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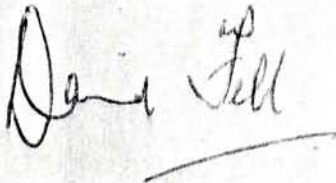
364/5.

Secretary:

HYSTER

I have not yet seen any response from either Mr Butler or the Secretary of State to your minute of 20 May on the lessons which might be derived from the Hyster case. I have however produced the attached first draft of a possible letter from the Secretary of State to the Chief Secretary, along the lines outlined at Paragraph 14 of your minute.

I would suggest that we should aim to strike while the memory of the loss of Hyster is still fresh in everyone's mind, and while there is still time for such a letter to influence the Treasury contributions to the Marshall Working Party (NIE) (some of which, to date, have been wholly ill-considered and apparently demonstrating a lack of understanding by HM Treasury of the severity or immediacy of our economic problems in Northern Ireland). This would suggest the letter going out this week if at all possible, and I would therefore hope that we might have comments on the draft from copy recipients by, say, noon on Thursday.



DAVID FELL
Department of Commerce

25 May 1982

Sir Ewart,

PUS would like to

talk to you urgently
about this

ICG.

25/5.

cc: PS/PUS (I&B) - M
PS/Sir Ewart Bell _____
Dr Quigley
Mr Marshall - M
Mr McAllister
Mr Burns - M
Mr McCann
Mr Gowdy

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Rt Hon Leon Brittan QC MP
Chief Secretary
HM Treasury
Parliament Street
LONDON SW1P 3AG

HYSTER

With the bitter disappointment of losing the excellent Hyster project to the Republic of Ireland still very much in my mind, I thought I should write to you to suggest that we might at least gain something from the exercise by identifying some of the reasons why we lost the project, and examining whether we can, as a result, take steps to improve our ability to secure such projects in the future.

The Hyster Company has made it clear to my officials that, in the final analysis, the location decision hinged crucially on the ability of the Republic of Ireland to make an offer of financial assistance which outweighed what we ourselves could offer. I am satisfied that it would have been difficult, within the existing framework of financial incentives available in Northern Ireland, for us to have offered more towards this project. I am equally clear indeed that it would have been extremely difficult for any other country or region to have out-bid Northern Ireland in terms of cash support for the project. The company has, understandably, refused to tell us specifically what the IDA offered, but one must strongly suspect that the availability of a Corporation Tax rate of 10% in the Republic through to the year 2000 was a significant factor in the decision. As you will recall, we were projecting a Corporation Tax yield from the company of over £80m during the first 10 years of the project in Northern Ireland, based on the present UK Corporation Tax rates. It is clear that in cases of this nature, the fiscal incentive can be a most potent weapon in the industrial development armoury. I am certain that if we are to put ourselves in a position to compete seriously with the Republic for profitable, job-creating investments by sound companies of international stature, we must alter the incentives now on offer. I am greatly attracted by a tax-related incentive, but there may well be others which could prove equally effective. This is of course an

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are which is presently under review by the Inter-Departmental Working Party under John Marshall's Chairmanship, and on which your Department is represented. I look forward to having the conclusions of the Working Party at an early date, and I hope they are able to recommend some new initiatives along the lines which I have suggested.

That is one area where we can learn from the Hyster case. But perhaps of even more concern than the fact that we were finally out-bid by the Republic is the galling truth that had we been able to process the project within Government with more speed and efficiency, we would almost certainly have secured it even before the Republic had a bid on the table. My officials faced enormous difficulty in convincing their Treasury colleagues to support the project, notwithstanding the fact that it represented what was as near as one could imagine to an ideal case for Northern Ireland, and one which was wholly consistent with the strategy which we have been pursuing - a highly desirable integrated R&D, manufacturing, and marketing operation by a blue chip company with a proven track record, excellent management, top class marketing capability and an astute corporate planning mechanism, with whom we had tentatively negotiated a deal which was clearly the minimum necessary to persuade the company to locate in Northern Ireland. Yet in questioning the Hyster project, as it did, the Treasury was effectively questioning the strategy within which it fitted so closely.

I do not deny that this may be an expensive strategy, but, until we can devise or be shown a more effective (or even a feasible) alternative, we have no option but to continue on the existing basis. Again I think it is a matter for John Marshall's Working Party properly to consider whether there are alternative strategies worth pursuing and to test their validity. I do not believe however that an attempt to re-assess strategy should be made in the middle of a crucial negotiation with a company, as happened with Hyster. As a consequence of the delays which ensued as a result of the discussions with the Treasury, and the answer which those discussions produced, we found ourselves in the position, 8 weeks after the conclusion of the provisional agreement with Hyster, of having to attempt to negotiate what they were bound to regard as a dilution of the negotiated package (which package we were able to

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re-instate, subject to the tightened clawback conditions, two weeks later, following further consultation between you and me).

During this period, the IDA moved with impressive swiftness. We have every reason to believe that they did not enter the field until about two weeks after our provisional agreement with the company. Yet they had a final offer, approved by the Irish Cabinet, on the table two weeks before we were able to confirm our final offer. In this highly competitive situation - there are few enough projects around let alone any of the quality of the proposed Hyster operation - the Irish authorities proved capable of acting much more quickly, decisively and flexibly than we could, reflecting the absolute priority they attach to securing first-class internationally mobile investment.

Apart from the disappointment of losing the project, I am also concerned about the possible repercussions for the new Industrial Development Board (IDB) for Northern Ireland of which there are high expectations in the Province, and to which I have already appointed some very heavyweight businessmen. I know very well that those businessmen will not be prepared to tolerate what they will perceive as the inefficiencies of the Government machine, unless we can improve on our performance in the Hyster case. If we cannot do better when the IDB is set up, I see real trouble ahead. We must find ways of improving our ability to process cases efficiently (without of course diluting the need for giving proper consideration to major commitments of public expenditure), and also giving ourselves adequate flexibility, within limits, in the final negotiating round to match the competition. These are matters on which I understand our officials have already been in touch. I shall await the outcome of their consultations with considerable interest.

I am copying this letter to Patrick Jenkin.

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