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P.0981

PRIME MINISTER

Northern Ireland: a new economic initiative

(E(83)6)

BACKGROUND

On 8 September 1982 the Committee considered a proposal by Mr Prior that there should be a new economic initiative in Northern Ireland (E(82)20th Meeting). Ministers were sympathetic to the Secretary of State's wish to announce new measures to assist the Northern Irish economy, but rejected one of his main proposals - a lower National Insurance Surcharge in Northern Ireland - and saw major difficulties in the other - a Corporation Tax Relief Grant. The Committee invited the Secretary of State to consider ways of increasing the assistance to Irish industry and commerce which would be less likely to provoke demands for similar treatment in Great Britain; and endorsed his efforts to hold down wages in Northern Ireland, relative to Great Britain, wherever possible.

2. In E(83)6, the Secretary of State for Northern Ireland:
 - a. argues that, on economic, political and security grounds, there remains a powerful case for new measures to assist Northern Ireland;
 - b. reports action in hand on a number of subsidiary proposals to strengthen the Northern Ireland economy, and in reducing relative wage levels;
 - c. proposes again that the Government should introduce a Corporation Tax Relief Grant, a detailed scheme for which officials have now worked out;
 - d. proposes that industrial property should be completely derated in Northern Ireland and that an energy conservation scheme should be introduced; but that some of the other measures suggested in discussion last September (for example a transport subsidy) should not be further pursued.

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MAIN ISSUES

3. The Committee is asked to approve the following three main proposals:
- i. the introduction of a Corporation Tax Relief Grant in Northern Ireland;
 - ii. an increase in the derating of industrial property in Northern Ireland from 75 per cent to 100 per cent;
 - iii. the introduction of an energy conservation scheme in Northern Ireland.

You may also want the Committee to look again at the scope for reducing relative wage levels in Northern Ireland.

Corporation Tax Relief Grant (CTRG)

4. Mr Prior proposes that grant should be payable to reimburse up to 80 per cent of the corporation tax paid on profits arising in Northern Ireland. It would however be given only as a discretionary element in a selective financial assistance package, agreed between the Industrial Development Board or the Local Enterprise Development Unit and a potential investor. The amount of grant would depend on companies' success in meeting agreed job targets.

5. The Committee will need to be satisfied that the objections which it saw to this proposal last September have been met, ie:

i. that it amounts to having different tax rates in different parts of the United Kingdom;

(the reply is that the highly selective and discretionary nature of the grant avoids this difficulty; and that the Inland Revenue sees no operational problem)

ii. that it would provoke demands for similar arrangements in other parts of the United Kingdom;

(the reply is that specially generous incentives in Northern Ireland are


CONFIDENTIAL

already accepted as justified; but the Secretaries of State for Scotland and Wales in particular will need to confirm that they see no difficulty)

iii. that it would require elaborate policing to prevent profit-shunting; (the reply is that satisfactory measures have now been worked out, although past experience suggests that Northern Irish departments and agencies tend not to have a strong enough bargaining position with potential investors or enough skill to impose and enforce tough conditions)

iv. that an incentive linked to profits would have a random effect; (the reply is that the grant is to be linked to achievement of job targets as well as profits; and that it is desirable to attract investors who are confident of their future profitability).

6. If the Committee accept that there are no serious objections to the proposal, they will finally need to satisfy themselves that Mr Prior is right in his belief that the new grant will be an attractive addition to Northern Ireland's shop window for potential investors.

Industrial derating

7. Industrial property is already 75 per cent derated in Northern Ireland, as compared with 50 per cent in Scotland, and no derating in England and Wales since 1963. The Committee saw no difficulty last September in an extension of industrial derating in Northern Ireland. They will however need to confirm that they do not think that 100 per cent industrial derating in Northern Ireland will make it difficult to resist pressure for some concession on industrial rates in Great Britain. Last September the Committee also encouraged Mr Prior to consider commercial derating in Northern Ireland but he has rejected it on cost grounds (even 25 per cent commercial derating, compared with none at present, would cost £16.6 million a year and the employment benefits are doubtful).

Energy conservation

8. Mr Prior proposes that grants should be paid, at a rate of 25 or 30 per cent



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of net cost, towards approved energy conservation schemes; and that the grant rate for converting oil fired boilers to coal should be increased to 50 per cent in Northern Ireland. (There is already a 25 per cent coal firing grant available throughout the United Kingdom; the Secretary of State for Industry has recently proposed that the closing date for applications should be extended from 31 March 1983 to 31 July 1983.) It is argued that, as well as generating employment in the construction industry, such a scheme would be consistent with national energy policy. However, as the Secretary of State for Energy may point out, the Government's general policy is that it is neither necessary nor desirable to subsidise profitable energy conservation projects; Mr Prior concedes that the scheme is a makeweight measure. The cost is estimated at around £4 million a year.

Public expenditure

9. Mr Prior proposes that he would meet the cost of industrial derating and energy conservation (about £10 million in a full year) from within the Northern Irish public expenditure block. He argues that the CTRG scheme should not lead to significant costs within the public expenditure planning period, and has undertaken that any additional expenditure generated by the CTRG in later years would be contained within the Northern Irish public expenditure block. We understand that Treasury Ministers are content with this assessment and will not oppose the Secretary of State's proposals on public expenditure grounds.

European Community

10. The proposed schemes would need to be notified to the European Commission. The Commission have hitherto been sympathetic to the problems of Northern Ireland, and it seems unlikely that they would raise serious difficulties; so far as CTRG is concerned they would no doubt bear in mind the favourable tax regime for manufacturing companies already in existence in the Irish Republic. Nevertheless, if the Committee supports the Northern Ireland Secretary's proposals it would be appropriate for officials to be instructed urgently to consider how the proposals should be cleared with the Commission. The need for notification would also have to be taken into account in any early announcement.



CONFIDENTIAL

(We understand that Mr Prior wishes to make an announcement within the next two or three weeks, although legislation would be necessary before industrial derating or a new energy conservation scheme could be introduced, and to ensure that a CTRG was not itself taxable.)

Relative wage levels in Northern Ireland

11. Last September Mr Prior undertook to do what he could to reduce wage levels in Northern Ireland relative to those elsewhere in the United Kingdom, for example by the measures discussed in the officials' report. These included directing assistance only to private sector firms which restrained wages, and trying more directly to break the link between Northern Irish and mainland wage rates in the public sector.

12. In paragraph 5 of E(85)6 Mr Prior reports that at Harland and Wolff the unions have agreed to accept "minimal wage increases" in the context of the Blue Star order. We understand that this refers to a future rather than an actual settlement and it would be useful to have Mr Prior's assessment of what the outcome is likely to be. The Committee may wish to explore whether there is more that could usefully be done about Northern Irish wage rates.

HANDLING

13. The Secretary of State for Northern Ireland will wish to introduce his proposals. You will want to invite comments from the Chief Secretary, Treasury, the Secretaries of State for Scotland, Wales and Industry (because of their regional policy responsibilities), and Mr Sparrow. The Secretary of State for Trade may wish to comment on the proposed Corporation Tax Relief Grant; the Secretary of State for the Environment on the proposal for industrial derating; and the Secretary of State for Energy on the proposed energy conservation scheme. The Secretary of State for Foreign and Commonwealth Affairs, or his representative, may wish to mention the European Community implications of Mr Prior's proposals.

CONFIDENTIAL



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CONCLUSIONS

14. You will want the Committee to reach conclusions on:

i. whether a Corporation Tax Relief Grant should be introduced in Northern Ireland on the lines of the scheme in Annex C;

ii. whether industrial derating in Northern Ireland should be increased from 75 per cent to 100 per cent;

iii. whether an energy conservation scheme should be introduced in Northern Ireland on the lines proposed in paragraph 12 of Annex E.

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