0	123.8	126.2	127.2	130.5
Imports of goods	108.1	117.9	128.6	126.3	128.1	128.9	131.0	136.1
Imports of goods less oil	105.0	113.9	125.6	122.4	125.5	126.2	128.2	133.0
Terms of trade(2):								
All goods	100.7	99.0	98.4	97.9	98.1	99.2	98.6	97.4
Goods less oil	101.4	100.4	99.2	98.8	98.6	100.0	99.2	98.1
				Seasonally adjusted				
Implied price indices								
Exports of services	113.4	121.2	129.8	128.7	127.9	129.9	132.5	133.6
Imports of services	111.4	121.0	132.7	133.5	130.5	132.4	134.3	138.1

1. The problems of producing these estimates and the methods employed are described on page 27 of 'United Kingdom Balance of Payments 1983 Edition'.
2. Export unit value index as a percentage of the import unit value index.

CONFIDENTIAL UNTIL PUBLICATION

INVESTMENT AND OTHER CAPITAL TRANSACTIONS(1)

Not seasonally adjusted

Table G — £ million

	1981	1982	1983	1983 1st qtr	1983 2nd qtr	1983 3rd qtr	1983 4th qtr	1984 1st qtr
Overseas investment in:- UK public sector	+188	+320	+695	+46	+379	+280	-10	+249
of which:- British government stocks(2)	+201	+495	+709	+52	+382	+282	-7	+257
UK private sector	+3270	+3096	+4983	+915	+2010	+1531	+527	+1034
UK private investment overseas	-10669	-10777	-10864	-3011	-2537	-2530	-2786	-4437
Official long-term capital	-336	-337	-562	-229	-216	-18	-99	-126
Import credit(3)	+122	-224	+12	-5	+43	-59	+33	+13
Export credit(3)	-969	-1165	-1457	-399	-470	-280	-308	-316
Foreign currency borrowing or lending abroad by UK banks	+1462	+4271	+1167	+568	+257	+1321	-979	+2639
Exchange reserves in sterling British government stocks(4)	+267	-52	+194	+103	+271	-66	-114	+93
Banking and money market liabilities(4)	-118	+438	+714	+451	-262	+470	+55	+345
Other banking and money market liabilities in sterling	+2607	+4134	+3225	+1063	+630	+376	+1156	+1286
External sterling lending by UK banks(5)	-2954	-3299	-1369	-939	+279	-32	-677	-1466
Other external borrowing or lending(6)*	-322	-11	-52	+686	+220	-14	-944	+153
Other transactions	+101	+250	-549	-674	+138	+58	-71	-116
Total investment and other capital transactions*	-7351	-3356	-3863	-1425	+742	+1037	-4217	-649
*of which: Certain UK private sector transactions with banks overseas(7)	+21	-462	-1407	+442	-380	-173	-1296	..

1. Assets: increase-/decrease+. Liabilities: increase+/decrease-. Excluding official financing
2. Investment by non-residents other than overseas monetary authorities
3. Excluding trade credit between 'related' firms
4. Transactions of overseas monetary authorities only
5. Excluding credit for UK exports
6. From the first quarter of 1982 includes the transactions of UK financial institutions previously included under other headings. The figure shown for the latest quarter is deficient as no estimate is included for the series shown at the foot of the table and defined in footnote 7
7. Deposits with and borrowing from banks in the reporting area covered by the BIS: not available for the most recent quarter

CONFIDENTIAL UNTIL PUBLICATION

OFFICIAL FINANCING
Not seasonally adjusted

Table H — £ million

	1981	1982	1983	1983 1st qtr	1983 2nd qtr	1983 3rd qtr	1983 4th qtr	1984 1st qtr
Official financing transactions(1)								
Net transactions with: IMF	-145	-163	-36	-36	-	-	-	-
Foreign currency borrowing: By HM Government(2)	-1234	-	-	-	-	-	-	-
By public bodies under exchange cover scheme	-353	+26	+249	-	+13	+38	+198	+113
Official reserves(drawings on,+: additions to,-)	+2419	+1421	+603	+652	-145	-33	+129	+77
Total official financing	+687	+1284	+816	+616	-132	+5	+327	+190
Official financing liabilities & official reserves (End of period levels)(3)								
Borrowing from: IMF	200	36	-	-	-	-	-	-
Other foreign currency borrowing: By HM Government	183	216	241	236	228	234	241	243
By public bodies under exchange cover scheme	3998	4612	5397	5026	4866	5040	5397	5441
Total official financing liabilities	4381	4864	5638	5262	5094	5274	5638	5684
Official reserves	12217	10508	12271	11702	11541	11975	12271	11619

1. Valued in sterling at market-related rates of exchange.
2. Drawings on (+) repayments of (-) euro-dollar facilities arranged with UK clearing banks and a 350 million dollar bond issue in New York.
3. Gold holdings, Special Drawing Rights and non-dollar currencies have been revalued at March of each year since 1979. Before revaluation, the level of official reserves was £10,996 million at end-March 1983 and £12,298 million at end-March 1984. The level of total official financing liabilities, before revaluation, was £5,271 million at end-March 1983 and £5,800 million at end-March 1984.

CONFIDENTIAL UNTIL PUBLICATION

INWARD AND OUTWARD INVESTMENT(1)
Not seasonally adjusted

Table I

£ million

	1981	1982	1983	1983 1st qtr	1983 2nd qtr	1983 3rd qtr	1983 4th qtr	1984 1st qtr
Overseas investment in UK								
Direct(2):								
Unremitted profits(3)	+638	+760	+1369	+443	+486	+459	-19	+553
Other	+360	+316	+1111	+94	+419	+306	+292	+80
Investment by oil companies	+1882	+1770	+1473	+133	+630	+611	+99	+281
Portfolio								
Public sector	+188	+320	+695	+46	+379	+280	-10	+249
Private sector	+320	+130	+945	+210	+465	+125	+145	+100
Miscellaneous investment	+70	+120	+85	+35	+10	+30	+10	+20
Total	+3458	+3416	+5678	+961	+2389	+1811	+517	+1283
UK private investment overseas								
Direct(2):								
Unremitted profits(3)	-2031	-1661	-2081	-408	-561	-761	-351	-370
Other	-3121	-868	-416	-339	+208	+33	-318	-470
Investment by oil companies and miscellaneous investment	-1417	-1968	-2217	-624	-364	-612	-617	-607
Portfolio	-4100	-6280	-6150	-1640	-1820	-1190	-1500	-2990
Total	-10669	-10777	-10864	-3011	-2537	-2530	-2786	-4437

1. Net of disinvestment. Assets: increase–/decrease+.Liabilities: increase+/decrease–.
2. Overseas direct investment in the UK excludes the transactions of oil companies. UK direct investment overseas excludes the transactions of oil companies but includes investment by a number of public corporations.
3. Excluding unremitted profits of branches.

CONFIDENTIAL UNTIL PUBLICATION

THE UK CONTINENTAL SHELF OIL AND GAS (1)
Not seasonally adjusted

TABLE J

	1981	1982	1983	1983 1st qtr	1983 2nd qtr	1983 3rd qtr	1983 4th qtr	1984 1st qtr
Volume of sales								
Gas (billion cubic metres)	35.5	35.5	37.7	13.4	7.9	4.6	11.8	15.1
Oil (million tonnes)(2)	89.6	101.9	115.0	28.0	27.0	29.1	30.9	31.8
Value of sales	£ million							
Gas	844	957	1110	370	243	159	338	468
Oil	12340	14431	17037	4252	3818	4305	4662	4785
Identifiable balance of payments entries	£ million							
Imports of goods(3)	-377	-451	-440	-118	-107	-126	-89	-58
Imports less exports of services	-553	-676	-629	-143	-142	-155	-189	-132
IPD due abroad(4)	-2355	-2623	-2943	-725	-713	-595	-910	-864
Overseas investment in UKCS etc.(5)	+1638	+1040	+572	+265	+181	+423	-297	+74

1. No attempt has been made to measure the impact of UK Continental Shelf oil and gas on the balance of payments accounts. The problems involved are described briefly in Chapter 9 of "United Kingdom Balance of Payments 1983 Edition" (the "Pink Book").
2. Including condensates and petroleum gases.
3. Identified direct imports of goods for use on UKCS.
4. Profits of UK subsidiaries of overseas companies earned in respect of their UKCS operations (including profits retained in the United Kingdom);interest paid overseas by public corporations on their borrowing for the UK Continental Shelf; and rough estimates of interest paid on foreign currency borrowing from UK banks in respect of the UKCS.
5. Overseas investment for use on the UK Continental Shelf (including profits of UK subsidiaries of foreign companies retained in the United Kingdom);foreign currency borrowing from UK banks for use on the Shelf;borrowing abroad by public corporations for use on the Shelf;identified trade credit and progress payments on imports of platforms,rigs,etc.

CONFIDENTIAL UNTIL PUBLICATION

APPENDIX

UNITED KINGDOM BALANCE OF PAYMENTS

SUMMARY

TABLE 1

£ million

		Seasonally adjusted						Not seasonally adjusted					
			Invisibles (balance)										
		Visible trade (balance)	Services	I.P.D.	Transfers	Total	Current balance	Current balance	Capital transfers	Investment and other capital transactions	Allocation of SDRs and gold subscription to IMF	Official financing	Balancing item
1972		-748	+701	+538	-268	+971	+223	+223	-	-673	+124	+1 141	-815
1973		-2 586	+786	+1 257	-436	+1 607	-979	-979	-59	+178	-	+771	+89
1974		-5 351	+1 075	+1 415	-417	+2 073	-3 278	-3 278	-75	+1 602	-	+1 646	+105
1975		-3 333	+1 515	+773	-468	+1 820	-1 513	-1 513	-	+154	-	+1 465	-106
1976		-3 929	+2 503	+1 365	-775	+3 093	-836	-836	-	-2 975	-	+3 628	+183
1977		-2 284	+3 338	+116	-1 116	+2 338	+54	+54	-	+4 166	-	-7 361	+3 141
1978		-1 542	+3 816	+661	-1 777	+2 700	+1 158	+1 158	-	-4 263	-	+1 126	+1 979
1979		-3 449	+4 071	+1 090	-2 265	+2 896	-553	-553	-	+1 835	+195	-1 905	+428
1980		+1 513	+4 267	-66	-2 079	+2 122	+3 635	+3 635	-	-1 455	+180	-1 372	-988
1981		+3 652	+4 249	+1 317	-1 967	+3 599	+7 251	+7 251	-	-7 351	+158	+687	-745
1982		+2 384	+3 874	+1 625	-2 109	+3 390	+5 774	+5 774	-	-3 356	-	+1 284	-3 702
1983		-500	+4 328	+1 363	-2 267	+3 424	+2 924	+2 924	-	-3 863	-	+816	+123
1975	1	-944	+369	+201	-73	+497	-447	-642	-	+103	-	+326	+213
	2	-713	+380	+142	-146	+376	-337	-353	-	+101	-	+572	-320
	3	-1 030	+365	+180	-112	+433	-597	-467	-	+264	-	+213	-10
	4	-646	+401	+250	-137	+514	-132	-51	-	-314	-	+354	+11
1976	1	-524	+581	+294	-194	+681	+157	-111	-	-543	-	+678	-24
	2	-1 048	+561	+350	-167	+744	-304	-342	-	-1 734	-	+1 955	+121
	3	-1 227	+674	+369	-188	+855	-372	-151	-	-658	-	+861	-52
	4	-1 130	+687	+352	-226	+813	-317	-232	-	-40	-	+134	+138
1977	1	-933	+751	+123	-245	+629	-304	-628	-	+1 620	-	-1 913	+921
	2	-917	+842	-11	-279	+552	-365	-454	-	+14	-	-908	+1 348
	3	-166	+866	-11	-321	+534	+368	+701	-	+1 254	-	-2 608	+653
	4	-268	+879	+15	-271	+623	+355	+435	-	+1 278	-	-1 932	+219
1978	1	-562	+914	+72	-531	+455	-107	-408	-	-153	-	-173	+734
	2	-159	+845	+237	-388	+694	+535	+335	-	-2 203	-	+1 494	+374
	3	-557	+1 027	+185	-462	+750	+193	+604	-	-454	-	-210	+60
	4	-264	+1 030	+167	-396	+801	+537	+627	-	-1 453	-	+15	+811
1979	1	-1 433	+1 013	+411	-506	+918	-515	-883	-	+460	+195	-879	+1 107
	2	-479	+954	+100	-503	+551	+72	-138	-	+738	-	-758	+158
	3	-723	+1 056	+425	-610	+871	+148	+568	-	+123	-	-297	-394
	4	-814	+1 048	+154	-646	+556	-258	-100	-	+514	-	+29	-443
1980	1	-404	+1 101	-54	-486	+561	+157	-211	-	-501	+180	-689	+1 221
	2	-247	+1 067	-134	-618	+315	+68	-123	-	+371	-	-246	-2
	3	+889	+1 015	+5	-604	+416	+1 305	+1 553	-	+192	-	-279	-1 466
	4	+1 275	+1 084	+117	-371	+830	+2 105	+2 416	-	-1 517	-	-158	-741
1981	1	+1 814	+1 129	+266	-130	+1 265	+3 079	+2 703	-	-3 911	+158	-319	+1 369
	2	+1 333	+1 080	+394	-700	+774	+2 107	+1 788	-	-2 001	-	+165	+48
	3	+90	+1 014	+322	-783	+553	+643	+837	-	-1 164	-	+709	-382
	4	+415	+1 026	+335	-354	+1 007	+1 422	+1 923	-	-275	-	+132	-1 780
1982	1	+471	+1 096	+103	+70	+1 269	+1 740	+1 278	-	-130	-	+31	-1 179
	2	+211	+1 052	+423	-867	+608	+819	+423	-	+189	-	+661	-1 273
	3	+588	+807	+462	-739	+530	+1 118	+1 263	-	-1 006	-	-247	-10
	4	+1 114	+919	+637	-573	+983	+2 097	+2 810	-	-2 409	-	+839	-1 240
1983	1	+203	+1 106	+424	-144	+1 386	+1 589	+1 156	-	-1 425	-	+616	-347
	2	-460	+1 276	-21	-884	+371	-89	-467	-	+742	-	-132	-143
	3	-248	+1 029	+585	-538	+1 076	+828	+932	-	+1 037	-	+5	-1 974
	4	+5	+917	+375	-701	+591	+596	+1 303	-	-4 217	-	+327	+2 587
1984	1	-59	+1 068	+269	-440	+897	+838	+378	-	-649	-	+190	+81

VISIBLE TRADE IN THE BALANCE OF PAYMENTS

TABLE 2

£ million

		Not seasonally adjusted		Seasonally adjusted								
		Total goods		Total goods			Of which: Oil			Non-oil		
		Exports (f.o.b.)	Imports (f.o.b.)	Exports (f.o.b.)	Imports (f.o.b.)	Visible balance	Exports (f.o.b.)	Imports (f.o.b.)	Visible balance	Exports (f.o.b.)	Imports (f.o.b.)	Visible balance
1972		9 437	10 185	9 437	10 185	-748	222	888	-666	9 215	9 297	-82
1973		11 937	14 523	11 937	14 523	-2 586	344	1 285	-941	11 593	13 238	-1 645
1974		16 394	21 745	16 394	21 745	-5 351	710	4 067	-3 357	15 684	17 678	-1 994
1975		19 330	22 663	19 330	22 663	-3 333	734	3 791	-3 057	18 596	18 872	-276
1976		25 191	29 120	25 191	29 120	-3 929	1 172	5 119	-3 947	24 019	24 001	+18
1977		31 728	34 012	31 728	34 012	-2 284	1 979	4 750	-2 771	29 749	29 262	+487
1978		35 063	36 605	35 063	36 605	-1 542	2 235	4 219	-1 984	32 828	32 386	+442
1979		40 687	44 136	40 687	44 136	-3 449	4 158	4 889	-731	36 529	39 247	-2 718
1980		47 422	45 909	47 422	45 909	+1 513	6 133	5 818	+315	41 289	40 091	+1 198
1981		50 977	47 325	50 977	47 325	+3 652	9 107	5 996	+3 111	41 870	41 329	+541
1982		55 565	53 181	55 565	53 181	+2 384	10 686	6 130	+4 556	44 879	47 051	-2 172
1983		60 658	61 158	60 658	61 158	-500	12 526	5 524	+7 002	48 132	55 634	-7 502
1975	1	4 493	5 543	4 658	5 602	-944	183	931	-748	4 475	4 671	-196
	2	4 822	5 537	4 594	5 307	-713	161	841	-680	4 433	4 466	-33
	3	4 644	5 639	4 806	5 836	-1 030	188	978	-790	4 618	4 858	-240
	4	5 371	5 944	5 272	5 918	-646	202	1 041	-839	5 070	4 877	+193
1976	1	5 665	6 323	5 599	6 123	-524	228	1 148	-920	5 371	4 975	+396
	2	6 252	7 292	6 164	7 212	-1 048	265	1 250	-985	5 899	5 962	-63
	3	6 153	7 336	6 400	7 627	-1 227	304	1 362	-1 058	6 096	6 265	-169
	4	7 121	8 169	7 028	8 158	-1 130	375	1 359	-984	6 653	6 799	-146
1977	1	7 484	8 572	7 437	8 370	-933	471	1 240	-769	6 966	7 130	-164
	2	7 998	8 905	7 914	8 831	-917	515	1 289	-774	7 399	7 542	-143
	3	8 131	8 268	8 354	8 520	-166	564	1 153	-589	7 790	7 367	+423
	4	8 115	8 267	8 023	8 291	-268	429	1 068	-639	7 594	7 223	+371
1978	1	8 198	8 920	8 282	8 844	-562	485	1 096	-611	7 797	7 748	+49
	2	9 125	9 315	8 790	8 949	-159	554	966	-412	8 236	7 983	+253
	3	8 502	8 978	8 854	9 411	-557	613	1 115	-502	8 241	8 296	-55
	4	9 238	9 392	9 137	9 401	-264	583	1 042	-459	8 554	8 359	+195
1979	1	8 444	10 095	8 313	9 746	-1 433	757	964	-207	7 556	8 782	-1 226
	2	10 813	11 370	10 759	11 238	-479	946	1 167	-221	9 813	10 071	-258
	3	10 091	10 680	10 497	11 220	-723	1 162	1 326	-164	9 335	9 894	-559
	4	11 339	11 991	11 118	11 932	-814	1 293	1 432	-139	9 825	10 500	-675
1980	1	12 013	12 636	11 998	12 402	-404	1 425	1 519	-94	10 573	10 883	-310
	2	11 915	12 183	11 916	12 163	-247	1 511	1 545	-34	10 405	10 618	-213
	3	11 430	10 534	11 694	10 805	+889	1 558	1 378	+180	10 136	9 427	+709
	4	12 064	10 556	11 814	10 539	+1 275	1 639	1 376	+263	10 175	9 163	+1 012
1981	1	11 755	10 214	11 868	10 054	+1 814	2 068	1 284	+784	9 800	8 770	+1 030
	2	12 295	11 109	12 289	10 956	+1 333	2 235	1 323	+912	10 054	9 633	+421
	3	12 786	12 682	13 157	13 067	+90	2 426	1 696	+730	10 731	11 371	-640
	4	14 141	13 320	13 663	13 248	+415	2 378	1 693	+685	11 285	11 555	-270
1982	1	13 342	13 266	13 519	13 048	+471	2 375	1 654	+721	11 144	11 394	-250
	2	13 802	13 772	13 878	13 667	+211	2 435	1 536	+899	11 443	12 131	-688
	3	13 473	12 828	13 688	13 100	+588	2 846	1 563	+1 283	10 842	11 537	-695
	4	14 948	13 315	14 480	13 366	+1 114	3 030	1 377	+1 653	11 450	11 989	-539
1983	1	14 686	14 862	14 819	14 616	+203	3 106	1 305	+1 801	11 713	13 311	-1 598
	2	14 731	15 421	14 752	15 212	-460	2 960	1 404	+1 556	11 792	13 808	-2 016
	3	14 664	14 846	14 862	15 110	-248	2 960	1 439	+1 521	11 902	13 671	-1 769
	4	16 577	16 029	16 225	16 220	+5	3 500	1 376	+2 124	12 725	14 844	-2 119
1984	1	16 845	17 286	16 853	16 912	-59	3 654	1 339	+2 315	13 199	15 573	-2 374

CONFIDENTIAL UNTIL PUBLICATION

VOLUME AND UNIT VALUE INDICES

TABLE 3

1980=100

		Visible trade										Services			
		Seasonally adjusted				Not seasonally adjusted						Seasonally adjusted			
		Volume indices				Unit value indices						Volume indices		Implied price indices	
		Exports		Imports		Exports		Imports		Terms of trade					
		Total goods	non-oil goods	Total goods	non-oil goods	Total goods	non-oil goods	Total goods	non-oil goods	Total goods	non-oil goods	Exports of services	Imports of services	Exports of services	Imports of services
1972		66.5	70.5	80.6	68.2	28.9	31.0	27.2	31.9	106.3	97.2	80.2	83.9	33.9	37.1
1973		75.6	80.3	91.9	78.0	32.6	34.6	34.8	40.6	93.7	85.2	86.2	89.0	38.9	44.0
1974		81.0	86.8	92.7	80.0	41.5	43.3	50.9	53.4	81.5	81.1	92.8	91.1	45.9	53.9
1975		77.8	83.5	84.7	75.5	50.9	53.2	58.0	60.7	87.6	87.7	93.6	90.3	53.3	61.0
1976		85.4	91.2	89.7	80.7	60.8	63.5	70.9	72.7	85.7	87.4	99.8	88.7	65.1	76.0
1977		92.1	97.0	91.3	85.2	72.0	75.2	82.1	84.5	87.7	89.0	102.9	87.5	73.3	85.0
1978		94.5	98.2	95.5	90.4	79.1	83.1	85.2	89.5	92.7	92.8	102.8	88.1	78.4	87.8
1979		99.1	98.7	105.7	103.0	87.6	90.7	90.9	94.2	96.4	96.3	103.1	96.3	88.9	93.8
1980		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1981		99.2	96.3	96.1	98.4	108.8	106.5	108.1	105.0	100.7	101.4	94.3	98.4	113.4	111.4
1982		101.5	96.9	100.7	105.0	116.7	114.4	117.9	113.9	99.0	100.4	92.1	98.5	121.2	121.0
1983		102.3	95.5	107.6	114.1	126.6	124.5	128.6	125.6	98.4	99.2	92.8	96.0	129.8	132.7
1975	1	78.8	84.5	86.6	77.1	48.4	50.6	56.0	58.7	86.4	86.3	96.9	92.2	49.2	56.9
	2	75.8	81.6	81.6	73.0	49.6	51.9	56.4	59.3	87.9	87.6	92.5	88.8	52.4	59.9
	3	76.1	81.6	86.7	77.0	51.7	54.1	58.5	61.3	88.4	88.3	91.3	89.3	54.8	62.7
	4	80.4	86.3	83.9	74.9	53.7	56.2	61.3	63.4	87.7	88.7	93.5	90.7	56.6	64.6
1976	1	82.5	88.5	83.5	74.3	55.9	58.5	64.1	65.6	87.3	89.1	96.2	86.8	60.3	68.4
	2	86.3	92.4	91.6	82.4	58.9	61.5	69.0	70.7	85.3	87.0	96.9	88.4	64.5	74.9
	3	85.0	90.7	92.0	82.7	62.4	65.2	72.7	74.4	85.8	87.6	102.1	89.2	66.5	78.1
	4	87.9	93.4	91.7	83.2	66.1	69.0	78.0	80.1	84.8	86.1	104.1	90.4	69.2	82.7
1977	1	89.8	94.6	91.3	84.5	68.8	71.8	79.9	81.9	86.2	87.7	100.7	86.2	71.4	84.1
	2	92.5	97.3	94.9	88.2	71.5	74.6	82.0	84.2	87.1	88.6	101.4	85.2	73.6	85.7
	3	95.5	100.1	90.6	84.9	73.3	76.5	83.3	85.7	88.0	89.3	105.1	89.2	74.1	85.9
	4	90.5	95.8	88.3	83.1	74.4	77.7	83.2	86.1	89.3	90.3	104.5	89.5	73.9	84.1
1978	1	91.7	96.4	96.6	90.5	77.3	81.1	82.9	87.0	93.2	93.3	103.8	88.5	75.0	84.6
	2	96.0	100.4	92.9	89.5	77.9	81.7	84.8	88.9	91.9	91.8	99.3	88.3	78.8	88.3
	3	94.8	97.1	97.6	92.0	79.8	84.0	85.8	90.1	93.1	93.1	104.7	88.5	79.2	88.1
	4	95.5	98.7	95.1	89.9	81.2	85.7	87.5	92.2	92.8	93.0	103.2	87.1	80.7	90.0
1979	1	85.0	84.5	97.1	93.8	83.9	88.0	88.9	93.5	94.3	94.1	102.2	93.1	84.7	89.6
	2	106.8	107.6	108.9	106.5	86.0	89.7	89.5	93.2	96.1	96.2	103.4	96.4	86.2	92.4
	3	101.7	100.3	108.0	105.1	88.7	91.5	90.2	93.0	98.3	98.4	104.0	97.0	89.8	94.1
	4	102.8	102.4	108.9	106.7	91.9	93.7	95.1	97.2	96.6	96.3	102.9	98.5	95.0	99.0
1980	1	105.4	105.7	110.2	109.8	96.2	97.1	98.2	99.0	97.9	98.0	103.2	100.8	97.6	99.0
	2	100.1	100.5	105.1	105.2	100.2	100.0	100.3	100.1	99.9	99.9	100.5	100.5	99.9	100.1
	3	96.5	96.5	93.7	93.8	101.9	101.5	100.3	100.2	101.7	101.3	99.0	99.9	100.0	100.5
	4	98.0	97.3	90.9	91.1	101.6	101.4	101.2	100.7	100.4	100.7	97.3	98.8	102.6	100.4
1981	1	96.5	92.7	87.2	88.6	104.0	102.9	101.6	99.8	102.4	103.1	94.5	97.1	108.2	103.9
	2	97.8	94.7	91.9	94.5	107.1	104.7	105.2	102.3	101.8	102.4	93.5	98.2	112.9	109.2
	3	100.7	97.7	104.3	106.6	110.7	107.9	110.3	106.7	100.4	101.1	94.4	98.6	115.8	116.1
	4	102.0	100.0	101.1	104.0	113.6	110.4	115.3	111.4	98.5	99.1	94.6	99.5	116.7	116.2
1982	1	100.7	98.2	100.4	103.8	114.7	112.2	115.2	111.1	99.6	101.0	95.2	98.4	117.3	116.9
	2	103.2	99.3	104.0	108.1	114.8	113.2	116.7	113.5	98.3	99.8	94.2	99.1	120.5	120.1
	3	98.9	92.9	98.8	102.6	117.7	115.4	118.3	114.3	99.4	101.0	89.1	99.0	121.8	122.0
	4	103.1	97.2	99.5	105.4	119.6	116.7	121.4	116.7	98.5	100.0	89.8	97.5	125.0	125.0
1983	1	102.3	95.9	104.5	111.2	123.6	121.0	126.3	122.4	97.9	98.8	92.5	93.4	128.7	133.5
	2	100.3	93.9	106.6	112.4	125.6	123.8	128.1	125.5	98.1	98.6	95.3	94.1	127.9	130.5
	3	99.3	93.1	106.6	112.6	127.9	126.2	128.9	126.2	99.2	100.0	91.7	96.3	129.9	132.4
	4	107.4	99.1	112.7	120.2	129.2	127.2	131.0	128.2	98.6	99.2	91.5	100.0	132.5	134.3
1984	1	109.5	101.0	113.2	121.4	132.6	130.5	136.1	133.0	97.4	98.1	93.7	97.5	133.6	138.1

CONFIDENTIAL UNTIL PUBLICATION

INVISIBLES: SUMMARY

TABLE 4

£ million

		Seasonally adjusted											Not seasonally adjusted		
		Invisible credits				Invisible debits				Invisible balance			Total invisibles		
											of which:				
		Services	IPD	Transfers	Total	Services	IPD	Transfers	Total	Total	Private sector and PC: services and IPD	Gen. govt. transactions and private transfers	Credits	Debits	Balance
1972		4 288	1 748	264	6 300	3 587	1 210	532	5 329	+971	+1 732	-761	6 300	5 329	+971
1973		5 296	2 823	387	8 506	4 510	1 566	823	6 899	+1 607	+2 651	-1 044	8 506	6 899	+1 607
1974		6 728	3 286	489	10 503	5 653	1 871	906	8 430	+2 073	+3 361	-1 288	10 503	8 430	+2 073
1975		7 857	2 841	759	11 457	6 342	2 068	1 227	9 637	+1 820	+3 372	-1 552	11 457	9 637	+1 820
1976		10 278	3 971	790	15 039	7 775	2 606	1 565	11 946	+3 093	+5 168	-2 075	15 039	11 946	+3 093
1977		11 903	4 032	912	16 847	8 565	3 916	2 028	14 509	+2 338	+4 874	-2 536	16 847	14 509	+2 338
1978		12 722	5 195	1 213	19 130	8 906	4 534	2 990	16 430	+2 700	+5 739	-3 039	19 130	16 430	+2 700
1979		14 476	8 005	1 351	23 832	10 405	6 915	3 616	20 936	+2 896	+6 443	-3 547	23 832	20 936	+2 896
1980		15 787	8 382	1 778	25 947	11 520	8 448	3 857	23 825	+2 122	+5 440	-3 318	25 947	23 825	+2 122
1981		16 871	10 253	2 585	29 709	12 622	8 936	4 552	26 110	+3 599	+6 760	-3 161	29 709	26 110	+3 599
1982		17 602	11 071	3 151	31 824	13 728	9 446	5 260	28 434	+3 390	+7 101	-3 711	31 824	28 434	+3 390
1983		18 995	11 930	3 291	34 216	14 667	10 567	5 558	30 792	+3 424	+7 654	-4 230	34 216	30 792	+3 424
1975	1	1 881	733	197	2 811	1 512	532	270	2 314	+497	+820	-323	2 614	2 206	+408
	2	1 913	675	173	2 761	1 533	533	319	2 385	+376	+772	-396	2 753	2 391	+362
	3	1 976	674	195	2 845	1 611	494	307	2 412	+433	+847	-414	3 086	2 558	+528
	4	2 087	759	194	3 040	1 686	509	331	2 526	+514	+933	-419	3 004	2 482	+522
1976	1	2 290	929	175	3 394	1 709	635	369	2 713	+681	+1 162	-481	3 142	2 595	+547
	2	2 468	945	209	3 622	1 907	595	376	2 878	+744	+1 235	-491	3 592	2 894	+698
	3	2 680	1 033	196	3 909	2 006	664	384	3 054	+855	+1 362	-507	4 252	3 220	+1 032
	4	2 840	1 064	210	4 114	2 153	712	436	3 301	+813	+1 409	-596	4 053	3 237	+816
1977	1	2 839	1 019	229	4 087	2 088	896	474	3 458	+629	+1 259	-630	3 749	3 289	+460
	2	2 945	1 001	212	4 158	2 103	1 012	491	3 606	+552	+1 208	-656	4 104	3 651	+453
	3	3 072	999	220	4 291	2 206	1 010	541	3 757	+534	+1 200	-666	4 753	3 915	+838
	4	3 047	1 013	251	4 311	2 168	998	522	3 688	+623	+1 207	-584	4 241	3 654	+587
1978	1	3 070	1 128	265	4 463	2 156	1 056	796	4 008	+455	+1 315	-860	4 137	3 823	+314
	2	3 090	1 296	283	4 669	2 245	1 059	671	3 975	+694	+1 401	-707	4 565	4 040	+525
	3	3 274	1 355	318	4 947	2 247	1 170	780	4 197	+750	+1 539	-789	5 455	4 375	+1 080
	4	3 288	1 416	347	5 051	2 258	1 249	743	4 250	+801	+1 484	-683	4 973	4 192	+781
1979	1	3 417	1 813	316	5 546	2 404	1 402	822	4 628	+918	+1 724	-806	5 191	4 423	+768
	2	3 518	1 821	335	5 674	2 564	1 721	838	5 123	+551	+1 399	-848	5 589	5 170	+419
	3	3 686	2 222	344	6 252	2 630	1 797	954	5 381	+871	+1 783	-912	6 780	5 623	+1 157
	4	3 855	2 149	356	6 360	2 807	1 995	1 002	5 804	+556	+1 537	-981	6 272	5 720	+552
1980	1	3 977	2 168	428	6 573	2 876	2 222	914	6 012	+561	+1 303	-742	6 131	5 719	+412
	2	3 964	2 198	391	6 553	2 897	2 332	1 009	6 238	+315	+1 292	-977	6 450	6 305	+145
	3	3 906	1 877	411	6 194	2 891	1 872	1 015	5 778	+416	+1 320	-904	6 815	6 158	+657
	4	3 940	2 139	548	6 627	2 856	2 022	919	5 797	+830	+1 525	-695	6 551	5 643	+908
1981	1	4 035	2 281	1 005	7 321	2 906	2 015	1 135	6 056	+1 265	+1 615	-350	6 898	5 736	+1 162
	2	4 166	2 357	380	6 903	3 086	1 963	1 080	6 129	+774	+1 808	-1 034	6 797	6 195	+602
	3	4 311	2 597	478	7 386	3 297	2 275	1 261	6 833	+553	+1 626	-1 073	8 020	7 287	+733
	4	4 359	3 018	722	8 099	3 333	2 683	1 076	7 092	+1 007	+1 711	-704	7 994	6 892	+1 102
1982	1	4 409	2 415	1 353	8 177	3 313	2 312	1 283	6 908	+1 269	+1 513	-244	7 708	6 506	+1 202
	2	4 480	2 797	441	7 718	3 428	2 374	1 308	7 110	+608	+1 892	-1 284	7 645	7 252	+393
	3	4 284	2 779	613	7 676	3 477	2 317	1 352	7 146	+530	+1 693	-1 163	8 300	7 682	+618
	4	4 429	3 080	744	8 253	3 510	2 443	1 317	7 270	+983	+2 003	-1 020	8 171	6 994	+1 177
1983	1	4 700	2 817	1 181	8 698	3 594	2 393	1 325	7 312	+1 386	+1 966	-580	8 212	6 880	+1 332
	2	4 813	2 804	579	8 196	3 537	2 825	1 463	7 825	+371	+1 749	-1 378	8 129	7 906	+223
	3	4 698	3 165	733	8 596	3 669	2 580	1 271	7 520	+1 076	+2 128	-1 052	9 256	8 142	+1 114
	4	4 784	3 144	798	8 726	3 867	2 769	1 499	8 135	+591	+1 811	-1 220	8 619	7'864	+755
1984	1	4 945	3 117	939	9 001	3 877	2 848	1 379	8 104	+897	+1 855	-958	8 488	7 669	+819

SERVICES: CREDITS

TABLE 5

£ million

	Private sector and public corporations								General government			
	Sea transport											
	Dry cargo	Tankers	Total	Civil aviation	Travel	Financial services	Other services	Total	EC institutions	Other	Total	Total services credits
1974	1 408	1 257	2 665	625	898	785	1 645	6 618	21	89	110	6 728
1975	1 520	1 131	2 651	780	1 218	1 025	2 044	7 718	34	105	139	7 857
1976	1 870	1 363	3 233	1 049	1 768	1 303	2 710	10 063	46	169	215	10 278
1977	2 094	1 339	3 433	1 203	2 352	1 391	3 283	11 662	78	163	241	11 903
1978	1 934	1 215	3 149	1 455	2 507	1 539	3 754	12 404	94	224	318	12 722
1979	2 038	1 766	3 804	1 755	2 797	1 588	4 202	14 146	115	215	330	14 476
1980	2 200	1 616	3 816	2 210	2 961	1 601	4 818	15 406	112	269	381	15 787
1981	2 155	1 629	3 784	2 359	2 970	1 971	5 348	16 432	122	317	439	16 871
1982	2 156	1 407	3 563	2 471	3 168	2 145	5 818	17 165	150	287	437	17 602
1983	1 956	1 219	3 175	2 665	3 655	2 590	6 422	18 507	148	340	488	18 995
Unadjusted												
1979 1	457	392	849	303	412	397	1 025	2 986	30	68	98	3 084
2	519	427	946	385	637	377	988	3 333	24	36	60	3 393
3	532	445	977	564	1 088	417	1 118	4 164	30	51	81	4 245
4	530	502	1 032	503	660	397	1 071	3 663	31	60	91	3 754
1980 1	523	464	987	395	516	388	1 180	3 466	31	76	107	3 573
2	574	393	967	510	715	403	1 130	3 725	31	50	81	3 806
3	584	369	953	710	1 122	382	1 277	4 444	31	81	112	4 556
4	519	390	909	595	608	428	1 231	3 771	19	62	81	3 852
1981 1	471	431	902	476	466	452	1 231	3 527	37	91	128	3 655
2	540	414	954	556	677	475	1 265	3 927	25	45	70	3 997
3	589	412	1 001	725	1 150	503	1 484	4 863	21	93	114	4 977
4	555	372	927	602	677	541	1 368	4 115	39	88	127	4 242
1982 1	527	335	862	483	515	556	1 444	3 860	41	103	144	4 004
2	575	372	947	563	793	529	1 395	4 227	36	58	94	4 321
3	565	334	899	770	1 188	493	1 525	4 875	38	39	77	4 952
4	489	366	855	655	672	567	1 454	4 203	35	87	122	4 325
1983 1	471	276	747	525	580	714	1 562	4 128	37	122	159	4 287
2	491	283	774	629	900	685	1 564	4 552	32	74	106	4 658
3	516	317	833	823	1 380	605	1 654	5 295	51	69	120	5 415
4	478	343	821	688	795	586	1 642	4 532	28	75	103	4 635
1984 1	482	296	778	560	670	663	1 656	4 327	41	98	139	4 466
Seasonally adjusted												
1979 1	483	387	870	379	651	406	1 029	3 335	30	52	82	3 417
2	506	436	942	403	695	370	1 032	3 442	24	52	76	3 518
3	508	454	962	461	707	424	1 051	3 605	30	51	81	3 686
4	541	489	1 030	512	744	388	1 090	3 764	31	60	91	3 855
1980 1	555	454	1 009	497	800	391	1 189	3 886	31	60	91	3 977
2	560	401	961	544	764	398	1 196	3 863	31	70	101	3 964
3	553	380	933	576	718	391	1 179	3 797	31	78	109	3 906
4	532	381	913	593	679	421	1 254	3 860	19	61	80	3 940
1981 1	500	419	919	593	715	453	1 245	3 925	37	73	110	4 035
2	529	422	951	593	725	467	1 339	4 075	25	66	91	4 166
3	555	424	979	582	752	516	1 372	4 201	21	89	110	4 311
4	571	364	935	591	778	535	1 392	4 231	39	89	128	4 359
1982 1	561	326	887	601	786	557	1 453	4 284	41	84	125	4 409
2	563	378	941	605	839	520	1 458	4 363	36	81	117	4 480
3	529	343	872	621	774	508	1 434	4 209	38	37	75	4 284
4	503	360	863	644	769	560	1 473	4 309	35	85	120	4 429
1983 1	501	269	770	654	865	714	1 562	4 565	37	98	135	4 700
2	483	287	770	672	935	676	1 624	4 677	32	104	136	4 813
3	479	326	805	665	915	622	1 577	4 584	51	63	114	4 698
4	493	337	830	674	940	578	1 659	4 681	28	75	103	4 784
1984 1	513	288	801	697	1 005	662	1 656	4 821	41	83	124	4 945

CONFIDENTIAL UNTIL PUBLICATION

SERVICES: DEBITS AND BALANCE

TABLE 5 (continued)

£ million

		Debits											Balance of services		
		Private sector and public corporations													
		Sea transport					Other services								
		Dry cargo	Tankers	Total	Civil aviation	Travel	Associated with UK Cont. Shelf	Other	Total	General government	Total services debits		Private sector and public corporations	General government	Total
1974		1 339	1 437	2 776	540	703	212	793	5 024	629	5 653		+1 594	-519	+1 075
1975		1 296	1 266	2 562	675	917	490	989	5 633	709	6 342		+2 085	-570	+1 515
1976		1 638	1 517	3 155	840	1 068	665	1 180	6 908	867	7 775		+3 155	-652	+2 503
1977		1 865	1 480	3 345	984	1 186	725	1 385	7 625	940	8 565		+4 037	-699	+3 338
1978		1 927	1 235	3 162	1 176	1 549	568	1 465	7 920	986	8 906		+4 484	-668	+3 816
1979		2 195	1 482	3 677	1 467	2 109	467	1 613	9 333	1 072	10 405		+4 813	-742	+4 071
1980		2 428	1 247	3 675	1 815	2 738	514	1 764	10 506	1 014	11 520		+4 900	-633	+4 267
1981		2 593	1 351	3 944	1 922	3 271	615	1 905	11 657	965	12 622		+4 775	-526	+4 249
1982		2 772	1 133	3 905	2 080	3 640	753	2 112	12 490	1 238	13 728		+4 675	-801	+3 874
1983		3 030	945	3 975	2 237	4 054	695	2 404	13 365	1 302	14 667		+5 142	-814	+4 328
Unadjusted															
1979	1	464	360	824	296	305	95	378	1 898	249	2 147		+1 088	-151	+937
	2	585	359	944	359	503	102	385	2 293	275	2 568		+1 040	-215	+825
	3	585	359	944	446	858	122	413	2 783	268	3 051		+1 381	-187	+1 194
	4	561	404	965	366	443	148	437	2 359	280	2 639		+1 304	-189	+1 115
1980	1	619	348	967	398	399	113	437	2 314	235	2 549		+1 152	-128	+1 024
	2	627	308	935	453	672	120	439	2 619	275	2 894		+1 106	-194	+912
	3	637	301	938	545	1 127	127	441	3 178	255	3 433		+1 266	-143	+1 123
	4	545	290	835	419	540	154	447	2 395	249	2 644		+1 376	-168	+1 208
1981	1	577	352	929	399	454	103	467	2 352	183	2 535		+1 175	-55	+1 120
	2	595	360	955	475	788	149	463	2 830	235	3 065		+1 097	-165	+932
	3	743	335	1 078	594	1 386	155	486	3 699	251	3 950		+1 164	-137	+1 027
	4	678	304	982	454	643	208	489	2 776	296	3 072		+1 339	-169	+1 170
1982	1	678	280	958	433	532	174	499	2 596	301	2 897		+1 264	-157	+1 107
	2	740	304	1 044	516	881	166	507	3 114	314	3 428		+1 113	-220	+893
	3	712	263	975	644	1 508	214	561	3 902	299	4 201		+973	-222	+751
	4	642	286	928	487	719	199	545	2 878	324	3 202		+1 325	-202	+1 123
1983	1	712	260	972	471	596	159	583	2 781	337	3 118		+1 347	-178	+1 169
	2	758	210	968	562	957	159	580	3 226	316	3 542		+1 326	-210	+1 116
	3	775	226	1 001	683	1 722	171	601	4 178	323	4 501		+1 117	-203	+914
	4	785	249	1 034	521	779	206	640	3 180	326	3 506		+1 352	-223	+1 129
1984	1	840	239	1 079	507	655	147	640	3 028	331	3 359		+1 299	-192	+1 107
Seasonally adjusted															
1979	1	481	363	844	339	477	121	374	2 155	249	2 404		+1 180	-167	+1 013
	2	569	360	929	359	509	106	386	2 289	275	2 564		+1 153	-199	+954
	3	563	362	925	375	536	112	414	2 362	268	2 630		+1 243	-187	+1 056
	4	582	397	979	394	587	128	439	2 527	280	2 807		+1 237	-189	+1 048
1980	1	643	351	994	451	623	140	433	2 641	235	2 876		+1 245	-144	+1 101
	2	611	308	919	452	687	125	439	2 622	275	2 897		+1 241	-174	+1 067
	3	606	302	908	458	710	117	443	2 636	255	2 891		+1 161	-146	+1 015
	4	568	286	854	454	718	132	449	2 607	249	2 856		+1 253	-169	+1 084
1981	1	599	354	953	456	727	124	463	2 723	183	2 906		+1 202	-73	+1 129
	2	581	359	940	475	814	159	463	2 851	235	3 086		+1 224	-144	+1 080
	3	702	338	1 040	496	872	150	488	3 046	251	3 297		+1 155	-141	+1 014
	4	711	300	1 011	495	858	182	491	3 037	296	3 333		+1 194	-168	+1 026
1982	1	701	280	981	496	866	174	495	3 012	301	3 313		+1 272	-176	+1 096
	2	723	304	1 027	515	899	166	507	3 114	314	3 428		+1 249	-197	+1 052
	3	670	266	936	537	929	214	562	3 178	299	3 477		+1 031	-224	+807
	4	678	283	961	532	946	199	548	3 186	324	3 510		+1 123	-204	+919
1983	1	735	260	995	539	985	159	579	3 257	337	3 594		+1 308	-202	+1 106
	2	735	210	945	561	975	159	581	3 221	316	3 537		+1 456	-180	+1 276
	3	729	229	958	567	1 048	171	602	3 346	323	3 669		+1 238	-209	+1 029
	4	831	246	1 077	570	1 046	206	642	3 541	326	3 867		+1 140	-223	+917
1984	1	870	239	1 109	580	1 074	147	636	3 546	331	3 877		+1 275	-207	+1 068

INTEREST,PROFITS AND DIVIDENDS: CREDITS

TABLE 6

£ million

	Earnings on: Direct investment (excluding oil companies)	Portfolio investment	Sterling lending by UK banks and export credit	Interest on UK borrowing and lending in foreign currencies (balance)	Interest on bank deposits and lending overseas	Other earnings (including oil companies)	Total credits	of which: Private sector and public corporations	General government
1974	1 490	279	322	151	-	1 044	3 286	3 049	237
1975	1 591	271	365	138	-	476	2 841	2 575	266
1976	2 383	313	472	210	87	506	3 971	3 718	253
1977	2 293	328	460	107	102	742	4 032	3 648	384
1978	2 346	400	566	346	164	1 373	5 195	4 504	691
1979	2 843	540	741	-44	287	3 638	8 005	7 189	816
1980	2 924	740	970	352	446	2 950	8 382	7 439	943
1981	3 555	940	1 343	1 010	627	2 778	10 253	9 305	948
1982	3 113	1 580	1 648	1 454	635	2 642	11 071	10 255	816
1983	3 560	2 609	1 869	513	567	2 812	11 930	11 309	621
Unadjusted									
1979 1	658	113	181	36	61	752	1 801	1 624	177
2	675	124	178	6	62	825	1 870	1 665	205
3	781	146	177	3	71	1 020	2 198	1 991	207
4	729	157	205	-89	93	1 041	2 136	1 909	227
1980 1	807	167	216	-44	115	869	2 130	1 903	227
2	790	182	224	155	109	815	2 275	1 986	289
3	641	199	243	97	95	581	1 856	1 646	210
4	686	192	287	144	127	685	2 121	1 904	217
1981 1	837	193	289	108	133	682	2 242	2 035	207
2	926	204	287	282	150	600	2 449	2 146	303
3	874	253	345	273	179	654	2 578	2 337	241
4	918	290	422	347	165	842	2 984	2 787	197
1982 1	758	324	433	117	165	562	2 359	2 182	177
2	795	372	416	484	170	683	2 919	2 639	280
3	657	431	392	451	148	676	2 755	2 580	175
4	903	453	407	402	152	721	3 038	2 854	184
1983 1	748	558	497	126	144	674	2 747	2 600	147
2	947	619	459	186	130	583	2 924	2 718	206
3	1 024	691	451	32	148	787	3 133	3 014	119
4	841	741	462	169	145	768	3 126	2 977	149
1984 1	682	796	512	72	145	879	3 086	2 939	147
Seasonally adjusted									
1979 1	660	116	184	36	61	756	1 813	1 633	180
2	646	125	175	6	62	807	1 821	1 634	187
3	790	140	190	3	71	1 028	2 222	2 006	216
4	747	159	192	-89	93	1 047	2 149	1 916	233
1980 1	814	170	219	-44	115	894	2 168	1 916	252
2	759	183	221	155	109	771	2 198	1 953	245
3	645	191	256	97	95	593	1 877	1 655	222
4	706	196	274	144	127	692	2 139	1 915	224
1981 1	847	198	286	108	133	709	2 281	2 048	233
2	882	205	289	282	150	549	2 357	2 106	251
3	881	242	358	273	179	664	2 597	2 345	252
4	945	295	410	347	165	856	3 018	2 806	212
1982 1	767	330	431	117	165	605	2 415	2 195	220
2	754	376	418	484	170	596	2 797	2 605	192
3	661	417	404	451	148	698	2 779	2 582	197
4	931	457	395	402	152	743	3 080	2 873	207
1983 1	764	572	495	126	144	716	2 817	2 626	191
2	895	624	462	186	130	507	2 804	2 673	131
3	1 035	670	463	32	148	817	3 165	3 017	148
4	866	743	449	169	145	772	3 144	2 993	151
1984 1	698	803	509	72	145	890	3 117	2 959	158

CONFIDENTIAL UNTIL PUBLICATION

INTEREST,PROFITS AND DIVIDENDS: DEBITS AND BALANCE

TABLE 6 (continued)

£ million

		Earnings on: Direct investment (excluding oil companies)	Foreign oil companies' investment in UK	Portfolio investment	Foreign currency borrowing by general government[1]	Sterling liabilities	Other	Total debits	of which: Private sector and public corporations	General government	Balance of IPD: Private sector and public corporations	General government	Total
1974		622	27	252	139	623	208	1,871	1,282	589	+1,767	-352	+1,415
1975		625	-23	307	259	651	249	2,068	1,288	780	+1,287	-514	+773
1976		1,040	-76	385	368	567	322	2,606	1,705	901	+2,013	-648	+1,365
1977		1,432	565	573	422	467	457	3,916	2,811	1,105	+837	-721	+116
1978		1,526	703	671	522	496	616	4,534	3,249	1,285	+1,255	-594	+661
1979		2,077	1,940	747	576	911	664	6,915	5,559	1,356	+1,630	-540	+1,090
1980		1,873	2,965	894	518	1,527	671	8,448	6,899	1,549	+540	-606	-66
1981		1,964	2,776	969	489	1,899	839	8,936	7,320	1,616	+1,985	-668	+1,317
1982		2,152	2,621	1,042	402	2,253	976	9,446	7,829	1,617	+2,426	-801	+1,625
1983		2,660	3,045	1,118	428	2,385	931	10,567	8,797	1,770	+2,512	-1,149	+1,363
Unadjusted													
1979	1	405	361	140	130	154	136	1,326	1,044	282	+580	-105	+475
	2	556	493	197	169	196	202	1,813	1,426	387	+239	-182	+57
	3	382	626	193	107	230	131	1,669	1,369	300	+622	-93	+529
	4	734	460	217	170	331	195	2,107	1,720	387	+189	-160	+29
1980	1	515	814	199	108	326	152	2,114	1,787	327	+116	-100	+16
	2	575	822	280	177	367	237	2,458	1,952	506	+34	-217	-183
	3	321	644	223	93	379	108	1,768	1,423	345	+223	-135	+88
	4	462	685	192	140	455	174	2,108	1,737	371	+167	-154	+13
1981	1	386	653	222	81	426	143	1,911	1,572	339	+463	-132	+331
	2	423	489	272	191	449	287	2,111	1,575	536	+571	-233	+338
	3	546	599	253	98	459	181	2,136	1,772	364	+565	-123	+442
	4	609	1,035	222	119	565	228	2,778	2,401	377	+386	-180	+206
1982	1	591	611	258	52	490	184	2,186	1,867	319	+315	-142	+173
	2	568	587	284	139	592	390	2,560	2,030	530	+609	-250	+359
	3	476	609	271	63	587	184	2,190	1,827	363	+753	-188	+565
	4	517	814	229	148	584	218	2,510	2,105	405	+749	-221	+528
1983	1	629	549	280	79	578	166	2,281	1,885	396	+715	-249	+466
	2	761	841	283	132	604	333	2,954	2,435	519	+283	-313	-30
	3	681	611	305	90	571	176	2,434	2,030	404	+984	-285	+699
	4	589	1,044	250	127	632	256	2,898	2,447	451	+530	-302	+228
1984	1	738	824	306	94	607	209	2,778	2,290	488	+649	-341	+308
Seasonally adjusted													
1979	1	420	361	151	144	160	166	1,402	1,089	313	+544	-133	+411
	2	551	493	164	150	203	160	1,721	1,388	333	+246	-146	+100
	3	444	626	194	129	244	160	1,797	1,466	331	+540	-115	+425
	4	662	460	238	153	304	178	1,995	1,616	379	+300	-146	+154
1980	1	538	814	218	124	340	188	2,222	1,858	364	+58	-112	-54
	2	570	822	239	157	375	169	2,332	1,902	430	+51	-185	-134
	3	348	644	222	117	397	144	1,872	1,496	376	+159	-154	+5
	4	417	685	215	120	415	170	2,022	1,643	379	+272	-155	+117
1981	1	395	653	231	98	453	185	2,015	1,635	380	+413	-147	+266
	2	420	489	238	163	448	205	1,963	1,522	441	+584	-190	+394
	3	595	599	248	122	485	226	2,275	1,874	401	+471	-149	+322
	4	554	1,035	252	106	513	223	2,683	2,289	394	+517	-182	+335
1982	1	607	611	268	64	515	247	2,312	1,954	358	+241	-138	+103
	2	565	587	249	120	601	252	2,374	1,962	412	+643	-220	+423
	3	501	609	258	86	616	247	2,317	1,920	397	+662	-200	+462
	4	479	814	267	132	521	230	2,443	1,993	450	+880	-243	+637
1983	1	642	549	268	92	612	230	2,393	1,968	425	+658	-234	+424
	2	765	841	274	110	604	231	2,825	2,380	445	+293	-314	-21
	3	714	611	293	118	605	239	2,580	2,127	453	+890	-305	+585
	4	539	1,044	283	108	564	231	2,769	2,322	447	+671	-296	+375
1984	1	754	824	289	109	642	230	2,848	2,379	469	+580	-311	+269

1. Excluding foreign currency issues but including loans raised by all public bodies under the exchange cover scheme.

TRANSFERS

TABLE 7

£ million

	Private sector			General government										
				Credits		Debits						Balance		
				EC institutions			Contributions and subscriptions to international orgs.							
		Credits	Debits	Balance of private sector	Budget refunds	Other	Bilateral aid	EC	Other	Pensions, benefits and other transfers	Total debits	Total	of which: with EC institutions	Balance of transfers
1974		357	454	-97	-	132	105	186	90	71	452	-320	-54	-417
1975		393	503	-110	-	366	148	350	143	83	724	-358	+16	-468
1976		537	509	+28	-	253	279	474	192	111	1 056	-803	-221	-775
1977		614	614	-	-	298	279	750	254	131	1 414	-1 116	-452	-1 116
1978		774	848	-74	-	439	387	1 364	233	158	2 142	-1 703	-925	-1 777
1979		801	1 008	-207	-	550	498	1 626	325	159	2 608	-2 058	-1 076	-2 265
1980		820	1 076	-256	98	860	528	1 783	281	189	2 781	-1 823	-825	-2 079
1981		927	1 205	-278	693	965	587	2 188	285	287	3 347	-1 689	-530	-1 967
1982		994	1 262	-268	1 019	1 139	496	2 878	324	300	3 998	-1 841	-721	-2 109
1983		1 070	1 323	-253	807	1 414	573	2 999	340	323	4 235	-2 014	-778	-2 267
Unadjusted														
1979	1	202	224	-22	-	104	212	362	110	42	726	-622	-258	-644
	2	200	208	-8	-	126	63	386	98	34	581	-455	-260	-463
	3	194	279	-85	-	143	98	428	57	41	624	-481	-285	-566
	4	205	297	-92	-	177	125	450	60	42	677	-500	-273	-592
1980	1	201	267	-66	-	227	227	415	93	54	789	-562	-188	-628
	2	205	266	-61	-	164	75	483	83	46	687	-523	-319	-584
	3	206	266	-60	-	197	110	466	71	44	691	-494	-269	-554
	4	208	277	-69	98	272	116	419	34	45	614	-244	-49	-313
1981	1	227	295	-68	547	227	290	544	90	71	995	-221	+230	-289
	2	230	298	-68	-	121	68	507	88	58	721	-600	-386	-668
	3	233	303	-70	28	204	104	660	61	73	898	-666	-428	-736
	4	237	309	-72	118	413	125	477	46	85	733	-202	+54	-274
1982	1	241	311	-70	813	291	233	700	94	85	1 112	-8	+404	-78
	2	246	313	-67	9	150	59	723	102	67	951	-792	-564	-859
	3	251	317	-66	72	271	83	750	68	73	974	-632	-408	-698
	4	256	321	-65	125	427	121	705	60	75	961	-409	-153	-474
1983	1	261	323	-62	568	349	295	660	108	95	1 158	-241	+257	-303
	2	266	329	-63	-	282	80	791	139	71	1 081	-800	-510	-863
	3	270	333	-63	21	417	96	633	69	76	874	-436	-195	-499
	4	273	338	-65	218	366	102	915	24	81	1 122	-537	-330	-602
1984	1	275	339	-64	-	661	196	782	126	89	1 193	-532	-121	-596
Seasonally adjusted														
1979	1	202	224	-22	-	114	119	357	86	36	598	-484	-243	-506
	2	200	208	-8	-	135	118	393	82	37	630	-495	-258	-503
	3	194	279	-85	-	150	131	430	73	41	675	-525	-280	-610
	4	205	297	-92	-	151	130	446	84	45	705	-554	-295	-646
1980	1	201	267	-66	-	227	121	408	71	47	647	-420	-181	-486
	2	205	266	-61	-	186	139	486	68	50	743	-557	-300	-618
	3	206	266	-60	-	205	146	472	86	45	749	-544	-267	-604
	4	208	277	-69	98	242	122	417	56	47	642	-302	-77	-371
1981	1	227	295	-68	547	231	168	538	70	64	840	-62	+240	-130
	2	230	298	-68	-	150	141	508	72	61	782	-632	-358	-700
	3	233	303	+70	28	217	142	667	75	74	958	-713	-422	-783
	4	237	309	-72	118	367	136	475	68	88	767	-282	+10	-354
1982	1	241	311	-70	813	299	129	693	73	77	972	140	+419	70
	2	246	313	-67	9	186	121	721	82	71	995	-800	-526	-867
	3	251	317	-66	72	290	116	762	83	74	1 035	-673	-400	-739
	4	256	321	-65	125	363	130	702	86	78	996	-508	-214	-573
1983	1	261	323	-62	568	352	176	655	84	87	1 002	-82	+265	-144
	2	266	329	-63	-	313	151	790	118	75	1 134	-821	-477	-884
	3	270	333	-63	21	442	134	642	85	77	938	-475	-179	-538
	4	273	338	-65	218	307	112	912	53	84	1 161	-636	-387	-701
1984	1	275	339	-64	-	664	81	777	101	81	1 040	-376	-113	-440

CONFIDENTIAL UNTIL PUBLICATION

INVESTMENT AND OTHER CAPITAL TRANSACTIONS[1]

TABLE 8

Not seasonally adjusted

£ million

		Overseas investment in						Exchange reserves in sterling						
		UK public sector	UK private sector	UK private invest -ment overseas	Official long-term capital	Trade credit[2]	Foreign currency borrowing or lending abroad by UK banks[3]	British government stocks	Banking and money market liabilities, etc.[3]	Other external banking and money market liabilities in sterling[3]	External sterling lending by UK banks[3,4]	Other external borrowing or lending[5]	Other transactions	Total investment and other capital transactions
1972		+113	+659	-1 402	-254	-211	+471	+65	+222	-91	-241	+146	-150	-673
1973		+156	+1 341	-1 760	-255	-203	+535	+74	+87	-7	+35	+339	-164	+178
1974		+180	+2 024	-1 148	-287	-722	-295	-124	+1 534	+148	+53	+351	-112	+1 602
1975		-13	+1 527	-1 367	-291	-518	+253	+7	-622	+549	+96	+316	+217	+154
1976		+179	+1 912	-2 269	-161	-992	-106	+12	-1 413	+256	-350	+121	-164	-2 975
1977		+1 432	+2 967	-2 334	-303	-355	+364	+6	-16	+1 481	+58	+813	+53	+4 166
1978		-97	+1 974	-4 604	-336	-630	-433	-113	-	+293	-504	+106	+81	-4 263
1979		+902	+3 381	-6 802	-401	-792	+1 623	+247	+509	+2 580	+205	+449	-66	+1 835
1980		+589	+4 619	-8 033	-91	-1 156	+2 054	+945	+317	+2 558	-2 500	-514	-243	-1 455
1981		+188	+3 270	-10 669	-336	-847	+1 462	+267	-118	+2 607	-2 954	-322	+101	-7 351
1982		+320	+3 096	-10 777	-337	-1 389	+4 271	-52	+438	+4 134	-3 299	-11	+250	-3 356
1983		+695	+4 983	-10 864	-562	-1 445	+1 167	+194	+714	+3 225	-1 369	-52	-549	-3 863
1975	1	+36	+305	-378	-72	-208	-62	+6	+222	+19	+46	+77	+112	+103
	2	-3	+207	-528	-39	-177	+772	-7	-296	+286	-241	+54	+73	+101
	3	-57	+580	-108	-30	+137	-15	-67	-313	+1	+35	+82	+19	+264
	4	+11	+435	-353	-150	-270	-442	+75	-235	+243	+256	+103	+13	-314
1976	1	+1	+591	-598	-37	-355	+94	-10	-72	+6	-245	+147	-65	-543
	2	+15	+377	-560	-18	-284	-86	-13	-908	-11	-223	+74	-97	-1 734
	3	+61	+458	-547	-28	-35	-272	-19	-330	+212	-124	-29	-5	-658
	4	+102	+486	-564	-78	-318	+158	+54	-103	+49	+242	-71	+3	-40
1977	1	+353	+927	-566	-23	-136	+419	-163	+345	+199	+166	+141	-42	+1 620
	2	+443	+831	-772	-19	-60	-706	-4	-394	+350	-110	+381	+74	+14
	3	+252	+727	-499	-30	+91	+187	+31	+43	+323	-23	+216	-64	+1 254
	4	+384	+482	-497	-231	-250	+464	+142	-10	+609	+25	+75	+85	+1 278
1978	1	-55	+856	-884	-23	-169	+128	-33	+176	-62	-292	+160	+45	-153
	2	-40	+322	-804	-8	-280	-931	-20	-211	-152	-65	+39	-52	-2 203
	3	-21	+350	-1 185	-66	-126	+343	-34	+43	+159	-82	-15	+180	-454
	4	+19	+446	-1 731	-239	-55	+27	-26	-8	+348	-65	-78	-92	-1 453
1979	1	+245	+330	-1 596	-78	-320	+1 002	-130	+268	+470	+103	+75	+91	+460
	2	+78	+1 213	-1 462	-35	-244	+385	+5	+92	+358	+204	-28	+172	+738
	3	+429	+924	-2 145	-66	+156	+671	+206	+194	+450	-101	-252	-343	+123
	4	+150	+914	-1 599	-222	-384	-435	+166	-45	+1 302	-1	+654	+14	+514
1980	1	-18	+1 382	-2 105	+10	-325	+767	+45	+455	+256	-324	-448	-196	-501
	2	+656	+901	-1 959	-13	-159	+230	+448	-94	+983	-563	+27	-86	+371
	3	+55	+1 021	-1 712	-2	-403	+593	+437	-80	+824	-668	+151	-24	+192
	4	-104	+1 315	-2 257	-86	-269	+464	+15	+36	+495	-945	-244	+63	-1 517
1981	1	+82	+416	-3 017	-128	-13	-435	-95	+187	+301	-1 230	+160	-139	-3 911
	2	-156	+1 287	-2 453	-111	-161	-750	+152	+21	+902	-435	-699	+402	-2 001
	3	-11	+776	-2 187	-5	-64	+58	+95	+49	+1 015	-799	-198	+107	-1 164
	4	+273	+791	-3 012	-92	-609	+2 589	+115	-375	+389	-490	+415	-269	-275
1982	1	-58	+1 330	-2 841	-211	-111	+1 598	-167	+512	+1 119	-1 104	+140	-337	-130
	2	-104	+838	-2 322	-14	-365	+541	+82	-294	+1 487	+200	+7	+133	+189
	3	+223	+494	-2 516	-3	-437	+1 171	-228	+478	+1 035	-1 348	-11	+136	-1 006
	4	+259	+434	-3 098	-109	-476	+961	+261	-258	+493	-1 047	-147	+318	-2 409
1983	1	+46	+915	-3 011	-229	-404	+568	+103	+451	+1 063	-939	+686	-674	-1 425
	2	+379	+2 010	-2 537	-216	-427	+257	+271	-262	+630	+279	+220	+138	+742
	3	+280	+1 531	-2 530	-18	-339	+1 321	-66	+470	+376	-32	-14	+58	+1 037
	4	-10	+527	-2 786	-99	-275	-979	-114	+55	+1 156	-677	-944	-71	-4 217
1984	1	+249	+1 034	-4 437	-126	-303	+2 639	+93	+345	+1 286	-1 466	+153	-116	-649

1. UK Assets: increase-/decrease+. UK Liabilities: increase+/decrease-. Excluding official financing.
2. Excluding trade credit between 'related' firms, after deducting advance and progress payments to suppliers. Coverage was reduced at end-1982, see Table 12 footnote 3. Net credit extended by UK merchants on third country trade is included within export credit.
3. Prior to 1982 includes transactions by 'other financial institutions', which are subsequently included within 'other external borrowing or lending'.
4. Excluding credit for UK exports.
5. From 1982 onwards includes transactions by 'other financial institutions' (see footnote 3). The estimate included for the latest quarter excludes a substantial part of the private sector borrowing from and lending to banks etc., overseas.

CONFIDENTIAL UNTIL PUBLICATION

OVERSEAS INVESTMENT IN UNITED KINGDOM[1]

TABLE 9

Not seasonally adjusted

£ million

		Direct investment (excluding oil companies)				Portfolio investment								
										Net issues abroad[3]				
		Un-remitted profits	Other	Total	Investment by oil companies	Investment in UK company securities	British government stocks[2]	British government foreign currency bonds	Local authorities securities	Public corporations	Local authorities	Total portfolio investment	Miscellaneous investment	Total overseas investment in UK
1977		+837	+489	+1 326	+1 131	+421	+979	+395	+28	+30	-	+1 853	+89	+4 399
1978		+720	+541	+1 261	+666	+12	-3	-	+4	-93	-5	-85	+35	+1 877
1979		+1 226	+514	+1 740	+1 215	+351	+929	-	+41	-6	-62	+1 253	+75	+4 283
1980		+689	+1 852	+2 541	+1 714	+264	+571	-	+19	-1	-	+853	+100	+5 208
1981		+638	+360	+998	+1 882	+320	+201	-	-	-13	-	+508	+70	+3 458
1982		+760	+316	+1 076	+1 770	+130	+495	-115	-5	-55	-	+450	+120	+3 416
1983		+1 369	+1 111	+2 480	+1 473	+945	+709	-	-7	-7	-	+1 640	+85	+5 678
1981	1	+149	-372	-223	+579	+35	+89	-	+1	-8	-	+117	+25	+498
	2	+141	+624	+765	+407	+100	-157	-	+2	-1	-	-56	+15	+1 131
	3	+266	-249	+17	+634	+110	-6	-	-2	-3	-	+99	+15	+765
	4	+82	+357	+439	+262	+75	+275	-	-1	-1	-	+348	+15	+1 064
1982	1	+385	+482	+867	+418	-10	-48	-	-6	-4	-	-68	+55	+1 272
	2	+228	-69	+159	+674	-20	+11	-115	-	-	-	-124	+25	+734
	3	+232	-108	+124	+365	-20	+222	-	+1	-	-	+203	+25	+717
	4	-85	+11	-74	+313	+180	+310	-	-	-51	-	+439	+15	+693
1983	1	+443	+94	+537	+133	+210	+52	-	-	-6	-	+256	+35	+961
	2	+486	+419	+905	+630	+465	+382	-	-2	-1	-	+844	+10	+2 389
	3	+459	+306	+765	+611	+125	+282	-	-2	-	-	+405	+30	+1 811
	4	-19	+292	+273	+99	+145	-7	-	-3	-	-	+135	+10	+517
1984	1	+553	+80	+633	+281	+100	+257	-	-2	-6	-	+349	+20	+1 283

1. UK Liabilities:increase+/decrease-.
2. Excluding investments by central monetary institutions and international organisations.
3. Excluding official financing.

UK PRIVATE INVESTMENT OVERSEAS[1]

TABLE 10

Not seasonally adjusted

£ million

		Direct investment (excluding oil companies)					
		Unremitted profits	Other	Total	Oil companies' and other miscellanous investment	Portfolio investment	Total
1977		-1 292	-593	-1 885	-461	+12	-2 334
1978		-1 259	-1 451	-2 710	-821	-1 073	-4 604
1979		-1 622	-1 413	-3 035	-2 858	-909	-6 802
1980		-1 634	-1 683	-3 317	-1 566	-3 150	-8 033
1981		-2 031	-3 121	-5 152	-1 417	-4 100	-10 669
1982		-1 661	-868	-2 529	-1 968	-6 280	-10 777
1983		-2 081	-416	-2 497	-2 217	-6 150	-10 864
1981	1	-559	-661	-1 220	-437	-1 360	-3 017
	2	-478	-584	-1 062	-411	-980	-2 453
	3	-572	-599	-1 171	-296	-720	-2 187
	4	-422	-1 277	-1 699	-273	-1 040	-3 012
1982	1	-485	-330	-815	-396	-1 630	-2 841
	2	-423	-212	-635	-307	-1 380	-2 322
	3	-297	-266	-563	-493	-1 460	-2 516
	4	-456	-60	-516	-772	-1 810	-3 098
1983	1	-408	-339	-747	-624	-1 640	-3 011
	2	-561	+208	-353	-364	-1 820	-2 537
	3	-761	+33	-728	-612	-1 190	-2 530
	4	-351	-318	-669	-617	-1 500	-2 786
1984	1	-370	-470	-840	-607	-2 990	-4 437

1. UK Assets: increase-/decrease+.

OFFICIAL LONG-TERM CAPITAL[1]

TABLE 11

Not seasonally adjusted

£ million

		Inter government loans				Other official long-term capital		
		Made by UK	Repaid to UK	Repaid by UK	Total	UK subscriptions, to IDA, etc.	Other	Total official long-term capital
1977		-44	+48	-68	-64	-212	-26	-303
1978		-71	+46	-65	-90	-225	-21	-336
1979		-81	+70	-116	-128	-259	-14	-401
1980		-61	+112	-57	-6	-53	-32	-91
1981		-76	+86	-73	-64	-222	-51	-336
1982		-49	+79	-87	-57	-244	-36	-337
1983		-76	+68	-97	-105	-427	-29	-562
1981	1	-34	+23	-	-11	-97	-21	-128
	2	-15	+20	-6	-2	-98	-10	-111
	3	-16	+18	-	+2	-	-7	-5
	4	-11	+25	-67	-53	-27	-13	-92
1982	1	-20	+19	-	-2	-196	-13	-211
	2	-12	+21	-8	+1	-9	-6	-14
	3	-8	+17	-	+10	-4	-8	-3
	4	-9	+22	-79	-66	-35	-9	-109
1983	1	-39	+19	-	-20	-196	-13	-229
	2	-8	+17	-7	+1	-211	-5	-216
	3	-25	+17	-	-8	-2	-8	-18
	4	-4	+15	-90	-78	-18	-3	-99
1984	1	-10	+15	-	+5	-96	-35	-126

1. UK Assets: increase-/decrease+. UK Liabilities: increase+/decrease-.

IMPORT AND EXPORT CREDIT[1]

(excluding credit between 'related' firms)

TABLE 12

Not seasonally adjusted

£ million

		Import credit					Export credit					
		Credit received by UK businesses										
		Identified long-term[2]	Other[3]	Total	Advance and progress payments[3]	Total	Identified long-term credit extended by UK banks	Suppliers' credit[3],[4]	Other credit extended	Advance and progress payments[3]	Total	of which: UK banks' lending in sterling
1977		+76	+130	+206	+74	+280	-601	-315	+13	+268	-635	-578
1978		-70	+163	+93	+199	+292	-625	-490	+58	+135	-922	-360
1979		-173	+364	+191	-127	+64	-440	-805	+89	+300	-856	+110
1980		+5	-211	-206	-48	-254	-808	-204	-77	+187	-902	-32
1981		-23	+76	+53	+69	+122	-720	-751	+137	+365	-969	+411
1982		-25	-107	-132	-92	-224	-1 335	-80	+245	+5	-1 165	-297
1983		-21	..	-21	+33	+12	-1 063	..	-394	..	-1 457	-632
1981	1	+13	-21	-8	-63	-71	+29	-205	+71	+163	+58	+334
	2	-14	+20	+6	+62	+68	-303	-95	+114	+55	-229	+116
	3	-5	+124	+119	+97	+216	-244	-130	-52	+146	-280	-64
	4	-17	-47	-64	-27	-91	-202	-321	+4	+1	-518	+25
1982	1	-2	+26	+24	-65	-41	-237	+51	+12	+104	-70	-53
	2	+5	-26	-21	-43	-64	-292	-14	+7	-2	-301	-41
	3	-10	-65	-75	+60	-15	-308	-74	+24	-64	-422	-110
	4	-18	-42	-60	-44	-104	-498	-43	+202	-33	-372	-93
1983	1	-	..	-	-5	-5	-329	..	-70	..	-399	-198
	2	-16	..	-16	+59	+43	-342	..	-128	..	-470	-128
	3	-33	..	-33	-26	-59	-225	..	-55	..	-280	-131
	4	+28	..	+28	+5	+33	-167	..	-141	..	-308	-175
1984	1	+20	..	+20	-7	+13	-197	..	-119	..	-316	-159

1. UK Assets: increase-/decrease+. UK Liabilities: increase+/decrease-.
2. Credit on ships, commercial aircraft and North Sea installations.
3. Collection of information on trade credit received and extended by non-bank private sector companies ceased at end-1982. Export credit of the public sector previously included within suppliers' credit and advance and progress payments, is included indistinguishably in 'other credit extended' from 1983.
4. Includes net credit extended by UK merchants on third country trade.

OTHER TRANSACTIONS[1]

TABLE 13

Not seasonally adjusted

£ million

		Other external borrowing or lending (net of repayments)						Other transactions			
		Borrowing from banks etc. overseas by									
		Public corporations [2]	Local authorities [2]	Total public sector [2]	UK private sector [3]	Bank deposits and lending overseas [3]	Total	Official assets and liabilities (net)	Other commercial short-term transactions (net)	IMF expenditure and receipts in sterling	Total
1977		+746	+4	+750	+318	-254	+813	+56	-3	-	+53
1978		+11	+11	+22	+710	-626	+106	+112	-45	+14	+81
1979		-18	+11	-7	+954	-497	+449	+161	-214	-13	-66
1980		-184	+11	-173	+442	-783	-514	-156	-87	-	-243
1981		-22	+4	-18	+564	-868	-322	+212	-111	-	+101
1982		-102	-3	-105	+714	-619	-11	+437	-187	-	+250
1983		-84	-3	-87	+370	-335	-52	-556	+7	-	-549
1981	1	-2	+1	-1	+179	-18	+160	-85	-54	-	-139
	2	-2	+2	-	-291	-408	-699	+315	+87	-	+402
	3	+13	+1	+14	+149	-361	-198	+74	+33	-	+107
	4	-31	-	-31	+527	-81	+415	-92	-177	-	-269
1982	1	-29	-	-29	-702	+871	+140	-284	-53	-	-337
	2	-52	-1	-53	-2	+63	+7	+249	-116	-	+133
	3	-2	-	-2	+259	-268	-11	+118	+18	-	+136
	4	-19	-2	-21	+1 159	-1 285	-147	+354	-36	-	+318
1983	1	-33	-	-33	+463	+256	+686	-614	-60	-	-674
	2	-17	-1	-18	-308	+546	+220	+178	-40	-	+138
	3	-3	-	-3	-137	+126	-14	+18	+40	-	+58
	4	-31	-2	-33	+352	-1 263	-944	-138	+67	-	-71
1984	1	-4	-	-4	+69	+88	+153	-47	-69	-	-116

1. UK Assets: increase-/decrease+. UK Liabilities: increase+/decrease-.
2. Excluding net foreign currency borrowing under the exchange cover scheme which is included under 'offical financing'.
3. From 1982 onwards includes transactions by 'other financial institutions' (see footnote 3 to Table 8).
The estimate included for the latest quarter excludes a substantial part of private sector business with banks etc. overseas.

UK CONTINENTAL SHELF OIL AND GAS[1]

TABLE 14

Not seasonally adjusted

				£ million					
		Volume of sales		Value of sales		Identifiable balance of payments entries			
		Gas (billion cubic metres)	Oil (million tonnes)	Gas	Oil	Import of goods	Imports less exports of services	I.P.D. due abroad [2]	Overseas investment in UKCS etc [3]
1977		40.4	37.8	317	2 226	-531	-704	-550	+1 508
1978		38.5	53.1	432	2 805	-185	-543	-744	+791
1979		38.8	77.5	538	5 689	-171	-436	-1 368	+696
1980		36.4	79.3	648	8 851	-144	-475	-2 215	+841
1981		35.5	89.6	844	12 340	-377	-553	-2 355	+1 638
1982		35.5	101.9	957	14 431	-451	-676	-2 623	+1 040
1983		37.7	115.0	1 110	17 037	-440	-629	-2 943	+572
1981	1	12.3	22.0	258	2 821	-40	-89	-546	+452
	2	7.1	21.8	163	3 042	-149	-134	-466	+341
	3	4.3	22.3	123	3 134	-145	-139	-508	+611
	4	11.8	23.5	300	3 343	-43	-191	-835	+234
1982	1	12.9	22.8	319	3 130	-38	-156	-603	+399
	2	6.6	25.9	190	3 436	-92	-146	-503	-8
	3	5.1	26.4	134	3 820	-184	-194	-606	+256
	4	10.9	26.8	314	4 045	-137	-180	-911	+393
1983	1	13.4	28.0	370	4 252	-118	-143	-725	+265
	2	7.9	27.0	243	3 818	-107	-142	-713	+181
	3	4.6	29.1	159	4 305	-126	-155	-595	+423
	4	11.8	30.9	338	4 662	-89	-189	-910	-297
1984	1	15.1	31.8	468	4 785	-58	-132	-864	+74

1. No attempt has been made to measure the impact of the oil and gas programme on the balance of payments accounts. The problems involved are described briefly and the headings defined in Chapter 9 of the 'Pink Book'.
2. Profits of UK subsidiaries of overseas companies earned in respect of their UKCS operations(including profits retained in the United Kingdom); interest paid on borrowing for the UKCS operations (see notes in 'Pink Book').
3. Includes investment from retained profits and borrowing for UKCS operations, trade credit etc (see notes in 'Pink Book').

OFFICIAL FINANCING[1]

TABLE 15

£ million

		Net transactions with International Monetary Fund[2]				Foreign currency borrowing:	by public bodies under exchange cover scheme[4]					
							Local authorities and public corporations					
		UK drawings	UK re-purchases	Other net drawings	Total	by HM Government[3]	Borrowing	Repayments	Other public bodies[4] (net)	Total	Drawings on (+): additions to(-) official reserves	Total official financing
1977		+1 525	-412	-	+1 113	+871	+296	-53	-	+243	-9 588	-7 361
1978		-	-948	-68	-1 016	+191	+672	-1 050	-	-378	+2 329	+1 126
1979		-	-596	-	-596	-	+1 026	-1 295	+19	-250	-1 059	-1 905
1980		-	-140	-	-140	-629	+538	-894	+44	-312	-291	-1 372
1981		-	-145	-	-145	-1 234	+426	-800	+21	-353	+2 419	+687
1982		-	-163	-	-163	-	+303	-327	+50	+26	+1 421	+1 284
1983		-	-36	-	-36	-	+596	-368	+19	+249	+603	+816
1981	1	-	-33	-	-33	-	+183	-171	+21	+33	-319	-319
	2	-	-35	-	-35	-942	+79	-385	-	-306	+1 448	+165
	3	-	-38	-	-38	-292	+25	-153	-	-128	+1 167	+709
	4	-	-39	-	-39	-	+139	-91	-	+48	+123	+132
1982	1	-	-38	-	-38	-	+117	-59	-	+58	+11	+31
	2	-	-60	-	-60	-	+110	-88	-	+22	+699	+661
	3	-	-32	-	-32	-	+66	-43	+50	+73	-288	-247
	4	-	-33	-	-33	-	+10	-137	-	-127	+999	+839
1983	1	-	-36	-	-36	-	+127	-127	-	-	+652	+616
	2	-	-	-	-	-	+61	-49	-	+13	-145	-132
	3	-	-	-	-	-	+159	-121	-	+38	-33	+5
	4	-	-	-	-	-	+249	-71	+19	+198	+129	+327
1984	1	-	-	-	-	-	+187	-94	+20	+113	+77	+190

1. Valued in sterling at market related rates of exchange.
2. Excludes transactions which affect the UK reserve position in the IMF (included within official reserves). Includes UK drawings on the oil facility; also drawings (-) and repurchases (+) in sterling by other countries.
3. Drawings on (+) and repayments of (-) two euro-dollar facilities of $2,500 million and $1,500 million for HM Government together with a $350 million bond issue in New York.
4. Comprises loans from the European Investment Bank to the Northern Ireland Central Government and to British Nuclear Fuels Ltd.

CONFIDENTIAL UNTIL PUBLICATION

EXTERNAL LIABILITIES AND CLAIMS OF UK MONETARY SECTOR(1) IN FOREIGN CURRENCIES

TABLE 16

£ billion

End of period

			Country analysis									Analysis by type of customer		
		Total	EC countries	Other Western Europe	North America	Other developed countries	Eastern Europe	Oil exporting countries	Off-shore banking centres	Other developing countries	Unallocated	Central monetary institutions	Other banks	Other
UK liabilities														
1978		104.6	23.6	20.3	15.0	2.4	1.2	15.0	14.0	10.7	2.5	20.5	64.4	19.6
1979		127.1	26.5	22.6	20.0	3.8	2.0	20.8	15.6	11.8	4.0	28.0	71.6	27.5
1980		145.3	29.7	24.6	20.8	7.3	1.7	25.0	20.4	11.0	4.9	24.9	87.8	32.7
1981		220.1	40.7	34.6	41.1	11.6	1.6	34.8	30.4	13.9	11.3	28.5	134.7	56.8
1982		278.9	47.0	41.0	72.6	11.0	2.6	34.9	39.1	15.7	15.0	28.1	174.8	76.0
1981	1	162.9	33.9	24.5	24.5	9.7	1.1	28.6	23.0	11.6	5.9	26.5	98.5	38.0
	2	189.3	37.2	29.7	30.9	10.0	1.1	32.7	26.8	13.2	7.7	28.7	113.4	47.2
	3	214.5	40.2	32.7	39.4	12.8	1.4	36.9	30.0	13.7	7.3	29.9	128.5	56.1
	4	220.1	40.7	34.6	41.1	11.6	1.5	34.8	30.4	13.9	11.3	28.5	134.7	56.8
1982	1	241.9	43.8	38.0	50.6	13.4	1.8	36.3	30.8	14.6	12.6	29.2	148.0	64.7
	2	244.8	41.6	38.3	59.8	9.6	1.8	33.8	31.7	14.9	13.5	28.2	148.5	68.1
	3	265.5	42.9	40.1	69.4	10.8	1.9	35.4	37.0	14.6	13.3	30.8	163.2	71.7
	4	278.9	47.0	41.0	72.6	11.0	2.6	34.9	39.0	15.7	15.0	28.1	174.7	76.0
1983	1	313.4	51.5	48.5	84.3	13.5	3.2	36.4	45.7	17.2	13.0	30.0	199.0	84.4
	2	301.2	48.7	46.4	82.3	10.7	3.0	34.1	46.8	17.8	11.3	27.8	189.8	83.5
	3	317.1	51.9	49.5	85.6	13.9	2.7	35.4	48.4	18.4	11.4	30.6	201.1	85.4
	4	330.6	57.0	51.6	87.8	14.8	3.1	34.6	47.6	19.8	14.2	30.6	209.1	90.9
1984	1	345.6	58.1	54.2	91.2	16.6	3.6	35.6	51.0	21.6	13.8	30.2	220.2	95.2
UK claims														
1978		99.4	30.9	11.7	7.3	8.7	5.3	7.0	18.2	10.0	0.2	3:6	69.7	26.1
1979		121.4	34.3	14.0	13.0	10.6	5.9	8.1	22.2	12.9	0.4	1.7	90.1	29.5
1980		139.5	38.6	17.3	12.5	16.2	6.0	8.5	23.5	16.5	0.5	1.5	103.0	35.0
1981		213.7	59.3	23.3	23.8	23.8	7.4	11.8	35.3	25.6	3.4	2.1	151.8	59.8
1982		266.6	75.6	28.1	40.3	26.2	7.5	14.1	40.3	29.1	5.4	2.5	187.6	76.5
1981	1	157.2	45.5	17.3	15.5	18.4	6.2	8.4	26.7	18.9	0.5	1.9	116.2	39.1
	2	184.3	51.6	20.4	18.8	19.9	7.0	10.2	33.0	22.8	0.5	1.7	135.9	46.7
	3	209.5	57.6	22.8	22.7	24.2	7.6	11.7	36.6	25.6	0.5	2.7	149.1	57.8
	4	213.6	59.3	23.3	23.8	23.8	7.4	11.8	35.3	25.6	3.3	2.1	151.8	59.8
1982	1	233.5	65.2	24.8	28.6	27.2	7.5	12.6	36.7	27.6	3.2	2.3	167.1	64.0
	2	235.7	65.9	26.0	33.6	23.0	7.6	13.2	35.3	27.5	3.6	3.2	166.2	66.3
	3	254.7	70.2	26.6	39.8	24.6	7.3	14.8	39.6	27.7	4.1	2.2	182.0	70.4
	4	266.6	75.6	28.1	40.3	26.2	7.6	14.1	40.3	29.1	5.3	2.5	187.6	76.5
1983	1	299.2	88.2	30.2	44.9	31.4	7.7	15.5	42.9	32.4	5.9	4.5	208.7	86.0
	2	286.9	82.1	28.9	43.2	29.5	7.1	14.8	43.8	31.5	6.0	4.8	199.1	83.0
	3	300.8	83.6	28.9	47.3	34.0	7.1	15.9	46.4	31.5	6.2	6.1	208.6	86.1
	4	314.2	86.6	29.9	50.9	33.6	7.4	18.1	48.7	32.8	6.4	6.3	219.4	88.5
1984	1	326.7	87.7	29.9	57.2	38.1	7.4	18.7	48.6	33.6	5.5	7.0	228.5	91.2
Net liabilities														
1978		5.2	-7.4	8.5	7.6	-6.3	-4.1	7.9	-4.1	0.7	2.3	17.0	-5.3	-6.5
1979		5.8	-7.8	8.6	6.9	-6.8	-3.9	12.7	-6.6	-1.1	3.6	26.2	-18.5	-2.0
1980		5.8	-8.9	7.2	8.3	-8.9	-4.3	16.5	-3.1	-5.6	4.5	23.4	-15.2	-2.3
1981		6.4	-18.6	11.4	17.3	-12.2	-5.9	23.1	-4.9	-11.7	8.0	26.4	-17.1	-3.0
1982		12.3	-28.6	12.9	32.3	-15.2	-4.9	20.8	-1.2	-13.4	9.7	25.6	-12.8	-0.5
1981	1	5.7	-11.7	7.3	9.1	-8.6	-5.1	20.2	-3.6	-7.3	5.5	24.6	-17.8	-1.1
	2	4.9	-14.4	9.3	12.1	-9.8	-5.9	22.5	-6.2	-9.6	7.1	27.0	-22.5	0.4
	3	4.9	-17.3	9.9	16.6	-11.5	-6.2	25.2	-6.7	-11.9	6.7	27.3	-20.6	-1.7
	4	6.4	-18.6	11.4	17.4	-12.2	-5.9	23.0	-4.9	-11.7	8.0	26.4	-17.0	-2.9
1982	1	8.4	-21.4	13.3	21.9	-13.7	-5.7	23.7	-5.9	-13.1	9.4	26.8	-19.1	0.7
	2	9.1	-24.4	12.2	26.2	-13.5	-5.8	20.6	-3.6	-12.6	9.9	25.0	-17.7	1.8
	3	10.9	-27.2	13.5	29.6	-13.8	-5.4	20.6	-2.6	-13.0	9.2	28.5	-18.9	1.2
	4	12.3	-28.6	12.9	32.2	-15.2	-4.9	20.8	-1.2	-13.4	9.7	25.6	-12.8	-0.4
1983	1	14.2	-36.6	18.3	39.4	-17.9	-4.5	20.9	2.7	-15.1	7.2	25.6	-9.8	-1.6
	2	14.3	-33.4	17.5	39.2	-18.7	-4.2	19.4	3.0	-13.8	5.2	23.1	-9.2	0.4
	3	16.2	-31.7	20.6	38.3	-20.1	-4.4	19.4	2.0	-13.1	5.2	24.5	-7.6	-0.7
	4	16.3	-29.6	21.7	37.0	-18.8	-4.2	16.5	-1.1	-12.9	7.8	24.2	-10.3	2.4
1984	1	18.9	-29.7	24.3	34.0	-21.5	-3.8	16.9	2.4	-12.0	8.4	23.3	-8.3	4.0

1. Including liablities and claims of certain other financial institutions; also liabilities incurred by UK banks in respect of borrowing by public bodies under the exchange cover scheme and by HM Government and UK banks' claims in respect of export credit in foreign currencies. Because of these coverage differences and also valuation effects, these figures are not fully comparable with with corresponding transactions of UK banks shown in Table 8. Coverage changes at the end of 1979 and 1981 are described in the 'Financial Statistics Explanatory Handbook'; they are also described, and geographical regions defined, in the Pink Book.

CONFIDENTIAL UNTIL PUBLICATION

EXTERNAL LIABILITIES AND CLAIMS IN STERLING: GEOGRAPHICAL ANALYSIS[1]

TABLE 17

£ million

End of period

	EC countries	Other developed countries	Eastern Europe	Off-shore banking centres	Oil exporting countries	Other developing countries	Inter-national organ-isations	Unalloc-ated	Total	of which: Overseas banks[2]
Exchange reserves held by overseas monetary authorities										
1977	174		234		1 360	334	720	30	2 852	
1978	171		213		1 006	325	898	20	2 633	
1979	153		307		1 205	506	1 102	47	3 320	
1980	158		508		2 238	588	1 108	69	4 669	
1981	216		351		2 471	481	1 143	93	4 755	
1982	214		587		2 654	459	1 456	191	5 561	
1982 1	240		280		2 421	603	1 393	163	5 100	
2	187		345		2 335	477	1 402	142	4 888	
3	200		588		2 295	462	1 388	205	5 138	
4	214		587		2 654	459	1 456	191	5 561	
1983 1	245		650		2 836	698	1 714	69	6 212	
2	261		681		2 794	612	1 844	29	6 221	
3	311		858		2 774	722	1 900	60	6 625	
4	320		930		2 749	651	1 936	20	6 606	
1984 1	272		1 118		2 753	768	2 104	30	7 045	
Banking and money market liabilities to holders other than OMA's										
1977	1 310	1 252	59	411	747	1 180		6	4 965	1 877
1978	1 265	1 335	68	351	984	1 246		9	5 258	1 696
1979	1 781	2 076	93	708	1 588	1 583		9	7 838	2 740
1980	2 425	2 708	114	1 081	1 998	1 957		26	10 309	4 176
1981	3 453	3 369	116	1 506	2 281	2 269		467	13 461	6 036
1982	4 403	4 536	141	2 134	2 973	2 824		619	17 630	8 544
1982 1	3 621	3 723	88	1 705	2 492	2 542		418	14 589	6 405
2	4 003	4 006	113	1 904	2 824	2 754		485	16 089	7 364
3	4 120	4 550	102	2 054	2 896	2 844		565	17 131	7 824
4	4 403	4 536	141	2 134	2 973	2 824		619	17 630	8 544
1983 1	4 937	5 016	140	2 319	3 272	3 087		338	19 109	9 158
2	5 301	5 401	170	2 402	3 177	2 874		413	19 738	9 560
3	5 221	5 676	106	2 760	3 160	2 805		384	20 112	9 604
4	5 618	6 236	148	2 642	3 274	2 893		538	21 349	10 137
1984 1	5 995	6 803	154	2 900	3 344	2 924		530	22 650	10 996
Claims of UK banks[3]										
1977	1 052	1 811	560	329	1 083	1 558	-	9	6 402	678
1978	1 281	1 958	689	422	1 216	1 692	-	14	7 272	740
1979	992	1 856	752	480	1 097	1 760	1	22	6 960	710
1980	2 454	2 443	840	824	1 111	1 748	33	27	9 480	2 828
1981	3 232	3 481	949	1 135	912	2 184	120	365	12 378	4 109
1982	3 865	4 776	1 002	1 389	1 125	2 619	270	909	15 955	4 448
1982 1	3 577	3 829	1 022	1 194	891	2 348	126	539	13 526	4 215
2	3 087	3 944	986	1 261	916	2 390	164	611	13 359	3 700
3	3 791	4 213	980	1 339	1 017	2 442	229	812	14 823	4 101
4	3 865	4 776	1 002	1 389	1 125	2 619	270	909	15 955	4 448
1983 1	4 539	5 346	1 027	1 533	1 322	2 931	277	339	17 314	4 700
2	4 297	5 171	1 040	1 566	1 519	2 857	279	371	17 100	4 546
3	4 131	5 224	1 010	1 799	1 497	2 866	288	455	17 270	4 209
4	4 511	5 614	1 039	1 797	1 561	2 847	311	526	18 206	4 453
1984 1	5 333	6 177	1 080	1 961	1 689	2 867	333	427	19 867	5 201

1. Coverage changes at the end of 1981 are described, and geographical regions defined, in the Pink Book.
2. In the liabilities section this comprises deposits placed with banks in the UK by banks abroad on their own account; also deposits from banks' trustee accounts, which may orginate from non-banks: certificates of deposit are excluded. In the claims section this comprises only claims on banks' (other than OMA's) abroad in respect of loans, advances and balances; bills and acceptances are excluded.
3. Loans, advances and balances, and bills, many of which represent export credit including those which have been refinanced (see Table 12), and acceptances.

CONFIDENTIAL UNTIL PUBLICATION

EXTERNAL STERLING LIABILITIES[1] ANALYSIS BY COMPONENT

TABLE 18

£ million

End of period

	Exchange reserves in sterling held by overseas monetary authorities(OMAs)							Banking and money market liabilities to holders other than OMAs		
		Banking and money market liabilities								
		External deposits with:								
	British government stocks	Banks and other institutions	Local authorities	Treasury bills	Total	Non-interest bearing notes	Total exchange reserves	External deposits with banks and other institutions	Treasury bills	Total
1977	1 322	852	29	334	1 215	315	2 852	4 945	20	4 965
1978	1 103	601	44	431	1 076	454	2 633	5 253	5	5 258
1979	1 281	871	17	512	1 400	639	3 320	7 771	67	7 838
1980	2 348	1 272	22	436	1 730	591	4 669	10 292	17	10 309
1981	2 555	1 159	42	326	1 527	673	4 755	13 442	19	13 461
1982	2 923	1 480	25	424	1 929	709	5 561	17 577	53	17 630
1983	3 157	2 348	9	395	2 752	697	6 606	21 214	135	21 349
1982 1	2 388	1 503	30	363	1 896	816	5 100	14 559	30	14 589
2	2 470	1 303	32	331	1 666	752	4 888	16 059	30	16 089
3	2 242	1 544	28	582	2 154	742	5 138	17 079	52	17 131
4	2 923	1 480	25	424	1 929	709	5 561	17 577	53	17 630
1983 1	3 026	1 814	50	464	2 328	858	6 212	19 017	92	19 109
2	3 297	1 711	23	363	2 097	827	6 221	19 631	107	19 738
3	3 231	2 128	13	504	2 645	749	6 625	19 976	136	20 112
4	3 157	2 348	9	395	2 752	697	6 606	21 214	135	21 349
1984 1	3 251	2 570	23	433	3 026	768	7 045	22 483	167	22 650

1. These figures are not fully comparable with the corresponding transactions shown in Table 8. Also there are coverage changes at end-1981. See further notes in the Pink Book.

OFFICIAL FINANCING LIABILITIES AND OFFICIAL RESERVES[1 2]

TABLE 19

End of period

	£ million				$ million					£ million
	Official financing liabilities				Official reserves					
		Other foreign currency borrowing								
	IMF	By HM government	By public bodies under exch. cover scheme	Total official financing liabilities	Gold	IMF special drawing rights	Convertible currencies	Reserve position in the IMF	Total	Total
1977	2 100	2 085	5 219	9 404	938	604	19 015	-	20 557	10 715
1978	1 055	2 131	4 579	7 765	964	500	14 230	-	15 694	7 689
1979	471	1 955	4 129	6 555	3 259	1 245	18 034	-	22 538	10 129
1980	294	1 191	3 525	5 010	6 987	560	18 621	1 308	27 476	11 487
1981	200	183	3 998	4 381	7 334	1 043	13 457	1 513	23 347	12 217
1982	36	216	4 612	4 864	4 562	1 233	9 634	1 568	16 997	10 508
1983	-	241	5 397	5 638	5 914	695	9 040	2 168	17 817	12 271
1982 1	156	196	4 207	4 559	4 546	1 042	11 949	1 432	18 969	10 637
2	99	201	4 327	4 627	4 571	902	10 741	1 489	17 703	10 157
3	68	206	4 527	4 801	4 561	979	11 257	1 502	18 299	10 798
4	36	216	4 612	4 864	4 562	1 233	9 634	1 568	16 997	10 508
1983 1	-	236	5 026	5 262	5 914	1 106	8 560	1 757	17 337	11 702
2	-	228	4 866	5 094	5 914	1 104	8 962	1 731	17 711	11 541
3	-	234	5 040	5 274	5 914	1 201	9 077	1 710	17 902	11 975
4	-	241	5 397	5 638	5 914	695	9 040	2 168	17 817	12 271
1984 1	-	243	5 441	5 684	5 473	696	8 465	2 115	16 749	11 619

1. Data are denominated or expressed in dollars and converted to sterling at end-period middle market rates. Therefore data cannot be reconciled with the figures of transactions in Table 15.
2. From end-March 1979 the rates at which the reserves are valued in dollars are revised annually. These revisions, and the basis of valuing earlier figures, are described in detail and the effects quantified in 'Financial Statistics Explantory Handbook'. Definitions of the rates used for valuation and of the various headings above are also given in the Pink Book notes.

CONFIDENTIAL

vc Nick Owen

c. LPO
FCO
HMT
D/N
CDL
D/M
+ below

10 DOWNING STREET

From the Private Secretary

BT

1 June 1984

Export Promotion

At its meeting in April, E(S) discussed trade policy and protectionism. The discussion gave greater emphasis to the treatment of imports and, in consequence, the Prime Minister would like a similar discussion on our export promotion policy. She would be grateful if your Secretary of State could prepare a paper on the way export promotion is currently working, and how it might be made more effective, how the export promotion effort might be better targetted on countries able to pay, and on whether support should be redirected to different sectors of industry or services. The paper should also consider the cost effectiveness in terms of job creation of support for exports and should take account of the consultations taking place on the future of ECGD, following the publication of the Matthew's Report. When the paper is ready it should be circulated for a meeting of E(S) (or possibly E(X)).

I am copying this letter to Private Secretaries to members of E(S), Steve Nicklen (Minister of State's Office, DTI), John Gieve (Chief Secretary's Office, HM Treasury) and Richard Hatfield (Cabinet Office).

(ANDREW TURNBULL)

Callum McCarthy, Esq.,
Department of Trade and Industry.

CONFIDENTIAL

PART 3 ends:-

N.O. to AT 18.5.84

PART 4 begins:-

AT to DTI 1.6.84