

PO - CH/NL/0209
PART A

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SECRET

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Begins: 2/3/88.

Ends: 25/5/88.



PO -CH /NL/0209



PART A

Chancellor's (Lawson) Papers:

CLEARANCE AND REPLANTING
OF WOODS FOLLOWING THE
STORM OF 1987

located following storm of 1987

Disposal Directions: 25 Year

Phelan

12/9/95.

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PO

PART A

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



From the Minister

SECRET

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament St
London
SW1P 3AG

CH/EXCHEQUER	
REC.	02 MAR 1988
ACTION	FST
COPIES TO	

2/3

Macgregor
CH/EX
2/3

2 March 1988

Dear Chancellor

*1 agree that X
to submit ✓
to submit ✓
to submit ✓*

CLEARANCE AND REPLANTING OF WOODS AFTER STORM DAMAGE

As you know, I have been corresponding with John Major about the measures needed to ensure the replanting of the storm damaged woodlands. I remain greatly concerned that the costs of the clearance plus replanting will be beyond many owners, and without the particular proposal I have made we will see considerable environmental dereliction for some time to come.

What would however make matters a good deal worse would be the proposal to take forestry out of taxation without recognising the particular situation of clearance costs in the storm damaged areas. You and I have had a brief word about it and I am now writing to confirm my concern.

The majority of owners of woodland, particularly broadleaved woodland, elect to have their woods taxed under Schedule D and under the present tax regime they would be able to offset the net cost of clearance against other income. The changes proposed would prevent this and give rise to a substantial further increase in the real costs faced by many owners. I believe that this would lead to a storm of criticism which it would be very difficult to rebut. The straightforward solution to this is to allow owners of woodland damaged by the storm to benefit from the present provisions by allowing such work to qualify for tax relief in the transitional period, and I do hope that you can agree to this.

X

I am copying this letter to Nicholas Ridley and Malcolm Rifkind.

Yours sincerely

John Macgregor

SECRET

Approved by the Minister and signed in his absence.

JOHN MacGREGOR

SECRET AND PERSONAL

FROM: T U BURGNER
DATE: 9 March 1988

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
Financial Secretary
Mr Monck
Mr Bonney
Mr Donovan
Mr Call
Mr Marshall - IR

FORESTRY - STORM DAMAGE TO WOODLANDS IN S E ENGLAND

At your meeting with Forestry Ministers to settle the details of the forestry package you undertook to confirm to Mr MacGregor the implications of what was agreed for those affected by storm damage last October.

2. In correspondence with the Chief Secretary, Mr MacGregor has been pressing for an additional grant to cover the higher costs of replanting as a result of storm damage. At your meeting, however, his main concern seemed to be to ensure that both the costs of clearing and of replanting would be covered by the transitional arrangements, ie that those concerned would be eligible for tax relief on their costs together with the existing grants scale. In fact, the position for this group is a generally favourable one. They will continue to get tax relief for costs in respect of clearing throughout the 5 year transitional period. In respect of replanting costs, provided they have an application in to the Forestry Commission before Budget Day, they will be able to choose whether to opt for the transitional arrangements (ie tax relief and the existing grant scales) or for the increased planting grants but of course without tax relief. If they have not put an application in before Budget Day (and no doubt many will be in this position), then they will be eligible only for the increased planting grants - though this may well be the favoured route in any case.

3. This combination of tax relief on clearing costs and the availability of the larger replanting grants goes a long way to giving Mr MacGregor the best of both worlds, while of course stopping short of giving both tax relief and the increased planting grants, a combination which will not be available to anyone.

4. It remains to be seen whether Mr MacGregor will pursue his correspondence in favour of an additional grant for storm damage. The likelihood is that he

SECRET AND PERSONAL

will, given his belief that considerable extra costs will be incurred in replanting and restoring the affected woods. If so, this is something he can pursue separately with the Chief Secretary. The attached draft letter, which explains the position to him, suggests that if he wants to pursue it this should be in the PES context where there will be a number of forestry issues to be sorted out in addition to any question of a further grant. This takes the issue out of the Budget context and prevents it further complicating the present package. Leaving it over until PES also means that we shall be able to take into account the initial reactions of the forestry industry to the Budget changes.

7B

T U BURGNER

SECRET AND PERSONAL

DRAFT LETTER FROM CHANCELLOR

TO: MINISTER OF AGRICULTURE

Be type final

Copied to: Secretary of State for Scotland
Secretary of State for Wales
Secretary of State for the Environment

FORESTRY - STORM DAMAGE TO WOODLANDS IN SE ENGLAND

When we met to discuss forestry a few days ago, I said that I would want to confirm how the changes which we agreed would affect commercial woodlands which suffered damage in the storms in October last year. You were particularly concerned that those affected should be covered by the transitional arrangements both for clearing and replanting.

2. I can now confirm that this will ^{*normally*} ~~indeed~~ be the position. What it means in practice is that persons who were occupiers of commercial woodlands in October will be able to claim tax relief (ie set costs against other income) in respect of clearing costs during the transitional period up to 5 April 1993. In respect of replanting costs, provided they had an application to the Forestry Commission before the Forestry Grant Scheme and Broadleaved Woodland Grant Scheme are closed to new applications on Budget Day, they will either continue to be able to claim tax relief and receive grants under the present Forestry Commission scales; or alternatively, if they have not put in an application in time or if they prefer this route, they will be eligible for the higher level of planting grants - but of course would then not be entitled simultaneously to tax relief on those costs in respect of those woodlands.

3. These transitional arrangements, by allowing a combination of tax relief on clearing costs together with the availability of the new scale of grants for replanting, seem to offer a considerable measure of generosity to the affected group. I hope that on this basis you will be content not to pursue further your earlier proposal for an additional grant for these people. Should you consider it necessary to do so, then this is something which you could pursue with the Chief Secretary in the PES context. By that time we shall have a better idea of the response of the industry generally to the new arrangements.

4. I am copying this letter to Malcolm Rifkind, Peter Walker and Nicholas Ridley.

MACG.
22/4

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



From the Minister

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON SW1P 3AG

CH/EXCHEQUER	
REC.	22 APR 1988
ACTION	CST
COPIES TO	

✓
22/4

Ch.
NB. official advice on
MAPPS 21A letter No 10,
before.
22/4

22 April 1988
[Signature]

Dear Nigel,

FORESTRY STORM DAMAGE TO WOODLANDS IN SOUTH EAST ENGLAND

Thank you for your letter of 10 March.

I am afraid I cannot let the question of additional help for those affected by the storm simply slip away. The transitional arrangements, with tax relief on clearance costs and for replanting, the old grants with tax relief or the new grants with no tax relief, do not in fact give the owners concerned anything extra. Tax relief on clearance costs would have been available to them as occupiers of woodlands on 14 March and the options of planting under the old or new grants are the same for any occupier of woodlands. Therefore the owners of storm damaged woods will be in precisely the same position as any other owner and nothing will have been done to recognise the problems they face nor to show any concern for the environmental effects of the storm.

What we have to focus on are the extra costs that the owner of storm damaged woodlands will incur compared with an owner who did not suffer such damage. You will have seen, from the paper attached to my letter of 31 December to John Major, that the Forestry Commission estimates that the additional costs for conifers and best quality broadleaves were unlikely to be less than £300 per hectare. For much of the broadleaved area they were unlikely to be less than £800 per hectare. In these circumstances, my proposed supplement for replanting of £150 per hectare for conifers and £400 for broadleaves is not over-generous.

We will need to respond to the Report on Storm Damage by the House of Commons Agriculture Committee by mid-May. They have been extremely critical of the complete lack of any assistance to owners of storm damaged woods.

/The Forest Windblow.....

The Forest Windblow Action Committee produced their report and recommendations at the end of last year. There is a limit to how much longer we can procrastinate and the delay will be recognised simply as a holding operation if we come out with a totally negative response at the end. If we ignore both the principal recommendations of this widely-representative Committee it may well lead our critics to call into question the Government's concern for the widespread and extensive damage which has been done to woodlands in south-east England.

I think it would be most regrettable if we failed to recognise and respond to the real and genuine concern over the environmental impact of this storm.

This is not something which will simply disappear, the physical reminders will be present to jog everyone's memory for a long time yet. I do strongly urge you to reconsider the situation. The sums are relatively small, but the gains, both politically and in environmental terms are very great. I am sending a copy of this letter to Nicholas Ridley.

Yours ever,
JM

JOHN MacGREGOR

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



From the Minister

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
SW1P 3AT

CH/EXCHEQUER	
REC.	23 MAY 1988
COPIES TO	CST

Ch. I think MAF have a legitimate gamble, here.

23/5

23 May 1988

I cannot go back on my 10/3 letter, Am of this nature

Dear Nigel,

STORM DAMAGED WOODLANDS - TAX RELIEF

I intend before the Recess to give our response to the House of Commons Agriculture Committee Report on the October 1987 storm. This will include information about our decision to pay a planting grant supplement to owners of storm damaged woodland to help with the substantial extra costs in preparing sites for planting and in the planting itself. I shall also be making a parallel announcement about the supplements in answer to an inspired question.

A difference of view has arisen in the course of discussions between the Forestry Commission and Inland Revenue officials on the wording of the response to the Agriculture Committee which we need to sort out swiftly if I am to make the response, as I aim, before the House rises. This concerns the treatment of expenditure incurred on storm damaged woodland under the transitional arrangements for forestry tax relief.

The Forestry Commission has, correctly in my view, assumed that all occupiers of commercial woodlands on 14 March 1988 would be entitled to Schedule D tax relief under the transitional tax arrangements for costs incurred on clearing up the storm damage. In addition such occupiers would be entitled to relief under the transitional provisions for the subsequent costs of replanting provided they did not undertake this with the aid of the higher grants now available under the Woodland Grant Scheme. Those who did so, while they would forfeit the right to claim Schedule D relief for the replanting costs, would not lose their eligibility for relief on the clearance costs. This interpretation, which we have been using publicly, is clearly borne out by the Inland Revenue press notice issued on Budget day which said:

*Mr FB.
Mr H's response to the IR press notice is also relevant. How much of merrill's?*

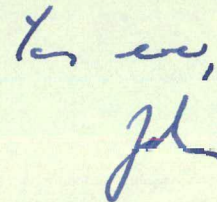
"Relief for occupiers of commercial woodlands for the costs of clearing damaged caused by last year's storm is already available under the existing tax rules and will continue to be available during the transitional period. Relief for the cost of replanting will also be available under the transitional provisions except where occupiers are receiving the increased grants in connection with replanting the woodlands concerned under the new scheme to be announced by the Forestry Commission."

Your letter to me of 10 March also said - "These transitional arrangements, by allowing a combination of tax relief on clearing costs together with the availability of the new scale of grants for replanting, seem to offer a considerable measure of generosity to the affected group." However, the Inland Revenue now seem to be interpreting the position in a way which will effectively debar woodland owners from tax relief for clearance costs as well as restocking costs if they plant any part of the woodland under the Woodland Grant Scheme.

Most of the owners concerned will follow the Woodland Grant Scheme route however as they will not have had applications under the old grant schemes in place before the Budget. Those with large woodlands would be hardest hit by the Inland Revenue interpretation since they will be unable to afford to clear up the woodland in one operation but will wish to clear and replant in stages, making Woodland Grant Scheme applications as they go along.

I hope you can look into this quickly and confirm that the position is still the same as set out in your 10 March letter. I understand that there may be a problem with the wording of the Finance Bill. If this is the case then I would have thought a simple amendment, which I am sure will have universal support, could restore the position to that agreed by us in March.

I am copying this letter to Malcolm Rifkind, Peter Walker and Nicholas Ridley.



JOHN MacGREGOR



Ch: Mr MacGregor is conducting a separate correspondence with CST about grants. This is also attached, for info. NM suggests a brief reference at the end of the draft. Content to write no proposed?

FROM: M J G ELLIOTT
DATE: 25 MAY 1988

25/5 *OK*

CHANCELLOR

**STORM DAMAGED WOODLANDS - TAX RELIEF
LETTER OF 23 MAY FROM THE MINISTER OF AGRICULTURE**

behind.

1. In his letter to you of 23 May, Mr MacGregor asks about the position of woodland occupiers, who incur expenditure on storm damaged woodland, under the transitional tax relief arrangements in the Finance Bill.

Your letter of 10/3, behind.

2. When you wrote to Mr MacGregor about this before the Budget, you said that -

- tax relief for the costs of clearing damage caused by last year's storm would continue to be available during the transitional period; and
- tax relief for the costs of replanting would also be available during the transitional period, except where the occupier chose to receive the new increased grants under the Woodland Grant Scheme.

cc Chief Secretary
 Financial Secretary
 Mr Monck
 Mr Burgner
 Mr Bonney
 Mr Saunders
 (Parliamentary Counsel)

Mr Painter
 Mr Beighton
 Mr Pearson
 Mr Elliott
 Mr Carr
 PS/IR

3. Mr MacGregor asks for confirmation that that is still the position. It is. The difficulty over interpretation to which he refers has come up not because of an attempt to resile from this agreement but because of very recent doubts whether the provisions in the Finance Bill as at present drafted achieve the desired result.

4. We clearly need to look into this - and if it turns out that an amendment is needed we shall of course report again to the Financial Secretary.

5. Meanwhile you may wish to write to Mr MacGregor on the lines of the attached draft.

MJE.

M J G ELLIOTT

Px type for Mr. J.

DRAFT LETTER TO MINISTER OF
AGRICULTURE

**STORM DAMAGED WOODLANDS -
TAX RELIEF**

Thank you for your letter of 23 May about the treatment of expenditure incurred on storm damaged woodlands, under our proposed transitional arrangements for forestry tax relief.

I have looked into this, and I can confirm that your understanding of the agreement we reached in March, and which was set out in my letter to you of 10 March, is the same as mine, and that the position has not changed. So you need have no cause for concern on that score.

I understand from the Inland Revenue that some doubt has recently arisen as to whether the legislation in the Finance Bill, as published, satisfactorily achieves the result we want. Revenue officials will be looking into this, and, if necessary, we shall of course be prepared to amend the Bill.

so far as the tax position is concerned

Meanwhile I hope the way is now clear for the response to the Agriculture Committee to be finalised. John has written to you

separately about the position on supplementary replanting grants.

[Amendments suggested by Nick Monck]

I am copying this letter to
Malcolm Rifkind, Peter Walker and
Nicholas Ridley.

NIGEL LAWSON