



10 DOWNING STREET

From the Private Secretary

SUBJECT VC
cc Master

FILE

cc Mike Nargrave
(Min Hunt)
cc Leigh Lewis
30 July 1985 (MWP).

Dear Paul,

The Prime Minister, together with your Minister, met Mr. James Hill, MP, today to discuss the Southampton Docks and in particular the freeport situated there.

Mr. Hill said that he had two principal points to make. The first related to the extent of deregulation in the freeports. He, along with many others, had welcomed the innovation of the freeports, but it was a common complaint that deregulation had not yet gone far enough. Particular problems were that the freeports could not offer bonded warehouse facilities if Customs and Excise determined that there was sufficient bonded space within a radius of 40 miles. This was a significant impediment to the successful development of freeports. In addition VAT was applied too extensively to transactions through and within freeports. Mr. Hill said that he had raised this matter both in an Early Day Motion, and, briefly, in the House with the Financial Secretary to the Treasury. The Prime Minister undertook to look into the points raised by Mr. Hill and to write to him.

Mr. Hill also referred to the deleterious effect of the operation of the National Dock Labour Scheme on the freeport at Southampton. Although Southampton had reduced its surplus labour very considerably and adopted new working practices, the remaining dockworkers, in order to safeguard their positions, were seeking a monopoly of work within the freeport. In particular they wished to pack containers in the freeport itself, a concession which the management were unprepared to give. By contrast, in Liverpool agreement had been reached between management and the unions which gave dockworkers a share of work in the freeports. While not ideal this agreement at least prevented the union from gaining a complete monopoly. Mr. Hill did not propose the complete abolition of the Dock Labour Scheme but he was concerned lest the freeports gave it a new lease of life. In these circumstances he wanted to see two changes: first, the introduction of independent members on to Dock Labour Boards which would break the union veto particularly over questions of the jurisdiction of the Dock Labour Scheme; second, he wanted to see a formal review of the extent of the Dock Labour Scheme and in particular the extent to which it should impinge on the freeports. Mr. Bottomley said that he would look into both points although he rather doubted

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the extent to which either the union or the employers would be willing to give up their veto on the Dock Labour Boards. On the jurisdiction of the Dock Labour Scheme, he commended direct negotiations between the employers and the union which could produce workable agreements, as had been the case in Liverpool. In the case currently before the National Dock Labour Board on dock work at Southampton, to which Mr. Hill had referred in passing, it was always open to the employer, Associated British Ports to appeal to an industrial tribunal. The Prime Minister said that when Mr. Bottomley had completed his enquiries she would write to Mr. Hill on these points as well.

I should be grateful if you could provide a draft letter for the Prime Minister to send to Mr. Hill on the points relating to the Dock Labour Scheme raised at the meeting. I should also be grateful if Vivian Life in the Financial Secretary's Office, to whom I am copying this letter, could provide a draft reply on the deregulation points which Mr. Hill raised. I am enclosing copies of the written material which Mr. Hill left with the Prime Minister.

Yours ever,

Tim Flesher

TIM FLESHER

P.E. Hutt, Esq.,
Department of Employment.

Snags

1. VAT is applied to UK sourced components used for manufacture in free zones.
2. VAT is also applied again to an assembly of those components if re-exported to the UK. This arrangement favours components imported from abroad.
3. VAT is applied to transactions inside free zones, effectively ruling out commodity trading, a business which is carried out on a large scale in European freeports and which generates sizeable invisible earnings.
4. VAT and Customs duties are applied to imported machine tools used in free zones, and Customs duties are applied to some components used in manufacturing in a free zone.
5. The freeport may not offer bonded warehousing ~~if~~ it is deemed that there is sufficient bonded space within a radius of forty miles.
6. A large amount of repetitive paperwork could be reduced by the provision of blanket exemptions covering all users of a free zone.
7. These impediments to the freeport ideal could be removed without significant loss to the Treasury, thereby attracting investment and enterprise and, at the same time reducing unnecessary work for civil servants.

COPY.

From Loton Freeport
to Cabinet Office.

25th July 1985

P. Twyman Esq.,
The Cabinet Office,
70 Whitehall,
LONDON,
SW1.

Dear Mr. Twyman,

You will recall that six U.K. Free Zone sites were established by Legislation in 1984. The sites are Prestwick; Belfast; Liverpool; Birmingham; Cardiff and Southampton.

The concept was set up by the Government on an experimental basis, and the progress of each operation will be reviewed after 5 years.

Amongst other objectives, the Government intends that each Zone shall become the focus of new and increased industrial activity, acting as a magnet for manufacturing and trading which will attract investment and revenues from overseas and encourage the growth of home industries. A consequence of success in these areas would, of course, be a growth in employment, additional wealth creation, and a boost to the U.K.'s invisible earnings.

The six Zones have been either actively marketing the concept, or discussing proposals in detail with prospective clients, for almost a year now, and a number of common problems have been emerging with increasing persistence and clarity.

/continued ...

A fair proportion of these problems arise from over-regulation by U.K. Government Agencies, particularly in the field of V.A.T. This is exacerbated by confused and complex interpretation of this plethora of Regulations. It would not, in my view, make too strong a point to say that the existence and application of certain of the Regulations not only deters, but is driving away significant potential business for the U.K.

I understand that a Draft White Paper on Deregulation is shortly to be published, and the purpose of this letter, which is written with the full support of other U.K. Free Zones, is to request that more effective Deregulation of Free Zones be dealt with in the White Paper.

Examples of some areas of difficulty are as follows:-

1. The application of VAT to U.K. sourced components for manufacture in Free Zones. The existing arrangements actually mitigate against U.K. companies in favour of imported components.
2. The application of VAT on transactions in Free Zones. This factor alone effectively rules out any chance of our Clients undertaking commodity trading - business which is carried out on a large scale elsewhere in Europe, and which generates significant invisible earnings for those countries.
3. The application of Import Tariff Duties to components when used in certain circumstances in manufacturing within Free Zones.
4. The application of VAT and Import Tariff Duties on imported machine tools used exclusively in the Zones.
5. The requirement to make application for Excise Warehouse Status for every individual Client needing to store or process goods which would be subject to Excise Duties if they enter the U.K.

We would also submit that Duty-free manufacturing within the Zone for re-export need not require individual applications for Inward Processing Relief. In addition we believe some formal relaxation of Planning Controls could be justified.

We do not believe that relaxation of Regulations in these areas would have any significant adverse impact on the U.K. Exchequer and could considerably enhance it.

/continued ...

The creation of Free Zones by the Government was clearly a very important step in attempting to encourage investment from overseas in manufacturing, and in attempting to attract the highly lucrative entrepôt trade which the U.K. has to a very large extent lost over recent decades. Real success for the Free Zone concept depends, however, on a truly liberal regime, which is unfortunately not available under present arrangements. We are advised that the other European Free Zones in Hamburg and Trieste are dealt with on a far more liberal basis than here in the U.K.

I must apologise for dealing with this at length, but it is crucial to our development potential, and we hope the Government will look at these problems as a matter of urgency.

The U.K. Free Zones would be pleased to jointly discuss the situation in greater detail with you if this will help in any way.

Yours sincerely,

Andrew Kent
GENERAL MANAGER
SOUTHAMPTON FREE TRADE ZONE LIMITED

for North-West (Mr. Denningham) when he said that he would put maximum pressure on Ministers to implement these proposals. Does he expect to get more co-operation from them on deregulation than the Treasury has had on containing public expenditure?

Mr. Moore: I shall try to ignore the potential twist in that tail and simply say that the product is here. There has clearly been a major effort by all Departments of Government to ensure that within three and a half months there is a comprehensive attempt to lift the burdens on business.

Mr. Edward Leigh (Gainsborough and Horncastle): Does my hon. Friend agree that rural unemployment is a particular problem, not so much because people in villages experience difficulty in finding jobs but because they have to go to towns to get them? This is in no small way due to the controls which central Government and local government have piled on village industry.

What will the task force be doing to encourage people to set up industries in their own homes, given that most new businesses are clean and efficient? In particular, will my hon. Friend encourage the Ministry of Agriculture, Fisheries and Food to go rather further? According to paragraph 5.29, its only contribution so far has been to free "certain aspects of trade in cattle semen".

Mr. Moore: I think that my hon. Friend will know that the Ministry does go a little further. The planning regulations applicable to rural areas emanate in most cases from the Department of the Environment. I know that he will be pleased when he reads the White Paper with more

proposals in it. I will certainly press my right hon. Friend the Minister to consider what other contribution he can make to this aspect of deregulation.

Mr. James Hill (Southampton, Test): My hon. Friend has made great play of the deregulation side of the White Paper. Is he aware of my early-day motion on impediments to free ports? It concerns a series of regulations being brought forward by Customs and Excise, and, if ever there was a case for deregulation, it is within the free ports area.

Mr. Moore: I am aware of my hon. Friend's early-day motion. I will certainly examine that matter again with Customs and Excise.

Royal Assent

Mr. Speaker: I have to notify the House, in accordance with the Royal Assent Act 1967, that the Queen has signified Her Royal Assent to the following Acts:

1. Road Traffic (Production of Documents) Act 1985.
2. Gaming (Bingo) Act 1985.
3. Agricultural Training Board Act 1985.
4. Family Law (Scotland) Act 1985.
5. Prohibition of Female Circumcision Act 1985.
6. Controlled Drugs (Penalties) Act 1985.
7. Licensing (Amendment) Act 1985.
8. Copyright (Computer Software) Amendment Act 1985.
9. Hospital Complaints Procedure Act 1985.
10. Local Government (Access to Information) Act 1985.
11. Sexual Offences Act 1985.
12. Charter Trustees Act 1985.
13. Insurance (Fees) Act 1985.
14. Further Education Act 1985.
15. Food and Environment Protection Act 1985.
16. Surrogacy Arrangements Act 1985.
17. Representation of the People Act 1985.
18. Local Government Act 1985.
19. Royal Holloway and Bedford New College Act 1985.
20. Streatham Park Cemetery Act 1985.
21. Harrogate Stray Act 1985.
22. Alexandra Park and Palace Act 1985.
23. C-Poultry Company Limited Act 1985.
24. Plymouth Marine Events Base Act 1985.
25. Greater London Council (Money) Act 1985.

D. TELEGRAPH
TUES 15TH JAN 85

LETTERS TO THE EDITOR

REALISM IN DOCKS INDUSTRY

From Mr JAMES HILL, MP (Con.)

SIR—If the chairman of the Dock workers' shop stewards in Southampton has decided to take voluntary redundancy (report, Jan. 7) a new sense of realism surely exists in the docks industry.

By his action, he has demonstrated a long-awaited change in attitude to the 1972 "Jones-Aldington" agreement on redundancies. The dock worker now accepts that even he does not have a job for life.

The 1972 agreement made voluntarily between employers and unions in the aftermath of the national docks strike established the practice whereby if one employer in a port ceased trading, the others had to take on his dockers.

This effectively abolished compulsory redundancy except on disciplinary grounds. The consequence was a 20 per cent. surplus of labour in the docks by 1981.

Since then, the National Docks Labour Board (jointly administered by employers and unions in ports belonging to the scheme and funded by an employers' payroll levy, which could be as high as 10 per cent.) has encouraged voluntary redundancies to reduce manning levels by offering increasingly generous severance payments.

The payroll levy has since been judged too burdensome and inadequate to cover these redundancy payments and the Government has financed the consequent deficit of the Board to the tune of £45 million.

The National Docks Labour Scheme of 1967, despite its name, does not cover all the ports of this country. A shining example and often quoted "non-scheme" port is Felixstowe.

The scheme was first set up in 1946 to protect employees when, unlike now, casual labour in the dock industry was normal practice. It covers those ports largely in the west which flourished on imperial trade. It does not reflect a changed emphasis towards Europe in the flow of trade.

The functions of the National Docks

Labour Board (on which are represented employers and employees equally) are:

- (1) To maintain registers of dock workers and employers;
- (2) to regulate recruitment of dockers and their allocation to employers;
- (3) to provide training and welfare for dockers, and
- (4) to administer severance and pension schemes.

It is not used for negotiations on pay and conditions. Its activities are funded by a payroll levy of 3 per cent. in addition to an annual lump-sum levy of approximately £12 million to help with the cost of severance payments.

Running costs are high since the organisation, as it stands, fails to reflect a reduction in the number of registered dockers from a peak of 81,000 in 1955 to around 13,000 today.

The acceptance of a golden handshake has demonstrated a change in attitude to the expectation of jobs for life. It is, therefore, to be hoped that the dock workers' representatives will be able to consider reforms to the scheme even if they cannot agree to the abolition of statutory controls despite decasualisation in the industry.

They should, therefore, consider again the Board's 1982 proposals for reducing its running costs. These envisaged replacing 21 local boards with five regional bodies and substituting for the eight training centres, two training divisions. Three years ago the idea was rejected following pressure from the unofficial National Ports' Shop Stewards' Committee.

The present arrangements are not effective in preserving jobs and further place unnecessary financial burdens on the industry.

Any system which has run unmodified for 18 years while the conditions in the ports have changed, should be reviewed and improved where necessary. The National Docks Labour Scheme is no exception. Employee and employer alike could thereby benefit.

JAMES HILL
House of Commons.

Road
2917



LIVERPOOL FREEPORT

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23 July 1985

A Kent Esq.,
General Manager,
Southampton Free Trade Zone Ltd.,
Southampton Free Trade Zone,
SOUTHAMPTON
SO1 OHJ

Dear Andrew,

I sent my apologies with Budha for our meeting on Thursday, 18 July 1985 when unfortunately I was tied up with some urgent work here in Liverpool and could not make it. We had both intended to go to the meeting but I am sure that all the points that needed to be discussed were adequately covered.

I would now like to take this opportunity to put on record our views on your letter to the Cabinet office, George Kelly's paper and on issues generally arising out of the meeting.

Our view is that the Government had intended certain advantages and attractions to apply to Freeports and we feel that they should pursue this objective wholeheartedly and imaginatively, both in its concept and in its application in order to give the policy any chance of success.

We support the idea that a Freeport should be an amalgamation of all existing UK customs regimes, thus providing economies of scale especially to the smaller companies. The Freeport would then become a truly customs sterile area and at worst would be the same as any equivalent regime in the UK. Ideally, Freeports should encourage inward investment from overseas, primarily for export manufacturing, and provide positive incentives for doing so, based on jobs and wealth created by such activity. We acknowledge that goods manufactured in the Freeport but released to the UK cannot be produced in an environment that offers unfair advantage to existing UK industry who are competing in the same market.

So far as a 'shopping list' is concerned, top of our priorities would be the issue of VAT and the two aspects in the way VAT is applied in Freeports. The most obvious one is change of ownership which prevents trading of Freeport goods in the UK and we take your point of disincentives to commodity trading and the lost opportunities for increasing invisible earnings for the UK. In a more practical sense one interpretation forces overseas suppliers to register for VAT merely in order to make VAT returns without there being any actual transfer of money since input and output tax would cancel out each time.

By the same token, the UK importer who clears the goods from the Freeport and pays the import VAT finds himself having to outlay VAT twice for the same goods, once on change of ownership (supply VAT) and once on making an entry (import VAT). True, the importer gets this back on his next VAT returns but he is out of pocket by 30% of the value of the goods for some time. In a regime where we are talking of marginal cash flow advantages this is a positive disincentive. It is also significant that a recent survey (F.T. 31 May 1985) showed that 65% of all UK imports were invoiced in foreign currency.

Change of ownership may be easy to identify but would be impossible to control since Freeport operators would never discover if terms of sale included an element for supply VAT. Where or to whom does the obligation therefore lie. We should resist strongly any suggestion that all Freeport users should be registered for VAT, as indeed you seem to have done successfully. What would happen if change of ownership of Freeport goods took place between two overseas companies. The logical solution as we have long advocated to this absurd ruling would be to apply Section 35 of the 1983 VAT Act to Free Zones.

We think the other VAT issue is even more serious because it disadvantages the use of UK sourced components and British labour in 'value adding' on goods produced in the Freeport. British components added to imported goods are subject to VAT on supply and the finished product is liable to import VAT on its final value which now includes the British components and British labour cost. This is not just illogical but in fact is a positive disadvantage to locating in a UK Freeport and would encourage overseas investment to look to other EEC countries for location.

Our stand should be that the Freeport is being used to suspend import duty and VAT and therefore all that should be liable on removal from the Freeport is the import duty and VAT of the imported components. We have pointed out in previous correspondence that HMC&E actually have a way of administering this and have designed a form to facilitate identification of duty and VAT paid goods (C1339).

We support the notion that Freeports should be treated as being truly outside the customs territory of the UK and therefore also be an 'export area'. Goods from the UK coming into the Freeport for processing would thus be considered as being delivered for export.

We also contend that since one of the roles of Freeports is to process for re-export, Inward Processing Relief applications in Freeports should be waived and manufacturing and assembly of imported items for re-export in a Freeport should be carried out as a matter of course and not be subject to IPR regulations,

If the finished product is subsequently diverted to home use Duty and VAT on the imported component would be paid on exit.

So far as excise duty in the Freeport is concerned we consider that this should be part and parcel of our original comment that in a Freeport all existing UK customs regimes were automatically acquired as a matter of right and the high standard of security adds strength to this view. If required the Freeport trader looking after excise goods could put up the necessary bond as is done in Hamburg.

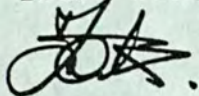
Finally, whilst we go along with the view that it would be useful to be able to offer a rate free period to overseas investors setting up a UK operation in a Freeport we would shy away from the Enterprise Zone label which has been highly discredited in the UK and we would find it difficult to support the concept locally.

I am copying this letter to the other operators and hope to be able to see all of you in the near future.

We will be grateful for a copy of the paper you will give to James Hill for his meeting with the Prime Minister and I hope that they will include most of the points we have mentioned above.

Kind regards.

Yours sincerely,



Frank Robotham
Freeport Manager

*Need
PM file
with my
recard.*

Prime Minister

YOUR MEETINGS WITH MPs TOMORROW AFTERNOON

1530 James Hill MP

I attach a briefing note from the Department of Employment about the Docks Labour Scheme which James Hill wishes to discuss.

Peter Bottomley will attend the meeting.*

The interview with the Southampton docks you recalled is attached

1600 Dennis Walters MP

TF 29/7.

Dennis Walters is bringing Lord Cledwyn and Cyril Townsend to this meeting which he requested in order to discuss various issues concerning the Middle East.

Charles Powell will attend the meeting.

1630 Ken Hargreaves MP + Sir Bernard Braine & Elaine K-Bowman

Ken Hargreaves requested a meeting with you to discuss Enoch Powell's "Protection of Unborn Children" Bill.

MA will attend this meeting.

1700 Fergus Montgomery MP

Fergus asked if he could come to talk to you about problems he has in his constituency following the Top Salaries Review Board decision. Apparently his Constituency Chairman has threatened to resign. (Fergus abstained in the vote on Tuesday night).

PS/SECRETARY OF STATE

cc PS/Mr Bottomley
Mr Johnson (o/r)
Mr Easy

DOCK LABOUR SCHEME PM'S MEETING WITH JAMES HILL MP

1 Mr Hill has been a prominent campaigner against the Dock Labour Scheme; in particular he has focussed attention on its effects on his constituency port of Southampton.

2 He is liable to concentrate on the way joint management of the labour force gives the dockers a false sense of security and an ability to exact a high price before giving up either their "job for life" or inefficient working practices.

3 More specifically he will mention the dispute over the extent to which registered dock workers (rdws) have a monopoly over certain types of warehousing work within the 'Freeport Zone' at Southampton. The issue of whether this work falls to be done by rdws is currently being considered by the National Dock Labour Board and ABP can appeal to an Industrial Tribunal if the finding goes against them.

Line to take and points to make

4 The Prime Minister is recommended to maintain the line she has previously taken on these matters. She shares most of the concerns about the Dock Labour Scheme; almost every industrial country has a particular problem with dock labour, not least because of the very great variation in labour requirements from day to day and throughout the year.

5 Tom King and Nick Ridley both made it clear a year ago that the Government has no plans to change or abolish the scheme and since then the Prime Minister has been unwilling to encourage speculation about any possible change in that position.

6 By firm management at Southampton last winter ABP achieved agreement to new working arrangements which enabled them to reduce their charges by about 25%.

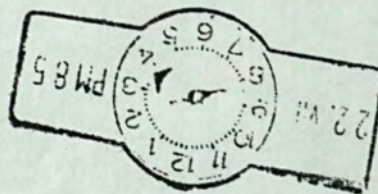
7 The law provides machinery for deciding what is and what is not dockwork and obviously the Government would expect both ABP and the dockers to honour the eventual decision on the disputed work in the Freeport Zone.

8 Dockers in Liverpool where there was potentially a similar problem have co-operated very fully in making the Freeport work.

Ted Whybrow

IR DIVISION II

E G WHYBREW
22 July 1985



RON McCULLOCK - REPORT ON SOUTHAMPTON CONTAINER PORTTranscript taken from BBC Radio 4, Today, 16 May 1985

PRESENTER: Southampton Container Port, which was threatened with closure 6 months ago, has set up a new record: in 19 hours it dealt with 1900 ton(nes) of containers, the highest turnover of cargo since the terminal opened in 1968. Ron McCullock reports from the dockside on this remarkable turnaround in Southampton's fortunes.

McCULLOCK: Today, Southampton is a thriving container dock, with its cranes, ships and lorries; it's a very busy place. But Southampton's always had a lot going for it as a port; a double high tide caused by its position in relation to the Isle of Wight, its convenience for Far Eastern trade heading for Europe, acceptable with little deviation to Channel traffic, and yet, 6 months ago, this container operation here in Southampton was at a standstill. The Port Director, Dennis Norris:

NORRIS: Our customer that told us that we were falling down in 2 respects: our price was too high, and we were not giving the service that they required. We had to do something about it, we offered a new deal to our staff which they rejected, and on 21 October 1984 those containers' births closed down. We believe that had not taken the action which we did, now we would have lost a good deal more staff than, eventually, we did lose.

McCULLOCK: But come the New Year, and the middle of February, an agreement was reached?

NORRIS: I'm pleased to say, yes. It did mean that we had to lose almost 1000 staff altogether, and the workers themselves had to take a cut in wages, but I think it was a realistic decision and it has enabled us to become competitive and start to give the service which our customers demand.

McCULLOCK: Once 420 dockers worked this container terminal, now 360 dockers do exactly the same amount of work, but at a salary reduced by about £20 a week per man. The Chief Shop Steward here is Ray Jennings. First of all, what is the general attitude to the way things have gone since everything

was everything was reconciled in February?

JENNINGS: Obviously, the men's attitude is quite good. They've proved that from the good rapports that we are getting now from the shippers, I don't think there's any problems with the attitudes.

McCULLOCK: We've seen a major change around in the way this port has been run in the last 6 months. Why has that happened?

JENNINGS: Basically, we had a situation going back to October and November where we were becoming uncompetitive with other ports, especially Felixstowe, and people like that, and we had to reduce the box rate, and the only way we could do that I suppose overall, was to reduce the wage bill.

McCULLOCK: A situation here, then, that would have been absolutely unbelievable ten years ago?

JENNINGS: Yes, probably so, but a lot of things have happened in ten years, not only in our industry. You've seen it with the miners, and the steel, every major industry probably in the country now, and probably throughout the world, is in exactly the same position.

McCULLOCK: Do you think what has happened here in Southampton will mark a change in the way docks are run throughout the whole of Britain?

JENNINGS: I think every port now is under pressure to go exactly the same way as Southampton. That's the real world, and I'm afraid you've just got to fac up to it.

McCULLOCK: And so it would seem that things are back to working order here at Southampton's container port, where the Management and workforce have come to an agreement. But what of the future? Dennis Norris again.

NORRIS: I have just come back from a visit to Taiwan, Tokyo and Hong Kong. I've seen our existing customers, and I've talked to what I hope will be new customers. I think that I was well received, and I believe now that we've got a good product to sell, and I expect to see Southampton forge ahead in the future.

McCULLOCK: Is this the end, do you think, of your industrial relations problems?

NORRIS: It has to be the end, because if it isn't, I do not

think our customers will stand for any more difficulties
at Southampton. So I've got to be optimistic, and I am
optimistic.