

Lunch Monday

DETI

Permanent Secretary
Bruce Robinson

PSDETI 0280/01

cc PS/Minister
Perm Secs
Mr McConnell
Mr Hamilton
Mr Ross, IDB
Dr Neville, LEDU
Mr Clarke, NITB
Mr Haire
Mr Briant
Mr McKeown
Mr Warnock
Mr Hayden
Mr Hinds
Mrs Heron
Mr Clulow
TF

To: Gerry Loughran
Head of the Civil Service

From: Bruce Robinson

11 SEPTEMBER 2001

1. I refer to your note of 24 September in which you asked Permanent Secretaries to assess the potential impact and possible consequences on our respective departmental service responsibilities of the events of 11 September.



INVESTOR IN PEOPLE

2. Unfortunately due to the North South Ministerial meeting I am unable to attend the special PSG meeting which will be held on 28 September. I have summarised the main aspects of our analysis in the following paragraphs. These are split into sections which cover Home Industry, Inward Investment, Trade, Tourism and Energy.

3. Home Industry

The most immediate and serious effect on local industry was starkly highlighted by the announcement yesterday afternoon from the Montreal Headquarters of Bombardier Aerospace that, up to 6500 workers may be made redundant worldwide, 1600 of which will be in Belfast, with an additional 500 sub contract workers who will have their contracts terminated. Other direct job losses expected as a result of the scaling back of the airline industry are 90 to 100 jobs at B/E Aerospace in Kilkeel. As well as the loss to the local economy of the salaries and wages of those losing their jobs, Shorts local supplier development programme is worth £30m per year. Therefore, in addition to the direct job losses it is estimated that there could be a further 800-1200 jobs lost in the economy because of the downward multiplier effects. A number of the suppliers to Shorts are located in areas of high unemployment and the loss of business from Bombardier will have serious consequences for these local areas.

4. Clearly developments of this scale and nature will have a major effect, both on those directly affected by the loss of livelihood and on those in the wider community. At national level Sir Reg Empey has written to the Prime Minister and briefed DTI highlighting the plight of Shorts and the impact on the local economy but also emphasising that the company places order worth £250m annually to suppliers outside NI. He has therefore suggested that as these decisions have implications beyond NI a national response is required to this problem to safeguard the future of the UK aerospace industry. Shorts are meeting DTI tomorrow to discuss their immediate cash flow situation.

5. At a local level we are working very closely with colleagues in the Department of Employment and Learning and the Department of

Social Development. We are establishing a co-ordinated local response for those people and companies most directly affected. We have asked LEDU to work with the NI Aerospace Consortium to assist the small companies involved in the sector to respond to this significant drop in business. Sir Reg has also been given assurances of Bombardier's long term commitment to expand its NI operations and of their hope to return to growth when confidence within the airline industry is restored.

6. Today's announcement of the withdrawal of the British Airways service between Belfast and London is a further concern for the business community and the tourist industry. We are concerned at the adverse impact the reduction of Heathrow services would have on companies engaged in international trade and the potential impact on the attractiveness of NI as an investment location.
7. Companies in the ICT sector have seen significant job losses in recent months with many of these losses not yet appearing in the labour market statistics. This is symptomatic of the general malaise in the ICT sector worldwide. LEDU report cancellation of a number of US based initiatives planned in the coming weeks. They continue to monitor closely the effects on client companies some of whom are experiencing a slowdown in sales and uncertainty in export markets. One impact of the recent events will be on the raising of capital for a new venture capital fund aimed at SME's. This may take place towards the end of the year and is likely to be adversely affected by the general uncertainty in the financial markets. The new Fund is aimed at companies requiring equity finance in the size range £250k to £1.5m. The political and economic uncertainty globally is also beginning to impact on companies and graduates participating in DETI's Exporters Programme. So far no companies have pulled out of the programme but several are concerned about the prevailing environment.

Inward Investment

8. In 2000, there were some 500 foreign owned businesses in NI employing almost 69,200 people. This represents approximately 11% of all employees in NI. The two most important countries in terms of foreign direct investment are the US and ROI. In 2000,

there were 146 US firms operating in NI employing 22,220 people. The US has been the most successful market as a source of inward investment in recent years. Prior to 11 September inward investment prospects from North America for 2001/02 were expected to be lower than in previous years due to downturns in the US economy and the telecommunications industry in general. The attacks on New York and Washington have undoubtedly exacerbated the situation.

9. We are aware of three or four visits by potential investors being postponed. IDB were also in discussion with a Canadian company which manufactures supplies for the aerospace sector. The company was in discussion with Shorts and was considering NI as an investment location. Due to events on 11 September the company has postponed investment plans indefinitely. IDB remains in close contact with the company.
10. Generally speaking business confidence has been severely impacted and it is accepted that the events in the USA will slow down the recovery in the technology sectors. These are the sectors which have generated much of our inward investment success in recent years. IDB executives are monitoring the situation very closely with all of our existing and potential inward investment companies both at home and overseas.
11. Trade
In 1999/00 almost 40% or £4 billion of all manufacturing sales were exports. Over 77,000 jobs (almost three-quarters of manufacturing employment) were estimated to rely on manufacturing sales (includes sales to GB) outside NI in 1999/00. The performance of the UK economy is of particular importance to the NI economy as 37% of NI's manufacturing sales go to GB. Equally important is the fact that the USA is the largest single market outside the UK for IDB client company sales accounting for £916m.
12. Some IDB and LEDU clients are experiencing difficulties with specific export customers and a slow down in demand due to US customers being reluctant to travel or discuss export business.

Trade International (IDB's export arm) continues to organise its Market Access Visits programme, although there is evidence some companies are reticent in travelling overseas. An ICT mission to North America planned for October has been postponed because the main event (Internet World Exhibition) has been rescheduled for December by the US organisers. Trade International expects to fulfil its planned programme of activities but should the current situation deteriorate, and this not be possible, there will be a further knock-on effect on NI exports.

13. Tourism

Tourism in Northern Ireland will be affected by the drop in transatlantic passengers. The immediate effect was a 90% cancellation of traffic in all segments of the USA market. Airlines have announced major redundancies although little information to date on what transatlantic routes will be dropped or reduced. The longer term impact of the BA announcement today will take some time to become evident. In the next six months there is a potential estimated decline of 30% from the North America market.

14. In 2000 there were 148,000 visitors from North America of whom 55,000 were Holiday Visitors. The publicly quoted estimate of reduction in airline traffic for 2002 on transatlantic routes is 20% which would result in a drop of 30,000 North American visitors of whom 11,000 would be Holiday Visitors; it is primarily only the latter figure that we can influence.
15. The reduction of 30,000 North American visitors would mean a reduction in the overall Tourism Visitor numbers of 1.79% which would result in approximately a reduction of up to £9m income to the Northern Ireland industry (visitors from North America are the big spenders). On the other hand the Holiday Visitors totalling 11,000 could possibly be counter balanced by increased numbers from Great Britain in particular (whose numbers had dropped in 2000, primarily due to the trouble that was on the streets).
16. Tourism in Northern Ireland will be affected. It may be possible to maintain the 2000 figures through re-targeting and more emphasis on Great Britain and Europe. However the significant increase in

tourism numbers and consequential positive effect on the Northern Ireland economy will not take place in 2002 as we had hoped from stability in Northern Ireland and in particular the work of the new tourism body TIL. It is key to state with regard to tourism that the USA terrorist attacks will of course seriously affect the industry through the drop in transatlantic flights but equally the American (and others) world-wide action in response will add to this detrimental effect - or at least prolong. Relevant action involving DETI already is :-

- (a) TIL and NITB reconsidering approach to 2002 marketing with a view to launch early November;
- (b) DETI led fundamental review of tourism, including assessment of world conditions, is started with recommendations for medium/long-term to NI Executive next March;
- (c) DETI liaising with DCMS (London) on UK approach, including air passenger duty and VAT;
- (d) DETI liaising with DTSR (Dublin) on RoI actions.

17. Energy

At this point there has been no obvious impact on the Northern Ireland energy supply industry as a result of the events of the 11 September.

There may of course be potential implications depending on how events unfold in the coming weeks, months. As you are aware Northern Ireland is totally dependent on imported fuels and these to a degree are reliant on a stable international environment.

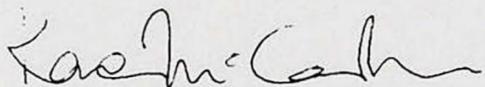
In the medium term there is also a potential vulnerability as the UK becomes a net importer of gas mainly from Russian/Algerian sources.

There is also the potential in any developing crisis for a reluctance to invest to impact on gas pipeline/power station construction

programmes. However, there is no evidence to date to suggest that this is the case.

Summary

18. Not surprisingly events are changing very rapidly in the current political and economic environment. Therefore, I would expect other issues to emerge or existing issues to develop rapidly over the coming weeks. As you will know Sir Reg and Dr Farren will be addressing the Assembly on Monday to brief members on the situation at Shorts. We will of course continue to monitor developments very closely throughout the Department and will keep you and Permanent Secretary colleagues informed.



BR

BRUCE ROBINSON

27 September 2001