

THE OFFICE OF THE FIRST MINISTER AND
DEPUTY FIRST MINISTER

*David Trimble First Minister and
Séamus Mallon, Deputy First Minister*

*Parliament Buildings,
Stormont, Belfast BT4 3XX*

The Rt Hon Gordon Brown MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SWIP 3AG

Mr MacCann ER - Mr Rooney - at last!
6/3 - 1/3

5 March 2001

Dear Gordon

We would like first of all to thank you for the opportunity to discuss a range of issues at our meeting on the 24 January. At the meeting we agreed to follow up on a number of points and we have arranged for our officials to provide further briefing and analysis.

Illicit Fuel/Smuggling

As you will no doubt be aware we had a useful meeting with Richard Broadbent on 13 February where he and his colleagues provided details on the strategic thinking and the additional resources being devoted to the fuel problem.

Mr Broadbent confirmed the seriousness of the cross-border smuggling and the fuel laundering problems. We understand that work is underway to assess the impact of the additional resources and would be grateful to receive this information when it is available. If the impact falls below what is necessary we will contact you again to discuss what more can be achieved.

The collapse of the legitimate petrol retail sector and the scale of the gains to paramilitaries and others from smuggling still concerns us greatly, and we agreed to work with Customs and Excise to enhance the effectiveness of anti-smuggling activity. For our part we will examine the possibility of improved licensing and

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regulation for fuel retailers, greater use of publicity on the dangers of using illegal fuel and the development of better communications between the Northern Ireland Administration and Customs and Excise. It was indicated that Customs and Excise are investigating the scope for using new dyes and markers in fuel, and would work with ourselves to increase the publicity given to successes of Customs and Excise in such things as seizures of illegal fuel and vehicles.

As we all understand the overall problem stems fundamentally from the wide difference in fuel duties between the United Kingdom and the Republic of Ireland. We would invite you to consider discussions on these matters with your counterpart in Dublin.

Climate Change Levy

We are extremely disappointed to hear that there may now be difficulties in Brussels with securing even a 5 year exemption from the Climate Change Levy for gas in Northern Ireland, although we are grateful for Stephen Timms' efforts on our behalf, and for taking the time to explain the situation to Sir Reg Empey, Minister for Enterprise Trade and Investment. As you know from our meeting, we believe that an exemption is vital to the development of the gas industry in Northern Ireland. We consider 5 years to be insufficient for areas outside Greater Belfast since developers would be unable to get gas flowing in new pipelines for 3 or 4 years, even if they were to begin today.

We regard a 10 year exemption to be fully compatible with the Community Guidelines on State Aid for Environmental Protection and the objectives of the Climate Change Levy in the context of a newly developing natural gas industry here. It would overcome the perverse incentive to Northern Ireland to continue to use more environmentally damaging oil and coal in place of gas. We believe that these arguments were fully appreciated and accepted by HM Treasury in signalling their agreement to the proposed exemption, and would wish to encourage Stephen Timms to continue to press them strongly in Brussels with your full support.

Aggregates Tax

We appreciate and support the environmental case for an Aggregates Tax. However, after further investigation we still take the view that the proposals will have a perverse and unfavourable impact in Northern Ireland.

This reflects firstly the lower price of aggregates in Northern Ireland. A £1.60/tonne levy would amount to a 60% price increase here compared with 25% in GB.

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Secondly, the low level of suitable sources in Northern Ireland means that there is little scope to switch to reclaimed aggregates. The tax will simply increase costs to the construction industry, and to their customers, including importantly the public sector.

Thirdly, the majority of our quarries lie within 25 miles of the border and are vulnerable to competition from untaxed imports of concrete products from processors located close to the border on the Southern side. Lower fuel costs in the Irish Republic will enable these producers to transport their products economically up to 25 miles into Northern Ireland.

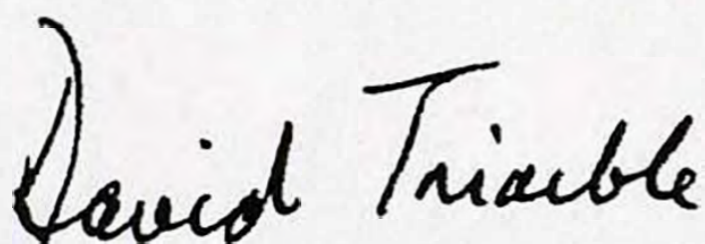
There is genuine concern that 1500 – 3000 jobs could be lost, many of them in employment black spots, and that a black market in aggregates will quickly develop alongside the similar activity in fuel.

Since the tax as applied to Northern Ireland would not meet the test of good taxation, we would strongly urge you to consider either granting an exemption to Northern Ireland or alternatively converting the aggregate tax from a fixed levy to a proportionate tax.

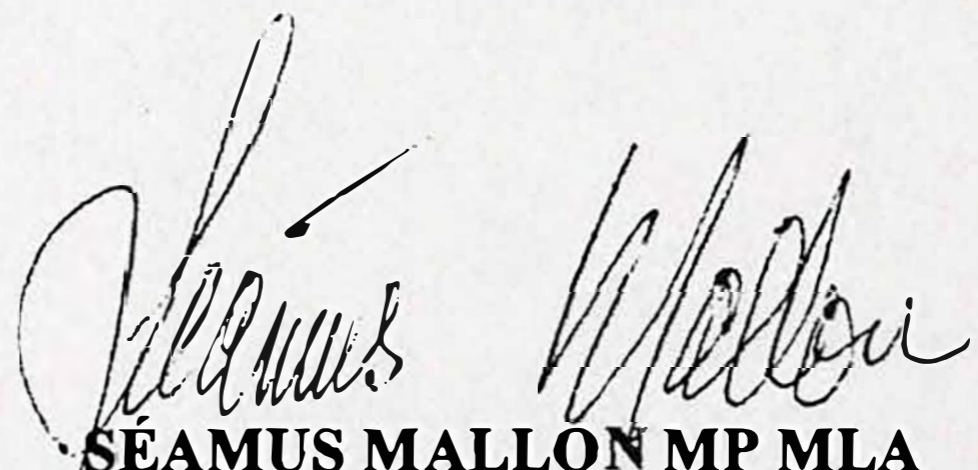
Your officials have already been provided with a detailed analysis of the consequences for Northern Ireland.

New Deal

Finally, we welcome the invitation to make suggestions in relation to further development of New Deal and training and IT skills for young people. This matter is currently under consideration and we will provide you with ideas which emerge.



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