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cc: D. Tad.
Norman Lamont.

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10 DOWNING STREET

THE PRIME MINISTER

25 November, 1982

Dear Mr. Atkinson,

Thank you for your letter of 28 October about depreciation allowances.

I have carefully considered your arguments for linking allowances to orders placed in UK or Community shipyards but regret to say that there would be serious drawbacks in subjecting depreciation allowances to the kind of restrictions you have proposed.

The primary aim of accelerated depreciation allowances in whatever industry they apply is to encourage investment by that industry for its own benefit. To this end firms need the freedom to buy their capital equipment on the best terms available wherever such terms are on offer. This freedom is all the more important in industries such as shipping where the market is truly international. The restrictions you suggest would diminish the benefit of the allowance to the shipping industry. The Chancellor recently made it clear that he would not consider introducing a system of differential capital allowances favouring British manufacturers because of the need to have regard to the purpose of capital allowances and to our international agreements. At the same time British shipowners are, as you know, fully conscious of the advantage of building in British yards if the terms are competitive and I understand that over the last three years some 60% of British Shipbuilders' orders were from UK owners.

/ I am sorry

SD

I am sorry I cannot hold out the prospect of changing the rules on depreciation allowances in the way you suggest. I know however that Norman Lamont is constantly looking for possible ways of increasing the effectiveness of Government support for ship-building and that this topic is frequently discussed between you.

Y
ours sincerely

Robert Atkinson

Robert Atkinson, Esq., DSC RD

CONFIDENTIAL

Not Done



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From the
Minister of State

Norman Lamont MP

Michael Scholar Esq
Private Secretary
10 Downing Street
London SW1

23 November 1982

Dear Michael

Thank you for your letter of 2 November.

Mr Atkinson's proposals on depreciation allowances, in his letter to the Prime Minister, were discussed between Mr Lamont and Mr Sproat on 16 November in the context of a joint examination we have in hand of possible ways of improving the effectiveness of shipbuilding aids. They concluded that the case against Mr Atkinson's ideas was decisive for the reasons set out in the enclosed draft letter for No.10 to send to Mr Atkinson.

Mr Atkinson's suggestion that British Shipbuilders' difficulties stem largely from unfair competition is misleading. He has himself said privately that the quality of British Shipbuilders' product is not wholly satisfactory. Much of the gap between BS and Far Eastern prices could be made up if BS were able to match the Japanese and Koreans on construction times. Moreover BS enjoys a high level of government support; while in public statements we suggest that BS lies somewhere in the middle of the league as aid recipients they would be much nearer the top if all forms of Government support for the industry were taken into account.

I am sending a copy of these papers to Ruth Thompson.

Yours,
John

JOHN ALFY
Private Secretary



PM type for PM

DRAFT LETTER FOR THE PRIME MINISTER TO SEND TO

R Atkinson Esq
Chairman
British Shipbuilders
Benton House
136 Sandyford road
Newcastle Upon Tyne
NE2 1QE

[(If from Private Secretary) -

~~Further to my letter of 2 November the Prime Minister has now seen and asked me to reply to your letter of 28 October about depreciation allowances.]~~

[(If from the Prime Minister) -

Thank you for your letter of 28 October about depreciation allowances.]

I have carefully considered your arguments for linking allowances to orders placed in UK or Community shipyards but regret to say that there would be serious drawbacks in subjecting depreciation allowances to the kind of restrictions you have proposed.

The primary aim of accelerated depreciation allowances in whatever industry they apply is to encourage investment by that industry for its own benefit. To this end firms need the freedom to buy their capital equipment on the best terms available wherever such terms are on offer. This freedom is all the more important in industries such as shipping where the market is truly international. The restrictions you suggest would diminish



the benefit of the allowance to the shipping industry, and I am sure they would be firmly opposed to them. The Chancellor recently made it clear that he would not consider introducing a system of differential capital allowances favouring British manufacturers because of the need to have regard to the purpose of capital allowances and to our international agreements. At the same time British shipowners are, as you know, fully conscious of the advantage of building in British yards if the terms are competitive and I understand that over the last three years some 60% of British Shipbuilders' orders were from UK owners.

I am sorry I cannot hold out the prospect of changing the rules on depreciation allowances in the way you suggest. I know however that Norman Lamont is constantly looking for possible ways of increasing the effectiveness of Government support for shipbuilding and that this topic is frequently discussed between you.

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COMMUNICATIONS

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10 DOWNING STREET

From the Private Secretary

2 November 1982

Dear John,

Thank you for your letter of 28 October about British Shipbuilders' decision to retain the Middle Dock facilities at South Shields. I showed this to the Prime Minister over the weekend.

The Prime Minister minuted that we must view any advice from British Shipbuilders with the utmost scepticism; they had shown themselves to be totally unreliable. She has asked me to tell the Chairman of her views on this episode - particularly in view of the fact that British Shipbuilders' advice was given in response to a Member of Parliament's enquiry.

We have discussed this, and you have assured me your Minister will let Mr. Atkinson know the Prime Minister's views.

I enclose a copy of a letter which the Prime Minister has received from Mr. Atkinson about depreciation allowances to ship owners building new ships in the UK.

I enclose, too, a copy of the letter which I have sent to Mr. Atkinson in acknowledgement of this letter. I should be grateful if you could let me have advice on what action, if any, the Prime Minister might take, and for your comments on the British Shipbuilders' note.

Yours sincerely,

Michael Scholar

John Alty Esq
Department of Industry.

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10 DOWNING STREET

From the Private Secretary

2 November 1982

Dear Mr. Atkinson,

Thank you for your letter of 28 October to Robin Butler with which you enclosed a note on the case for confining 100 per cent depreciation allowances to ship owners building new ships in the UK.

I shall show this to the Prime Minister at the earliest opportunity, and I know that she will be most interested; as you say, during the discussion on the Atlantic Conveyor on 27 July she expressed interest in these points.

Yours sincerely,

Michael Scholar

Robert Atkinson Esq DSC RD.



British Shipbuilders

Chairman
Robert Atkinson DSC** RD

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London England SW7 1RB
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Telex: 8814702 BSBLDR G

ra/mw/1028/1
28 October, 1982

F.E.R. Butler, Esq.,
Principal Private Secretary to the Prime Minister,
Prime Minister's Office,
10 Downing Street,
LONDON SW1.

Prime Minister (4)

*I have acknowledged
and asked her Do?
for comments.*

mt

Dear Mr Butler,

Mrs 2/11

When we met with the Prime Minister in her office at the House of Commons on 27 July and during the discussion on the Atlantic Conveyor replacement, she asked for a note to be taken on the need to confine 100% (free) depreciation allowances to shipowners building new ships in the U.K. The Prime Minister seemed rather surprised that such an allowance was available regardless of where the vessel was built.

The Prime Minister's recent public statement of encouragement to buy British in support of the motor car and the steel industry would be further bolstered if British shipowners were similarly encouraged to invest in new U.K. built ships. You will realise that, whilst motor cars will support the the sheet steel industry in South Wales, British Shipbuilders is British Steel's largest customer in steel plates and heavy sections, the mills for which are situated in the North and in Scotland. Without our total support, which they receive, those mills would be in a sorry state.

Whilst our quality is not questioned, the main problem lies with Korea/Japan who are quoting false prices approximately equal to European material prices (not U.K.). That means that even if we pay no overheads and no wages at all we just compete. Recalling that in excess of 60% of a ship's cost is "bought out" material this represents an attack on British industry and has little to do with competitiveness or productivity. The latter, I am glad to say is improving, but it needs to improve a lot more and much more quickly.

If British shipowners were encouraged to place their tonnage in Great Britain instead of abroad we would need a shipbuilding industry significantly larger than we now have and the serious decline in the U.K. fleet would also be arrested. That would be also a fillip for our many British suppliers in the private sector.

Reflecting on this, I thought the attached note might be helpful to your office, should the Prime Minister decide to pursue this point during the new Parliamentary session, or with us should further clarification be required.

*Yours sincerely,
Robert Atkinson*

ROBERT ATKINSON

cc. N. Lamont, Esq., MP

INVESTMENT INCENTIVES

1. A number of shipping countries, both inside and outside the EEC, have arrangements which relieve taxation on shipowners' investment in ships or give investment grants for new ships. The indirect benefit to the shipbuilding industries of such schemes is greatest in those countries which have the highest proportion of their flag ships constructed in home yards. Of orders placed by UK owners, the percentage placed in the UK is relatively low. Hence, in this country, free depreciation has tended to benefit the UK shipping industry, to a greater extent than the UK shipbuilding industry. That this is so is unfortunate because the British shipbuilding industry, despite severe contraction, is still able to provide the complete range of ships required by UK owners; though the relatively smaller size of the industry now restricts the availability of berths for UK-build at times of even moderate world-wide demand, e.g. 1981.
2. From the point of view of HMG this situation must seem regrettable because with every effort being made to restrain public expenditure, in effect, public money is being "exported" to support foreign shipbuilding industries, particularly in Japan and Korea. It seems, appropriate, therefore, that free depreciation, applicable only to the shipping industry in the UK, should be limited to ships purchased in the EEC, and preferably, in practice, to UK yards.
3. It may be argued that the aim of reducing public expenditure in this manner could be held to breach Article 3 of GATT, but the position is unclear. Fiscal measures, apart from VAT, do not seem to have been subjected lately to scrutiny in the context of GATT. Certainly it is true, in general, that various forms of accelerated depreciation, tax free reserves, and investment grants available in other countries to the shipping industries tend to be restricted to ordering for own-flag, and in practice to orders placed in home yards. For instance, refunds under the Dutch Investment Account Act (WIR) are subject to the requirement that a Dutch yard must have been invited to tender and if possible the ship should be Dutch built.

4. In so far as restrictions of free depreciation in this way and at this time might be held to be damaging to the UK shipping industry, an alternative might be the following. The General Council of British Shipping, supported by BS, has asked for 40% additional investment allowances to be granted for a three-year period, limited to ships ordered in EEC yards. If HMG considered that this extra support (costing around £100m p.a. in deferred tax revenue) was desirable, this would enable a "two-tier" system to be created. Free depreciation would be available to UK shipowners ordering anywhere in the world; but the 40% additional investment allowances would only be available for ships ordered in EEC yards, and again, in practice, to UK yards.

Recommendations

- (a) HMG to consider, in the next Finance Act, restructuring free depreciation for UK shipowners to restrict this concession to ships ordered in EEC yards, and, in practice, UK yards.
- (b) Failing the above, HMG to consider acceding to the request already made by GCBS and BS to introduce, for a three-year period 40% investment allowances for ships built in EEC (in practice in UK) yards; thus introducing a "two-tier" system which only discriminated against non-EEC ship ordering in the second tier of support.

RA

ROBERT ATKINSON
28 October 1982

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