CONFIDENTIAL

FINANCIAL SECRETARY TO THE TREASURY

FROM: E KWIECINSKI
DATE: 12 January 1983

MR BATTISHILL - IR

cc PS/Chancellor (with attachments)
PS/Chief Secretary (")
PS/Economic Secretary (")
PS/Minister of State (C) (")
PS/Minister of State (R) (")
Sir D Wass (")
Mr Middleton (")
Mr Moore (")
Mr Lovell (")
Mr Robson (")
Mr Chivers (")
Mr French (")
Mr Graham - Parly Counsel (")
Mr Corlett - IR (")
PS/IR (")

CAPITAL ALLOWANCES AND FILMS

... I attach a note of the Financial Secretary's recent meeting with representatives of the Independent Television Companies Association Ltd.

I can confirm Ministers' decision to extend the present transitional relief for British films from two to five years.

As discussed after the meeting with ITCA, the Financial Secretary would be grateful if you could prepare a draft PQ and Answer to be used to announce the decision next week.

EK.

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NOTE OF A MEETING HELD IN FINANCIAL SECRETARY'S ROOM, HM TREASURY AT 5.00PM, 11 JANUARY 1983.

Present at Meeting: Financial Secretary
Mr McCall)
Mr McNally) ITCA
Mr Connell)
Mr Battishill) IR
Mr Corlett)

CAPITAL ALLOWANCES FOR TV AND FILMS: MEETING WITH REPRESENTATIVES OF THE INDEPENDENT TELEVISION COMPANIES ASSOCIATION LTD

The Financial Secretary opened the discussion by briefly summarising the reasons which lay behind the decision to change the provision of capital allowances for films in the last Budget. There was a real need to stop foreign film makers from routing the finance of their films through the UK solely to obtain UK capital allowances. Many millions of pounds of revenue were being lost, yet the benefit from the films in terms of profits and export value was going to the foreign companies in their foreign domicile. While this was primarily a problem in the cinematographic film making industry, foreign TV companies could also take advantage of the loop-hole which existed. Something had to be done to stop this. The Government recognised the problems facing the domestic film industry, but to have given the UK industry permanent reliefs would have caused us severe problems with our trading partners under the GATT agreements. Hence the introduction of transitional relief for the domestic industry, which so far, had not been challenged under GATT, although strictly it was not legal. He stressed that the UK industry's continual public campaign could alert our trading partners to the preferential treatment currently given to domestic companies. It would be better for all concerned if the television companies would keep quiet.

Mr McCall commented that the ITCA appreciated the problem and he would try to ensure that the campaign was less public in the future. He did though feel that the TV companies had been caught in a net which was meant for the cinema film industry. In particular they were aggrieved that domestic TV should have to qualify for the transitional relief by satisfying the "Eady" definition. He wondered if a different special definition could be used for TV programmes, which would not be quite so restrictive on the use of non-EEC labour. More generally the companies would face severe cash flow problems when the transitional relief ended.

Mr Battishill explained that the "Eady" definition had been chosen because it was judged that its use would not cause us any problems with our EEC partners; so far this had proved to be the case. He wondered though if this really was such a problem for the TV companies. He felt sure that in practice very few programmes made by UK TV companies would fail the "Eady" test.

Mr McCall agreed that it was not a major problem but he envisaged difficulties with certain programmes made on location overseas.

Mr McNally felt that the main problems with "Eady" could prove to be administrative ones in that eg every programme in a series had to be tested for content individually, rather than the series being tested as a whole. This could give the companies problems with their auditors. But he agreed that this was more something to be taken up with the Department of Trade.

In summing up the discussion the Financial Secretary commented that he and his colleagues would continue to consider sympathetically the needs of the UK TV and film making industry. However, the Government's room for manoeuvre in giving relief solely to UK companies was severely limited by our international trading obligations under GATT and within the EEC. These should not be underestimated.

The ITCA members thanked the Financial Secretary for a most helpful meeting.

EK

E KWIECINSKI

12 January 1983