



DA

10 DOWNING STREET

*From the Private Secretary*

30 September 1985

Thank you for your letter of 26 September with which you enclosed a draft letter for the Prime Minister to send to James Hill MP about the application of Customs regulations in Southampton Free Port. I am afraid that the language in the draft reply is somewhat too internal to Customs to appeal to the Prime Minister and I should be grateful therefore if you could provide a revised draft making the same points in less technical language.

(Timothy Flesher)

A.W. Kuczys, Esq.,  
HM Treasury.

IP



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

Tim Flesher Esq  
10 Downing Street  
SW1

26 September 1985

*Dear Tim*

You wrote to Paul Hutt in Department of Employment on 30 July asking for a draft letter for the Prime Minister to send to James Hill MP about the application of Customs regulations in Southampton Free Port. There seems to have been some delay in our receiving a copy of your letter - we did not get one until 10 September. A draft reply for the Prime Minister is now attached.

*Yours sincerely*  
*Tony Kuczys*

A W Kuczys

James Hill Esq MP

When we met on 30 July to discuss the problems of the operation of Southampton Free Port I undertook to look into the <sup>points</sup> ~~complaints~~ which you raised about the application of customs regulations <sup>in free ports</sup> ~~which are the subject of your Early Day Motion and which you raised in the House with the Financial Secretary.~~

<sup>pointed out</sup>  
As you know, ~~VAT arrangements in free zones are designed to ensure that, like customs duty, the import VAT charge~~ <sup>the import VAT charge on imports</sup> is suspended for most goods moved into free zones; but that the domestic VAT rules apply to supplies made within them.

<sup>The suspension of</sup>  
VAT on goods imported into free zones is ~~treated as if it were a duty of customs and its suspension is~~ consistent with the similar suspension of customs duty. <sup>and</sup> ~~This suspension also reflects~~ the role of free zones in encouraging external trade. However, <sup>believes, however,</sup> the Government ~~considers~~ <sup>considers</sup> that the VAT treatment of supplies <sup>similarly be</sup> ~~within zones should, be~~ consistent with that of supplies in the domestic market. ~~This would not be the case if VAT supplies in the zone could be made between registered traders on a tax free basis.~~ It is also simpler, both administratively and procedurally for traders that all supplies within the UK, whether of goods or services, are taxed on a similar basis. This is, <sup>for example</sup> important for traders who have both free zone and non-free zone interests and for firms which trade with them. <sup>Moreover, the</sup> Normal taxation of supplies within free zones minimises any distortion of competition between the zones and the rest of the UK and the Community.

The application of VAT to supplies made within free zones should not rule out commodity trading. <sup>Under relevant Reg. 144</sup> ~~The Value Added Tax (Terminal Markets) Order 1973 (as amended)~~ allows certain supplies of goods and services made in the course of dealings on recognised commodity or terminal markets <sup>can be</sup> ~~to be~~ zero rated. The <sup>tax</sup> treatment of these supplies is unaffected by the physical location of ~~any relevant~~ <sup>so that</sup> goods and those stored in free zones may be traded under these rules.

You are also concerned because VAT and customs duty are charged on machine tools used exclusively within a free zone. <sup>in fact,</sup> All goods for use or consumption in a zone <sup>are required by EEC</sup> ~~fall to be treated under the rules to be subject to~~ ~~provisions contained in the Sixth VAT Directive 77/388/EEC and the Free Zone Directive 69/75 EEC~~ which require the payment of VAT and customs duty. Of course, any VAT paid by a trader registered in the United Kingdom may be reclaimed under the normal rules. ~~It is, therefore, not correct to regard as additional tax, any tax on subsequent supplies of products manufactured from such goods.~~

The ~~rates~~ rates of excise duty are generally higher in the United Kingdom than elsewhere in the community and excise goods, having a ready market, are susceptible to illegal diversion. The revenue risks are too great to adopt the more relaxed free zone regime of control for these goods. Warehouses may be approved for operators and users under the same policy and criteria which are applied elsewhere in the United Kingdom. These are published

in Notice 197D a copy of which I enclose.

The grant of blanket exemptions for all free zone users which you have suggested as a means of reducing repetitive paperwork, relating to Inward Processing Relief, is not permitted under Community rules. There are, however, for many different types of processing, extensive General Authorisations of which free zone operators may not be aware and the procedures for authorisation are not as complex or time consuming as may be imagined.

In general the regulations dealing with VAT and excise duties, which were fully explained in the Treasury Memorandum inviting applications from potential operators, are the minimum necessary to safeguard the revenue and to meet our European obligations. Operators are able to refer any problems to the Free Zone Steering Committee on which Customs are represented.

pm; meeting J Hill mt; July 1985



10 DOWNING STREET

*From the Private Secretary*

2 September 1985

It looks from our files as if you already have a copy of Tim Flesher's note of the meeting with Mr. James Hill on 30 July. But, in case there has been a slip up, I attach a further copy of that note, together with a copy of the letter the Prime Minister sent Mr. Hill, following the meeting, on 9 August.

I am copying this letter to Chris Snell (Department of Employment), who will be able to help you with further background if necessary.

Mark Addison

Leigh Lewis, Esq.,  
Office of the Minister without Portfolio



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10 DOWNING STREET

THE PRIME MINISTER

9 August 1985

Dear James.

At our meeting on 30 July you raised two specific points about reducing the impact of the Dock Labour Scheme on the Southampton freeport. I have given these further thought with Peter Bottomley but I am afraid I can see no way of meeting them at present.

You argued for the introduction of independent members onto the National and Local Dock Labour Boards to break the union veto over the Scheme. As you know, both the Chairman and Vice-Chairman of the National Board are independent in the sense that they are appointed by the Secretary of State for Employment and the present officers have in fact shown a degree of independence of mind which has not endeared them to the employers and union representatives. I recognise of course that, like the four formally independent members, they draw in equal measure on employer and union backgrounds but given current attitudes in the industry it is probably not possible to alter the balance within the framework of the existing scheme.

Your second suggestion was for a formal review of the extent of the National Dock Labour Scheme itself and its impact on freeports. We made it clear at the time of the National dock strike last year that there were no plans to change or abolish the Scheme and I would not wish to encourage speculation that this position has altered. On the particular question of a possible new general definition

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of dock work, while we all accept that present definitions are antiquated, any up-dating risks the adverse effect of extending the Scheme's jurisdiction in some ports. But as Peter Bottomley explained, it remains open to employers to conduct direct negotiations with the union to produce workable agreements on this matter, as has happened in Liverpool, and indeed on more general issues in Southampton.

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I shall be replying further on the points on taxation of freeports which you also raised at our meeting.

Yours  
Raymond

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James Hill, Esq., M.P.



Parliamentary Under  
Secretary of State

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Tim Flesher Esq  
Private Secretary  
10 Downing Street  
LONDON SW1

7 August 1985

*Dear Tim*

Thank you for your letter of 30 July following the Prime Minister's meeting with Mr James Hill MP on the Southampton docks and freeport.

... As requested I enclose a draft letter - cleared by Mr Peter Bottomley - that the Prime Minister might send to Mr Hill. I am copying this letter and enclosure to Vivian Life in the Financial Secretary's office.

*Yours sincerely*

PAUL HUTT  
Private Secretary

DRAFT LETTER FROM THE PRIME MINISTER TO MR JAMES HILL MP

ATP

At our meeting on 30 July you raised two specific points about reducing the impact of <sup>the</sup> Dock Labour Scheme on the Southampton freeport. I have given these further thought with Peter Bottomley but I am afraid I can see no way of meeting them at present.

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definitions are antiquated, any up-dating risks the adverse effect of extending the Scheme's jurisdiction in some ports. But as Peter Bottomley explained, it remains open to employers to conduct direct negotiations with the union to produce workable agreements on this matter, as has happened in Liverpool, and indeed on more general issues in Southampton.