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Dr W G H Quigley CB
Department of Finance & Personnel
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Dear George,

AN INTERNATIONAL FUND

You wrote to me and to other colleagues on 25 November seeking an input to your initial consideration of possible projects for any new international Fund which may be established in the wake of the Anglo-Irish Agreement. You will appreciate that in the time available I have had only a limited ability to reflect on ideas and priorities, and, because of the security classification, have not consulted widely. It may be that there will be mismatches between my comments and those of IDB which will have to be sorted out in subsequent discussions. I have not had an opportunity to consult John McAllister on my proposals. Also in the time available I have been able to provide only very broad costings for some proposals, while others would not be capable of being costed until the concepts are further worked up.

You asked DED/IDB for proposals which might assist with employment creation without a direct disbursement from any Fund. You have yourself noted the potential for preferential purchasing arrangements (perhaps in the defence field). I agree that such an arrangement would be useful, and indeed I believe it could extend more widely than defence contracts into US public purchasing policy more generally.

Perhaps of greater importance would be some form of relief of taxation in the USA for American companies investing in Northern Ireland. This could relate to the repatriation of profits from operations in Northern Ireland or directly to the value of investment undertaken here. An incentive related to repatriated profits would, however, run into the problems of profit-shunting with which we are so familiar from our analysis of CTRG and would also be subject to the mysteries of double-taxation arrangements. But clear precedents for an arrangement related to the value of investment exist in the US/Thailand and US/Israel double taxation

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arrangements. Under these arrangements a US-resident - individual or corporation - which owns 25% or more of the voting power of an eligible corporation is entitled to a credit against US income taxes to the extent of 7% of any new investments in an eligible corporation in a tax year. The obvious benefit would be in direct manufacturing investment to Northern Ireland. However, the benefits could also be much more general in relation to possible private US investment in a lignite fired electricity station, to US venture capital investment in Northern Ireland, to investment in Northern Ireland by US research or educational institutions, to investment in the tourism sector and possibly even investment in the search for new oil, gas and mineral resources in Northern Ireland. This is a powerful mechanism which avoids the duplication of investment institutions which would arise from the operation of a US Fund with a direct investment role in Northern Ireland, which could, if selectively applied to Northern Ireland only, compete with the Republic's tax incentive, and which would have no run-on expenditure implications for Northern Ireland. It must be a high priority.

Other employment creating measures worthy of consideration, and which would not necessarily be a direct call on the Fund, include:

- (i) the establishment in Northern Ireland of a major base for the US Armed Forces for strategic material stockholding and distribution in Europe - possibly based on Aldergrove. This could have useful secondary employment and economic effects;
- (ii) a licensing arrangement to establish Aldergrove as a major gateway to Europe, perhaps tied in with the type of incentive ticketing arrangement which has been extensively used by US airlines to establish gateways in the USA for travellers from Europe;
- (iii) the establishment in Northern Ireland of a joint UK/Republic of Ireland/USA research institution (I cannot at this stage identify a particular proposal in this category, but even a joint UK/ROI institution in a given field of high technology might be worth considering).

Some of these measures may require some up-front funding, particularly in relation to the costs of relocation and this could be an obvious application of the Fund.

I will leave John McAllister to comment on the potential operation of a venture capital fund operating in Northern Ireland or in both NI and ROI. A slightly different approach would be to offer one or two existing US venture capital funds with good track records matching finance for any investment projects which they identify as suitable for location in Northern Ireland. This could supplement a US tax-incentive or stand alone.

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You referred to the energy sector in your note. The scale of investment in a mine-mouth lignite station would probably be too large for the volume of funds under consideration. There may be some scope for involvement in peripheral projects (eg assistance with transmission systems) or in conversions of existing power stations but you are well aware of the complexities of non-Government investment in electricity capacity. A US-based tax-break would in any case increase the incentives to US corporations to invest in opportunities for private financing of electricity projects (but would have a distorting effect on competition in that only US-based corporations would benefit).

I would be very reluctant to go down the route you propose of selective electricity tariff reductions. We should be seeking to avoid a subsidised society. The tariff reduction scheme was seen only as a way of mitigating the social effects of a sharp tariff increase. I would much prefer to see the introduction of a comprehensive energy conservation audit and retro-fit programme, for the domestic sector in particular. Such a programme could be modelled on those which are operated in some of the Western States of the USA by the energy utilities themselves. The annual cost of such a scheme might be £1-2 million in addition to existing provision. However, the programme would be finite (perhaps of a 5-year duration) and would be employment-creating.

The costs of measures in the tourism sector are hard to quantify. I feel that this is an area which, notwithstanding its considerable potential, has not yet the priority which it deserves in the current tight public expenditure situation. It therefore seems to me to be a very suitable area for an initiative, given in particular the image-improving effect of tourism and the improvement in facilities for Northern Ireland residents. A scheme to upgrade tourism accommodation and amenity would be possible, and would, indeed, be essential if we are to benefit from an upsurge in tourism traffic. We also need a major weather-independent attraction as a focus for packaged tourism in Northern Ireland. The Fund could be involved in financing a major theme or heritage park involving the sort of large-scale weather-independent village and recreation facility which, I understand, has been established in Belgium -essentially a resort under glass. An incentive in the US tax-system would obviously help here.

You refer to the creation of an enterprise-culture. I am sure that one of the most significant contributions which could be made to the Province's development would be the creation of a culture orientated to enterprise and - in particular - to exports in the way in which South-East Asian cultures are so orientated. As you know Aidan O'Reilly has experience of such cultures and we are talking to him about a number of possible developments which could prove suitable for Fund-financing. These could take the form of attachments to US companies of existing export or marketing managers, of incentives to get graduates or secondees with experience in exporting or marketing into smaller firms and of programmes to pull senior executives and financial institutions behind exporting and marketing. The expenditure implications of such measures even if applied on a very general basis would be unlikely to exceed £1 million per annum.

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More fundamentally I remain convinced that we must either establish a local business school of international standing or attract to Northern Ireland the European location of a major American business school. Our two universities continue to compete, the Management Centre seems unlikely to fulfil a strategic role and both day to day experience and academic studies show that management in the broadest sense (and marketing, exporting and management of innovation in particular) are the real weakness in Northern Ireland's economic performance. A new institution, perhaps in a central Belfast site, is needed and the fund could assist with capital costs of the establishment of the institution together with funding initial deficits.

Naturally such an institution would not be created overnight. We would need first to build up the existing strength of both - or preferably, if we can achieve complementarity, only one - of our universities to the point at which they could contribute to an institution which could eventually stand on its own feet. The Fund could contribute to twinning and exchange of staff between the Northern Ireland institution and major American business schools and provide assistance with the cost of attracting expatriate staff to strengthen the institution in its early years. I would rate this as one of my highest priorities but I am unable at this time to attach any sensible costings to its elements.

There may be some possibilities in the research field, which might include incentives to American institutions, or the private sector, for the subcontracting of research to Northern Ireland universities and the establishment of a research institute in an academic field in which Northern Ireland has a comparative advantage, for example the uses of low grade coals and the economics of peripheral areas.

It may also be worth noting that, should the major BT telecommunications programme presently under discussion between DED/IDB and DFP fail to attract EC funds, an American Fund might provide a useful fall-back.

Two final thoughts:

- (i) the DED Community Volunteering Scheme may provide a model for some voluntary sector initiatives such as you mention; and
- (ii) the theme of cultural exchange could be taken beyond the schools and built into second-year YTP for a small number of young people who show in their first year that they have the intellectual and social skills to benefit from such an approach.

Reference to YTP prompts me to note that, almost needless to say, should John Parkes make a bid on any Fund for curriculum development, that would have my support.

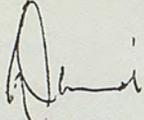
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Few of these proposals are costed, and most would require considerable further elaboration before it would be sensible to attach even a broad order of magnitude of costs. Other ideas may arise, and if so, I will bring them to your attention. My personal priorities would be an incentive in US-taxation for a wide range of investments in Northern Ireland, and the establishment of a business school which could become a genuine centre of excellence, and which might itself act not only as a magnet for new investment, for high quality business students from outside the region, some of whom may 'stick' in Northern Ireland and for the development of a new entrepreneurial culture in the Province, but which could also take on the role of spearheading post-experience management development in Northern Ireland.

I hope you find these thoughts helpful.

Yours sincerely



DAVID FELL

c.c. Mr Bloomfield
Northern Ireland Permanent Secretaries
Mr Stephens

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