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

2 April 1984

The Rt Hon Norman Tebbit MP
Secretary of State for Trade
and Industry

Dear Secretary of State,

**CAPITAL ALLOWANCES:
TRANSITIONAL ARRANGEMENTS FOR CERTAIN REGIONAL PROJECTS**

You wrote to me on 27 March about the Commission's challenge to the transitional arrangements we are making in our capital allowance system.

It is disappointing that this problem has arisen but I agree with your proposed approach although I would like to suggest a slightly different presentation. I doubt whether Commission officials will find the present reply very convincing. They may say that it misses the point, which is that the restriction of the transitional arrangements to certain regional projects constitutes the regional aid. I think that our reply should emphasise that no-one will be receiving any extra money and that the level of capital allowances in the regions will be much less on future projects. The defensive briefing should be that the arrangements are transitional and will affect only past projects which the Government is committed to assist.

The enclosed note sets out the terms in which, I believe, we should frame our reply. It is based on points (i)-(iv) of your letter. My officials are available to discuss with yours drafting of the briefing of the Counsellor (Industry).

Copies of this letter go to those who received yours.

Yours sincerely,

Margaret O'Hara

NIGEL LAWSON

*(Approved by the Chancellor
and signed in his absence)*

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Terms of Reply

(i) This is not a new aid. None of these projects will receive anything extra to that already negotiated and accepted as being within the rules.

(ii) Future projects will receive a much reduced level of capital allowances.

Defensive

(iii) Future rates of capital allowances and corporation tax will apply nationally.

(iv) The proposals are merely transitional arrangements. Certain projects which received offers of Government assistance (within the rules) before the Budget will continue to receive the pre-Budget level of capital allowances. These have never been challenged previously and their continuance cannot suddenly become an aid.

Ex 101: Budget Pt 23

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SECRETARY OF STATE FOR TRADE AND INDUSTRY

Capital Allowances: Transitional Arrangements for Certain Regional
Projects - Handling of the Commission

See Part 23

1. Thank you for copying to me your letter of 27 March to Nigel Lawson.

2. I agree with your conclusion that we should do all we can to persuade the Commission that the transitional arrangements announced by Nigel Lawson in the budget do not constitute an aid and are not notifiable. I also agree that we should not mention Nissan in any approach to the Commission.

3. My only reservation is about the tactics we should adopt. I very much doubt whether a short letter and low key approach by Counsellor(Industry) in UKRep Brussels will persuade the Commission to drop their request. A decision to drop the case, now that formal request for notification has been made, would have to come from Commissioner Andriessen himself. I am reinforced in this view by the outcome of a recent European Court case brought by Germany against the Commission for their failure to consult other Member States before agreeing a Belgian proposal to increase state aid to their textile industry. The Court ruled that the Commission decision should be nullified. As a result, DG IV officials are now particularly nervous about exercising any discretion.

4. I suggest therefore that Sir Michael Butler should be instructed to have a word with Andriessen, drawing on a speaking note to be agreed between our officials. We should not write to the Commission at this stage. Depending on the outcome of that approach - which clearly should be

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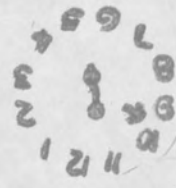
made in the course of next week - we can determine whether further political lobbying (perhaps at Ministerial level) is required. We should not give the Commission the impression that their request causes us particular concern. For that reason, I suggest that we hold Ministerial intervention in reserve for the moment.

5. Copies of this minute go to the Prime Minister, the Chancellor of the Exchequer and to Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office
2 April 1984

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Budget
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Secretary of State for Trade and Industry

9 April 1984

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Whitehall
London SW1

D Geoffrey,

CAPITAL ALLOWANCES: TRANSITIONAL ARRANGEMENTS FOR CERTAIN
REGIONAL PROJECTS - HANDLING OF THE COMMISSION

Thank you for your minute of 2 April. I have also seen Nigel
Lawson's letter of the same date.

2 I am a little concerned that our desire not to give the
Commission the impression that their request causes us particular
concern might be a little inconsistent with instructing Sir
Michael Butler to speak to Andriessen. But I am content to be
guided by your advice.

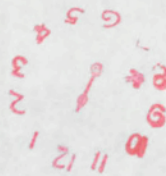
3 My officials will be circulating shortly, for clearance by
officials at the Treasury, Foreign and Commonwealth Office and
Cabinet Office, a draft speaking note for Sir Michael Butler to
draw on.

4 I am copying this letter to the Prime Minister, the Chancellor
of the Exchequer and Sir Robert Armstrong.

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