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PRIME MINISTER

SHIPPING: PANAMANIAN FREIGHT TAX

We have a long-standing problem concerning British shipping trading to and from Panama, which intense efforts by our Embassy in Panama City and by Inland Revenue officials have failed to resolve, and which is now coming to a head.

In 1979 the Panamanians introduced a tax of 5% on the revenue arising from the carriage of goods by sea to or from Panama. The tax was plainly discriminatory in that it applied only to non-Panamanian vessels. But there is provision for exemption from the tax for vessels whose flag states impose no comparable tax on Panamanian vessels. Since the UK imposes no freight tax on any vessel, there is a good case for our flag vessels to receive the exemption provided for in Panamanian law. However, the Panamanian Government has not, so far, been prepared to exempt British ships; they consider our Corporation Tax to be a tax on companies using the Panamanian flag.

The consequences for our lines have been that one has withdrawn from the trade, another has transferred five vessels from the UK flag to the Panamanian flag in order to escape the tax, and a third continues to incur liability to the tax. This position is plainly unsatisfactory and needs to be resolved. An incentive to do so speedily is that we may still be able to prevent a sixth vessel, currently under construction, from being lost to the UK flag.

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The Minister of State, Foreign and Commonwealth Office, was able to express to the Panamanian Finance Minister HMG's concern over this problem during her visit of 12-15 November, and received assurances that the matter would be reviewed urgently by the Panamanian authorities. Our Ambassador in Panama City has been instructed to follow this up. But it is now clear that, having dragged their heels for four years, the Panamanians are showing little readiness to act promptly now.

I have, under S14 of the Merchant Shipping Act 1974, powers to take counter-measures where the actions of foreign governments damage or threaten to damage UK shipping interests. These powers could take the form of excluding under S14(3) all Panamanian vessels from loading or discharging cargoes at UK ports, but this would be a draconian step, out of proportion to the damage which the Panamanians have so far done to our shipping. S14(3) also enables me to impose charges on Panamanian vessels calling at UK ports (subject to affirmative resolution of both Houses). This is the power which is most appropriate to use, in the circumstances of the present case, if the Panamanians persist. Accordingly, I have asked officials here to consider such charges with other interested Departments so we can be ready to impose them if the need arises.

However, I recommend that our response to Panamanian measures should be graduated and that, before we move to the point of taking counter-measures, we should give the Panamanians a clear signal that we mean business. I would envisage doing this by making an order under S14(2) of the Merchant Shipping Act 1974. The Act permits me to make such an order for the purpose of determining what further

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action to take in this case, subject to negative resolution in either House. It would be addressed to the Masters of Panamanian vessels calling at UK ports and to others carrying on a trade or business in the United Kingdom. It would require such persons to provide information about the numbers of calls at UK ports made by Panamanian vessels and the value, origin and destination of cargo loaded or discharged.

The making of such an order would not prevent our taking more substantial counter-measures if necessary in due course, and it would be a clear signal that we were contemplating doing so. I think this is the right sort of signal to send to the Panamanians at this stage and would therefore welcome your agreement, and that of colleagues, to my pursuing this course. Although I would not expect an order to come into force before the middle of January, I should be glad of your agreement now to my taking this action under S14(2), so that I can hold the necessary consultations with outside bodies before making the order. And I should also be glad of your agreement that if the S14(2) order does not cause the Panamanians to lift the impost within a reasonable period, then I should proceed with a S14(3) order imposing suitable charges on Panamanian vessels visiting British ports.

I am copying this to the Foreign and Commonwealth Secretary, the other members of E(A) and to Sir Robert Armstrong.



NICHOLAS RIDLEY

30 December 1983

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Chancellor of the Duchy of Lancaster

Secretary of State for Transport

SHIPPING: PANAMANIAN FREIGHT TAX

Thank you for copying to me your minute of 30 December to the Prime Minister.

It would be interesting to know whether Corporation Tax is in fact charged on companies using the Panamanian flag - or whether it is simply a theoretical as opposed to a practical liability. The vigour of our response needs to be judged in the light of this.

I am copying this to the recipients of your minute.

A.C.

A C

9 January 1984

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29 JAN 1984



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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

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The Rt Hon Nicholas Ridley MP
Secretary of State for Transport
2 Marsham Street
LONDON
SW1P 3EB

16 January 1984

Nicholas Ridley

SHIPPING: PANAMANIAN FREIGHT TAX

I have seen a copy of your minute of 30 December to the Prime Minister about the countermeasures we might take against the Panamanian Government for their refusal to exempt British ships from the freight tax levied on non-Panamanian vessels carrying goods to or from Panamanian ports. I have also seen Nigel Lawson's minute of 11 January.

I sympathise with your wish to take action. But it is difficult to judge the likely effect of imposing charges on Panamanian vessels visiting British ports until we have a better idea of how much of our trade is carried by Panamanian shipping. The action you propose under Section 14(2) of the Merchant Shipping Act 1974 - and in particular the consultations you will have with outside bodies - should provide the answer. I should prefer, therefore, to reserve judgment on action under Section 14(3) until this information and the views of interested parties are available.

I am copying this letter to the Prime Minister and other members of E(A), Geoffrey Howe and Sir Robert Armstrong.

Michael Jopling

MICHAEL JOPLING

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16 JAN 1984