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E(80) 21st Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
WEDNESDAY 25 JUNE 1980 at 3.00 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food
(Item 1)

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon James Prior MP
Secretary of State for Employment
(Item 1)

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon John Biffen MP
Chief Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Michael Jopling MP
Parliamentary Secretary, Treasury
(Item 1)

The Rt Hon George Younger MP
Secretary of State for Scotland
(Item 1)

The Rt Hon Norman Fowler MP
Minister of Transport
(Items 2 and 3)

Earl of Gowrie
Minister of State, Department of Employment

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P Le Cheminant
Mr D J L Moore

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1. BRITISH STEEL CORPORATION: FINANCES

The Committee considered the draft of a statement on the finances of the British Steel Corporation (BSC) which the Secretary of State for Industry proposed to make to the House of Commons on 26 June.

THE SECRETARY OF STATE FOR INDUSTRY said that the Chairman of BSC had written to him on 6 June to report that his Board estimated that the Corporation's loss in 1979-80 would be £450 million from ordinary activities and considerably more when account was taken of extraordinary items. He had further warned that the Board now estimated that they would need around £400 million in 1980-81 more than their External Financing Limit (EFL) for £450 million, and that without that sum or some other offsetting arrangements they considered that they could not carry on trading. This contrasted with the view taken by the Chairman in January when he had said that the EFL of £450 million was unlikely to be enough, but that he would be taking corrective action to bring BSC's cash needs within the EFL, and was not seeking an increase in the limit. The BSC's Finance Committee would meet on 26 June to discuss the situation and the Chairman would announce the unaudited results 1979-80 on that day, when he would also indicate the prospects for 1980-81 and the fact that the Government had rejected the Board's proposed expedient of offsetting the £400 million increase by factoring of debts and sale and leaseback of assets. In this situation the Secretary of State considered that he was bound to make an early statement to the House. The statement by the Chairman of BSC would immediately provoke questions, and he would have to confirm to the House that he had been forewarned of the problem on 6 June. Moreover, it was essential that he should make his statement before Mr Ian MacGregor took up his appointment as Chairman of BSC on 1 July. In this way Mr MacGregor could start with a clean sheet and would not be blamed for the need to take remedial measures to reduce BSC's potential cash demands from the Government and to deal with the situation which he had inherited.

In discussion it was agreed that, while the Secretary of State for Industry should make a statement, it should be shorter than the draft before the Committee. It should be made clear that it was the BSC Board and not the Government which was responsible for the predicament and that the situation arose not from the recent strike but from the fundamental and long term inadequacies of the Corporation. It would be a mistake to put too much weight on the present Board's guesses of their cash requirements in 1980-81, which could turn out to be even larger when examined by the new Chairman. The Committee agreed to a number of amendments to the draft.

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THE PRIME MINISTER, summing up the discussion, said that the Secretary of State for Industry should revise his statement in the light of the discussion and of the amendments agreed. He should then discuss his revised draft with her, the Chancellor of the Exchequer, and the Secretaries of State for Trade and for Wales. In the meantime the Chancellor of the Exchequer should inform the Governor of the Bank of England of the position revealed by the BSC Board and of the proposed statement.

The Committee -

1. Invited the Secretary of State for Industry to revise his statement on the lines indicated by the Prime Minister in her summing up of their discussion.

2. Invited the Chancellor of the Exchequer to inform the Governor of the Bank of England of the proposed statement on the British Steel Corporation.

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2. BRITAIN'S INTERNATIONAL TRADE POLICIES

The Committee considered a memorandum by the Secretary of State for Trade (E(80) 43) on Britain's international trade policies. They also had before them a minute of 10 June from the Secretary of State for Foreign and Commonwealth Affairs commenting on E(80) 43, and a letter of 23 June from the Secretary of State for Industry commenting on the Foreign Secretary's minute.

THE SECRETARY OF STATE FOR TRADE said that he invited the Committee to endorse the Government's present policy of open trading and resisting pressures for the general introduction of import controls. Within this framework, the Government should continue to fight dumping and other unfair trade practices, to maintain those import controls which already applied in sensitive areas, to use procurement policy to assist British industry constructively, and to negotiate for better overseas access for exports and for the removal of non-tariff barriers to trade where practicable. This approach recognised that the Government's freedom of action was constrained by the United Kingdom's European Community (EC) and General Agreement on Tariffs and Trade (GATT) obligations and also by the need to guard against retaliatory action against exports of goods and services, which represented about a third of gross domestic product. More generally, he questioned whether the present system of departmental organisation and responsibility - involving as it did several Departments - permitted a quick and effective enough response in competing for international trade. He further questioned whether the Government might be denying British industry access to some major markets by giving undue weight to foreign policy rather than trading objectives.

THE LORD PRIVY SEAL said that he did not agree that the United Kingdom's trading interests had suffered as a result of foreign policy. In Africa, for example, we had to be careful to strike a balance in our approach to South Africa and to Black Africa, which offered us significant and growing trading opportunities.

In discussion the Committee endorsed the general policy objectives set out by the Secretary of State for Trade. Within this general framework it was particularly important to preserve those measures of protection which we did have and which were essential to industries and markets which were highly vulnerable to competition. In further discussion the following points were made -

a. The Government should persevere with the policy of giving greater weight in the allocation of aid to industrial and commercial considerations alongside developmental objectives. It was unsatisfactory that the United Kingdom did not get a larger share of the contracts let by countries which were major recipients of aid from the United Kingdom. Other countries were more adept at deploying aid to their own commercial advantage - in part by using 'credit mixte' as an instrument of trade promotion.

b. The Export Credits Guarantee Department (ECGD) was having to withdraw their cover from a number of countries, such as Tanzania and Zambia, who were in economic difficulty. This presented a dilemma: unless these countries were willing to come to an agreement with the International Monetary Fund (IMF) on an economic stabilisation programme there were considerable risks in advancing credit to them; but without such credit we stood to lose important business in long standing Commonwealth markets. There might be scope for action through the IMF and the World Bank to encourage a greater flow of money from the OPEC countries to the less developed countries (LDCs). The Chancellor of the Exchequer would arrange for officials of the Treasury, the Foreign Office and the Departments of Industry and of Trade to look further at this.

c. There was support for the view that if we were to compete effectively in overseas markets there was a need for more effective co-ordination of the various departmental interests involved.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the general objectives for trade policy put forward by the Secretary of State for Trade. They were not satisfied that under present arrangements sufficient weight was always given to trade objectives and that decisions were taken quickly enough. It was essential that the British Government should be as effective in backing British industry as other Governments were in promoting the interests of their industries. She would therefore arrange for a small Ministerial group to be set up under her Chairmanship including representatives of the Departments most closely concerned. She would consider further the terms of reference and membership of this group. It would meet periodically to consider current export problems and would also consider whether any general lessons might be drawn from experience in handling particular cases.

The Committee -

1. Endorsed the conclusions in paragraph 9a.- g.of E(80) 43, subject to the points made in discussion.

2. Took note that the Prime Minister would direct the setting up of a Ministerial Committee under her chairmanship with the duty of ensuring that export problems in Government were dealt with quickly and efficiently.

3. Invited the Chancellor of the Exchequer to arrange for officials of the Departments concerned to consider further the possibility of action, under the auspices of the International Monetary Fund and the World Bank, to encourage the greater flow of money from the Organisation of Petroleum Exports Countries to the Less Developed Countries.

3. NON-TARIFF BARRIERS TO TRADE

The Committee considered a memorandum by the Chancellor of the Exchequer (E(80) 57) on Non-Tariff Barriers (NTBs) to trade.

THE CHANCELLOR OF THE EXCHEQUER said that in view of the mounting pressures on the Government to take a more vigorous line on NTBs he had convened a small group of Ministers, comprising the Secretaries of State for Employment, Industry and Trade, the Lord Privy Seal and the Minister of Transport, to examine the problem and the options. There were strong arguments against the widespread introduction of NTBs in the United Kingdom. It would be inconsistent with the Government's support for open trading, and with the United Kingdom's international agreements, and it would risk unleashing similar action by our competitors at the expense of our exports. The group of Ministers had, however, identified four areas where it might be possible to introduce new regulations which could be presented as serving legitimate domestic policy objectives and which would be helpful to United Kingdom industry. First, he was considering the possibility of accelerating the payment of Value Added Tax (VAT) on imports to bring it in line with the tax treatment of domestically produced goods. This change would have a damaging effect on company liquidity if it was introduced in isolation, and his aim was to make it at a time when other changes might yield offsetting benefits to companies. Secondly, steps would be taken to negotiate an European Commission (EC) secondary ban on the import of leather and leather products containing sperm whale oil, and also a primary ban on the import of sperm whale oil itself. Thirdly, it was proposed that there should be consultations with the motor industry with a view to putting Britain on a similar footing to other EC countries by the introduction of a national type approval scheme for commercial vehicles. This would have a small but helpful effect on import penetration, and would be welcome to British Leyland (BL) though less so to the multi-national car companies and the small manufacturers. Fourthly, the Secretary of State for Trade was currently reviewing safety standards and regulations with a view to developing national standards which would assist United Kingdom producers. The group had concluded that any major initiative to secure any new procedures and more vigorous action against intra-community NTBs would not be to the general benefit of the United Kingdom.

It would be better to concentrate on particular cases. In particular, work was in hand to review technical barriers to trade; to simplify administrative procedures for the collection of VAT and statistics on imports; to press for the implementation of the French promise of new long-discriminatory regulations which would reduce their scope to frustrate inward investment; and to review the possibilities for removing barriers to intra-community trade in services.

In discussion, there was general support for the proposals put forward by the Chancellor of the Exchequer. The main points made were –

a. The present procedure for the payment of VAT on imports were damaging in that they positively encouraged manufacturers to purchase components and semi-manufactures from abroad rather than from the United Kingdom. While account had to be taken of the effects on company liquidity, as pointed out by the Chancellor of the Exchequer, it was important to bring the arrangements in line with those for domestically produced goods as soon as possible.

b. The Germans had been particularly successful in winning international acceptance of their DIN standards. Their might well be advantage in taking over some of their standards wholesale, rather than attempting to introduce our own. The Secretary of State for Trade would be considering this further.

THE PRIME MINISTER, summing up the discussion, said that the Committee endorsed the recommendations put forward by the Chancellor of the Exchequer and agreed that the particular proposals for action should be pursued.

The Committee –

Approved the recommendations in paragraph 19 of E(80) 57.

Cabinet Office
30 June 1980

cc Mr. Ibbs
Mr. Franklin
Mr. le Cheminant
Mr. Wade-Gery

FCS/80/100

SECRETARY OF STATE FOR TRADE

Britain's International Trade Policies

1. I have read with interest your memorandum of 16 May.

2. I agree with your central conclusion: that we should continue to favour and work for an open trading system. But I have comments on other points you make.

3. First, the national interest: I believe that maintaining our membership (and observing the obligations) of the GATT and the European Community are themselves elements in the national interest and cannot be counterposed to it.

4. Secondly, I sympathise with your argument that we must act like our competitors in supporting our industries. But I do not accept the implication that even more should be done through the aid programme. Moreover, it is simply not true that the French, the Germans and the Japanese have no aid programme as such. Their aid programmes are in fact much larger than ours (and growing while ours shrinks) and mixed credits take up only a small proportion of them. On mixed credit, I do not think that we should change the policy which was agreed in January, following exhaustive discussion in the Aid Policy Review.

5. Thirdly, I do not accept that, in the cases to which you refer, our trading interests have suffered more than those of our competitors as a result of our foreign policy. Throughout the crisis in Iran we have been most careful to keep in step with our Community partners. The Germans and the Italians will be hurt more by sanctions than we shall. I hope you would agree that we must avoid having to choose between South Africa and Black Africa and that this implies that we must strike a careful balance. In Taiwan, we must tread very carefully to avoid antagonising Peking, and here there is a distinction between some of our competitors and ourselves. They already have trade promotion bodies on the ground; we should have to set them up.

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6. As regards the Middle East, a prime objective of our present policy is to try to avoid the alienation of the Arab world from the West, in large part because of the risks which this would pose to our important commercial relations with the Arab countries. In the two cases, Iraq and Saudi Arabia, where we have recently faced difficulties, it was domestic incidents here, rather than the Government's foreign policy, which were responsible. You will recall indeed that on Iraq you yourself, in your letter of 15 May, specifically urged that we should not allow concern for our trade to deflect us from taking appropriate measures against terrorism. It is certainly true that our best Middle Eastern markets are becoming more difficult. But I do not believe that our foreign policy has been responsible for the problems which our exporters face in that part of the world, except in Iran where the Government chose a political response to the detention of hostages.

7. I am only too aware of the constraints imposed on our foreign policy by our limited resources, our historical obligations, our institutional responsibilities and our public opinion. But to the extent that we are free to choose, I am convinced that the right course is to exert what influence we can on world affairs and not be afraid of letting Britain's voice be heard. France and Germany, our two main commercial competitors in Europe, are both seeking to play a more active role in international affairs; indeed, the French make a positive virtue of such activity.

8. Finally, I would make one general point. The fundamental reason why our export performance is so bad has nothing to do with our foreign policy. It is because of the inability of our manufacturers to produce goods of the quality, quantity and price required. The reason why our competitors, particularly the Germans and the Japanese, succeed where we fail is because they, by contrast, are able to produce goods which their foreign customers want, at an attractive price and in an appropriate timescale. We are deluding ourselves if we think that our export failure is due to other, extraneous reasons.

/9. I am

9. I am sending copies of this minute to the Prime Minister, members of E Committee and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office

10 June 1980