

Peace Dividend

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PEACE DIVIDEND

PURPOSE

1. The purpose of this paper is to set out proposals by IDB which are designed, following the declarations of cessation of violence, to maximise job creating opportunities both from new inward investment and growth of existing industry. The paper, amended, if necessary, following the Board's discussion, would form the basis of a formal response by the Chairman to the Minister's letter of 23 September, which had sought IDB's views as an input to wider discussions involving the CBI, NIC/ICTU, NIEC, NICCI and IOD.

INWARD INVESTMENT

2. Action is being taken, or proposed on a number of fronts. These, together with some additional proposals which the Board will wish to consider are set out in the following paragraphs.

Investment Conferences

3. The Prime Minister announced last month that an investment conference would be held in Belfast and IDB is taking the lead role in co-ordinating arrangements for the event and organising and leading the presentation. The International Investment Forum, as it is to be called, will enable potential industrial investors to see what Northern Ireland has to offer and meet others who have invested here.

Invitations are to be issued to senior industrialists from the UK and overseas, leading City of London figures, business organisations in the UK and representatives from the US Administration and European Commission.

4. There are also proposals by the US Administration to hold a similar event next Spring in the US.
5. These events will not only provide to participants a positive presentation of the advantages of Northern Ireland as a location for industrial investment but also will produce new high level contacts in companies which can be expected in the short to medium term to have proposals for new overseas investments.

IDB representation overseas

6. At its April and August 1994 meetings the Board considered IDB's representation overseas. Arrangements are being finalised with IFI for the appointment on a 3-year contract of an additional representative in the USA. That new resource will be based in Atlanta. It was indicated in Frank Hewitt's paper for the August meeting that the Executive believes that up to five additional representatives and three researchers could be justified for the United States to take advantage of the opportunities which are being opened up. To develop and exploit opportunities in Taiwan, Hong Kong, Singapore, Malaysia and Indonesia an additional two

representatives would be required. In addition to pursuing the traditional methods of identifying new projects we would intend to build upon the Multi-National Company Initiative commenced in 1993 by exploring the potential for developing longer term relationships with companies such as Daewoo.

7. IDB could not, of course, finance additional permanent staff without compensating staff cut-backs on other IDB programmes/activities. In addition any substantial increase in inward investment success would have implications for IDB's Programme Budget and additional staff in IDB House would be required (in the International Investment and Corporate Services Divisions).

Revisions to Financial Assistance Package

8. The most attractive enhancement of the existing financial assistance package would be the addition of special tax concessions to help counter the attractive incentives available elsewhere, particularly the Republic of Ireland's low corporation tax. Such tax concessions could include:-

- (a) a lower corporation tax rate for Northern Ireland of 10% for 15 years (in line with the ROI rate which expires in 2010);

(b) accelerated capital allowances. At present, an investor can write off plant and machinery at 25% per annum of the reducing balance and buildings at 4% per annum straight line.

Options are:-

(i) to increase the first year write off, of either PME or buildings or both, to 100% or something less; or

(ii) to accelerate the write off after year one, eg to write off PME at 25% per annum straight line;

(c) zoned reliefs. HM Treasury is resisting further expansion of enterprise zones but it might be possible to present an argument for some new animal which could be called an investment zone (or some other name) which would equate to the disadvantaged areas of Northern Ireland. The Coopers and Lybrand's report on Targeting Social Need (TSN) urged greater differentiation between the disadvantaged and non-disadvantaged areas and such tax concessions would help widen that differentiation. Manufacturing and internationally tradeable services located in the designated areas would be eligible for tax concessions. If based on the Robson indicators which are at ward rather than Council area, it might be necessary to permit companies in industrial estates located close to but not within the designated areas to avail of the concessions.

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report

9. The Board has been reviewing the competitiveness of IDB's existing selective financial assistance package. Further work is being carried out by Coopers & Lybrand on the paper presented to the Board at recent meetings which indicated that other areas of the United Kingdom are able to put together packages of assistance which are well above IDB's existing delegations from the Department of Finance and Personnel (DFP). It is hoped that the revised paper will be tabled at the November meeting. Although the Regional Selective Assistance (RSA) offered in Great Britain to internationally mobile projects may be within cost per job and net grant equivalent delegation levels from the Treasury, when contributions from local authorities, European Union Schemes and favourable property terms are included, the total package on offer can exceed IDB's limits. For example recent publicity about Samsung's new 3000 job and £450m investment project in Cleveland, NE England, indicated that in addition to £58m RSA, £9m would be provided by English Partnership, £5m each from Cleveland County Council and Teeside Training and Enterprise Council and £1.85 other Council aid and European funds. If 3000 jobs are contracted for (and there seems to be some doubt on this score) assistance to this particular project represents a cost per job of just over £26,000. IDB could match this offer but it demonstrates the additional public sector funding which can be assembled from sources other than DTI and which can be made available for internationally mobile projects.

10. IDB's delegated levels of assistance from DFP cover total assistance, cost per job and net grant equivalent. There is no limit on percentage contribution levels but a Public Accounts Committee report on IDB in November 1990 welcomed the decrease in financial contribution from 50% in 1983-84 to 21% in 1989-90 to 21% in 1989-90 and hoped that IDB would "maintain and possibly improve this position still further". Forward Strategy also quoted these figures and stated that "we will continue to seek a reduction in our contribution to projects". Since then the average contribution to projects has been as set out below:-

1990/91	1991/92	1992/93	1993/94
26%	27%	28%	25%

11. The drive to keep percentage contribution levels down places a particularly restrictive constraint on IDB's offers to non-capital intensive projects such as those in the business support and software sectors. Thus in the case of projects with a low CPJ ie below £20,000, percentage contribution should perhaps cease to be a consideration and/or the existing contribution targets should be reviewed, and possibly relaxed, in respect of mobile projects.

PROPERTY

12. IDB's recent policy has been to build advance factories only in areas of disadvantage. If peace dividend funds became available (the most likely source being European Union funding rather than US funds) it would not be a prudent use of such funds to significantly increase the advance factory building programme. Most of our recent inward investment successes have wanted a bespoke (purpose built) factory rather than an IDB standard advance factory. However there would be merit, working in tandem with the Department of the Environment, to identify potential sites near to the "peace line" in Belfast, on which IDB could build some smaller factories (say up to 2,000 sq m/20,000 sq ft). This would provide tangible evidence of public sector commitment to play its part in creating an environment which will enhance employment prospects in those areas which have suffered the greatest economic deprivation because of the troubles.
13. We should also explore with the EU the possibilities for the creation of a Property Fund (subscribed by EU or the EIB) which would enable IDB to offer highly bespoke factories on reasonable rental or amortised purchase terms to projects which are particularly attractive because of the nature and scope of the project or the area in which it is prepared to locate.

14. IDB recently embarked on a programme to acquire land-holdings in areas of special needs. This acquisition programme should be given the highest priority. It is important also that IDB should continue to seek the co-operation of the Department of the Environment to ensure the quick processing of planning applications for this land.

HOME INDUSTRY

15. IDB believes that there will be opportunities to enhance trade for existing industry following cessation of violence. However tangible results may not accrue in the short term. A number of initiatives could be undertaken to encourage more business visitors to NI, particularly from GB; to heighten the profile of local companies outside NI and increase awareness of NI products.

A general strategy along the lines above could be co-ordinated with a specific response covering:

- recent US trade proposals
- EU financial package

US Trade Proposals

16. The main trade elements of the US proposals are:

- (a) **White House Conference for Trade and Investment** to be held, probably in Philadelphia, in April 1995.

This presents an opportunity for IDB to organise a trade mission, involving significant NI companies, using the Conference as a focal point. IDB will work closely with the US Department of Commerce to maximise trade opportunities for local companies.

- (b) **Visit to Belfast of US Commerce Secretary, Ron Brown.**

IDB will use the visit to influence Secretary Brown on the benefits of developing trade links and mounting a trade mission to coincide with the April Conference.

- (c) **Establishment in US of Business Information Centre for Trade and Investment in NI.**

This is a very practical suggestion which IDB is seeking to develop quickly with the US Commerce Department. The Information Centre will provide information, answer questions and assist US companies exploring business prospects in NI. Such a Centre could dovetail neatly with what

IDB is already doing through its Trade Adviser programme in the US and could encourage longer-term benefits if US firms seek to develop, through contact with NI companies, links into Europe, the Middle East or the Far East.

(d) Information and Research

As part of the proposal to establish a Business Information Centre (see (c) above) IDB, in collaboration with US DOC, could focus on identifying the manufacturing and service sectors of US industry most likely to develop business links with NI companies.

Information on NI companies (currently 170) known to IDB to be active or interested in the US market could be developed and refined.

Research could be undertaken to identify practical difficulties facing local companies which are seeking to trade in the US market. Results of the research could be discussed with US authorities to seek measures to overcome such barriers to trade.

(e) IFI Funding

It is recognised that little extra money is on offer from US sources. However IDB is exploring with IFI ways in which the Fund can promote trade and exports. IFI funding could be directed towards trade missions into and out of NI and product promotions. Some financial support (£100,000) will be required to support (c) above.

EU Package

17. IDB expects the EU to nominate some funding for trade/export activities and to invite IDB to submit proposals. Possible bids for funding include:

- (a) Establishment of Trade Representatives in Key Overseas Markets. IDB could envisage representatives in 5 such markets (US x 2, Middle East, Asia Pacific and Far East).

- Cost £500,000 x 5 years = £2.5 million.

- (b) Expansion of Marketing Development Grant Scheme. IDB could respond by re-focusing the Scheme on market strategies, extending the range of activities eligible for support and raising the ceiling of grant available (to, say, £250,000 over the period of a Market Plan).

- Cost an additional £2m per year x 5 years = £10 million.

(c) Sectoral Marketing Campaign. A new programme designed to promote market and export growth in key sectors eg textiles, clothing, food and drink, engineering, electronics, furniture.

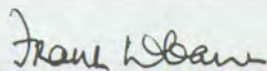
- Cost of 2 Sector Campaigns per year over 5 years (£100,000 x 2 x 5) = £1 million.

(d) Product promotion through inward buyer missions and in-store promotions.

- Cost £300,000 x 5 years = £1.5 million.

CONCLUSIONS

18. The views of the Board on these suggestions and its agreement to this paper being used as the basis for a letter from the Chairman to the Minister, setting out IDB's formal response on how to maximise the job creating opportunities arising following cessation of violence, is invited.



FRANK McCANN
Deputy Chief Executive

18 November 1994