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PM's meeting with members of the
Conservative Backbench Trade and
Industry Committee
16 January 1990.

PRIME MINISTER

January 1990

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

16 January 1990

Dear Neil,

PRIME MINISTER'S MEETING WITH MEMBERS OF THE CONSERVATIVE
BACKBENCH TRADE AND INDUSTRY COMMITTEE

The Prime Minister had a meeting this afternoon with members of the Conservative Backbench Trade and Industry Committee. Those present were Michael Grylls, Spencer Batiste, Tim Smith, Bowen Wells and Richard Page.

Initially the discussion focused on developments in Eastern Europe and the implications for British industry. The main points raised were:

- British industry was lagging behind its Community competitors in developing joint ventures in Eastern Europe. British companies were said to account for only 8 out of 400 such ventures so far. One of the general problems Eastern European countries would be facing was how to move to a position where their currency was freely exchangeable; this was possibly an area where British advice and expertise could help.
- Each of the countries in Eastern Europe faced substantial different positions, and it was therefore difficult to generalise. Hungary was probably the market offering the greatest potential.
- One possibility to encourage greater involvement by British companies would be to expand Commercial Departments in the British Embassies in East European countries.

In subsequent discussion the main points raised were:

- It was important to complete as rapidly as possible outstanding work on EC Directives on financial services - particularly insurance - and banking. But doubts were cast on the likely extent of progress under the Irish presidency.

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- The continuing large trade surplus with West Germany was a major concern. It was essential that British industry should be urged to continue to invest and to train at a level which would compete with other countries. It was also important to continue to encourage inward investment to the UK.
- During the early 1980s the British economy could be said to have entered a virtuous circle. But this was now seriously threatened by renewed inflation. The Government's counter inflation policy was therefore crucial. At the same time it would be important to have a "Budget for business". The MPs offered no precise prescription of what this should include, although mention was made of reducing the level of employers' national insurance contributions and easing further the taxation of capital.
- It was suggested that one of the weaknesses of the British position compared with Germany was that the financing of UK companies was dominated by the equity market whereas German companies relied much more heavily on the banking system. The UK markets were dominated by pension funds, which continued to enjoy major tax privileges, and the behaviour of fund managers was predominantly short term. By contrast German banks took a longer view. A related suggestion was that the UK market was the easiest one in Europe successfully to mount takeovers of companies; it was important to encourage businesses to maintain investment in order to make themselves less vulnerable to takeover. Another means of easing the position might be to encourage business leaders, who were themselves often the trustees of their own pension funds, to ensure their fund managers took a longer term view in investment policies.

The Prime Minister thanked the members of the Committee for their views. But I do not think any specific follow-up action within Government is called for.

I am copying this letter to Richard Gozney (Foreign and Commonwealth Office) and Duncan Sparkes (HM Treasury).

Ye,
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Paul Gray

Neil Thornton Esq
Department of Trade and Industry

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