

070



CONFIDENTIAL

PM/84/14

PRIME MINISTER

*with AT*

Shipping: Panamanian Freight Tax

1. I have seen a copy of Nicholas Ridley's minute of 30 December to you. I agree that the tax imposed by the Panamanians is unacceptable, and that we must seek an urgent solution to the problem, not least in order to avoid further losses to the UK flag.
2. The subject was raised by Lady Young during a visit to Panama in November, and was followed up on 21 December, when HM Ambassador called on the Minister to reiterate our arguments. Both approaches were well received. The Minister indicated his wish to get rid of this irritant to our commercial relations. A response from the Panamanians is now promised for next week.
3. In the circumstances, I recommend that we should not introduce an information order at this stage, but that it would be preferable to allow a little more time for the current diplomatic initiative to produce results. If the Panamanians have not responded positively by the end of January, then I agree that an information order would be appropriate at that time.
4. I notice that Nicholas Ridley considers punitive action under Section 14(3) of the Merchant Shipping Act as the next logical step after an information order. I agree that it is right to consider what further measures might be taken, including the imposition of charges. In doing so however, I believe that we should also identify and take into account areas where we might be vulnerable to retaliatory action (we have a favourable trade balance with Panama, our shipping is a significant user of the Panama Canal, and the Panamanian flag is used by shipowners from many of our closest allies).

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/I recommend



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I recommend therefore that if eventually it becomes necessary to take direct action against Panamanian ships, this should be undertaken with great caution, and only after all the risks have been carefully evaluated. In that event we should also seek the support of OECD or EC partners who may be similarly affected, with a view to taking concerted action.

5. I am copying this minute to the recipients of Nicholas Ridley's.

A handwritten signature in black ink, consisting of a stylized 'G' followed by a series of loops and a final flourish.

GEOFFREY HOWE

Foreign and Commonwealth Office

16 January 1984

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7 JAN 1984

