

MR TURNBULL8 May 1984SEMINAR AGENDA: TRADE TOPICSMaking export promotion more effective

At the last Seminar the DTI were asked to produce a paper on how export promotion could be made more effective. DTI's paper will discuss how greater emphasis can be given to export markets which can pay, and how to get more cash sales. DTI are likely to favour the unexciting, like sharpening up criteria for support. The paper would not discuss ECGD's future, now under review by officials following the Matthews Report.

The paper could be used as a way to open up two questions:

- (i) What is the Government's position on support for capital goods exports? The Government has published a Treasury study ("The Byatt Report") on the costs of this form of support. The report concluded that there are no good economic reasons for favouring capital goods exports in the way we do. There is no evidence that these orders generate follow-on business to any greater degree than exports in general. Subsidising them just encourages buyers to look for subsidies on the follow-on orders, too. The employment argument is also weak. The cost per job-year is very high; the report suggests a range of £50,000-£200,000 per job-year in 1982 - far higher than any of the employment schemes, and higher, too, than support for lame ducks. Helping the capital goods sector in this way pushes the costs onto other industries, who will export less as a result. The policy looks attractive because the orders win headlines ("power equipment order for Britain" is reported, but orders for biscuits, clothing, computer software are not). The burden of paying interest subsidies is overlooked because it is paid later, over 10-15 years.

The report was well received in the quality press. It resulted in predictable complaints from capital goods exporters, orchestrated by NEDO.

- (ii) What action can the Government take via the Economic Summit and beyond to encourage multilateral disarmament of protection and subsidy?

The Government needs to make a response. It could stand by the Byatt Report and take the opportunity to educate the public that exporting heavy metal objects is not



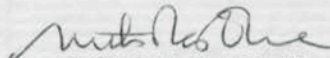
an end in itself: it is worthwhile to us only if it pays. This would necessitate policy changes to reduce our subsidies. Alternatively, the Government would have to disown the report and issue another, explaining why these subsidies are an essential part of our trade policy.

The multilateral disarmament approach to export subsidies is preferred but we will not contribute to raising the stakes (we suspect that DTI initiates mixed credits more than it lets on), nor should we commit ourselves to match any offer that other Governments choose to make.

The Seminar could also discuss the UK approach to VRAs, tariffs, industrial subsidies, in advance of the Summit.

### Conclusion

I understand that these items will be on the Seminar agenda. We should co-operate with DTI on the preparation of the necessary papers. I am in touch with Callum McCarthy about the export promotion paper. Should I pursue the other topics with him?

  
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