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Treasury Chambers, Parliament Street, SW1P 3AG
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20 March 1984

The Rt. Hon. Nicholas Ridley MP
Secretary of State for Transport
Department of Transport
2 Marsham Street
LONDON
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John Vink

attached

Thank you for your letter of 7 March and for your support for the general thrust of my Budget proposals.

While I am sure that industry as a whole will benefit from the Budget, there are bound to be some losers, as you say, and shipping will be one of them. But I do not think we should exaggerate the extent of its loss. In the light of your letter I have looked again very carefully at the impact of the Budget on this sector and apart from the overall effect of my proposals on the economy, I think there are some features which are worth stressing.

First there are some tax-paying shipping companies who will benefit from the cuts in tax rates.

Second, the impact of the reduction in the rate of capital allowances will be more muted in the case of assets with long lives - such as ships - than for those with short lives. This will apply to companies which are tax-exhausted as well as to those paying tax. For example, I expect tax-based leasing to continue for tax-exhausted companies, albeit on rather less favourable terms. Moreover, because of the phasing of the reductions in first year allowances and in the rates of tax, investment during 1984-85, whether undertaken directly or via leasing, will be especially profitable and the shipping industry will be well able to take advantage of this transitional effect.

I agree that the shipping industry has more to lose than others in that free depreciation for new ships will effectively come to an end. On the other hand, the industry does not now qualify for stock relief so they have nothing to lose on that account. In fact, the main effect of free depreciation is to enable the conglomerates to be more tax-efficient by making the best use of their shipping capital allowances in the non-shipping parts of their groups.

We should also be able to point out that I have taken care to ease the position of certain industries, such as shipping, where assets may take several years to construct. As from next year we shall be changing the timing of entitlement to annual allowances, from when the asset is brought into use to when the expenditure is incurred, while my proposals to limit forestalling expenditure solely to qualify for a higher rate of allowances not merely protect stage payments but are slanted in favour of assets with the longest lead times.



Hence, while I accept that in general shipping companies are unlikely to gain immediately from the Budget, we are by no means without arguments, both from the wider economic viewpoint and on the immediate impact on shipping, to counter the wilder claims we are likely to hear from the industry.

I have also given some further thought to the inclusion of shipping in the Business Expansion Scheme but I am afraid I see real problems in doing so. As you will have heard, apart from excluding farming, I have decided to make no changes to the Scheme this year, partly to give it time to settle down and partly because I want to undertake a full review before considering amending it any further. To allow one activity in now would substantially intensify the pressure for further changes this year.

More generally, I am not convinced that there is a case on merits for including shipping. John Moore set out some of the difficulties in his letter to you on 7 February. I shall mention just three here.

First, the BES does not discriminate against shipping as such. It is simply excluded along with all other companies whose activities consist to a substantial extent of leasing or letting assets on hire. If we were now to let in shipping (albeit short-term chartering only), there would be no logical justification for resisting requests to let in similar trades such as aircraft chartering, plant and car hire, leasing and letting (including property) generally.

As you will know better than I, it was recognised from the outset that there was, inevitably, an element of rough justice in all of this. The Scheme is for trades where the risk is at least to some extent commensurate with the very generous level of relief. We have not suggested that all of those trades (including some forms of ship chartering) where there is leasing or letting of assets on hire are necessarily risk-free. But the opportunities for laying off the risk, together with the security of the underlying asset, mean that by and large such trades as a class are less risky than other trades.

Second, it is a fundamental aim of the Scheme to encourage additional and direct economic activity here in the UK. It would be difficult for us to reconcile these aims with relief for a company whose main asset was a ship which might have been built abroad, possibly engaged wholly in third country trade, and not necessarily (apart from the officers) manned by a UK crew.

Finally, though there is no limitation in the legislation itself on the size of the company, the Scheme generally is intended to promote investment in small and medium-sized companies, rather than in larger companies such as those which are generally to be found in the shipping industry.

Thus, while I shall certainly be happy to look at your points on the BES again when we review the Scheme, I must say that I am not at present convinced that shipping should be brought within its scope.

I am copying this letter to the Prime Minister.

A handwritten signature in dark ink, appearing to read 'Nigel Lawson', written in a cursive style.

NIGEL LAWSON

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