

CONFIDENTIAL FILING

SHIPPING: PANAMANIAN

FREIGHT TAX

ECONOMIC POLICY

DECEMBER 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
18-1-84							
<del>31-1-84</del>							
13-2-84							
<del>22-2-84</del>							
13-3-84							
<del>22-3-84</del>							
2-4-84							

PREM 19/994





Foreign and Commonwealth Office

London SW1A 2AH

2 April 1984

Dear Derwent,

Panamanian Freight Tax

Thank you for your letter of 13 March.

The Foreign Secretary was pleased to learn that the agreement reached for the Panamanians of the exemption for British vessels from payment of the freight tax is acceptable to Mr Ridley, without being conditional upon the recovery of back taxes and that the threat of action under section 14 of the Merchant Shipping Act is withdrawn. The Foreign Secretary shares Mr Ridley's doubts about the willingness of Panama to concede a refund of taxes, but agrees that an attempt should be made. Clearly, any approach to the Panamanians will need to be handled very carefully if we are to avoid giving them the impression that we wish to re-open the whole question of the freight tax. HM Ambassador Panama is being consulted on how this should be handled. We shall of course ensure that Department of Transport officials are kept informed of the results of approaches made to the Panamanians.

I am copying this to Andrew Turnbull and to Private Secretaries of other members of E(A).

Yours,

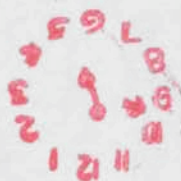
Peter Ricketts

(P F Ricketts)  
Private Secretary

H C S Derwent Esq  
Private Secretary  
Department of Transport

ELSON Pa: Panamanian Freight Tax

Dec 83



22 APR 1984



CONFIDENTIAL



CCNO  
NBPM AT 23/3

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

22 March 1984

Henry Derwent Esq  
Private Secretary to the Secretary of State  
for Transport  
Department of Transport  
2 Marsham Street  
LONDON SW1P 3EB

*Dear Henry,*

PANAMANIAN FREIGHT TAX

You sent me a copy of your letter of 13 March to Peter Ricketts about Panamanian freight tax.

The Chancellor is not opposed to a further attempt being made through diplomatic channels to obtain a refund of back taxes, but he is doubtful if anything is likely to come of this, as he understands that Panama has consistently rejected all idea of the refund of back taxes, to any countries affected by its freight tax. He also feels that there would be some risk, albeit a small one, that raising the matter again would cause them to question the whole agreement.

The Chancellor therefore suggests that before deciding anything, we should wait for two or three months to see how the exemption is working in practice. If a suitable opportunity presents itself, our Ambassador in Panama might then ask the authorities there to reconsider the question of refunds, but without any threat of action under the powers in the Merchant Shipping Act.

Copies of this go to Andrew Turnbull at No 10 and to Private Secretaries of other members of E(A).

*Yours sincerely,  
Tudor Morgan*

Miss J C Simpson  
Private Secretary

ECON POL: Panamanian Freight  
Tax: Dec 83.

23 NOV 1984





CONFIDENTIAL

✓CCNO



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

NBPM

89  
1573

Peter Ricketts Esq  
Private Secretary to  
The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign  
and Commonwealth Affairs  
Foreign and Commonwealth Office  
LONDON SW1A 2AH

13 March 1984

*Dear Peter*

PANAMANIAN FREIGHT TAX

Thank you for your letter of 22 February.

I understand that a Ministerial Resolution, exempting UK flag vessels from the tax, has now been issued in Panama and that the exemption has been made with retrospective effect from 24 January.

My Secretary of State was pleased to learn that the Resolution had finally been issued and would not wish to call this agreement with the Panamanians into question by pressing for it to be revised at this stage. Nevertheless, he believes that there is merit in continuing to press the Panamanians, without any threat of acting under S14 of the Merchant Shipping Act 1974, to consider the case for a refund of taxes paid.

Failure to press for such a refund would set a dangerous precedent. The Panamanian freight tax has always been discriminatory, because Panamanian flag vessels have never had to pay it. If we take no action to recover the taxes paid, we accept the principle that UK companies can be subjected to discriminatory taxation for as long as it takes - in this case, over four years - to convince a third country to exempt our ships. The Panamanians have always attempted to present this issue as a routine tax problem, to be solved either by a limited or general double taxation agreement, under which each country agrees to exempt the other country's vessels from taxes on a basis of reciprocity, with no question of refunding past taxes. This is not an appropriate description of the problem as we see it.

CONFIDENTIAL



CONFIDENTIAL

Although he doubts that the Panamanian authorities will be moved to concede such a refund without the threat of S14 action, my Secretary of State agrees with the Foreign Secretary that it is worth seeing what can be achieved by diplomatic means and that this should be raised later as a separate issue.

I am copying this to Andrew Turnbull and to Private Secretaries of other members of E(A).

*Yours sincerely,*

*Henry Derwent*

H C S DERWENT  
Private Secretary

CONFIDENTIAL

Panamanian freight tax  
to POT Dec 83



CONFIDENTIAL



NBDM

AF

272

~~NO~~  
NO

Treasury Chambers, Parliament Street, SW1  
01-233 3000

23 February 1984

H C S Derwent Esq  
Private Secretary to the Secretary of State  
for Transport

*Derwent,*

PANAMA

You sent me a copy of your letter of 13 February to Peter Ricketts at the FCO about the Panamanian freight tax. The Chancellor has seen it, and Ricketts' reply, and entirely agrees with the Foreign Secretary's view that it would be a mistake to introduce a retro-active element into the agreement that was reached with the Panamanians last month. In his view, what now matters most is to get the agreement implemented.

If the formal resolution is made to confirm the exemption for British shipping, he believes that any further consideration of possible action under Section 14 of the 1974 Merchant Shipping Act should be deferred until such time as it emerges that the exemption is no longer holding, and UK shipping is again being subjected to the discriminatory freight tax.

Copies of this letter go to Andrew Turnbull at No 10, Peter Ricketts at the FCO and the Private Secretaries of other members of E(A).

*Yours ever,  
J O Kerr*

J O KERR

Econ 181. Panamanian Freight Tax Dec 83

25 FEB 1984

12 1 2 3  
4 5 6 7 8 9  
10 11



CONFIDENTIAL

BF' with DOT . CCASO  
response AT 22/12



Foreign and Commonwealth Office

London SW1A 2AH

22 February 1984

Dear Serwent,

Panamanian Freight Tax

Thank you for your letter of 13 February.

As you may already know, the Panamanian resolution to confirm the exemption from the freight tax for UK vessels has been delayed. We do not expect, however, that the recent ministerial changes in Panama will call the agreement into question. The new Minister of the Treasury is Dr Ricaurte Vasquez, who is known to want the tax issue resolved, and who himself led the Panamanian team in discussions with the Inland Revenue last April. We expect the exemption to apply from 24 January 1984, the date on which the Revenue issued its certificate. We shall of course be watching carefully to ensure that the Panamanians do indeed act as we expect.

The Foreign Secretary is concerned however at Mr Ridley's suggestion that this issue should not be considered closed until taxes paid already are refunded. We had understood from earlier correspondence that a major objective was to reach an agreement with the Panamanians which would persuade our shipping lines not to register new or existing tonnage in Panama. That agreement is now in sight; in our view its achievement would be jeopardised if, at this late stage, we introduce a retroactive element. As you know, the Panamanians, in earlier discussions with the Inland Revenue maintained that, notwithstanding moratoria for UK shipping on the payment of the tax, the lines would eventually have to settle in full. Throughout the negotiations with the Panamanians the waiving of back taxes was not made a pre-condition for a settlement.

/The Foreign

CONFIDENTIAL





The Foreign Secretary therefore believes that, although it would of course be desirable to recover the taxes, it would be unrealistic to expect the Panamanians to agree to this condition being introduced at this late stage. To insist upon it could seriously jeopardise the agreement we have secured with the Panamanians. He considers that when the Panamanian resolution is made, this should be accepted without further conditions as to the outstanding liability for tax. He would see no objection to this issue being raised later as a separate issue and without the threat of resort to the Merchant Shipping Act.

I am copying this to Andrew Turnbull, and to Private Secretaries to other members of E(A).

*Yours sincerely,*  
*Peter Ricketts*

(P F Ricketts)  
Private Secretary

H C S Derwent Esq  
Private Secretary  
Department of Transport  
2 Marsham Street  
LONDON SW1



Econ 101 : Shipping - Panamanian Freight Tax  
Dec. 83.

22 JAN 1984



CONFIDENTIAL

CCND



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

Peter Ricketts Esq  
Private Secretary to  
The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
LONDON SW1A 2AH

Prime Minister ②  
To note satisfactory  
progress

AT

4/2

13 February 1984

*Dear Peter*

Thank you for your letter of 31 January, reporting that agreement has now been reached with the Panamanians to exempt British flag vessels from future liability to their discriminatory freight levy. It is clear that the evident resolve of the Government to take a robust line got through to the Panamanians.

My Secretary of State very much welcomes this development and is grateful for the efforts of all those who worked to bring matters to this stage.

It now remains to press the Panamanian authorities to refund the amount which we consider to have been wrongly exacted from our shipping lines in the past. My Secretary of State proposes to initiate action for this purpose once the necessary Panamanian Ministerial Resolution has been made exempting British shipping from continuing liability. Once it is clear that the Panamanian levy has ceased, been refunded, and will not be reimposed, my Secretary of State will be in a position to confirm that he will not proceed with measures under Section 14 of the 1974 Merchant Shipping Act.

I am copying this to Andrew Tucker and to Private Secretaries to other members of E(A).

*Yours sincerely,*

*Henry Derwent*

H C S DERWENT  
Private Secretary

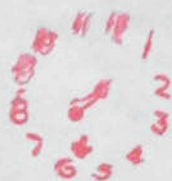
CONFIDENTIAL



Econ PSI Dec 83

Panamanian Freight Tax

74 JAN  
1984



CONFIDENTIAL

NBPM  
To amend DoT reply  
AT 2.11  
CC NO



Foreign and Commonwealth Office

London SW1A 2AH

31 January 1984

Dear Henry,

Turnbull?

In his letter to you of 18 January, Andrew Tucker recorded the Prime Minister's view that if a satisfactory response was not received from the Panamanians by 31 January, then your Secretary of State should proceed with the issue of an information order.

HM Ambassador Panama has reported that agreement has been reached with the Panamanians to exempt British ships from payment of the tax. A Ministerial Resolution will be made shortly in Panama to give effect to this agreement.

BF  
for  
D/Transport  
confirmation

In the light of this development, and provided that the Panamanian Resolution does issue, we would welcome confirmation that you will not now proceed with action under Section 14 of the Merchant Shipping Act, such as an information order.

I am copying this letter to Andrew Tucker and to Private Secretaries to other members of E(A).

Yours  
Pete Ricketts

(P F Ricketts)  
Private Secretary

Henry Derwent Esq  
PS/Secretary of State for Transport

CONFIDENTIAL



Exam for Dec. 83

Shipping Panamanian Freight Tax



10 DOWNING STREET

From the Private Secretary

18 January 1984

Dear Henry

SHIPPING: PANAMANIAN FREIGHT TAX

The Prime Minister has seen your Secretary of State's minute of 30 December and the minutes from the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy and the Secretary of State for Trade and Industry and the Minister of Agriculture. She agrees that the tax imposed by the Panamanians is unacceptable and that we must seek to have it removed.

As a response is expected from Panama in the near future, she agrees that no action should be taken immediately. If, however, a satisfactory response is not received by 31 January, an order under S14(2) of the Merchant Shipping Act 1974, requiring Panamanian vessels to provide certain information, should be made.

Before going further and imposing a counter charge under S14(3), your Secretary of State should consult with colleagues on the possible repercussions, both for trade and taxation. The possibilities for concerted action with OECD or EC partners should also be investigated.

I am copying this letter to the Private Secretaries to other members of E(A) and to Peter Ricketts (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

Yours sincerely  
Andrew Tucker

Henry Derwent, Esq.,  
Department of Transport.



①

PRIME MINISTER

Panama imposes a five per cent tax on goods carried to and from Panama in non-Panamanian vessels. HMG have been trying to get it removed, so far without success. In order to increase the pressure, Mr. Ridley has suggested first requiring Panamanian ships to provide information on calls at UK ports, cargoes, etc. If this did not work a further order could be passed, <sup>and</sup> counter-charges could be levied on Panamanian ships.

Panama has promised a response in the next week or so. Colleagues are agreed that no move should be made until this has happened.

If the response is inadequate, colleagues agree that an information order should be introduced, but want to consider, using information gained, before going further. Concertation with other countries is also recommended.

Agree give the Panamanians until end January?

AS

Yes *mk*

17 January 1984



u/10

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

CONFIDENTIAL

The Rt Hon Nicholas Ridley MP  
Secretary of State for Transport  
2 Marsham Street  
LONDON  
SW1P 3EB

16 January 1984

*Nicholas Ridley*

SHIPPING: PANAMANIAN FREIGHT TAX

I have seen a copy of your minute of 30 December to the Prime Minister about the countermeasures we might take against the Panamanian Government for their refusal to exempt British ships from the freight tax levied on non-Panamanian vessels carrying goods to or from Panamanian ports. I have also seen Nigel Lawson's minute of 11 January.

I sympathise with your wish to take action. But it is difficult to judge the likely effect of imposing charges on Panamanian vessels visiting British ports until we have a better idea of how much of our trade is carried by Panamanian shipping. The action you propose under Section 14(2) of the Merchant Shipping Act 1974 - and in particular the consultations you will have with outside bodies - should provide the answer. I should prefer, therefore, to reserve judgment on action under Section 14(3) until this information and the views of interested parties are available.

I am copying this letter to the Prime Minister and other members of E(A), Geoffrey Howe and Sir Robert Armstrong.

*Michael Jopling*

MICHAEL JOPLING



12 1  
11 2  
10 3  
9 4  
8 5  
7 6  
6 7  
5 8  
4 9  
3 10  
2 11  
1 12

16 JAN 1984



070



CONFIDENTIAL

PM/84/14

PRIME MINISTER

*with AT*

Shipping: Panamanian Freight Tax

1. I have seen a copy of Nicholas Ridley's minute of 30 December to you. I agree that the tax imposed by the Panamanians is unacceptable, and that we must seek an urgent solution to the problem, not least in order to avoid further losses to the UK flag.
2. The subject was raised by Lady Young during a visit to Panama in November, and was followed up on 21 December, when HM Ambassador called on the Minister to reiterate our arguments. Both approaches were well received. The Minister indicated his wish to get rid of this irritant to our commercial relations. A response from the Panamanians is now promised for next week.
3. In the circumstances, I recommend that we should not introduce an information order at this stage, but that it would be preferable to allow a little more time for the current diplomatic initiative to produce results. If the Panamanians have not responded positively by the end of January, then I agree that an information order would be appropriate at that time.
4. I notice that Nicholas Ridley considers punitive action under Section 14(3) of the Merchant Shipping Act as the next logical step after an information order. I agree that it is right to consider what further measures might be taken, including the imposition of charges. In doing so however, I believe that we should also identify and take into account areas where we might be vulnerable to retaliatory action (we have a favourable trade balance with Panama, our shipping is a significant user of the Panama Canal, and the Panamanian flag is used by shipowners from many of our closest allies).

CONFIDENTIAL

/I recommend





CONFIDENTIAL

I recommend therefore that if eventually it becomes necessary to take direct action against Panamanian ships, this should be undertaken with great caution, and only after all the risks have been carefully evaluated. In that event we should also seek the support of OECD or EC partners who may be similarly affected, with a view to taking concerted action.

5. I am copying this minute to the recipients of Nicholas Ridley's.

A handwritten signature in black ink, consisting of a stylized 'G' followed by a series of loops and a final flourish.

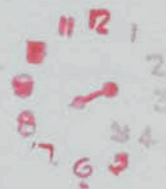
GEOFFREY HOWE

Foreign and Commonwealth Office

16 January 1984

CONFIDENTIAL

7 JAN 1984







Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

PRIME MINISTER

SHIPPING: PANAMANIAN FREIGHT TAX

In his minute of 30 December, the Secretary of State for Transport suggested counter-measures against the Panamanian Freight tax, which I entirely agree is discriminatory and damaging to British shipping interests.

2. I have no objection to the proposal to make an information order under s.14(2) of the Merchant Shipping Act. I am, however, uneasy about agreeing, at this stage, that we should proceed to a charging order under s.14(3) if that doesn't do the trick, as I hope it will. For the proposed charges would, I understand, apply to all Panamanian flag vessels calling in the United Kingdom, including those operated by United Kingdom shipping companies and by our major trading partners. There could be implications for our network of double taxation agreements, which carry important tax advantages for our industry: our treaty partners might well take the view that the charges were in breach of the spirit if not the letter of these agreements.

3. I understand that Officials in the Departments concerned are preparing a paper on the whole question of charges: I suggest that we should see this, and have the opportunity to consider the Panamanian response to the information order, before we take a decision on s.14(3) action.

4. I am told that, following Janet Young's approach to the Panamanian Finance Minister in November, he may put forward

/within the

CONFIDENTIAL



within the next few days a formula which might be the basis of an exemption for UK shipping. I imagine that we have heard such reports before, but it might in the circumstances be best not to go public on the information order for another ten days or so, just in case the Panamanians come up with a sensible proposal in the meantime.

5. Copies of this minute go to the other recipients of Nick Ridley's.

Y.L.

(N.L.)

11 January 1984

CONFIDENTIAL





12



COMPILED

9 20



CONFIDENTIAL

JU407

PRIME MINISTER

SHIPPING: PANAMANIAN FREIGHT TAX

Nicholas Ridley wrote to you on 30 December 1983 proposing a surveillance order against Panamanian shipping under S.14(2) of the Merchant Shipping Act. I am commenting in Norman Tebbit's absence overseas.

2 While I share Nick Ridley's concern over the present unsatisfactory state of affairs, I am anxious that any action taken to resolve the freight tax problem should not endanger trade relations. Panama is our second largest export market in Central America. In 1982 British exports to Panama were worth some £83.3 million against imports of only £9.5 million.

3 I understand that following representations made by Janet Young during her visit to Panama in November 1983 the Panamanian Minister of Finance said he would call a meeting on 6 January and promised proposals to resolve the issue within six days of that date. It seems important that this initiative should not be frustrated and I believe we should delay any action against the Panamanians until we have seen what their proposals are.





4 If surveillance action should subsequently be seen to be necessary I would hope that it could be taken in concert with appropriate action by other nations. This would ensure that our European partners are fully aware of our concern and help to avoid complaints if charges subsequently imposed on Panamanian vessels in British ports had the effect of increasing the shipping costs of our European neighbours.

5 I am copying this to the recipients of Nicholas Ridley's minute.

PC

PAUL CHANNON

11 January 1984

Department of Trade & Industry

13 JAN 1962



COLLECTOR

11





Chancellor of the Duchy of Lancaster

Secretary of State for Transport

SHIPPING: PANAMANIAN FREIGHT TAX

Thank you for copying to me your minute of 30 December to the Prime Minister.

It would be interesting to know whether Corporation Tax is in fact charged on companies using the Panamanian flag - or whether it is simply a theoretical as opposed to a practical liability. The vigour of our response needs to be judged in the light of this.

I am copying this to the recipients of your minute.

A.C.

A C

9 January 1984

CONFIDENTIAL

29 JAN 1984





CONFIDENTIAL

PRIME MINISTER

SHIPPING: PANAMANIAN FREIGHT TAX

We have a long-standing problem concerning British shipping trading to and from Panama, which intense efforts by our Embassy in Panama City and by Inland Revenue officials have failed to resolve, and which is now coming to a head.

In 1979 the Panamanians introduced a tax of 5% on the revenue arising from the carriage of goods by sea to or from Panama. The tax was plainly discriminatory in that it applied only to non-Panamanian vessels. But there is provision for exemption from the tax for vessels whose flag states impose no comparable tax on Panamanian vessels. Since the UK imposes no freight tax on any vessel, there is a good case for our flag vessels to receive the exemption provided for in Panamanian law. However, the Panamanian Government has not, so far, been prepared to exempt British ships; they consider our Corporation Tax to be a tax on companies using the Panamanian flag.

The consequences for our lines have been that one has withdrawn from the trade, another has transferred five vessels from the UK flag to the Panamanian flag in order to escape the tax, and a third continues to incur liability to the tax. This position is plainly unsatisfactory and needs to be resolved. An incentive to do so speedily is that we may still be able to prevent a sixth vessel, currently under construction, from being lost to the UK flag.

CONFIDENTIAL



CONFIDENTIAL

The Minister of State, Foreign and Commonwealth Office, was able to express to the Panamanian Finance Minister HMG's concern over this problem during her visit of 12-15 November, and received assurances that the matter would be reviewed urgently by the Panamanian authorities. Our Ambassador in Panama City has been instructed to follow this up. But it is now clear that, having dragged their heels for four years, the Panamanians are showing little readiness to act promptly now.

I have, under S14 of the Merchant Shipping Act 1974, powers to take counter-measures where the actions of foreign governments damage or threaten to damage UK shipping interests. These powers could take the form of excluding under S14(3) all Panamanian vessels from loading or discharging cargoes at UK ports, but this would be a draconian step, out of proportion to the damage which the Panamanians have so far done to our shipping. S14(3) also enables me to impose charges on Panamanian vessels calling at UK ports (subject to affirmative resolution of both Houses). This is the power which is most appropriate to use, in the circumstances of the present case, if the Panamanians persist. Accordingly, I have asked officials here to consider such charges with other interested Departments so we can be ready to impose them if the need arises.

However, I recommend that our response to Panamanian measures should be graduated and that, before we move to the point of taking counter-measures, we should give the Panamanians a clear signal that we mean business. I would envisage doing this by making an order under S14(2) of the Merchant Shipping Act 1974. The Act permits me to make such an order for the purpose of determining what further

CONFIDENTIAL




CONFIDENTIAL

action to take in this case, subject to negative resolution in either House. It would be addressed to the Masters of Panamanian vessels calling at UK ports and to others carrying on a trade or business in the United Kingdom. It would require such persons to provide information about the numbers of calls at UK ports made by Panamanian vessels and the value, origin and destination of cargo loaded or discharged.

The making of such an order would not prevent our taking more substantial counter-measures if necessary in due course, and it would be a clear signal that we were contemplating doing so. I think this is the right sort of signal to send to the Panamanians at this stage and would therefore welcome your agreement, and that of colleagues, to my pursuing this course. Although I would not expect an order to come into force before the middle of January, I should be glad of your agreement now to my taking this action under S14(2), so that I can hold the necessary consultations with outside bodies before making the order. And I should also be glad of your agreement that if the S14(2) order does not cause the Panamanians to lift the impost within a reasonable period, then I should proceed with a S14(3) order imposing suitable charges on Panamanian vessels visiting British ports.

I am copying this to the Foreign and Commonwealth Secretary, the other members of E(A) and to Sir Robert Armstrong.



NICHOLAS RIDLEY

30 December 1983

CONFIDENTIAL



**END**



