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PRIME MINISTER

The way this is being handled is ridiculous. You are being asked to undertake flip-flop arbitration, choosing between the Chancellor's position, i.e. costs being recovered as and when income arising from the film is received; or Mr. Tebbit's position which is now that costs should be recovered according to a fixed profile, 25 per cent, 50 per cent, 25 per cent.

It is difficult for you to arbitrate as you do not know the costs of Mr. Tebbit's new option or whether the Treasury would be prepared to accept some even smaller departure from its principle.

You may wish to decide now that the Treasury position is correct.

Alternatively, I could ask Treasury and DTI to discuss their positions during tomorrow and put back to you tomorrow evening a costing of 25/50/25, and a statement of the fiscal positions of the two sides. You can then rule overnight.

- (i) Do you wish to rule now? or
- (ii) ✓ Do you want further clarification of the positions of the two sides?

Attached are:

- (a) minute from Mr. Tebbit
- (b) letter from Chancellor
- (c) note on Mr. Baker's views
- (d) minute from Home Secretary
- (e) Policy Unit note.
- (f) Paper by officials.

ANDREW TURNBULL

3 July, 1984

CONFIDENTIAL



file
to Bob Young
BM

10 DOWNING STREET

From the Private Secretary

4 July 1984

Dear Andrew.

Taxation of the Film Industry

The Prime Minister has seen the Chancellor's letter of 2 July to your Secretary of State and his minute to her of 3 July. She finds it difficult to give a view on the issues raised until she knows first, the cost of the 25-50-25% proposal and secondly, whether the Treasury are prepared to agree to some fixed write-off profile or whether they believe that any move from the principle of cost recovery would be excessively damaging.

The Prime Minister would like this information, preferably in the form of a single note prepared jointly by the Treasury and yourselves, to reach her by close today so that she can come to a conclusion overnight.

I am copying this letter to Margaret O'Mara (HM Treasury), Peter Ricketts (Foreign and Commonwealth Office), Hugh Taylor (Home Office) and Mary Brown (Lord Gowrie's Office).

Yours sincerely

Andrew Turnbull

(Andrew Turnbull)

Andrew Lansley, Esq.,
Department of Trade and Industry

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PRIME MINISTER

The Film Industry

I have no wish to get involved in the technical arguments raging between the Treasury and DTI.

However, I thought I should draw to your attention the view held by Kenneth Baker - and which I do believe is more than just special pleading - that if the film industry gets no concession, they will not be slow to blame any loss of business (however caused) on to the Government and on to you. And they can be a vociferous lobby and it will be easy for the press to tow the line offered by successful and glamorous film producers.

SS

STEPHEN SHERBOURNE

3.7.84