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DEPARTMENT OF TRANSPORT  
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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

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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*

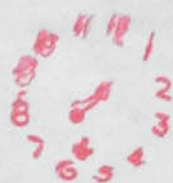
H C S DERWENT  
Private Secretary

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Panamanian Freight Tax

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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

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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

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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  
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