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PART B

1987 BUDGET DEPUTATIONS
AND REPUTATIONS

PO -CH /NL/0360

PART B

PART B

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+ Representation

Part B

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Minister

DEPARTMENT OF TRADE AND INDUSTRY

1-19 VICTORIA STREET

LONDON SW1H 0ET

TELEPHONE DIRECT LINE 01-215 5422
SWITCHBOARD 01-215 7877

and particularly

see to know the

Secretary of State for Trade and Industry

CONFIDENTIAL

covered, in due course, see by
7 December 1987

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

CHEQUE
09 DEC 1987

*cc Mrs Burnham
archived*

Mr Culpin
CST FGT PNG EST
SIR P. MIDDLETON
SIR T GURNS
MR J ANSON
MR SCHOLAR
MR MONCK
MR BURGNER
MRS LOMAX
MR CROPPER
MR TYRIE

MR CALL
PS/IR PS/CS

Nigel

*the pages 1 & 2 to Mr P
McIntyre*

You will soon be deciding your broad strategy for the coming Budget. This will be an opportunity to bring in measures which promote enterprise further, and enable business to take advantage of the already favourable climate. I have a number of suggestions.

My first priority would be to reduce the levels, and simplify the structure, of the higher rates of personal tax. The present structure has remained unchanged since 1979. The thresholds for the highest rates have not kept pace with inflation, so that the scale of rates has become compressed; the gap between the basic rate and the first higher rate has already widened from 7% to 13%; and the top rate of 60% no longer looks as reasonable as it did when it was introduced, now that the highest rate of Federal income tax in the USA is 28%. If we are to remain competitive in an increasingly international market for business leaders, we need to act urgently on the higher rates of personal tax. This is never easy politically; but the first Budget after an election is the obvious opportunity.

You have said that you intend to reduce the basic rate of income tax to 25% as soon as you can afford to. I hope that you will feel able to do so in one step in 1988; this will reinforce incentives to employees at more modest salary levels, and to the great majority of unincorporated businessmen who pay tax only at the basic rate. I hope that, as before, the benefit of any reduction can be extended to the small business rate of corporation tax.

YOUNG
TO
CX
7 DEC

Mrs Burnham,

Are you co-ordinating

a reply, pl?

As

15/12

JG6ARF

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126



CONFIDENTIAL

The structure of employers' National Insurance Contributions still discourages the employment of people at pay just above each threshold level. Officials here have been thinking about possible ways of alleviating this effect, without significantly affecting the yield of NICs. I have asked them to contact your people when our ideas have been developed a little further; I hope that it will be possible to introduce improvements in next year's Autumn Statement, if not earlier.

I should also like to ask you to alleviate the tax obstacles faced by companies and their shareholders when a company buys its own shares. The Companies Act 1981 made such purchases possible, subject to appropriate safeguards. A main reason for extending this possibility to public companies was to remove the pressure on companies to employ surplus resources in uneconomic ways, by enabling the resources to be returned to shareholders so that they could employ them to better effect. This was an important contribution to flexibility in the economy. But the purchase by a company of its own shares is regarded for tax purposes as a distribution. The company is liable to Advance Corporation Tax on the amount paid; and an individual shareholder selling direct to the company is liable not only for Capital Gains Tax on any gain realised, but to higher rate income tax on the whole of the purchase price. I accept the need for this as an anti-avoidance measure where shares are redeemed; but where a company buys its shares in the market, I see no reason to treat the transaction differently for tax purposes from a company's purchase of shares in another company, or indeed from any other share purchase. To correct this anomaly would cost very little.

I have urged you in earlier years to provide tax relief for individual and corporate investments in Local Enterprise Companies (LECs), as a way of improving the availability of small amounts of equity and loan capital for small and new businesses. The problem remains, and the minimum size of investment which it is economic for venture capital companies to contemplate is increasing. My concept is that each LEC would be limited to investing in a small geographical area, and that the maximum amount invested in any one company should not exceed £100,000. I would suggest that the scheme as a whole should be confined initially to the DTI assisted areas. This will show whether LECs can attract funds to fill the small firm finance gap. I hope you can agree that DTI and Revenue officials should start work urgently to translate this concept into a workable tax measure. I have asked my officials to let yours have a more detailed note on the tax measures needed to accommodate LECs.

JG6ARF



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We would both like to increase substantially the VAT registration threshold; I am aware of the EC constraints. But the existence of a threshold at its present level, above which a business can in an extreme case become liable at a stroke for a VAT bill of £3,000, is at best a strong disincentive to a small business to expand, and at worst an incentive to revert to the black economy. The EDU have developed a proposal whereby any trader might choose to have a VAT-free allowance equal to the registration threshold, on condition that he agrees to forgo all input VAT. The proposal has been put to Customs and Excise. I hope that you will agree that our officials should work on it together, with a view to early introduction.

A lot of preparatory work has already been done on the proposal that R&D carried out by a consortium not yet trading should be deemed to be a trading activity, so that the initial costs of the consortium could be set off against the consortium members' profits on the rest of their business. I understand that officials advised Paul Channon and Norman Lamont a year ago that a feasible scheme had been devised. I strongly support the case for this measure which Paul made in his letter of 17 March 1986 to John Moore. In a number of ways it is right in line with the new direction I am planning for the DTI. It will remove an inbuilt obstacle to collaborative R&D; it will encourage large firms to develop new and flexible forms of organisation, within which enterprise is more likely to flourish; it will give financial institutions a way of investing in R&D directly; and it will help cooperation between industry and education institutions. The present tax system favours in-house company R&D over R&D spinouts. I think this is wrong, and I urge you to accept the proposal.

The tax treatment of gifts of equipment to educational establishments is unfavourable in the UK. In Germany, no VAT is payable where a firm makes such a gift; here, 15% VAT is payable on all gifts worth more than £10. So far as I know, the German practice has not been challenged under EC rules. But there are signs that our VAT treatment of gifts of equipment is affecting the practice of some international companies. Encouraging companies to give equipment to educational establishments will help these to make more of the funds available to them; it is also an excellent way of promoting links between the companies and the schools and colleges in their area.

Kenneth Baker has suggested, in his letter to you of 4th November, that expenditure by members of professional institutions on their continuing professional development should be tax-allowable. I support this, for the reasons that Kenneth has given. I also commend to you a suggestion put to me by Professor Moore of the

JG6ARF



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London Business School, that where individuals fund for themselves a full-time course of management education, the cost should be tax-allowable, with provision for it to be carried forward against future year's income. We are still very short of trained managers, and we cannot rely on company-funded management education to make good the deficiency.

I have in mind two limited and specific tax measures which might help our efforts to revive the inner cities. The first would offer people starting in business in the most deprived inner city areas a two year tax holiday. Nobody would have this opportunity more than once. I made this proposal for a "Chance of a Lifetime" last year, to apply throughout the country. But it would be particularly relevant to the needs of the inner cities, as an alternative to remaining in the black economy; and to limit it in this way would keep the costs within manageable proportions. To have maximum effect, the concession would need to be accompanied by relaxations in the Enterprise Allowance Scheme; and the delivery mechanism would need more thought. I hope that you and Norman Fowler can agree that the EDU should work up something on these lines with Inland Revenue and Department of Employment officials.

The other possibility would be to relax for a limited number of the most deprived inner city areas the conditions attaching to BES investment. Property in these areas might be disregarded when applying the 50% property rule; and the maximum BES investment might be increased to £100,000 where at least £60,000 is invested in qualifying activities in these areas.

I also have several more technical suggestions to make. These are set out in the attached memorandum.

I am copying this letter to the Prime Minister and to Norman Fowler.

LORD YOUNG OF GRAFFHAM



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1988 BUDGET: DTI TECHNICAL SUGGESTIONS

S.79 Finance Act 1972

1. The Inland Revenue have recently published draft proposals to relax the anti-avoidance provisions in this Section, so that the appreciation of managers' equity in spinout companies would no longer be taxed as income, provided that the equity was acquired at the same price as other external equity. Action on this tax disincentive to spinouts is welcome. But the usual arrangement is for managers to acquire equity at a lower price than other external shareholders. Provided that the "parent company" has no controlling interest in the spinout company, and the latter is managerially independent, it does not seem necessary for anti-avoidance reasons to limit the new proposals to the case where the managers acquire their shares at the same price as other external shareholders. The removal of this limitation would, I believe, help encourage the development of spinouts, which are a positive stimulus to enterprise.

Form P11D

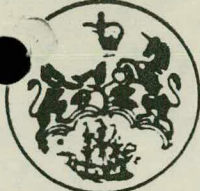
2. The EDU welcome the simplification of this form, though they would have wished that it had gone further. The results of the recent campaign to encourage the use of dispensations from this form are about to be reviewed by the Inland Revenue, in consultation with the EDU. I would hope that any relaxations resulting from the review would be announced in the Budget.

714 Certificates

3. The rules determining eligibility for these sub-contractor's certificates are under review by the Inland Revenue, in consultation with the EDU and the Department of Employment, to see if they can be made less restrictive without unacceptable risk of avoidance. I hope that the review will be completed as soon as possible, and any resulting changes implemented in 1988.

1984 Approved Share Option Scheme

4. I support the suggestion of the British Venture Capital Association that the maximum value of shares on which options may be granted under this scheme should be increased from four to six times the participant's income. This scheme is an important inducement to managers in secure jobs in large corporations to join small, high risk companies - which they still seem less ready to do here than in the USA.



Insurance

5. Where tax is deducted at source from interest paid to tax exempt pension providers, it is refunded by the Inland Revenue. Refunds are paid monthly to self-administered funds and to some insurance companies. Other insurance companies receive refunds only annually. The system for new pension providers has not yet been decided. It is important in the interests of fair competition between pension providers that all should receive refunds on the same basis. Arrangements for this should be made in the 1988 Budget.

6. Other insurance tax matters currently under consideration include the discounting for tax purposes of insurance companies' provisions for future liabilities, and the request from Lloyds for a revision of the tax regime for the Special Reserve Fund. Consideration of the former needs to take account of the implications for the solvency of insurance companies, and for progress on the EC Services Directive, given that other member states do not allow discounting; while the decision on the latter will materially affect the ability of Lloyds to attract new members and to increase capacity.



pmp

NOTE OF THE MEETING HELD IN THE FINANCIAL SECRETARY'S ROOM ON
MONDAY 7 DECEMBER 1987 AT 3.30PM

Those present: Financial Secretary

S Mabey)	
R Phillips)	The
A Alford)	Society of
O Nethercliff)	Conservative
A Pereira)	Accountants
M Caley)	
C Stewart)	Inland
A Walker)	Revenue

1988 BUDGET REPRESENTATIONS

Private Rented Housing

Mr Alford felt that as this Government's policies encourage the private rented sector that therefore tax law should be reformed to encourage letting. He recommended that Income from rented property should be treated as a trade rather than investment and therefore Schedule A losses should be offsettable against general income.

2. Mr Phillips suggested that under the present system, the administration of Investment Income was a "nightmare".

3. Mr Walker would not agree that the Schedule A system was more difficult to operate than that of Schedule D.

4. The Financial Secretary concluded that he would look at the taxation of rented accommodation.

Owner Occupied Housing

5. The Financial Secretary expressed his interest in their ideas on Capital Gains Tax indexed exemption to be carried forward and used for reinvestment.

6. Mr Mabey explained that the problem existed in respect of the huge price differential when an executive moves from the south-east to the north. If a house in the south-east is sold, as by an employee moving north, it will normally attract full CGT relief on a sale. As the house in the north is likely to cost less the difference will be available for alternative investment; such investment would not be eligible for CGT relief. He felt this was a disincentive to those who wish to move back at some point to the south-east.

7. The Financial Secretary felt the proposal would be overkill because the new exemption would apply to the difference in price as well as the gain needed to keep pace with movements in house prices.

8. Mr Caley reiterated this point.

9. Mr Phillips said he wanted to get rid of the disincentive factor and target the exemption on people you wanted to move back.

10. The Financial Secretary commended the originality of the scheme but doubted its practicality.

Taxation of Higher Incomes and Capital

11. Mr Mabey stated that this country has the largest rate of higher taxation of any of its international colleges. He felt there was an overwhelming case for the rates to come down and for only one higher rate to apply. He suggested that if the thresholds were reduced, the tax income would increase.

12. The Financial Secretary noted this point.

13. Mr Mabey indicated that CGT in UK is at a higher rate than basic rate income tax in comparison with most other countries. He recommended that CGT should be confined to short term capital gains. He provided the Financial Secretary with a paper on the comparison of individual taxation of long and short-term capital gains on portfolio stock investments in 17 countries. (Copy

attached). Mr Mabey felt that if CGT was confined to short-term capital gains it should be at Income Tax rates if within a year, tapering to zero over 3-5 years. He felt this would be logical and cheaper to collect.

14. The Financial Secretary was not in favour of Tapering and said he felt it was more complicated than other variants. He pointed out that there would be large lock-in effects as people would have a major incentive to hold on to assets.

15. Mr Cayley pointed out that there were major practical difficulties such as incompatibility with share pooling and so on.

16. Mr Mabey called for a simple tax at a low rate. He suggested a flat rate of 15% on unindexed gains.

17. The Financial Secretary said it was a mistake to have a low rate and no indexation.

18. Mr Alford felt a lower rate of tax with no indexation would be far more administratively straightforward.

19. The Financial Secretary asked what the Society's second choice for reform on CGT would be.

20. Mr Mabey felt that if indexation was to stay, he would seek assistance on the Pre-1982 element of capital gains. He would suggest indexation relief pre-1982 and a lowering of the rate.

21. Mr Pereira said he thought it was illogical that capital losses could not be transferred from one company to another. He also felt that roll-over relief should be given if a company moves and proceeds are not used to buy another property; but to rent.

22. The Financial Secretary felt this last point would widen the whole roll-over relief system too far.

23. Mr Cayley said he thought the first point on group relief for capital losses was logical. He felt that any decisions would be dependent upon the outcome of three cases to be heard in the House of Lords and on the terms of the European community Directive on mergers. He also pointed out that any legislation in this direction would take up a lot of space in any bill.

CGT - Insolvency

24. Mr Phillips suggested that in the situation where an insolvent company loads its CGT on the liquidator, trading losses should be permitted for set-off.

25. The Financial Secretary noted this point.

Inheritance Tax

26. Mr Mabey suggested that the existing insurance facilities (ie. if death occurs within 7 year rule) should be regularised and expanded. He suggested such a payment on account should be payable to the Revenue instead of Insurance companies.

27. Mr Walker felt this was asking the Revenue to operate in the private sector and would therefore be inappropriate.

28. Mr Mabey also suggested that the threshold for IHT should be raised substantially and the rates above the threshold reduced. He felt that the rate of 30% on £90,000 was unfair to many people (ie. £90,000 often less than the value of a modest house in south-east).

29. Mr Alford pointed out that in a rapidly expanding economy; the value of shares can increase substantially and therefore IHT causes problems.

30. The Financial Secretary said he did not think IHT was onerous on businesses. He pointed out the possibility of lifetime giving and business relief.

Court Order Payments for Children

31. Mr Mabey felt that the relief currently available for payments to children under Court Orders should be extended to payments under separation agreements. He also pointed out that the current situation had developed from a series of ad hoc cases.

32. The Financial Secretary noted the comments made.

PEPs

33. Mr Phillips suggested that front end loaded relief should be introduced as it was in France.

34. The Financial Secretary was not in favour of this and pointed out that monitoring would be needed to avoid the recycling of the investment.

Conclusion

35. Mr Phillips said he did not feel that the Treasury made full use of the Society and he offered the services of the Society for research work. He was particularly keen to research into Enterprise Zones and Free Ports.

36. The Financial Secretary thanked him for the offer and said he would consider how the SCA could help. He also said he would pass on their offer regarding Free Ports and Enterprise Zones to the Economic Secretary.

Susan Feest

SUSAN FEEST
(Assistant Private Secretary
8.12.1987

cc PS/Chancellor
PS/Chief Secretary
PS/Paymaster General
PS/Economic Secretary
Miss T Burnhams
Mr Cayley IR
Mr Stewart IR
Mr Walker IR

cc PPS 2

PS/CST

PS/FST

PS/PAG

Mr Culpin

Miss Sinclair

Mr Michie

Mr Cropper

Mr Jefferson-Smith
(C+E)

Mr McGuigan
(C+E)

PS/C+E



ML

Treasury Chambers, Parliament Street, SW1P 3AG

Peter Wilson Esq
Chairman and Chief Executive
Gallaher Tobacco Limited
Members Hill
Brooklands Road
Weybridge
SURREY
KT13 0QU

8 December 1987

Dear Peter

Thank you for your letter of 1 December setting out your further representations for the Budget, and asking for an opportunity to discuss them.

Peter Brooke has transmitted to me the views you expressed in your meeting with him on 28 September. So I hope you will understand if I decline a further meeting.

I can assure you, however, that your representations will be carefully considered and no doubt your company will be represented when the Tobacco Advisory Council itself sees Ministers before the Budget.

*Yours ever
Peter*

PETER LILLEY



FROM: MRS JULIE THORPE

DATE: 9 December 1987

MRS T BURNHAMS

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Sir T Burns
Mr Cassell
Mr Monck
Mr Scholar
Miss Sinclair
Mr R I G Allen
Ms Boys
Mr Jefferson-Smith - C&E
Mr Boardman - C&E
PS/IR

Mr Cropper.

DEPUTATION FROM THE TOBACCO ADVISORY COUNCIL

This is to confirm that the Chancellor will be seeing a Deputation from the Tobacco Advisory Council at 3.00pm on Wednesday 20 January.

2. The Chancellor would like the Economic Secretary, Mr Cropper and Mr Jefferson-Smith and Mr Boardman from Customs and Excise, to attend the meeting with him. If anyone is unable to attend please can they let me know.

3. It would be helpful if briefing could reach this office by close of play on Monday 18 January.

Julie Thorpe.

MRS JULIE THORPE

TOBACCO Advisory Council

Glen House, Stag Place, London SW1E 5AG. Telephone: 01-828 2041/2803. Telex: 8953754 TOBCOM. Facsimile: 630 9638.

From W. C. Owen
Chief Executive

CH/EXCHEQUER	
REC.	14 DEC 1987 ✓ 14/12
ACTION	MRS T. Burnham
COPIES TO	PS/CST PS/FOT PS/PMG PS/EST SIR P Middleton SIR T Burns MR Cassell MR Manck MR Schotlar Miss Sinclair

10 December 1987

MR R. I. G. Allen Ms Boys
MR Jefferson - Smith C&E
MR Boardman - C&E
PS/IR Mr Cropper.

Miss Julie Thorpe
Diary Secretary to the Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

Dear Miss Thorpe,

Following our telephone conversation I am writing to confirm that the T.A.C. delegation to meet the Chancellor on Wednesday, 20 January 1988 at 3.00 pm will be as follows:

Mr. Peter Wilson	Chairman and Chief Executive of Gallaher Tobacco (UK) Ltd.
Mr. Angus Vine	Commercial Director of Imperial Tobacco Ltd.
Mr. John Webb	Director Public Affairs of Rothmans International Services Ltd.
Mr. Bill Owen	Chief Executive of the Tobacco Advisory Council

Yours sincerely,

Regine Ellis
Regine Ellis
Personal Assistant to Mr. W. C. Owen

Our Ref: ACBT/PJL

10th. December. 1987

Mr Wyn-Owen,
H.M. Treasury,
Paymaster General's Office,
Whitehall,
London.

Dear Mr Wyn-Owen.

Thank you for asking Mr. Nisbet to ring me back. he turned out to be more Scottish than you are Welsh. and he was very helpful. As an Englishman I find it very reassuring to know that our affairs are in the hands of our Celtic cousins, who I suspect are far better at calming down irate tax payers. Mr. Nisbet was quickly able to tell me how to fill the form in, a far more positive approach than I had expected, and, no doubt, a great deal cheaper than using our accountants

I realise that I am being a nuisance, but I cannot but put in writing some of the anomalies of the present scheme.

1. New Companies

There appears to be no legislation at all for new companies or new employment units which have no record of trading.

2. Young Companies

A business in its early years will have a wage roll ~~disproportionately~~ high vis a vis its profits, eg.

Year 1	wages	£20,000	Profit	£2,000
" 2	"	£22,000	"	£4,000
" 3	"	£24,000	"	£10,000

It is, surely, just such a company which ought to be encouraged to adopt such a profit sharing scheme. If the Managers were to offer 25% of the profits for a 5% reduction in wages the scheme would not qualify.

/continued...

- 2 -

10th. December, 1987

Mr. Wyn-Owen.
H. M. Treasury.
Whitehall.

3. The emphasis on wages puts labour intensive businesses at a great disadvantage, eg.

Company 'A' manufactures toys in Worcestershire.
Company 'B' imports toys from Taiwan

Both have the same turnover and the same overheads.

		<u>COMPANY 'A'</u>	<u>COMPANY 'B'</u>
Sales		1,000,000	1,000,000
Cost of Sales	450,000		700,000
Manufacturing Wages	200,000	660,000	
Gross Profit		<u>350,000</u>	<u>3000,000</u>
Admin Salaries	100,000		100,000
Other Expenses	100,000	200,000	200,000
Profit		<u>150,000</u>	<u>100,000</u>
5% of wages and salaries		<u>15,000</u>	<u>5,000</u>
P.R.P. 8% of Profit		12,000	8,000

Company 'A' does not qualify, Company 'B' does. Of course, this may be deliberate, part of a drive to discourage manufacturing and encourage service industries.

All these problems arise from the 5% standard pay rule.

/continued.....

- 3 -

10th. December, 1987

Mr. Wyn-Owen,
H.M. Treasury,
Whitehall.

4. The requirement that there be only one pool means that one cannot have one scheme for Managers and a second scheme for hourly paid workers. It may be deliberate that there should not be this distinction, but it is much easier to persuade the former to take a cut in salary for a share in the profits than the latter, and our experience was that it was the success of the former scheme that encouraged the shop floor workers to ask for a scheme of their own. It would be very nice if all could take the same sort of risks as executives and, perhaps, in due course, we could get to that stage, but these things take time and education and the present scheme does not allow for this gradual approach. Again, this may be deliberate. In the examples of Company 'A' and Company 'B' above Company 'B' does not have a factory and it would probably pay its salaried employees to take a larger cut in their salary for a higher share of the profit, which would give them an advantage over the salaried employees of Company 'A'.

I am sure, if I were to set my mind to it, I could find several other anomalies, but my real gripe is the lack of consultation or opportunity to make representation. As soon as it was announced by the Chancellor that he intended to bring in such legislation we, as most interested company, applied to be put on the mailing list. We never received and consultation paper which mentioned the 5% of standard pay rule, or that there could be only one pool, merely a rather bland document extolling the virtues of Profit Related Pay. I can understand that there was a rush with the election interfering between the Budget announcement and the actual drafting of the legislation, so I can only hope that the Chancellor and the Inland Revenue will be prepared to allow discussion to take place so as to make the scheme better.

/continued.....

- 4 -

10th December, 1987

Mr. Wyn-Owen,
H.M. Treasury,
Whitehall

The result of my telephone calls to both you and Mr. Nisbet encourages me to think that your departments are more flexible and open minded than reputation would have them to be. I am worried that I shall get a bland answer acknowledging this letter and stating that it is not the intention to discourage manufacturing but legislation can not be drawn up to cover all eventualities etc. etc. I believe that the first step down a very significant road has been taken with the acceptance of the virtues of profit related pay. But that it is really disappointing that such a tiny number of companies have applied to join. On a totally personal level I have spoken to several business friends telling them among other things of the difficulty we have had with joining this scheme and they have all said that they have looked at the documentation and had become quite terrified by the details required and while they might have contemplated starting a profit related pay scheme before this legislation was introduced, now feel they can't because their employees will expect it to be tax free.

I am sorry this is rather a long letter.

Yours sincerely,
for TUBE PLASTICS LIMITED,

A. C. B. Tidmarsh,
Sales Director.

- 1. MISS SINCLAIR
- 2. MRS THORPE

FROM: D I SPARKES
 DATE: 10 December 1987

*What happens to Walker BM (one Fin)?
 WH comparison to McPhail, Council & Straker for?*

- cc PS/Chief Secretary
 PS/Financial Secretary
 PS/Paymaster General
 PS/Economic Secretary
 Sir P Middleton
 Sir T Burns
 Mr Scholar
 Mr Culpin
 Mr R I G Allen
 Mr Cropper
 PS/C & E
 Mr Whitmore
 PS/IR
 Mr Bolton/IR

BUDGET DEPUTATION: SCOTCH WHISKY ASSOCIATION (SWA)

I attach briefing prepared by Customs (Annex A) and the Revenue (Annex B) for the Chancellor's meeting with the SWA on Monday 14 December at 4.00 pm. The Financial Secretary and Economic Secretary will also be present as will Sir Terence Burns and Mr R I G Allen.

2. Official support will be provided by Mr Whitmore (C & E) and Mr Bolton (IR).

D.I.

D I SPARKES

ENC

SWA BUDGET REPRESENTATIONS: BRIEF

The Association's written representations are again in the form of report by the economic consultants PIEDA. The report contains some factual inaccuracies and questionable methodology, but these are not sufficiently important to affect the main arguments on the major issues which, as the SWA say, are familiar.

General. The Association argues that the future of Scotch lies in quality brands marketed internationally. It refers to difficult market conditions, the importance of exports and a declining UK market. It claims that the industry is severely hampered by discriminatory taxation which erodes its capital base, weakens its ability to invest and compete and restricts opportunity to diversify.

Taxation. The SWA request:

a statutory maturation allowance

a commitment to introduce within five years a "per degree" system of excise duty on alcoholic drinks

an extension of the excise duty deferment period from 4 to 8 weeks.

Market. After a long period of expansion the market has been affected in recent years by a general move away from spirits, in particular dark spirits, towards lighter, "healthier" drinks. There are indications that the industry has been slow to react to market changes.

Home market. An illustrative graph showing UK whisky clearances from 1970-1986 is attached. The picture for this year is unclear as we have not got the figures for the crucial pre-Christmas period. In this context, PIEDA's use of clearance figures for the first 6 months of 1987 showing a year on year drop of 11% is misleading. Such comparisons are unreliable due to significant fluctuations in the earlier part of the year, partly due to attempts at forestalling. Spirits duty receipts for the current financial year to November are up 5% on the same period last year. Moreover, Mr Straker (who will be at the meeting) has been quoted recently as saying that the market is "far from being in decline".

Exports now account for about 85% of sales. The trade press reports that exports are up 2.5% by volume and 7% by value in the first 9 months of 1987.

Maturation allowance. (Inland Revenue to provide main briefing). In support of their claim the SWA again refer to the legal requirement that whisky shall be matured for at least 3 years. This restriction remains in force at the request of the SWA and its existence cannot be used justifiably in support of a claim for tax relief.

Spirits duty. A "per degree" system for all alcoholic drinks is fiscally inflexible (the beer/wine ratio illustrates the constraints imposed by fixed links); would be administratively more expensive and complex; and would run counter to EC harmonisation proposals. The SWA contrast the treatment of whisky with that of beer and wine. Since 1979 the duty on spirits has gone down in real terms (that is compared to revalorisation) by some 28%, that on beer has risen by 16%. Whilst duty on table wine has dropped by 34% (mainly due to the wine/beer judgement, which severely restricts the scope for manoeuvre), the duties on higher strength fortified wines, which are more directly competitive with whisky than table wine and beer, have been only slightly reduced.

Duty deferment. We do not consider that there is a strong case for extending duty deferment. We have no reliable information about time taken by retailers to pay, but we believe that the period varies considerably. Our view is that it would be unwise to get into a debate on this, as to do so would tend to confirm acceptance of the principle that deferment should be linked to commercial credit terms. (The quotation in paragraph 3.20 of the PIEDA report is wrongly attributed to the then Minister of State. It was in fact a quotation from last year's PIEDA report, and they have apologised.) The real issue for the Treasury is, and will remain, cost. We cannot extend deferment just for whisky, and a 4 week extension of duty deferment for all spirits would result in a once for all loss in the financial year of about £135 million. It would be extremely difficult to confine the extension to spirits. The cost of extending the deferment to 8 weeks for all alcoholic drinks would be of the order of £365 million. The reference to practice in other EC countries is not convincing. Structure and rates vary significantly, and to increase duty deferment in the UK would assist imports as well as home produced goods.

Other matters.

Government help. In addition to reducing the duty on Scotch in real terms by some 28%, the Government has helped the industry in other ways. It took steps to remove Italian discrimination against Scotch. It played its part in securing the GATT ruling against Japan and will continue to apply pressure for implementation. It is assisting the passage of a private member's Bill, sponsored by the SWA, which will permit Scotch to be defined by reference to how and where it is made, and its minimum strength. (Second Reading is on 11 December).

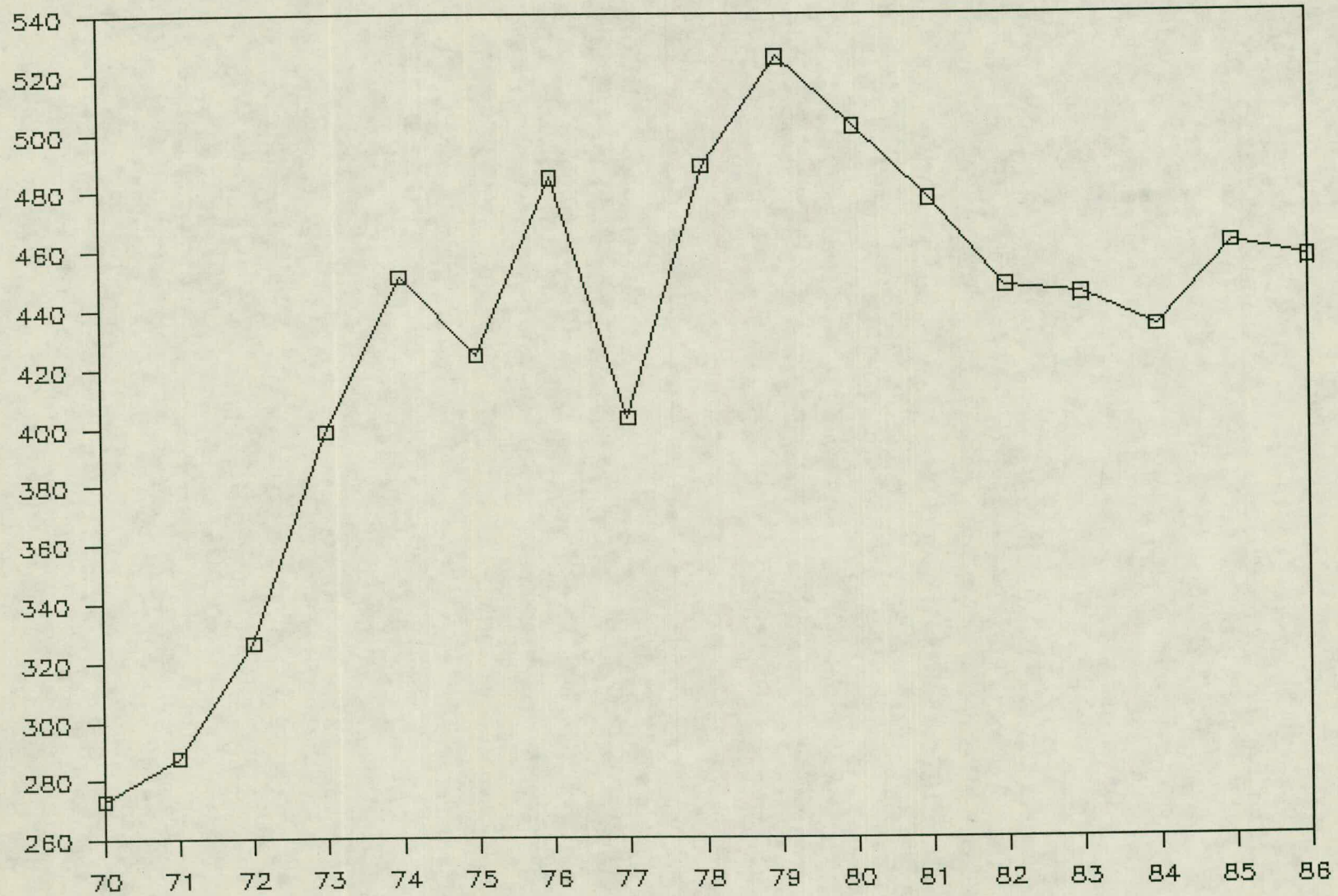
Harmonisation. The SWA have recently commented at length on the Commission's latest proposals on the harmonisation of excise duties. They have noted that the proposed rate structure would mean an increase in duty on spirits in 8 Member States and that in the 3 Member States where the rates would be significantly reduced (UK, Ireland and Denmark) the ratios between rates on spirits and wine would be considerably increased. The Association is presumably aware that the Government have fundamental difficulties with the Commission's proposals for the removal of fiscal barriers, not least relating to the rates of excise duty on alcohol.

Alcohol misuse. Recent reports have not singled out Scotch as a particular problem, but it would be difficult in the current climate to single out spirits for favourable duty treatment.

Hectolitres
(thousands)
of pure
alcohol

WHISKY CLEARANCES

1970-86



1988 BUDGET REPRESENTATIONS: THE SCOTCH WHISKY ASSOCIATION

Tax treatment of stocks1. Background and History

Ever since the abolition of stock relief in 1984, the Scotch Whisky Association (SWA) has campaigned vigorously for special treatment. There has been a great deal of correspondence and several meetings with Ministers and officials but concessions have been consistently refused. The campaign has had two distinct phases:-

a. SWA suggested that, instead of immediate abolition, stock relief should be phased out over a period in parallel with the changes in capital allowances. However, Ministers felt that such a concession would endanger the whole strategy of the corporation tax reforms, particularly if one industry was singled out for special treatment.

b. SWA's 1986 Budget Representations, based on a report entitled "The Scotch Handicap" saw a shift in their campaign. Having evidently conceded defeat on the transitional effects of stock relief abolition, they turned to the permanent impact of the 1984 reforms. The same case was repeated in the SWA's 1987 Budget Representations, based on a report entitled "Scotch Whisky: The Burden of Tax".

2. Point at issue

A further report "Scotch Whisky: The Erosion of a National Asset" repeats the same case yet again. In essence, the Association claims that their industry suffers a competitive disadvantage under the reformed corporation tax system. The report asserts that "... so long as the rate of inflation is positive, the industry faces, in perpetuity, higher effective rates of corporation tax than all other industries". This derives from the long periods for which whisky has to be matured: a three-year statutory minimum but often much longer in practice.

3. SWA's proposal: the maturation allowance

SWA are seeking a form of stock relief, but only in respect of stock holdings over the three-year statutory minimum period. The allowance would be a deduction from profits calculated by applying the RPI to the value of stocks at the start of each accounting period so far as that stock was whisky distilled within the previous three years. It would therefore be a special new relief for the effects of inflation, geared to the particular needs of one industry.

4. The "effective rate of tax"

SWA emphasises the high "effective rate" suffered by whisky producers. This "effective rate" is calculated by comparing the tax due on historic cost profits with the earnings computed on a replacement cost basis ie after deducting the current cost of replacing stock which has been sold.

5. General comment

- (1) In proposing a special allowance, SWA takes on a burden of proof even more heavy than they had with their pleas for transitional relief in 1984. The whisky industry was hard hit in the transitional years but Ministers consistently refused any concessions. It would be much more difficult to justify a brand new relief now just for one sector and even harder still to resist the resultant special pleading from other quarters.
- (2) The 1984 package of business tax reforms is part of the Government's strategy of removing distortions and establishing a broadly based tax system with low rates. This rewards profitability, enterprise and success. SWA has repeatedly expressed support for this approach. Now to introduce a relief as narrowly targeted as the proposed "maturation allowance" would be entirely contrary to this strategy.

6. Special points

(1) The impact of the 1984 reforms

Such a package of reforms was bound to benefit some businesses more than others. It was never intended that losers should be compensated.

(2) The transitional years

It is accepted that whisky companies paid about £53m more tax in the years while CT rates were falling than would have been the case had the old regime continued. From 1986 however the low 35% rate outweighs the loss of stock relief. SWA originally calculated that the "lost" £53m would not be recovered until about 1997. Using current and forecast inflation rates however we estimate that this "loss" from the 1984 reforms will be recouped no later than 1989, eight years sooner than SWA had expected.

(3) Inflation

SWA's main argument for special relief is that inflation is not fully under control. The new CT system, with no stock relief, would leave them exposed, should inflation rise. However, it is the Government's success in controlling inflation which freed it to reform the business tax regime in general, and made it unnecessary to retain stock relief in particular. The Government remains determined to keep inflation under control. Current inflation rates are very much lower than the rates which persisted for several years before stock relief was first introduced.

(4) Structural problems of the whisky industry

These are the real sources of the industry's problems:

a. Low profitability

SWA's latest report confirms the industry's poor performance citing severe competition and declining market share. Whatever the causes, low profitability inevitably means that the industry will do less well than more profitable trades under the reformed business tax system which was specifically designed to benefit successful concerns.

Indeed it can be shown that the "effective rate" is far more sensitive to profitability than to stock levels and inflation.

b. High stock levels

The industry expanded in the 1970s laying down large stocks in anticipation of increased demand. Exactly the opposite occurred and stock levels and holding periods have therefore increased.

c. Gearing

Whisky companies finance most stock replacement out of retained profits. There could be a significant reduction in the "effective rate" if they switched to debt financing, paying tax deductible interest.

(5) The three-year minimum maturation period

This statutory requirement protects the industry from cheap competition. SWA strenuously opposed its proposed abolition in 1981 and there is therefore some irony in their building the proposed "maturation allowance" on the three-year requirement.

(6) Other countries

Both France and West Germany allow tax deferment on paper profits which are purely inflationary when the inflation rate exceeds 10%. So far as we know, no other advanced country has such relief and no-one has a special regime for long-term stocks either in alcohol trades or elsewhere.



mf

FROM: MISS S J FEEST
DATE: 10 December 1987

K SEDGWICK

cc **PS/Chancellor**
Mrs T Burnhams
Mr Call
MCU

BUDGET DEPUTATION: BRITISH VENTURE CAPITAL ASSOCIATION

The Financial Secretary was grateful for your minute of 7 December 1987.

2. However, he has decided to meet the BVCA deputation and suitable arrangements will be made by this office.

Susan Feest

SUSAN FEEST
(Assistant Private Secretary)

House of Commons

Friday 11 December 1987

The House met at half-past Nine o'clock

PRAYERS

[MR. SPEAKER *in the Chair*]

Scotch Whisky Bill

Order for Second Reading read.

9.36 am

Mr. Bill Walker (Tayside, North): As a non-alcohol drinking Scot I beg to move, That the Bill be now read a Second time.

At this stage, I wish to declare that I have no interest other than that of a constituency Member with a number of Scotch whisky firms in his constituency. The provisions in the Bill are sought by the Scotch Whisky Association, trade unions, management and workers employed by the Scotch whisky associations. I understand from my conversation this morning that they are also sought by the low strength producers. The provisions are judged to be essential and deemed to be in the best long-term interests of the industry.

Mr. George Foulkes (Carrick, Cumnock and Doon Valley): The hon. Gentleman would be misleading the House if he said that the Bill, in its present form, is sought by the Association of Low Strength Whisky Producers. That body still objects to one clause, and if the hon. Gentleman thinks otherwise, he has been misled.

Mr. Walker: I have no wish to mislead the House. I am only telling the House what I was advised of earlier this morning. Any hon. Member who was up early enough to see the television programme will have seen me appear with a spokesperson for the association; it was on his advice that I made my comments. The last thing that I would wish to do is mislead the House.

The provisions are judged to be essential and deemed to be in the best long-term interests of the industry and of its customers, some of whom, I believe, are Members of his House. [HON. MEMBERS: "Hear, hear."] Equally, the provisions are judged to be in the interests of "UK Ltd." which will benefit, first, from the huge amount of tax collected from the Scotch Whisky industry; secondly, from the thousands of jobs and stable employment that the industry provides; and thirdly, from the massive contribution that the industry makes each year to the United Kingdom export market.

It is important to note that the Bill will provide a legislative framework and that the implementation of the provisions will be triggered by orders before Parliament. We are talking about an enabling Bill. Before Ministers introduce orders, the practice is that they consult fully and widely with all interested parties. It is at that time and not before that deep and detailed arguments about such matters as the alcoholic spirit level take place. I shall return to that point when I deal with clause 2.

The first provision, clause 1, deals with the prohibition of the production in Scotland of whisky other than scotch

whisky. The Scotch whisky industry supports that provision. I hope that the hon. Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes) will confirm that.

The background is that, in June 1982, the European Commission submitted to the European Council of Ministers proposals for a Council regulation which, *inter alia*, would contain a definition of whisky. As no recognised definition applied throughout the Community, the Scotch Whisky Association and the Department of Agriculture, Fisheries and Food supported the proposals.

On that point, I thank my right hon. and hon. Friends on the Government Front Bench who kindly gave me advice and assistance in the preparation of the Bill.

Mr. Harry Greenway (Ealing, North): Will my hon. Friend reassure me in relation to one worry about clause 1? In future, we may have a certain uniformity about whiskies. The present strength of whiskies is their diversity. Some of us like to drink Teachers and some like to drink Glenfiddich. Is there any danger that individuality will be lost because of clause 1?

Mr. Walker: I am pleased to tell my hon. Friend that there is no danger of that happening. The blending of the different brands gives them their uniqueness. Also, the different distilleries that produce different quality whiskies, particularly malt whiskies, give them their distinction. The unique qualities of Scotland's highland water, barley, and the people who produce the whisky, produce many different varieties of quality to suit individual palates. My remarks are based on theory, because I am not a whisky drinker. All the evidence clearly is that that is what happens.

As I said, the Scotch Whisky Association and the Department of Agriculture, Fisheries and Food supported the proposals. Other major spirits such as gin, brandy, rum and so on were also to be covered by the Commission's proposals. The plan was that the EEC definition of whisky should be no less stringent in its terms than the current United Kingdom definition, on which the definition of Scotch whisky is based. However, as matters developed, it became clear that it would probably not be possible to achieve that objective. I shall try to explain why that is so later. In addition, it had been acknowledged and recognised for some time that the present United Kingdom definition of Scotch whisky is laid out in general terms and that it would be prudent and wise to have a revised definition.

So we had a European and United Kingdom definition problem. There was a need to remedy that by having a revised definition that would more precisely reflect the current practice within the industry on which the worldwide reputation of Scotch whisky as a quality produce is based. It was also understood that the developments would result in a material difference between the anticipated Euro-definition of whisky, which is reflected in clause 3(1) of the Bill, and the revised definition of Scotch whisky, which the industry seeks.

I should like the House to note that it is fully accepted within the EEC that the United Kingdom is entitled to have a definition of Scotch whisky that is more detailed than the broad Euro-definition of whisky, but that, *per se*, would not prevent the production of Euro-whisky in Scotland. So we would be faced with the concurrent

[Mr. Walker]

production in Scotland of Scotch whisky and Euro-whisky. The later product could be described as whisky, a product of Scotland. At best, that could create confusion and, at worst, could damage the worldwide sales prospects of the Scotch whisky industry.

Mr. Tom Clarke (Monklands, West): The hon. Gentleman is making a carefully thought out, admirable speech. On the matter of sales, does he recall that, less than a year ago, Buchanan's in my constituency, who made Black and White, was closed as a result of the Guinness takeover? That meant that the whisky that was supplied to this very House was no longer available. I am pleased to support the Bill. The only remaining whisky producing employer in my constituency, Lawsons, have asked me to do so.

Mr. Walker: I thank the hon. Gentleman for his useful intervention and his support. Of course I fully understand the heartache that followed the decisions that were taken. The hon. Gentleman would not expect me to make comments about Guinness at this stage. He will agree that I have probably made more than my fair share in the past. I agree with the hon. Gentleman: the industry is much too important for one to allow a single narrow issue to affect one's judgment about whether to support the Bill.

There was a danger that the worldwide prospects of Scotch whisky would be damaged. The reason is clear. Throughout the world, the description "Scotch whisky", whether expressed directly or indirectly, is taken to relate to whisky from Scotland. All who seek to pass off their whiskies as Scotch whiskies habitually do so by marketing them in a manner that suggests that they were produced in Scotland. In such circumstances, it is highly improbable that customers would be able to recognise the difference between a product that is described as Scotch whisky and a whisky that is said to be produced in Scotland but which is not described as Scotch whisky.

The existence of lawfully produced whiskies in Scotland that are not entitled to fit the description "Scotch whisky" would weaken the essentially geographical meaning of the description "Scotch whisky". That would make the worldwide defence of Scotch whisky much more difficult, if not impossible. That is why all Scots—there is no division between us on the matter—consider that the issue must be determined. We are determined to ensure that there will be no way in which Scotch whisky can become a type of whisky that can be produced anywhere. Otherwise, a product such as Scotch-type of whisky or Albanian or Afghan Scotch whisky could be produced in countries other than Scotland. That is why the Scotch whisky industry wishes to have this marvellous product, which has exports worth over £1,000 million a year, which directly provides employment for 16,000 people and many more indirectly, and which contributes £1,000 million in taxes and revenues to the Exchequer, is given the protection that a quality product of that kind merits.

The concept of protecting indigenous quality products is not new. Champagne has enjoyed such protection under French law since 1934. That is why we in the United Kingdom should legislate to protect Scotch. The provisions in clause 1 of the Bill should be in place before the EEC regulations open up the possibility of Euro-whisky production in Scotland.

Clause 2 relates to the sale of Scotch whisky. It prohibits the sale as Scotch whisky of any spirits that do not conform to any definition of Scotch whisky. It also provides for the setting of a minimum alcoholic strength below which Scotch whisky shall not be sold. It is important for the House to recognise that there will be differing views as to the limit at which the minimum alcoholic strength should be set. It is also important to note that nowhere in the Bill is a minimum strength laid down. The clause gives Ministers the power to table orders. That will happen only when Ministers judge it right to do so, and then only after the full and proper consultations with interested parties have taken place.

The Scotch Whisky Association, which represents a substantial majority of whisky producers in Scotland, definitely wants the provision. As I said earlier, I was told this morning—I believe that in substance that information was fairly accurate—that the association which represents low-strength producers is also in favour of setting a minimum standard. The difference between the two associations or groups is the level at which the standard should be set. I understand that there may be good technical and marketing reasons why a particular level may be used or preferred. Although I am no expert in such matters, I have been told that that has something to do with the quality of colour and taste, which may be affected by extremes of temperature—something that must be considered properly when one realises that the product is sold everywhere, from the Arctic to the Equator and on to the Antarctic. However, the difference between the two groups is not at this time large. As I understand it, it is less than 3 per cent. proof.

As I have said, I have no direct knowledge or expertise, have no view and make no recommendation on this point. I advise right hon. and hon. Members that this matter should be left to a later date when Ministers can decide. It is important that we should not limit Ministers' room for manoeuvre in their negotiations in Europe by attempting to obtain pledges on any specific level of alcoholic strength today, nor should the House decide to allow the Bill to go into Committee, should we ask for such pledges during the later stages of the Bill's passage through this House or in another place.

Clause 3 deals with the definition of Scotch whisky. Hon. Members should note that the present United Kingdom definition of Scotch whisky will remain in force until superseded by a revised definition. Under the present arrangements, the present process at the distillery results in a distillate of spirits being produced which is stored in oak casks of a capacity not exceeding 700 litres, for at least three years. Anyone who knows anything about Scotch whisky will be aware that many Scotch whiskies are matured for periods much in excess of the minimum three years.

On distillation, I should also draw hon. Members' attention to the significant difference between the current proposed requirements for Euro-whisky and the present requirements for Scotch whisky. That concerns the use of added enzymes during the distillation process—a practice that at present is not carried out in Scotland. The revised definition that the industry seeks would exclude the use of added enzymes, thus reflecting present industry practice. However, as I understand it, the definition of Euro-whisky is likely to permit the use of enzymes.

On maturation, I understand that there have been moves in Europe that may be attempts to have the period

reduced below three years. Distillers in the Scotch whisky industry regard three years as the absolute minimum period. That could become another area in which substantial differences between Euro-whisky and Scotch whisky develop.

Following maturation, the alcoholic strength of Scotch whisky is reduced to the required bottling strength by the addition of good Scottish water. Water and spirit caramel, which is used to standardise colour, are the only substances to be added after maturation in the Scotch whisky industry. The industry, and especially the distillers, believe in the continued uniqueness and "naturalness" of Scotch whisky as a product and wish to see the process that contributes to that set out in a revised definition of Scotch whisky. They also believe that the definition of Scotch whisky must reflect current practices and be capable of enforcement by the authorities. That is why the clause is in the Bill. Hon. Members should also note that any offence under the provisions of the Bill will be the subject of civil law proceedings. There is no provision in the Bill for criminal law proceedings.

Clause 4 deals with the provisions as they affect Northern Ireland, as covered by the Northern Ireland Act 1974. Clause 4 is necessary because of the unique legislative situation that exists between this House and Northern Ireland. Clause 5 deals with the commencement and extent of the Bill.

There has been much misleading comment in the press and elsewhere about the Bill. Some may have been designed to highlight fears, real or imagined. I hope that my remarks thus far will have set at preset most, if not all, of those fears.

The Scotch whisky industry is much too important to Scotland for anyone to treat it in a cavalier or flippant manner. Unlike coal and oil—other industries that are important in Scotland—whisky as it is presently manufactured and sold world wide by the Scotch whisky industry can go on for ever. I repeat that it can go on for ever, because it is not a finite resource—it is a renewable resource.

The pure Highland water, the barley of Scotland and the skills and experience of the work force are as Scottish as sporrans, Hogmanay, the bagpipe or the kilt. However if we do not protect it, we may one day find that, like the words of Robert Burns, Scotch whisky has been acquired by others. After all, it is no secret that for some time the Soviets have laid claim to some of Burn's poetry and songs. Does any one doubt that in future we may find Moscow Scotch whisky being sold or that this famous product, which has built a worldwide reputation and sales on its quality and brand name, may somewhere, some time, be piled high and sold cheap?

I remind the House that 85 per cent. of all Scotch sold is sold outside the United Kingdom. What other United Kingdom product can lay claim to sales on that scale? [HON. MEMBERS: "None."] Yes, none. What other product manufactured in Scotland can claim that over 90 per cent. of everything produced is sold outside Scotland? [HON. MEMBERS: "None."] No other Scottish product can lay claim to that. What other product employs 16,000 people directly and generates £1 billion in revenue and taxes for the Chancellor of the Exchequer? No other product can make those claims.

The importance of the Scotch whisky industry to Scotland and to the United Kingdom cannot be overstated. That is why the Scotch Whisky Association,

trade unions, management and employees, as well as hon. Members representing all the political parties in Scotland, and one from England, support and are sponsors of the Bill. I understand that other hon. Members from England support the Bill, but we have only one such sponsor.

Scotch whisky is more than a whisky. It is part of Scotland's heritage and folklore. It is used as a medicine to cure many ills. As a toddy, it can dispel colds and 'flu. In porridge, it can drive out the freezing cold of Scotland's winters. It lubricates the larynx and helps parties go with a swing.

It takes something extremely important to unite the Scots. It takes something very important to bring so many Scots to this Chamber on a Friday morning and to make Scottish Members travel overnight on the sleeper from their constituencies to be present this morning. I thank those Members who have made that sacrifice and who have come down especially for this debate today.

The Scotch Whisky Bill is too important to be caught up in any parliamentary manoeuvres that may be designed to frustrate other legislation or to promote narrow sectional interests. That is why other Scottish and English supporters and I are today asking the House to allow the Bill to proceed into Committee.

9.59 am

Mr. Martin O'Neill (Clackmannan): I have taken an interest in this subject for some years, because, in common with many other hon. Members who represent Scottish constituencies, I have a number of constituents—about 2,000—employed in the whisky industry. They are anxious that, for their long-term future, a proper definition should be established for the product that they are proud to manufacture. They are also anxious that that product should maintain a quality that is recognised throughout the world.

One of the major problems faced by the whisky industry is created by what can only be called adulterated whisky. One does not have to travel far to appreciate that problem. If one travels of France and visits the supermarkets at the Channel ports that are designed, in many respects, to attract trade from Britain, one can find products purporting to be whisky. That whisky can have as low a strength as 28 per cent. proof. That creates problems for the whisky industry and it is important that those problems are considered today.

Whisky is categorised as one of the luxury products. Whisky distillation represents a tremendous investment because we all know that, under the existing excise regime, the maturation of the more expensive brands is an extremely costly business for firms. Those companies seek to produce high-quality products, attractively packaged and aimed at the upper end of the market. It is extremely frustrating for those companies, which incur massive expense in the promotion of their products, to find that they have been undercut by stuff that can only be called "hooch" by those who like a dram or two.

There are already whiskies of a variety of strength on the home market that are allowed to be sold in this country because of the absence of an adequate definition of strength. We need to have that adequate definition to protect the consumer. Some of the so-called whiskies sold in Britain are sold at a strength that attracts lower excise duty. In many instances, that whisky is sold in bottles that are smaller than the standard size. Consequently, when a consumer goes into a supermarket in Britain seeking to

[Mr. Martin O'Neill]

buy what he would consider to be a low-cost Scotch whisky, he is not getting a bargain. If he goes home and gets out a calculator—one needs a calculator because the arithmetic is not simple—he will realise that he has paid proportionately more for a smaller bottle of a lower strength whisky than he would for a standard bottle of Bells or whatever.

The inferior product is undermining the integrity of Scotch whisky at home and abroad. I welcome the Bill, but if I were to be so bold as to seek an amendment, I should quibble about two matters. One is that the Bill does not take the opportunity—it may not be appropriate to do so—to outlaw the bulk export of malt. That is one of the great problems faced by the whisky industry and many of my constituents are concerned about that. Indeed, in Alloa the United Glass plant makes the bottles for the whisky industry and for a large section of the country's drinks industry. My people would be very pleased if we not only outlawed the export of malt, but insisted that every drop of Scotch whisky that left this country was in a bottle made in Scotland. We would be hard pressed to find a bottle of Cognac that had not been bottled in France. Indeed, that bottle would be made in France.

The Bill provides us with the opportunity to set in motion the means whereby we can assure the definition of Scotch whisky and the integrity of the product. By such measures we can secure its export opportunities in countries such as Japan. Some three weeks ago I visited that country with a parliamentary deputation. As a result of a GATT directive we are looking to the Japanese Government to open up their considerable market to the free and fair import of Scotch whisky. The present high tax regime in Japan means that whisky costs in excess of £80. Inferior Scotch is exported to that country and it attracts less tax. Therefore, it undermines the high-quality brands that seek a market there.

I look forward to the Bill coming into effect as soon as possible. I am aware of the problems that will be encountered within the European Community regarding such a definition, but I hope that it will be speedily agreed upon. Indeed, I hope that the figure of 40 per cent. proof can be established because that is the figure used for all respectable Scotch whiskies.

A variety of figures have been bandied about, and it is up to the Commission, in conjunction with our Ministers, to negotiate that matter. Although the Parliamentary Under-Secretary is a Yorkshireman, I know that he is concerned about the best interests of Scotch whisky. Indeed, I imagine that he would declare a consumer's interest in that product. I hope that he will recognise that we in Scotland would seek a 40 per cent. proof definition. However, it is not appropriate for us to insist today on that or on the other measures that I have described.

I know that there are divisions within the Scotch whisky industry about the bulk export of malt. However, distilleries that export malt are now achieving pariah status in the industry. They are undermining the integrity of the product by their actions. Indeed, in many ways they are similar to people who seek, for the basest reason, to adulterate the product, and they are going against many of the basic principles of the consumer movement.

It is ironic that one of the blending houses linked with the production of lower-strength Scotch has associations with the co-operative movement. I am happy to be a

member and supporter of that movement. I was always led to believe that one of the fundamental principles of the co-operative movement was the protection of the consumers' interests. Indeed, in their early documents, the Rochdale Pioneers emphasised that they were against the adulterations of products. I find it difficult to understand why that movement should be associated with the retailing of an inferior product. In the home market that inferior product is helping to undermine a product which is endeavouring to move up market and to attract the highest profit that can be obtained in the world's drinks market. That market is large, and Scotland and the United Kingdom generally are entitled to claim a share of it.

I know that a number of my hon. Friends wish to participate in the debate and I should like to think that we shall all support the Bill. I hope that we can get it through Committee and leave it to Ministers to get the EEC to resolve the remaining problems. If that happens, whisky will have the footing that it deserves.

I shall not talk at any great length about the Guinness saga, but we all know that the industry has been through a traumatic time, from which it is now recovering. We need the foundation of a clear and adequate definition of the product to enable the industry to continue and to secure the employment prospects and the revenue that the country needs and our people deserve.

10.9 am

Sir Hector Monro (Dumfries): I want to speak briefly to give warm support to the Bill introduced by my hon. Friend the Member for Tayside, North (Mr. Walker). I am glad to follow the hon. Member for Clackmannan (Mr. O'Neill), who I know has taken a great personal interest in the whole subject, and who recently had helpful discussions in Japan.

The hon. Member for Clackmannan was right to say that we should not go into the difficulties of the past couple of years that have affected the structure of the industry, because we want to look forward to future development from the current base line, which seems much more favourable than it was a little while ago. I am glad, too, to see the hon. Member for Kilmarnock and Loudoun (Mr. McKelvey) in the Chamber. He and I seem to be running campaigns, week by week, on every subject under the sun—yesterday the railways, today whisky. As joint chairman of the all-party Scotch whisky group, I am glad to see that the treasurer and secretary of that group are also here. That shows how much all-party support there is for the Bill.

Sadly, I have no constituency interest to declare. I must be one of the few hon. Members representing a Scottish constituency without a distillery or bottling plant. However, I am included among those who enjoy their dram from time to time. All of us in Scotland and in the United Kingdom have a clear responsibility to see that this most important product from Scotland continues to develop in the most favourable possible way.

We can discuss the issue under the title of the three Es—employment, exports and the Exchequer. As regards employment, all of us, particularly those who have pressed for rural development over many years, appreciate the great importance of the distilleries throughout Scotland, especially in the north and the islands where alternative employment is scarce. The distilleries have been the focal point, and we must do everything possible to ensure that they have every opportunity to develop and increase

employment, which we know in recent years has been falling, because the distilleries have had to close. I am glad that my hon. Friend the Member for Tayside, North was able to highlight the important fact that, whatever the Bill does, it certainly will not affect the distinctive taste of the different blends and malts that come from Scotland, because that is one of the most attractive aspects of whisky.

The second E—exports—has an importance that is clear to all of us. Without the export of Scotch whisky, our balance of payments would have a sad look to it.

The third E—the Exchequer—concerns the important issue of the duty that is payable and all the complicated formulae that accompany it. I am glad that the Chancellor did not increase the duty or even deal with an *ad valorem* increase last year. That was certainly of great value to the Scotch whisky industry, but it is in no way to underestimate the other aspects in which the industry is interested, such as stock relief, and so on. The Scotch Whisky Association has effectively made the case each year to successive Chancellors, and my right hon. Friend the Chancellor has a good case for continuing his decision of last year not to increase duty. Such an increase would be counter-productive if it reduced exports, which are so vital to this country. Duty must be seen in the light of exports, because home consumption is very important, too.

The Bill, which my hon. Friend presented so excellently to the House, does not require a great deal of additional explanation from those of us who are privileged to be its sponsors. It is right that the Ministry of Agriculture, Fisheries and Food should make regulations defining Scotch whisky generally and regulating the methods of distilling and sale, always with the important proviso that we have already mentioned today—that the distinctive blends and malts that come from Scotland must be in no way affected.

It is right that we should be able to strengthen our position in world markets. I have already mentioned the importance of resolving the Japanese question, which is now looking much more favourable in terms of import duties. The Bill will also enable Ministers, with the advice of the Scotch Whisky Association—one of the most effective trade associations in this country—to make regulations and definitions for this country and to standards that will help our position in the EEC.

Part of the Bill covers the issue of the strength of whisky, which will be regulated after full discussions. It is important to have a minimum standard. When a person buys a whisky, he expects it to be of a certain strength. We have already discussed taste. If he wants to dilute his whisky with water, so be it. That should not be done for him in the bottle beforehand. That matter should be clarified, and the approach of my hon. Friend the Member for Tayside, North will, I hope, be accepted by my hon. Friend the Minister later, because it will be beneficial to the future production and sale of whisky in this country.

As with so many other foods and drinks, it is absolutely right that we should examine carefully what we are putting on sale in the shops. In no way must we ever allow the quality and standard of Scotch whisky to deteriorate. My hon. Friend was wise to bring in the Bill. I know that it is welcomed by the Scotch Whisky Association and many companies and distilleries throughout Scotland, and I join many other hon. Members in wishing it well and a speedy passage into law.

10.17 am

Mrs. Margaret Ewing (Moray): My hon. Friend the Member for Banff and Buchan (Mr. Salmond), who is a sponsor of the Bill, renders his apologies to the hon. Member for Tayside, North (Mr. Walker) for his absence due to other commitments, and I am here to speak on his behalf.

It is not often that the hon. Member for Tayside, North and I agree on something, but today there is cross-party agreement on this major issue. As the hon. Gentleman quoted our national bard in his opening remarks, he will forgive me one brief nationalist point. Regularly, at Burns' suppers and on St. Andrew's day, we use the toast:

"Freedom and Whisky gan thegither!"

We are discussing an industry which is vital to Scotland and the United Kingdom economy, as has already been said by several hon. Members. This is not an occasion for raising some of the other issues that affect the industry, but are not touched on in the Bill, such as what has happened to the revenue assistance for distilleries, or the taxation system in general. We must examine the Bill and what it can do for a vital industry.

We see the Scotch whisky industry not only as a source of wealth creation, but as a symbolic part of our heritage in Scotland. Many people immediately associate Scotland with whisky, and we want the product to be preserved and to keep its quality and standards in high esteem throughout the world.

I plead a special constituency interest. I am glad that I am speaking before what the hon. Member for Cunninghame, North (Mr. Wilson) has called the "liquid dungeons" open, because I wish to refer to the distilleries in my constituency of Moray and after I have read out the names of the distilleries hon. Members might be tempted to go and taste this golden product. It is worth remembering that 60 of Scotland's 110 malt whiskies come from the Grampian region, and many of them are used for blending with grain whiskies from elsewhere in Scotland.

The distilleries in the Moray constituency are the Aberlour-Glenlivet, Milntown-Glenlivet, Dufftown-Glenlivet, Inchgower, Pittyvaich-Glenlivet, Strathisla which produces "100 Pipers", The Glenlivet, Benriach, Caperdonich, Glen Grant, Longmorn, Glen Moray-Glenlivet, Glen Spey, Glenfarclas, Glenfiddich, Balvenie, Glenrothes, Tamdhu-Glenlivet, Auchroisk, Knockando, Strathmill, Mulben and Macallan.

Scottish Malt Distillers Ltd., is based in Elgin in my constituency and has overall responsibility for Aultmore, Benrinnes, Cardhu, Cragganmore, Craigellachie, Dailuaine, Glendullan, Glen Elgin, Glenlossie, Linkwood, Mortlach, Glenburgie-Glenlivet, Tamnavulin-Glenlivet and the Tomintoul-Glenlivet distilleries. From that list hon. Members will see that I have a very special interest in the Bill.

Not all those distilleries are currently in production. Some have been mothballed over the years and it is our firm hope in Moray that all our Speyside malts will again go into production in the next few years. It is fair to emphasise that the industry is not a major direct employer in the area, because the distilling process is not labour-intensive. That is because of the developments that have taken place in the industry. However, it is a major indirect employer in my constituency. We have grain production for the maltings and, of course, for the whisky itself. There

[Mrs. Margaret Ewing]

is also employment in the transportation, bottling, packaging and marketing of the product and it is vital to our tourist industry in Speyside.

I hope that many hon. Members will take the opportunity to visit Speyside and follow the whisky trails. Perhaps in each distillery they will be offered a sample of our wonderful product. The industry is vital to all the ancillary industries that I have mentioned and is, therefore, of great significance in my area. It would be helpful to the House if I read out one or two comments that have been sent to me about the Bill by some members of the industry in my constituency. A letter from Scottish Malt Distillers Ltd says:

"I hope that you will give this your full support as the introduction of the proposed E.C. legislation would lead to a more lax Definition of Scotch Whisky, therefore damaging our industry."

A letter from Chivas Brothers Ltd., says:

"The premium aspect of Scotch Whisky is quietly being eroded and this must be stopped."

The director of the company says that he is also its technical director and has 25 years' experience in the industry and is involved in the various stages of the technical definition of whisky. He says that it is important to support the definition of 40 per cent. v/v. A letter from the Grant distillery at Glenfarclas, Ballindalloch, says:

"As an independent distilling company we believe that this Bill is most important to protect the good name of Scotch Whisky, not just in the U.K. but also overseas, where unfortunately there seems to be more and more bottles of 'Scotch Whisky' appearing at ridiculously low strengths, and of dubious quality which are giving the industry a bad image."

Those few comments from some of the producers in my area emphasise the importance of the Bill which I hope will have the full support of the House.

It does not seem long ago that we had a dispute with the EC about the definition of the water that we were using in Scotch whisky. There was a long wrangle in the European Parliament and the Commission about whether the purity of Scottish water was suitable for including in this product. Fortunately, we won that battle, because the burns and the streams of the Speyside valley and the other valleys in the Scottish highlands and islands give this wonderful product its distinctive nature. We must constantly safeguard our industry against legislation emanating from other places which could destroy its image and purity.

The Bill is important to an industry which has gone through a traumatic phase. There is no doubt that the takeover bids by Guinness, the insider dealing and Department of Trade and Industry inquiries have undermined the general confidence of Scotland's whisky industry. Although the Bill deals only with smaller aspects of the industry, it will give the industry a foothold to start rebuilding the confidence that is essential to ensure progress in revitalising the industry and eradicating the slightly tarnished image that it has had in the past few years. I am happy to give my full support to the Bill.

10.24 am

Sir John Farr (Harborough): I congratulate my hon. Friend the Member for Tayside, North (Mr. Walker) on being successful in the ballot and on his acumen in choosing this subject for debate. I can think of no better

purpose than the one that he is pursuing, because it will put right many things that are wrong in the important product of Scotch whisky.

I hope that the hon. Member for Moray (Mrs. Ewing) will forgive me if I do not follow her because she has great expertise and I should be lost in trying to emulate her speech. The hon. Member for Clackmannan (Mr. O'Neill) spoke about what are called low-strength whiskies which have on the label the words "low strength". I think he said that anything below 40 per cent. should be marked as low strength. The words he used were a bit strong, because he said that a product below 40 per cent. proof was adulterated. It is surely strange to say that whisky that is marked as 40 per cent. alcohol and 60 per cent. water is satisfactory, while ruling out as adulterated a product of which the water content is 61 per cent. and the alcohol content 39 per cent. I have received representations from the Co-operative Society in Leicester about some successful brands that the hon. Member for Clackmannan would call adulterated.

All hon. Members recognise the importance of Scotch whisky to our export trade. I think that it exceeds the export value of any other single manufactured product in Britain. It is vital not just to Scotland, but to Scotland's well-being. Sometimes Scotland is thought by many people to be a burdensome responsibility for the rest of the United Kingdom. However, I can assure hon. Members that the Chancellor of the Exchequer greatly welcomes the fantastic contribution that the duty on Scotch whisky makes to his Budget. As I say, it plays an important part in our export trade.

Clause 3 enters into certain details. In Line 35 it refers to the need for wooden casks. Details of that sort, the length of time for which whisky should be matured—three years in wooden casks—and the exact capacity of the casks are writing into stone factors that can change fairly rapidly. I mention that because for some years I worked in a brewery. Only 30 years ago the use of anything other than wooden casks in a brewery was unthinkable. I am not a beer connoisseur, although I know that many hon. Members are, but 30 years ago such a connoisseur would have said that beer could not be produced unless it was fermented in wood.

I shall not mention the brewery in which I used to work, but only a year or so ago in that brewery there was not a wooden cask in sight. The whole process is now entirely mechanised and no manpower is visible. However, the brewery's sales have increased substantially, with no loss of quality.

Mr. O'Neill: I think that the hon. Gentleman is confusing two different products. The point of modern brewing is for the beer to be in the casks for as short a time as possible; therefore it does not matter what kind of cask is used. It is more a matter of convenience. Whisky, however, matures in the cask, and there is an interaction between the spirit and the wood. The casks are sherry casks, which are treated so that they give Scotch its particular flavour. In this instance, beer and whisky are incompatible. The definition is necessary to give the product the consistency that lies at the heart of the Bill's purpose.

Sir John Farr: I bow to the superior knowledge of the hon. Member for Clackmannan, who earlier made such an interesting and informative speech. All I can say is that

such matters change. In some continental countries, such as France, it used to be thought that the best brandies and wines could not be produced in anything other than an ancient, well-matured wooden cask. However, vineyards are now producing wines in containers that would have been unthinkable a few years ago.

Often, the ancient casks to which the hon. Gentleman referred, which are imported for the purpose, impart a favourable flavour to the final product. On the other hand, many modern materials are available that provide the same sort of restful quality, but impart no flavour whatever. I dare say that some parts of the Continent are already changing to such methods.

It seems a bit risky to write the following three requirements into the Bill. Besides the requirement for wooden casks, clause 3(1)(b) stipulates a maturing period of at least three years. Surely that period could change well within our lifetime. It also requires a capacity not exceeding 700 litres a day. That capacity has customarily been used—I suppose that it is about 150 gallons—but, again, it could change in time.

Clause 2(1)(b) refers to an order which is to be made concerning consultation on the alcoholic strength of Scotch Whisky. Before I can support the Bill, I should like an assurance that such consultations will be meaningful. I received a deputation from the Leicester Co-operative Wholesale Society a few days ago. Its members are concerned about what will happen to their excellent low-strength whiskies—that is, whiskies containing less than 40 per cent. alcohol—if an order is made that rules that any whisky whose alcoholic strength is below 40 per cent. is not Scotch whisky. The House will, I think, require an assurance from my hon. Friend that proper consultation will take place among all the interested parties—not simply the ancient Scotch distilleries described by the hon. Member for Moray, but some of the distilleries that produce low-strength whisky. I should like their views to be taken into account.

Mrs. Margaret Ewing: It may be helpful if I make it clear to the hon. Gentleman that the distilleries themselves do not produce whisky with a low alcohol content; they produce at the same volume all the time. Low-strength whisky is whisky that has been watered down in a later process.

Sir John Farr: The hon. Lady's intervention shows again how valuable it is to have an expert in the House. I accept her explanation, and apologise to the House for my mistake. My point, however, is that those who produce and sell whisky regarded as below strength today should not be put out of business by an order that makes 40 per cent. the final figure.

I know that my hon. Friend the Member for Tayside, North has been concerned about Euro-whisky. He explained very clearly that he intends to try to introduce legislation that will give a proper definition of Scotch whisky before an attempt is made in the EEC. I understand that the EEC is trying to define what it calls "spirituous beverages". The EEC's definition of whisky provides for the generic production of something called whisky which would permit the use of substances such as synthetic enzymes in the preparation of the spirit. Scotch whisky, as produced in Scotland, is not produced by such processes, and one of the main objects of clause 1 is to ensure that Euro-whisky cannot be produced in Scotland. No doubt the whole House will approve of that attempt.

I would not be so arrogant as to say that we have won over the EEC, but we are directing it on what the proper definition of Scotch whisky should be, and once the Bill goes into Committee, which it will do shortly, that will be the end of it. Nevertheless, I do not know how effective the Bill will be in a court in relation to European law.

Mr. Bill Walker: It will be much more effective to have legislation in place than not to have any legislation.

Sir John Farr: As I have said, there is no doubt that my hon. Friend's Bill will go through today. I cannot imagine that anyone will object to it. However, it is useless for us to consider that, simply because we give a proper definition of Scotch whisky, that will be the end of the matter.

As my hon. Friend the Minister will know, there is a drug called carbadox, which was banned in Britain because it could cause cancer in the rearing of pigs. On 17 June this year, *The Guardian* reported that the EEC had ruled that the drug must be put back on to the market:

"There will be no appeal and the Ministry of Agriculture admitted yesterday that it is powerless to prevent UK pig farmers from feeding the drug, known as carbadox, to their animals."

The drug was the subject of a study by United Kingdom Government scientists, who advised as long ago as 1985 that it should be banned because it was a "genotoxic carcinogen". *The Guardian* explained:

"Feed-mill and farm workers were most at risk because they handled large quantities of the drug and even minute amounts of cancer-causing agents present health risks."

The United Kingdom Government were taken to the European Court of Justice in March this year, where it was ruled that the drug must be used in Britain. Dr. Tim Lang, director of the London Food Commission—quoted in *The Guardian*—said:

"It is outrageous that a drug company can use its muscle in the EEC to overturn the British ban."

I am merely saying that with this background there is an interesting parallel to be drawn between the definitions of Scotch whisky and Euro-whisky.

The Parliamentary-Secretary to the Ministry of Agriculture, Fisheries and Food (Mr. Donald Thompson): Much of what my hon. Friend says is correct, but much is a muddle. Carbadox has nothing to do with Scotch whisky. Scotch whisky is one of the purest of products and carbadox in a drug.

We have legislated to ensure that carbadox will be handled by workers in agriculture in a way that will be safer than hitherto. More especially, the containers that hold the product will be clearly, if not fiercely, labelled. I shall be surprised if anyone goes within 10 ft of such a container when he sees the labelling on it. Labelling is important also when dealing with Scotch whisky. That is why part of the debate has been directed to the strength of whisky. To muddle the two issues is mischievous.

Sir John Farr: I cannot describe my hon. Friend's contribution as being particularly helpful. I am not seeking to muddle the debate. My purpose is to make it clear that when we legislate in this place we often find that our legislation is overruled by the European Community. No one can argue with that. Indeed, the Community has recently overruled the Ministry of Agriculture, Fisheries and Food on the use of carbadox, a dangerous product, which we shall now have to use. The Community may well overrule what we decide this morning by introducing to

[Sir John Farr]

member states its definition of Euro-whisky. I consider that to be a reasonable parallel, but I note that my hon. Friend the Minister shakes his head. Another example is firearms legislation. A Bill is shortly to be presented to the House on firearms, and the Community is producing a ruling that will enable all EEC member countries to transmit weapons and ammunition freely around the Community. Our firearms legislation could be in the same position as our definition of Scotch whisky.

As I have told the House, I received a letter from Mr. Harvey of the Leicestershire Co-operative Society Ltd. it is dated 7 December. He states in his letter that he regards the Bill as a threat to lower-strength whisky, and refers to a recent article in *The Sunday Times*, in which reference was made to Highland Abbey. He writes:

"It is important to remember that the SWA"—
the Scotch Whisky Association—

"exclusively represents the interests of Scotch whisky producers, which are not necessarily the interests of our customers, the Scotch whisky drinkers."

Mr. Harvey is of the opinion—I believe it to be correct—that the SWA wants to outlaw whisky brands that are under 40 per cent. by volume. He claims that the SWA "considers that anything less will undermine its members' businesses."

I support the view of the Leicestershire Co-operative Society Ltd. that the outlawing of lower-strength whisky would be damaging to its trade. Hon. Members may have seen an article in an issue of *Which* on the examination of a number of various whiskies by independent analysts and customers. It is interesting to note that of the whiskies tasted, customer preference placed three Co-op brands in first, second and third positions. The whisky that took first position is called Heatherdale. Second place was taken by the Co-op's Arden House, a brand that the hon. Member for Clackmannan would describe as adulterated whisky as its strength is below 40 per cent. by volume. Third position was taken by the Co-op brand that is known as Majority. The brand that achieved fourth place was Safeway's five-year-old. It is apparent from the analysis in *Which* and from *The Sunday Times* report that appeared not so long ago that there is a good deal of customer preference for Scotch whisky that has a lower alcoholic content than full-strength whisky.

Mr. Bill Walker: I understand my hon. Friend's concern about United Kingdom customers. If our only concern was for them, I think that his remarks would be pertinent and extremely relevant. However, I remind my hon. Friend that I have made it clear that over 85 per cent. of all Scotch is sold outside the United Kingdom. It is the protection of that export trade and what it contributes to "United Kingdom Ltd." that lies behind the Bill.

Sir John Farr: I agree with my hon. Friend. On the other hand, there is a school of thought that it would be helpful, as the hon. Member for Clackmannan has said, if low-quality whisky were not exported in bulk. If more bottling were done on site in Scotland, we might get rid of the problem of low-quality whisky being exported.

The Sunday Times article bore the heading,
"Weak whisky cuts no ice with Scots".

It referred to Highland Abbey, which has been well reviewed and received by a number of connoisseurs. Another article that appeared in *The Times* referred to an

increase recently in what it described as "low-strength whisky sales". As Mr. Harvey wrote, there is no doubt that it is

"increasingly important in today's health-conscious society, where the emphasis is on lower alcohol drinks and healthy eating."

That is the background to his argument that the Co-op should be able to retail a lower-strength whisky. The letter continues:

"It also means we can offer a range of products at prices to meet the budgets of the majority of our customers."

The increase in the sales of lower-strength whiskies in recent months has been about 8 per cent., and there is no doubt that lower-strength whiskies have a corner of the market. My hon. Friend the Minister should take cognisance of that when the Bill is considered in Committee. There is no way in which lower-strength whiskies can be frozen out, as it were.

It has been said that if there is lower-strength whisky on the market, there will be those who will sell it as full-strength whisky. It is argued that it will be difficult for consumers to know whether it is low or full-strength. This may not be the appropriate time to talk about possible alterations to the Bill, but that problem could be overcome if all Scotch whisky, whether low-strength or not, were to bear a label containing the alcohol content under the brand name with the letters and figures of the alcohol content being at least 1 in high. With such labelling, customers could see for themselves the alcohol content of Highland Abbey or any other whisky. I understand that there is a requirement now for the label to contain the information that the brand is a lower-strength whisky. This information often appears in print of an insignificant size and type, however, and does not really catch the customer's eye, especially in a crowded bar where perhaps the staff are in a hurry. In these circumstances, the customer can be taken for a ride.

Once again, I wish to congratulate my hon. Friend the Member for Tayside, North on what he seeks to do. I think that the Bill will be extremely helpful. The Scotch whisky industry is essential to Britain. We in England often say that we could get along without Scotland, but England certainly could not get along without Scotch whisky. I congratulate my hon. Friend on his initiative and on the ability that he has demonstrated in introducing the Bill.

10.49 am

Mr. William McKelvey (Kilmarnock and Loudoun): I offer my congratulations to the hon. Member for Tayside, North (Mr. Walker) on introducing the Bill. There is considerable pressure on hon. Members who draw a high place in the Ballot to take up various matters in a private Member's Bill that are currently of concern. The hon. Gentleman has done the United Kingdom a favour by introducing his Bill, and in doing so has advanced a strong argument for the preservation of part of Scotland's heritage. I am slightly worried that the hon. Gentleman is a non-drinker, but only because I am now his next-door neighbour in London. I was hoping that during the festivities we would extend our Scottish neighbourly custom of having a dram. I am sure—indeed, I know—that he keeps whisky in the House. [Laughter.]

Mr. Bill Walker: I thank my hon. Friend for giving way—he is my hon. Friend, in many different ways. May I

assure him that I always have a stock of whisky at home and in my flat and that he is welcome to come any time and have some?

Mr. McKelvey: It is comforting to know that in sheer desperation I just have to knock down the bathroom wall to get to the necessary supply in an emergency.

We must consider the facts about Scotch whisky. It has been said that it is Scotland's most enduring natural asset, and long may it be so. I happen to think that it is also one of Scotland's most endearing natural assets. We should do everything in our power to protect both its reputation and the thousands of jobs which provide employment for our fellow Scots. Some 16,000 people are involved directly in manufacturing, distillation, blending and bottling of whisky and we can at least double that figure with all those involved indirectly in the whisky trade, whether in transport, selling or the other ancillary aspects of distribution.

We cannot deny the tremendous achievements of Scotch whisky. It is with some sadness that I tell the House that I was terribly disappointed that only two weeks ago when the Chancellor of the Exchequer was in Scotland he described the Scots as uninventive. One of our famous inventions makes the Chancellor of the Exchequer more than £900 million a year in excise duty and VAT. As has already been said, Scotch whisky is Great Britain's greatest export earner. Despite recent claims that the computer industry has overtaken us, it was quickly pointed out that many of the computer parts were foreign-made. Our whisky is made in Scotland with Scottish products.

I do not want to reflect on some of the difficulties of the whisky industry, but in the early 1970s and certainly up to 1979 there was a serious hiccough in the sales of Scottish whisky. Because some whisky distillers and companies had not done sufficient market research on sales, they had excess whisky on their hands, so the prices had to be lowered. Many jobs were lost because distilleries had to be mothballed to deal with the problem of over-production. I am glad to say that since 1979 the trend has been reversed, and again we are taking our share of the world markets. The achievement of £1 billion in export earnings every year is, indeed, tremendous.

I must declare an interest because my constituency includes the Johnny Walker bottling and blending shop, which happens to be the biggest in Europe, if not in the world. It is our single biggest employer. Nine hundred people are involved in the bottling and blending shop and there is the further advantage that visitors who come to Kilmarnock are always made welcome. They are shown round and never depart without tasting or receiving a small gift of the product. If anybody wishes, for whatever reason, to visit Kilmarnock, they should not leave without visiting Johnny Walker's blending and bottling shop.

Because of the tremendous progress in mechanised blending, even if we were to increase our output, it would not necessarily mean more jobs. We are worried that, if there were a threat to the Scotch whisky industry, we could lose jobs, but if we underpin this legislation we shall at least establish these jobs for many years to come. Therefore, I strongly support the Bill.

Many things have been said about Scotch whisky. On St. Andrew's night I had the privilege to propose a toast to Scotland at the Kilmaurs bowling club. As there is little to be said about St. Andrew's, I spoke about our famous national spirit. In my research I found a small piece which

is attributed to James Hogg, who was a bit of a poet and certainly a philosopher in the mid-eighteenth century, by Christopher North, whoever he was. It is entitled—I have taken some licence with the title—"The Real Scotch Whisky". If I lapse into the vernacular, the *Hansard* writers should not worry because I shall send them a copy. James Hogg said of the real Scotch whisky:

'Gie me the real Scotch, and I weel believe I could mak' drinking toddy oot o' sea-water. The human mind never tires o' this fine spirit any mair than o' caller air. If a body could just find oot the exac' proper proportion and quantity that ought to be drunk every day, and keep to that, I verily trow that he might leeve for ever, without dying at a', and that doctors and kirkyards would go oot o' fashion.'

As I said in Kilmaurs two weeks ago, often those from outside Scotland think that we Scots indulge ourselves in the consumption of our famous golden spirit, without considering that we are patriots for mankind. We are trying to find the exact formula which will give us life forever. Therefore, we should not look down on those patriots, either those who have passed into another world because they never found the exact formula or those great Scotsmen and women who at present are trying hard to find the secret formula.

One only has to look at this diagram of a bottle of Scotch whisky to see how important the issue is to the Exchequer. An ordinary bottle of whisky costs about £7.75, of which £5.74, or 74 per cent., is returned directly in VAT and Excise duty to the coffers of the Chancellor of the Exchequer. That is an enormous tax on the consumer and one which I am sure the Exchequer finds valuable. The Chancellor has squeezed tax to the limit from the Scotch whisky industry. I plead with him in future, if possible, not only to hold tax at the present level, but to reduce it so that we can sell more.

Obviously, there is confusion about the strength of Scotch whisky. I am not saying what the minimum strength should be, but everyone in the industry should realise that, if we do not have a minimum level, the whole Scotch whisky industry is in danger. Even whisky producers that have a corner of the market—the group of people who sell what they call low-strength Scotch whisky—would be eliminated. That would happen if in future no minimum level was set, which would protect the production of Scotch whisky throughout.

That is not the major point of the Bill, although the low-strength producers claim it is. The strength of the Bill lies in the fact that we shall be able to arm our Ministers with enabling legislation, which will strengthen their hands—

11 am

Mr. Frank Dobson (Holborn and St. Pancras): On a point of order, Madam Deputy Speaker. I am reluctant to interrupt private Members' time, particularly the witty speech by my hon. Friend the Member for Kilmarnock and Loudoun (Mr. McKelvey) — all the more appropriately, as it is exactly opening time.

I should like to know, Madam Deputy Speaker, whether you have received any representations from the Secretary of State for Social Services or any of his junior Ministers in response to the representations by my hon. Friend the Member for Livingston (Mr. Cook), seeking a statement from the Department on the news today that, on the instructions of the Prime Minister, messengers are being sent all around the country—all three countries—

[Mr. Frank Dobson]

to tell health authorities that they must become bad payers for the rest of the financial year, to eke out the meagre supply of funds that they have received.

It is a most important, and indeed, sickening development, when the Prime Minister refuses to answer questions in the House on the Health Service, recites a lot of statistics and then furtively sends her officials round the country to tell health authorities that they must stop paying up and make themselves an even worse proposition for many small suppliers. We all know that the Health Service is a bad payer to most of its staff. Hitherto, it has never been a bad payer to its contractors—

Madam Deputy Speaker (Miss Betty Boothroyd): Order. I can answer the hon. Gentleman in one word—no. No application has been received from any Minister for a statement today.

Mr. Robert N. Wareing (Liverpool, West Derby): Further to that point of order, Madam Deputy Speaker. Can you guide us on how we can bring about a statement, perhaps at 2 pm today, in view of the fact that the House gave the Prime Minister an opportunity yesterday to make her feelings known on how the National Health Service might deal with its financial problems? In view of the inevitable widespread concern when people read in the newspapers today that the Prime Minister is telling the NHS to renege on its contractual agreements with its suppliers, instead of allowing the Government to do what most people would think right—to provide more—

Madam Deputy Speaker: Order. I am afraid that hon. Members are tending to use points of order to make political points, which is strictly out of order. I shall be strict on that. I have made the situation known. No application has been received. I refer the Opposition Front Bench to the usual channels in relation to any statements in the House.

11.2 am

Mr. McKelvey: I was talking about the minimum strength of whisky and the need for future legislation to establish exactly what that minimum should be. It is evident from the Scotch Whisky Association literature that it would prefer the level to be set at 40 per cent., as it has been established in Scotland for many years by custom and practice. We shall have to see how that argument develops.

We must protect not only the reputation of Scotch whisky but the magic and mystery that we attach to its flavour and strength. One area continues to concern me, and I have been quoted on it for many years. I deplore the transportation of bulk whisky into foreign parts. It is not simply our transporting bulk whisky that can be adulterated by adding water that concerns me, but when it is adulterated by some countries which add their own whisky blend. They are giving that blend the respectability of Scotch whisky, which it does not deserve.

I recognise the argument of those who indulge in that practice, that jobs could be lost if it were ended. They may lose jobs in the short term, but in the long term we risk losing not only the reputation of our whisky but the jobs of all those who are now involved in that precious industry for Scotland.

I think that the whole House will congratulate the hon. Member for Tayside, North on his Bill. I honestly believe

that no one who has the interests of either Scotland or the Scotch whisky industry at heart could contemplate any form of blockage on the Bill. To do so would be to play games with the livelihood of countless thousands of people in Scotland. Jobs are scarce enough in Scotland, and we should not want to jeopardise them in any way.

The modest cottage in which I live lies two miles downwind of the Johnny Walker distillery. The wind carries the marvellous scent of the whisky there when the blending process is taking place. I say this seriously, because some people would say that we should consider the health aspect, particularly in relation to the consumption of alcohol. The people in my village of Kilmaurs are rosy-cheeked. They are famous for the fact that they live for a long time. I think that that is partly due to the fact that they are breathing that marvellous additive that comes along the air tunnels from the whisky blending shop at Johnny Walker. Kilmaurs is considered locally as a health resort. The fact that the small village contains three pubs probably adds to that.

I congratulate the hon. Member for Tayside, North and am delighted to be a sponsor of his Bill. I, and I am sure the whole House, wish it every success.

11.8 am

Mr. Roger Sims (Chislehurst): I am sure that the whole House will have enjoyed the speech that we have just heard by the hon. Member for Kilmarnock and Loudoun (Mr. McKelvey), will admire the way in which the hon. Gentleman was able to put in a few commercials for a certain not unknown brand, and will envy his living circumstances.

I hope that the House will tolerate another contribution to the debate from England. My qualifications for taking part are, first, that before I entered the House I was very much involved in the export trade, selling whisky overseas, especially to Japan and Hong Kong. Secondly, I am parliamentary adviser to the Scotch Whisky Association, and I declare an interest accordingly.

The Scotch Whisky Association represents the vast bulk of the Scottish whisky industry which, as we have heard, sustains some 16,000 jobs directly, and many more indirectly. It produces over £1 billion annually in export earnings, a figure that is steadily increasing, and exports to some 190 overseas markets. It does so despite various trade barriers erected in a number of countries, not least Japan. The industry very much welcomes the recent GATT decision about Japanese trade barriers and looks to Japan to implement the GATT ruling rapidly.

The industry produces some £900 million for the Treasury in duty and VAT. The hon. Member for Kilmarnock and Loudoun drew attention to the fact that, some 74 per cent. of the retail price of a bottle of Scotch whisky goes straight to the Treasury. This is a very discriminatory imposition. About an ounce of whisky contributes nearly 18p in duty to Her Majesty's Government. There is a similar amount of alcohol in 2 oz of sherry, which contributes only 12p. The alcoholic equivalent in wine bears a burden of 10p duty. Half a pint of beer, which is another alcoholic equivalent, carries a duty of 9.5p—as against 18p for whisky. This is a grossly unfair burden for the whisky industry to carry. It has one of the highest rates of duty throughout the Common Market.

I hope that my hon. Friend the Minister, to whose contribution we look forward later in the debate will

convey to the Chancellor of the Exchequer the industry's feeling of injustice about the duty that it pays. It also feels that corporation tax bears unfairly upon it because the industry does not enjoy any stock relief, although the law requires that the product must be matured for at least three years.

This is the background to the Bill introduced by my hon. Friend the Member for Tayside, North (Mr. Walker). I wonder whether nobility can go higher than for a tea-totaller to introduce a Bill of this character, and all credit is due to my hon. Friend for doing so. I can confirm that the Scotch Whisky Association warmly welcomes the Bill and hopes that it can help to secure its passage through both Houses, as it will benefit the industry and the consumer.

Whisky is particularly in our minds at this time of year. There are few people with a harder task in this House than you, Madam Deputy Speaker, and your colleagues. We are looking forward to this time next week when we go into recess. I hope that you will have the opportunity, Madam Deputy Speaker, during the recess to put your feet up, relax and enjoy a glass or two of whisky. To do that, and perhaps to give one or two presents, you may be purchasing whisky in the next week or two. I do not know whether you buy it here in London or at home. You may care to go to a shop less than a half a mile away, where you will find that the standard brands are being sold at about £8.89 a bottle. You may do better in the suburbs or the provinces, but that does not alter the argument that I wish to produce from the figures.

The unsuspecting shopper may notice that, as against the standard brands at £8.89, there are on another shelf perhaps less well known labels offered at £7.99. A careful examination of the labels on those bottles will reveal that they contain only 70 cl of whisky, as against the standard brands which contain 75 cl. The sum of £7.99 for 70 cl is equivalent to £8.56 for 75 cl, which makes it rather less of a bargain than one might have thought at first. That problem will be met by the EEC regulations which were discussed in the House a few weeks ago in an attempt to obtain a standard size for whisky bottles.

That still leaves us with the problem of the difference in strengths. Everyone who has spoken in the debate—and, I suspect, everyone in the Chamber—is familiar with the process by which whisky is produced, but some of those people who take an interest in our proceedings may be less familiar. My hon. Friend the Member for Harborough (Sir J. Farr), who has temporarily left the Chamber, has shown that he does not perhaps have the fullest knowledge of the process. I warmly endorse the invitations extended by a couple of Opposition Members who have distilleries and bottling plants in their constituencies.

Anybody who has the opportunity to do so, should visit a distillery or a blending and bottling plant because it is important to understand that the blended whiskies which we are accustomed to drinking are the product of matured malt whiskies from various distilleries throughout Scotland—some of which have been listed this morning—and grain whiskies. It is the technique by which these whiskies are blended and the different types and proportion of malt used which produce the final product and account for the fact that there are so many different whiskies.

As my hon. Friend the Member for Tayside, North said in his opening speech, there is not the slightest danger of

uniformity. It is the delight of the industry that there are so many different whiskies. It is fascinating to go around a blending plant, to see the huge vats into which both malt and grain whiskies have been poured and to see them being mixed by mechanical means or by compressed air. If one climbs to the top of one of these vats, opens the little porthole and takes a sniff or two, I guarantee that it will clear any cold or other ailment from which one may suffer.

The product is put into casks, where it matures for three years. That is an important part of the blending and maturing process. After three years, and perhaps a good deal longer, the bottling process starts. However, I would never recommend anybody to take a glass of whisky straight from the cask because, if one tried to drink it, it would take the roof off the top of one's mouth, as it is almost pure alcohol. The next stage is to add water to reduce the alcohol content. It should be good Scottish water, not the London stuff which has been through umpteen kidneys beforehand. One does not need to be an expert to appreciate that the quantity of water added will determine the final alcohol content.

By tradition, content has been described in volume terms. The usual expression used nowadays is 40 per cent. alcohol by volume. That is the usual strength of most of the so-called standard brands. As the Scotch Whisky Association represents virtually all whiskies, I must be careful not to mention one whisky and omit another. The standard labels, marked as 40 per cent. alcohol, will be known to hon. Members. Some products on the market have been watered down rather more to give a lower alcohol figure.

The product which I mentioned earlier, which is contained in a 70 cl bottle, is not such good value if one works out what it would cost if it were a 75 cl bottle. If one studies the label carefully, one will see that it is a 30 per cent. whisky. If we take out our calculators, as the hon. Member for Clackmannan (Mr. O'Neill) suggested, we find that the 75 cl bottle of 30 per cent. whisky costs £8.56, yet if it were 40 per cent. whisky it would cost about £11 a bottle; so the 30 per cent. whisky is not quite the good value which it appeared at first. We do not propose a standard strength, but it is important to have a minimum strength, and that is precisely what the Bill would allow. It does not specify the strength, but is an enabling Bill which will allow the Minister to specify a minimum strength that will be agreed by the industry. The consumer will know exactly where he stands and people will not be misled about what they are buying. I cannot underrate the importance of the strength aspect. On the continent, whisky is sold at 30 per cent. or even 25 per cent. by volume, which must lower the standing of Scotch whisky in the market and harm it nationally and internationally. Whatever minimum strength is agreed, it does not follow that all producers will conform to that figure. Some will, but others may prefer to promote a prestige product that is above the minimum strength.

It should be made clear—my hon. Friend the Member for Harborough has misunderstood this—that almost anyone can produce whisky. Any of us could go out and buy grain whisky and some fillings from a malt distillery and produce our own Scotch whisky. I am sorry that my hon. Friend is not here. "Farr's Finest" has a certain ring to it.

Mr. Foulkes: Will the hon. Gentleman give way?

Mr. Sims: "Foulkes's Finest" would be an alternative.

Mr. Foulkes: That is not why I wanted the hon. Gentleman to give way. How does he reconcile what he is saying with the definition of whisky in the Finance Act 1969, which states that "the expression 'Scotch whisky' shall mean whisky which has been distilled in Scotland" and says that it must be matured for three years in casks in warehouses.

Mr. Sims: I said that anyone is at liberty to blend and bottle his own whisky under his own label, but it must comply with all the requirements. If my hon. Friend wanted to produce "Farr's Finest", he would have to do it in Scotland, just as you would, Madam Deputy Speaker, if you wished to produce "Boothroyd's Best".

That is an especially important aspect of the bill, which I warmly welcome for the reasons that I have given. The other provisions allow for a clear definition of Scotch whisky and ensure that only that product can be produced in Scotland. EEC regulations will be introduced to define whisky, but it will be different from Scotch whisky. My hon. Friend the Member for Tayside, North talked about Euro-whisky. Whatever its name, others may wish to produce it. Indeed, some products which are described as whisky are already produced and available on the continent. The important thing is that Euro-whisky should not be produced in Scotland. There could be much confusion between Scotch whisky and whisky produced in Scotland, and it would undermine the standing of Scotch whisky.

The Bill is good for the Scotch whisky industry and for Scotland. It is good for the United Kingdom because of the enormous export earnings produced by Scotch whisky. It is good for the consumer. On all those grounds. I urge the House to give it a Second Reading.

11.24 am

Mrs. Ray Michie (Argyll and Bute): Like other Opposition Members, I do not suppose that I will often support a measure presented by the hon. Member for Tayside, North (Mr. Walker), but I am happy to support this Bill because, as we have heard many times today, it is of paramount importance to the Scottish whisky industry, especially in terms of employment and the export market.

Whisky is a matured, high-quality spirit and the success that it has achieved overseas has been due to its image, reputation and quality. Its image and reputation should not be put at risk. Indeed, they should be strengthened, and that is what we are about to do with the Bill. As the hon. Member for Tayside, North said, we need a definition that reflects more precisely current practice in the industry. It is especially important to allow no room for the argument that Scotch is a type of whisky that can be produced anywhere. Its acceptance as a generic or semi-generic description would lead to the emergence of peculiar brands. The hon. Gentleman mentioned Albanian whisky.

We cannot allow inferior products to be sold on the back of the reputation that Scotch whisky has built up over many years. It is not anti-EEC to try to define Scotch whisky. We must try to protect our national product.

Whisky is Scotland's No. 1 value-added export and the industry provides direct employment for many people, not least in my constituency. The economic viability of Islay and Jura would be destroyed if the long-term future of the

industry was threatened. Campeltown is an area of high unemployment and derives great benefits from its distillery. There is a significant spin-off in indirect employment, especially in the islands. On Islay, many people contract with the distilleries, and the ferry and air services are crucial. Five Islay distilleries provide housing for people in small communities. Draff, which is barley after normal malting, and cumins, which is the dry residue of barley after malting, provide local farmers with a high-protein cattle feed at a reasonable price. That helps them, because they need not import it, at high cost, on the ferry.

The distilleries are very much part of the life of the island. They provide amenities such as reception centres for the local people. Bowmore distillery has agreed to allow a surplus warehouse to be converted into the longed-for swimming pool and has said that the pool may be heated by the wastage heat from the distillery. That is good conservation.

As we have said already, the distilleries and their products make an invaluable contribution to tourism. The names of the distilleries are poetry. The names of the distilleries in Islay are sheer magic — Bruichladdich, Bunnahabhain, Coal Ila, Lagavulin and Laphroaig. I will help the *Official Report* with the names. The whisky is made there from beautiful, clear crystal water, from the barley and from the peat that is burned at a special temperature which we will not reveal.

Of course, the Bill was not brought to the House to encourage overindulgence. Taken in moderation, as we have already heard, the spirit lives up to the real name for whisky—Uisge beatha—which means the water of life. Whisky is the water of life. It is used medicinally, not just as a sedative but as a vaso-dilator. As we heard from the hon. Member for Tayside, North, whisky has been immortalised in poetry, by our national bard, and we have waxed lyrical about it today, perhaps because it is Friday and the weekend.

First, I must tell hon. Members that yesterday I spoke about the Bill to someone in Islay who said that when a shopkeeper in Bulmore stands in front of his shop and sees smoke rising from the distillery, he knows that that means a good week for trade. If, God forbid, he saw no smoke for a long time, he would think about closing down. Whisky has been immortalised in poetry. The much-loved, late Angus MacIntyre of the island of Mull, described in a poem the 1941 sinking of a ship called "The Politician", with a huge cargo of whisky aboard, which foundered off the island of Barra in the Outer Hebrides. It was also immortalised by Sir Compton Mackenzie in his famous "Whisky Galore".

I will not read all of the poem now; perhaps I will give a good rendering of "The Politician" another day, but the last verse—remember that the name of the ship was "The Politician"—

"A Slainte"

—that means good health in Gaelic—

"now for Churchill,

His name I proudly call,

But the Barra politician

Is the greatest of them all."

I, too, give my wholehearted support to the Bill.

11.33 am

Dr. Norman A. Godman (Greenock and Port Glasgow): We have something of a travelling circus, but I am pleased to follow the hon. Member for Argyll and Bute (Mrs.

Michie). The hon. Lady and the Minister of State, Scottish Office were in my constituency on Tuesday at the very pleasant ceremony of the launching of the Caledonian MacBrayne ferry The Isle of Mull.

First, I wish to offer my compliments to the hon. Member for Tayside, North (Mr. Walker) on his fine Bill. The Bill if it is passed, will give a solid measure of protection to an important Scottish product and industry. Every speaker today has emphasised the industry's importance to Scotland. At the same time, I have a good deal of sympathy with some of the comments and observations recently voiced by my hon. Friend the Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes), and I sincerely hope that he manages to catch your eye today, Madam Deputy Speaker. I also hope—he may not thank me for this—that my hon. Friend will be selected to serve on the Committee. Where balance and analysis are concerned, he will play an important role of scrutineer and interlocutor or, perhaps some would say, inquisitor.

Mr. McKelvey: Or troublemaker.

Dr. Godman: Or troublemaker.

All hon. Members who have spoken in the debate have emphasised the importance of the whisky industry. Naturally, that view is shared by those who work in the industry and its ancillary industries. For example, distillers insist that they buy their barley from local sources, and that is the same for many other products used in the industry.

In common with other hon. Members, I have received a memorandum from the general secretary of the Scottish Trades Union Congress, Mr. Campbell Christie, in which he says:

"I am sure I do not need to spell out to you the importance of the whisky industry to Scotland, both in terms of direct employment and the vital export revenues which the industry brings us. You will also be aware that over the past few years the industry has gone through something of a recession, from which it is only now slowly beginning to recover."

He goes on to offer a comment, with which I am sure we all agree:

"What is completely distinctive about Scotch whisky is its quality."

The hon. Member for Gordon (Mr. Bruce) in a debate last year, gave us a very fine definition of the product. He said:

"Pure, good quality Scotch whisky can only be made in the right circumstances, in the right place—in Scotland."—*[Official Report, 3 February 1986; Vol. 109, c. 122.]*

However, as the hon. Member for Tayside, North rightly sets out in the Bill, we need a much stronger definition. The hon. Member for Gordon welcomed the promise made by Guinness plc, to establish its headquarters in Scotland. I know that the hon. Gentleman has strong views on that issue. When he spoke about that promise, he spoke in good faith. Unfortunately, Guinness subsequently responded with what the French call "mauvais foi", which, in plain English, we call bad faith. In my view, that company could repair to some extent its reputation in Scotland by taking a number of initiatives.

We know that the whisky industry, in order to survive, must export its product. As the hon. Member for Tayside, North said, in his excellent opening speech, Scotch whisky is the most widely exported spirit in the world. That was confirmed in the recent Fraser of Allander report, which echoed what the hon. Gentleman said about the industry

having an unmatched export record. Indeed, the Bill seeks, among other things, to sustain and increase that remarkable export performance. Guinness, as the largest exporter of Scotch whisky, should, in my view, send its products abroad by way of Scottish ports. It was the company's avowed intention to use Scottish ports where adequate services were available. The chairman of Guinness and others in the Scotch Whisky Association should know that we have first-class services and facilities at Grangemouth, Dundee, Leith and other ports. Front Bench discretion prevents me from mentioning one first-class port—the Greenock container terminal on the lower Clyde—which has an excellent work force and fine facilities. I say to the chairman of Guinness and others, "Honour that intention and you will redeem some respect for your company in Scotland."

The Bill will be subjected to close scrutiny in Committee, but I wish briefly to comment on its clauses now. As the hon. Member for Tayside, North said, clause 1 is all-important because of the proposed EEC definition of whisky. The distinction between the definitions is, and should be, profound, and both consumer and producer must be given that degree of protection. As the hon. Gentleman pointed out, champagne has had a defensive ring around it in French law since 1934. I recall that champagne producers went to court in England a few years ago to defeat an invasion of so-called Spanish champagne—which some people say should be avoided. I shall not comment on that. I simply echo the comments of the hon. Member for Argyll and Bute about all things being "taken in moderation". After a fine meal, I recommend a malt rather than a continental drink such as cognac. I cannot recommend a brand, but malt is a finer way to end a meal than indulging in foreign drinks. There can be no objection within the EEC to our whisky being accorded the same legal status as champagne and cognac.

I think that I am right in saying that clause 2 causes my hon. Friend the Member for Carrick, Cumnock and Doon Valley understandable concern.

Mr. Foulkes: I hope to catch the eye of Madam Deputy Speaker later, but I would like to explain now that my concern is not that there should be a minimum—we all agree on that—but at what level that minimum should be set. A number of producers, including Glen Catrine in my constituency, produce an excellent blend of whisky—that is the important point—at 37.2 per cent. That is why we are arguing the case. The Scotch Whisky Association is still maintaining that the minimum should be 40 per cent. That is the only point of debate, because we all agree that there should be a minimum to protect the good blended whisky made in Scotland from the poor imitations coming from other parts of the world.

Dr. Godman: I have a good deal of sympathy with my hon. Friend's comments. Perhaps he would care to buy me a wee dram of Glen Catrine after the debate. The setting of a minimum level of alcoholic strength may well have serious implications for those whom my hon. Friend represents so admirably in the House. I hope that the Minister will assure us that the Government will seriously and responsibly consult all interested parties before any decision is taken.

I wish to say only a brief word about clause 3, because I am anxious not to spend too much time at the Dispatch box. We believe that in principle it makes good, sound sense.

[Dr. Godman]

The Bill reflects the serious concern that the hon. Member for Tayside, North has consistently shown for this important Scottish product and industry. I need hardly say to him that that watchful concern is shared by Opposition Members. I commend him on his Bill and wish it well.

11.43 am

The Parliamentary Secretary to the Ministry of Agriculture, Fisheries and Food (Mr. Donald Thompson): I wish to join in the congratulations to my hon. Friend the Member for Tayside, North (Mr. Walker) on bringing the Bill to the House and underlining the importance of the Scotch whisky industry. By doing so he has also initiated a great many after-dinner speeches on this Friday morning, and they have been very welcome.

I have no constituency interest to declare, other than that in Todmorden, Hebden Bridge — [Interruption.] everyone else has mentioned just about every village in his or her constituency, so I will. In Todmorden, Hebden Bridge, Ripponden, Greetland, Norland, Brighouse and Rastrick, we all drink and appreciate whisky. That is why we are determined not to let Scotland slip away from the United Kingdom. We want to keep her firmly bound to us. We cannot do without either Scotland or its whisky.

Scotch whisky is probably the best known spirit in the world, and for good reason. The spirit is produced from cereals, and it can be made in many countries. However, there is only one Scotch whisky, and it is universally acknowledged to be the market leader. Some foreigners may wonder why that is so. I shall not dwell on the special characteristics of spring water, because the hon. Members for Moray (Mrs. Ewing) and for Argyll and Bute (Mrs. Michie) lyricised about that. There are many hon. Members better placed than I to do that. Nor will I hold forth on the enormous variety of shapes of pot stills and the subtle differences in the malt whiskies that were mentioned by my hon. Friend the Member for Dumfries (Sir H. Monro)—who has probably popped off to investigate some to them.

However, I will say that, while the industry is endowed with those natural and traditional characteristics, it is also extremely diligent in ensuring that the production techniques are faithfully preserved and that short cuts that might damage quality and lead to short-term profit are avoided. Of course, that does not mean that the industry is unwilling to move with the times—far from it. It has shown considerable marketing flair and has produced a wide variety of blends at varying price levels. In recent years, it has successfully developed and extended the luxury end of the market with single malts that are proving so popular with consumers worldwide. The quality that derives from the production and maturation techniques has been consistently maintained and never compromised.

Mr. Robin Corbett (Birmingham, Erdington): The Minister also has responsibility for Wales. Although I agree with everything that he said in praise of Scotch whisky, will he also acknowledge that there is a growing Welsh whisky industry and that, provided that it stays in Wales, it poses no threat to the Scotch whisky producers of Scotland?

Mr. Thompson: I am glad that my hon. Friend the Minister of State, Scottish Office, is here. He will have

heard all the points made outwith the Bill this morning, which were genuinely concerned with specific Scottish issues. He will deal with those. It would be wrong of me to go down the Welsh path without having a Welsh colleague by my side to listen to the debate.

Scotch is sold in more than 190 markets and brings great export revenue. I was glad that the hon. Member for Moray did not tax me on how and where we are spending that revenue. Indeed revenue used to be collected by Rabbie Burns himself—as I am reliably informed by my hon. Friend the Minister sitting next to me, although I am not sure whether he is actually on my left or my right. There is one major problem in producing virtually any product that is regarded as the best of its kind, and Scotch is no exception. It is the great temptation for others to counterfeit it and pass off different and inferior whiskies as Scotch whisky.

The hon. Member for Greenock and Port Glasgow (Dr. Godman) mentioned the champagne battle. Although Spanish champagne is, of course, different from French champagne, it is quite nice and quite acceptable in its place—although not as acceptable as Scotch at any time.

The industry spends substantial sums each year identifying counterfeit practices throughout the world and seeking legal retribution in foreign courts. It does that to protect the good name of Scotch, on which the export success of the product so critically depends. The main purpose of the Bill is to support and underpin—the important word used by the hon. Member for Kilmarnock and Loudoun (Mr. McKelvey) in his witty and wide-ranging speech—that effort.

Clause 1 of the Bill restricts the production of whisky in Scotland to Scotch whisky. I make no apology for repeating that. As my hon. Friend the Member for Tayside, North explained, the industry seeks that restriction because it foresees a real danger of lower quality whiskies conforming to the Euro-definition being produced in Scotland when the EC regulation defining spirit drinks is adopted. There is no doubt that such products legally marketed throughout the world as “whisky—produce of Scotland” would be bound to be confused with genuine Scotch and thus erode the quality image of Scotch on which its export success is built.

While recognising the genuine concerns, the Government would have preferred a rather less protectionist solution. One solution might have been to require better labelling, but this would have covered only the sales on the domestic market, leaving the major export market, which accounts for 80 per cent. of Scotch production, wholly unprotected.

Mr. Dick Douglas (Dunfermline, West): I have tried to hear most of the speeches so far, although I apologise to the hon. Member for Tayside, North (Mr. Walker) for being absent for the earlier part of his speech. Could the Minister be a little more forthcoming about the Government's position on standard of strengths? Does it assist the Government to have whiskies marketed in the United Kingdom under the 40 per cent. proof mark? Would it not be better for the Government to state clearly that 40 per cent. is their bargaining position, from which they will not be deflected?

Mr. Thompson: I understand the hon. Gentleman's concern, but if he will be patient I am coming to that question in a sentence or two.

We have also had to recognise that there is much competition between distillers and brands in the industry. The Government concluded that the only practical way to safeguard against the dangers that are foreseen is that proposed in clause 1.

The other main provision of the Bill is clause 2. The hon. Member for Clackmannan (Mr. O'Neill) clearly expressed the fears of those who are worried about minimum strength and weaker whiskies and the hon. Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes)—I hope that he catches your eye, Madam Deputy Speaker—expressed a slightly different point of view. Clause 2 contains an enabling power to define Scotch whisky, and the definition will include a minimum alcoholic strength at the point of sale.

The minimum strength provision caused some concern among those who bottle Scotch whisky at strengths below the traditional 40 per cent. In answer to those concerns, let me make a number of points. First, the Bill does not specify a minimum strength, which is, in any case, currently under discussion with the EEC for all spirit drinks. The hon. Member for Clackmannan urged the EC to move a little quicker so that we may have that definition.

Secondly, there is general agreement among all the interests on the need to specify minimum strength at a level to be determined; everybody wants that nailed down. Thirdly, I assure the House that if the Bill is enacted the Government will wish to consult all those interested before moving to regulations.

Mr. Foulkes: Will the Minister specify that, if the Bill is enacted—I hope that he will still be the Minister then—the Association of Low Strength Whisky Producers will be consulted? Does he still have an open mind about what the minimum strength might be?

Mr. Thompson: It is an extreme form of flattery for an Opposition Member to hope that a Minister will continue to be a Minister. I had already made up my mind that I would consult widely, and those consulted will include the gentlemen to whom the hon. Gentleman refers. I have spoken to them before and I recognise their genuine fears. However, we must protect Scotch whisky; that is why the Government have decided to support the Bill.

Mr. O'Neill: The European directive will be in the context of an alcohol limit being set for a variety of drinks in the Community. Will the Minister bear in mind that the figures 35 and 37 are being banded about for drinks emanating from other parts of the Community where that is the traditional strength? As the Minister said, 40 per cent. is the traditional strength of Scotch, and it would be wrong to set a figure that disregarded the normal practice of each country.

Mr. Thompson: As the hon. Gentleman knows, that does not come within the scope of the Bill. However, I shall bear in mind exactly what he said in making an order specifying minimum strength.

The Government accept the need for an enabling power. The clause also provides for Ministers to define Scotch whisky. This would replace the existing definition in the Finance Act 1969. The hon. Member for Argyll and Bute (Mrs. Michie) was right to say that the definition must be clearly understood. As my hon. Friend the Member for Tayside, North explained, the aim is to lay

down a more precise definition of existing practice. I assure the House that the Government will consult all interested parties before making an order. Hon. Members will note that it is intended that the enforcement of the measures should be through civil sanctions rather than the criminal law. That is thought to be more appropriate for the protection of the industry's interest.

I praise the Scotch whisky industry's initiative and energy in defending its interests world wide, as my hon. Friends the Members for Dumfries and Tayside, North explained. I thank them again. This has been to the benefit of the whole United Kingdom economy and not just the Scottish economy—in terms of exports, excise revenue and employment. The industry has good reason to be proud of its input to the EC's case to GATT on the liberalisation of the Japanese spirit market. The Government have lent their full support to this objective and, following the conclusions of the GATT panel, we will be looking to Japan to implement the panel's report in the near future.

Consistent with our overall support for the industry's exports, the Government will support the Bill, which we view as a practical measure that should help to ensure the future prosperity of the industry in Scotland.

11.58 am

Mr. John McFall (Dumbarton): I am sure that on this occasion my constituents will forgive me for being on the same side as the hon. Member for Tayside, North (Mr. Walker). There is an exception to every rule, and this is, I hope, an unforgettable exception.

I thank the hon. Gentleman for referring to the fact that I came down to London overnight. I had a pressing constituency engagement yesterday but I came down overnight by train because the Bill is fundamental to my constituency and to the whisky industry in Scotland. The importance of the whisky industry for direct employment in Scotland and in earning valuable export revenues cannot be underestimated. Two thousand individuals in my constituency are directly involved in the whisky industry. I stand to be contradicted, but I do not think that any other hon. Member has more constituency interest in Scotch than I have. I shall not echo the poetic words of the hon. Member for Tayside, North. Is he the 20th-century bard or a pale imitation of William McGonagall? I leave hon. Members to decide that question.

During the recess, I visited many distilleries and bottling plants in my constituency. The overriding impression that I gained from such visits was of the sustained co-operation between management, workers and unions, to the maximum benefit of the entire industry. There are two major employers in my constituency. One of them is the IDV Company, whose plant is at Strathlevin bonded warehouses, and the other is Allied-Lyons, with its subsidiary, Hiram Walkers. I shall refer to Hiram Walkers because I visited that plant most recently.

As most of us know, Hiram Walkers produces Ballantyne's whisky, which has a unique worldwide reputation. During my visit to the plant, I spoke to management and unions and also examined the company's industrial relations record over the previous 10 years—a record which bears examination from any quarter. It was achieved by the direct involvement of workers and unions in the company's affairs. That is to be seen and recorded in terms of the Scotch whisky industry. Hon. Members should not take my word alone for that fact. This week,

[*Mr. John McFall*]

I engaged in conversation with many individuals, such as the managing director of Hiram Walkers in Dumbarton, Mr. Cunningham, the convenor of shop stewards, Mr. William Moffat, and also the regional organiser of the General, Municipal, Boilermakers and Allied Trades Union in Scotland, Mr. Jim Morrell. They told me that there is full co-operation in the industry. That is why the industry is successful and has ridden through the recession of the previous few years. It is essential to recognise that union participation in the industry is important. If the hon. Member for Tayside, North can join with me along the way in regard to the Scotch Whisky Bill, I ask that he join me in underlining the fact that direct union involvement and participation in the industry is essential.

Mr. Bill Walker: I hope that I made it quite clear that the performance of the whisky industry was the direct result of the kind of co-operation that exists between workers and managers. If I failed to do that, I have no hesitation in saying that it is an example to the rest of Scotland.

Mr. McFall: We all know that the trade is under threat as never before. There is competition from a wide range of drinks, especially wines and white spirits. We do not want others to sell inferior products on the back of the reputation of Scotch whisky. That message must go out loud and clear.

With the legislation, we want to demolish the argument that Scotch whisky can be produced anywhere as a Scotch-type whisky. That is not and cannot be allowed to be the case. Scotch whisky is essentially geographical in the same way as cognac and champagne in France. We look for equivalent legislation to protect our basic industry.

The prohibition of production in Scotland of whisky other than Scotch whisky cannot be over-emphasised. For generations, Scotch whisky has enjoyed a unique status throughout the world. It has been marketed to produce an image—for example, water being poured through peat bogs to give Scotch whisky a special, peculiarly Scottish quality. I refer also to the maturing process. Whisky is stored in special kegs for years. That has helped to create an almost mythical quality about the drink.

In supporting the Bill, I suggest that we shall help to preserve the purity of Scotch whisky by providing a legal definition for the spirit. We shall sustain the reputation of the image, sales, and—I declare a constituency interest—a great many jobs in Dumbarton. Like other hon. Members, at the end of my speech I congratulate the hon. Member for Tayside, North on the prescience that he showed in introducing the Bill. I wish him well.

12.4 pm

Mr. John McAllion (Dundee, East): I am very grateful to you, Madam Deputy Speaker, for allowing me to take part in this important debate. The importance of the debate is reflected in the number of Scottish Members who have taken the trouble to stay behind in Westminster today to lend their support to the Bill introduced by the hon. Member for Tayside, North (Mr. Walker). I do not say that in a light fashion. Scottish Members in particular do not wish to stay in this place any longer than they absolutely have to. We have many important constituency interests with which we could deal in Scotland today. It

shows the importance that we attach to the matter that we have forsaken such interests to stay here to take part in the debate.

The statistics of the Scotch whisky industry, speak for themselves. There are 16,000 employees in 100 distilleries and associated blending and bottling plants. The industry is one of the most significant export earners of the United Kingdom. As many hon. Members have said, sales of Scotch whisky in 1985 were worth £1,000 million.

It is not just a matter of statistics. It is important also to recognise that, as North sea oil production decreases in significance, we shall need to fill the consequent gap in the balance of trade and the balance of payments. Scotch whisky has been making a growing contribution to our balance of payments over recent years, in spite of its own troubles, and it is vital that it continues to do so. We must never forget that Scotch whisky is Scotland's main export and it undoubtedly needs and deserves the protection that the Bill seeks to give it.

Many hon. Members have direct constituency interests in the further progress of the Bill. I am not least among them. In my constituency Stewart's Cream of the Barley has a major plant that turns out more than 1 million cases of whisky every year and employs more than 100 workers. It is the brand leader in Northern Ireland and is in the top six in Scotland. It is expanding its overseas markets in France, Canada, Norway, Italy, Japan and elsewhere. It is clearly in my constituency's interests that I should do what I can to protect jobs and the production of whisky in Dundee. It is equally in the interests of other hon. Members to pursue their constituencies' whisky-related interests. I hope that hon. Members who do not have a direct constituency interest—the Minister mentioned that he was one—will still realise the importance of supporting such a major Scottish industry. For example, employment in the whisky industry dwarfs that in the Scottish steel industry. We must not lose sight of that fact. The protection of the Scotch whisky industry is a matter of vital interest to Scotland and the United Kingdom as a whole. I hope that all hon. Members will realise that fact and will see the significance of lending their support to ensure that the Bill makes progress.

The industry is confronted by a range of problems, many of which are beyond the scope of the Bill. Prominent among those problems is the growing competition from other drinks, containing more or less alcohol, which is allied to the problems of controlling the quality and protecting the image of whisky as a product on the world market. I think that everyone agrees that little if anything can or should be done in legislation to protect Scotch from fair competition.

We all recognise the market problems that affect Scotch whisky. In the 1960s and 1970s, for example, as sales grew, apparently without end, there was undoubtedly complacency among the management of the industry that that growth would continue indefinitely with little or no effort on its part. At that time, stocks continued to be laid down for sales that were anticipated as long as eight years in advance. Therefore, when growth stopped at the end of the 1970s, there was an accumulation of unsold stocks. That led to overproduction, which led to closures, layoffs and short-time working. The industry must sort out those problems itself, with the support of all those who are anxious to see its future guaranteed.

There is competition from wines and light spirits and even from the new American-based craze for coolers. That

is natural and acceptable, and requires a commercial response from the industry. Equally, the industry must come to terms with the increasing tendency among consumers to turn away from alcohol altogether. Actions to discourage drinking and driving and to encourage moderate, rather than excessive, consumption are not only realities to which the industry must face up, but are developments which all responsible opinion should welcome and support as I am sure the Scottish whisky industry does.

We should be clear on what the Bill is not about. It is not about feather-bedding the industry and trying to protect it from fair competition or about turning a blind eye to the many serious social and health problems that affect the drinks industry. It is about seeking to protect the quality and image of one of our most important manufacturing products which creates desperately needed employment and wealth for this country.

The growth in sales of significantly under-strength whisky must be a matter of concern to everyone who wishes to support the integrity of our national product. Until recent years there was never any doubt about the quality of the product that was on offer when one paid for a bottle of whisky, although one might have moaned about the price. Indeed, I can remember my father singing, "Twelve and a tanner a bottle", at Hogmanay with tears running down his face. However, I must admit that I think that he was referring to an earlier time.

We may also moan about the measure in which the whisky is sold across the bar. However, I do not think that any of us doubted what we were getting when we paid our money in bars and off-licences. Sadly, that is no longer the case, especially overseas. I accept that the United Kingdom market is different from the overseas market. In France, for example, whisky products of well below even the 30 per cent. proof level are sold to consumers via supermarkets. We must confront that serious problem.

The drinks market is an increasingly competitive environment. New and cheaply produced drinks flood onto the market in competition with the more traditional products, such as Scotch whisky. On one level, it is obvious that the increased competition requires a commercial response from the industry. However, before any such commercial response can be made, it is important that Scotch whisky is clearly and specifically defined so that consumers know what it is and how it differs from other spirit-based drinks.

Without a proper definition of Scotch whisky, there is a danger that more whisky-type products will come on to the market, many of which will bear little or no resemblance to the real, traditional product, but will, nevertheless, be marketed under the brand name of whisky. As the hon. Member for Tayside, North pointed out, it may be marketed as, "whisky, a product of Scotland". That would lead to unacceptable confusion in the market place, where consumers would not know what they were getting for their money. Serious damage would be done to the reputation and sales of Scotch whisky and that would directly affect our national interests.

Therefore, to defend itself, the industry requires a clear definition of Scotch whisky. I believe that all hon. Members who are present agree that an agreed minimum alcoholic strength limit is required to guard against the widely varying alcoholic strengths of other whisky-type products on the world market.

Mr. Robin Corbett (Birmingham, Erdington): I understand exactly what my hon. Friend is arguing in terms of minimum strength. However, will he bear in mind that if clearly labelled lower-strength whisky were available, it might make some contribution to dealing with the medical problems of alcohol abuse and misuse and especially that of under-age drinking?

Mr. McAllion: I am not certain that the labelling of under-strength whisky would make any contribution to the health and social problems that are associated with the drinks industry. I do not accept my hon. Friend's point. There is a need for an agreed minimum alcohol level for Scotch whisky. I understand the anxieties about the Scottish firms that produce whisky with proof levels slightly below the traditional 40 per cent. that is generally supported by the industry.

In common with most hon. Members, I support the retention of the 40 per cent. proof level. However, whether that level is 40 or 37.2 per cent. is not the issue—that can be solved at a later date. We must give Ministers the ability to establish a minimum alcoholic strength for Scotch whisky when they conclude their negotiations with the EEC. It is vital that when consumers buy Scotch whisky they can perceive that it is a product with a minimum alcoholic strength and that anything below that strength is not Scotch whisky.

I find myself in the strange situation of agreeing with the hon. Member for Tayside, North. Normally, there is little that he and I agree on. However, I am greatly encouraged that, for once, the hon. Gentleman has introduced legislation that supports the official policy of the Scottish Trades Union Congress. At its last conference, the STUC published a policy document:

"Scotland, A Land Fit for People".

which stressed the urgency of establishing a legal definition of Scotch whisky to protect its quality and, in particular to protect it from the growth in the sales of under-strength whisky.

Sir John Farr: The hon. Gentleman said that he thought that a minimum level should be set and he referred to a possible level of 37.2 per cent. However, the hon. Gentleman will be aware that some successful low-alcoholic whiskies are below 35 per cent. Does the hon. Gentleman believe that he is right to say that the figure of 37.2 per cent. should be the recommended minimum?

Mr. McAllion: I understand that two proof levels of Scotch are on sale in the domestic market. The majority are 40 per cent. proof, and the 37.2 per cent. proof whiskies include High Commissioner and other brands. There are no other whiskies on sale in the domestic market and low-alcoholic whiskies are clearly labelled as such. The problem arises in the world market with Japanese and French products that have a 28 or 25 per cent. proof level. They sell under the label of whisky and we must combat that.

I am delighted that the hon. Member for Tayside, North having won the ballot for private Member's Bills, has introduced a Bill which supports STUC policy. I am sure that that reflects his earlier career as a trade unionist in Dundee when he was on the buses.

The Chamber has become something like poet's corner today. We have had repeated references to the national poet, Rabbie Burns, the Ettrick poet James Hogg and the Barra poet—I assume that the hon. Member for Argyll

[Mr. McAllion]

and Bute (Mrs. Michie) was referring to the island rather than the market place in Glasgow. However, I was offended when my hon. Friend the Member for Dumfries (Mr. McFall) made a comparison between Dundee's national poet, William McGonagall and the hon. Member for Tayside, North. McGonagall would be deeply affronted to find himself compared to a Tory Member of Parliament. I know that McGonagall was a great supporter of our national drink. Had he been alive today and seen the threat faced by our national drink, he would have put pen to paper in support of protecting the quality and the image of Scotch whisky. I hope that we will all get behind McGonagall and support the hon. Member for Tayside, North.

12.18 pm

Mr. George Foulkes (Carrick, Cumnock and Doon Valley): Earlier the Minister said that this has been an interesting and entertaining debate, and I believe that we must primarily thank my hon. Friend the Member for Kilmarnock and Loudoun (Mr. McKelvey) for that. In some ways, this has been a topsy-turvy "Alice Through the Looking-Glass" debate, because my hon. Friends have found themselves having to support the hon. Member for Tayside, North (Mr. Walker). My hon. Friends' commitment to the Scotch whisky industry is shown by the fact that they are able to swallow not the whisky, but their temporary association with the hon. Gentleman.

The debate has been a bit topsy-turvy, because until now only the hon. Member for Harborough (Sir J. Farr)—a Conservative—has argued the case on behalf of the excellent Arden House whisky produced by the CWS. As some of my hon. Friends have pointed out, to have a teetotaler from Tayside quoting Burns in favour of whisky, instead of McGonagall, is also somewhat unusual. My concern and that of a number of my constituents and the Association of Low Strength Whisky Producers relates to clause 2(1)(b). That is the only part that creates any problems.

Before I elaborate, I declare three interests, none of them pecuniary. First, I have the blending and bottling plant of Glen Catrine in my constituency. One of its directors, Graham Taylor, was part of a deputation that the Minister met earlier this week. All members of that deputation said that they had nothing but courtesy and kind consideration from the Minister. I am grateful to him for that. Glen Catrine produces High Commissioner whisky at 37.2 per cent proof. That is an excellent blend of whisky. The plant also produces another whisky called Glen Catrine at 40 per cent proof. It is exactly the same, with a little less water added to it. The blend and the quality are the same—only the amounts of water and alcohol are different. One hundred and forty employees depend on Glen Catrine for their employment. As my hon. Friend the Member for Kilmarnock and Loudoun and the Minister, who represents part of the area, know, the Cumnock and Sanquhar travel-to-work area has the highest level of unemployment in Scotland. So the jobs at Glen Catrine are vital to my constituents. I am sure that my hon. Friends understand that.

I am Co-operative-sponsored Member of Parliament, but I receive no financial assistance from the society, as my hon. Friend the Member for Dumfries (Mr. McFall),

who is also sponsored by the Co-op, knows well. The Co-op produces Arden House, that excellent blend of whisky, at 37.2 per cent proof. While on the subject of the Co-op, I reassure my hon. Friend the Member for Clackmannan (Mr. O'Neill) that it is as concerned about consumerism and protecting the interests of the consumer now as when he first joined the Leith Provident, or read the messages there for his mother, before it was taken over by St. Cuthbert's some years ago. I hope he will accept that assurance from me.

I have another constituency interest. William Grant's blending, bottling and distillery firm is in my constituency. It is concerned about the Bill, as a member of the Scotch Whisky Association. It is one of the few family firms still producing Scotch whisky and still based in Scotland, unlike many of the others that have been referred to—Guinness, Allied Lyons and all those multinational, huge conglomerates that are based outwith Scotland. Grant's headquarters and operations are in Scotland, and it is an excellent firm. I would not wish anything in the Bill to harm the interests of Grant's. It provides employment in the Girvan travel-to-work area, which has the third highest unemployment level in the whole of Scotland. I am equally concerned about that. I have to weigh in my mind, as I hope all hon. Members will weigh in their minds, the interests of the producers of 40 per cent proof whisky as well as the interests of the 37.2 per cent proof producers.

Mr. O'Neill: I am listening with interest to my hon. Friend, but I am still waiting for justification for the 2.8 per cent reduction in alcohol content. As I understand it, the only justification is that it enables the product to be sold more cheaply in order to undercut the standard-rated whiskies.

Mr. Foulkes: I shall come to that point. My hon. Friend has sat through the whole of the debate so far and I shall be here until the end of it.

Having declared my three interests, I should like to ask one or two questions that I hope the hon. Member for Tayside, North will answer when he replies to the debate. What is the purpose of the Bill, except in relation to minimum strength? Questions have been asked and statements made about that, but there has been a lot of padding and paraphernalia. In an intervention I mentioned the current legislation about Scotch whisky. The hon. Member for Tayside, North will know that that legislation followed the report by a Royal Commission in 1909. The most recent legislation is contained in the Finance Act 1969. That makes quite clear the current legal definition of Scotch whisky. It says:

"Spirits which have been distilled from a mash of cereals which have been:

- (i) saccharified by the diastase of malt contained therein with or without other natural diastases approved for the purpose by the Commissioners of Customs and Excise".

That control by Customs and Excise is important to maintain the quality of Scotch whisky. That control is the same in the Glen Catrine distillery as it is in the William Grant's and in all the other distilleries. The definition goes on:

- "(ii) fermented by the action of yeast; and
- (iii) distilled at less than 166.4 degrees proof in such a way that the distillate has an aroma and flavour derived from the materials used, and which have been matured in wooden casks in a warehouse for a period of at least three years."

As my hon. Friend the Member for Clackmannan and other hon. Members have said, the three-year storage and maturation in sherry casks are important elements in the quality of Scotch whisky.

About the Scottish element in Scotch whisky, the Act says:

“The expression “Scotch whisky” shall mean whisky which has been distilled in Scotland.”

That is the current legislation and the Bill adds nothing to it.

As my hon. Friend the Member for Clackmannan said, the Bill should contain sanctions against those who export malt whisky in bulk. That includes members of the Scotch Whisky Association. Some of those people are double-talkers because they say that they are out to protect Scotch whisky and its reputation abroad, but they export the malt and make possible the production of imitation Scotch whisky by countries that use that malt. It is quite intolerable that the people who are responsible for undermining Scotch whisky by bulk exports should question good Scotch whisky that is made, bottled and blended in Scotland. If the Bill contained sanctions against that it would have my enthusiastic support.

The hon. Member for Tayside, North knows that there are not many real jobs in the distillation of whisky. The hon. Member for Moray (Mrs. Ewing) represents a part of the country in which I grew up. I know the area, although I was a bit too young for whisky when I lived there. She knows that most of the jobs in the industry are in blending and bottling and in the supply of bottles, labels and boxes. It is the blending and bottling that we must keep and develop in Scotland as well as the distilling. The real damage to the reputation of Scotch whisky is caused by bulk exports, and the Bill does nothing about those.

I have a letter dated 12 November from Colonel Bewsher of the Scotch Whisky Association. I have not met him recently but I have had discussions with him in the past. The first and, presumably, most important reason that he gives for the Bill, which the hon. Member for Tayside, North has introduced at the request of the Scotch Whisky Association, is to move the definition in the Finance Act 1969 to a more appropriate locus. That is a strange reason. Perhaps the hon. Gentleman can tell me why such legislation is more appropriate in a Private Member's Bill than in a Finance Act.

I conclude that the whole purpose of the Bill is to set the scene for the introduction of a minimum alcohol level or to give the Secretary of State the necessary powers. As I have said, I am not opposed to that, but I have my suspicions, because I know that the Scotch Whisky Association wants the alcohol level to be set at 40 per cent.—a call that has been repeated by some hon. Members today. I think that the reason is nothing to do with cheap whisky coming from or being sold overseas, using malt that has been exported in bulk. In some cases, the association has been party to that. The reason is that the giants of the Scotch Whisky Association, which have included such names as Guinness, Allied Lyons, Argyll and Lonrho, are the real owners of the Scotch whisky industry. The people of Scotland are not the owners, except in the case of firms such as Grant and Glen Catrine.

The giants want to squeeze out the small producers, such as Glen Catrine, which are successful in producing good-quality whisky with an alcohol level of 37.2 per cent. Glen Catrine has a 7 per cent. share of the whisky market, and is very popular. High Commissioner has become the

14th most popular brand in this country, without the help of advertising, simply because customers demand it in the shops.

Mr. Corbett: I understand my hon. Friend's feeling about the availability of whisky with less than 40 per cent. alcohol. Is he satisfied, however, that everyone who buys the brand that he has mentioned knows that they are buying an under-strength whisky, or does he believe that steps should be taken to alter the marking on the label to make absolutely sure? Does my hon. Friend think that some publicans may attempt to sell under-strength whiskies in their bars as full-strength whiskies?

Mr. Foulkes: I agree about the labelling. At present, the labels say that the whisky is under strength, but not in very large print. As I believe was mentioned by the hon. Member for Harborough, the figures showing alcohol by volume are also not very large, and I would support action to remedy that. The consumer movement, the Co-op and other producers would certainly agree.

As for the publicans, some of them get up to all sorts of tricks. In Scotland, however, many people who go into pubs ask for whisky by name, and they know the brand and the strength of the whisky that they are given. I am not so sure about English consumers; they are so sophisticated that they put all sorts of things into their whisky. I recently saw someone put Coca-Cola into it, which is a frightening thought.

Like my hon. Friend the Member for Dundee, East (Mr. McAllion), I do not want the alcohol level to fall below 37.2 per cent. Problems arise with lower-strength whiskies. However, I am talking about good-quality blends. The hon. Member for Harborough mentioned the *Which* survey, which showed that some of the most popular brands with experienced whisky tasters were the lower-strength whiskies with an alcohol level of 37.2 or 37.5 per cent., because they were such excellent blends. Some people may have seen yesterday's report in the *Daily Record* in which Scotsmen said exactly the same.

I have a more recent example than that, as my hon. Friends the Members for Dundee, East and for Kilmarnock and Loudoun know only too well, because at my kind invitation earlier in the week they came to taste and test whisky at 40 per cent. and 37.2 per cent. They enjoyed both brands and could not tell the difference between them. Much to the surprise of my hon. Friend the Member for Kilmarnock and Loudoun, he got it completely wrong. That surprised me as well.

Mr. McAllion: It would be unfair of my hon. Friend to mislead the House. He said that my hon. Friend the Member for Kilmarnock and Loudoun (Mr. McKelvey) and I were unable to distinguish between the two strengths. In fact, we were able to make the distinction, but we got things the wrong way round.

Mr. Foulkes: I am grateful to my hon. Friend for underlining my point and making it clear to the House that he thought that the better whisky of the two was the low-strength whisky. I can assure the House that the tasting took place early in the morning and that my hon. Friend had not been drinking before the tasting.

I think that the House should be worried by the precedent of enabling legislation containing such wide powers. I have great respect for the Parliamentary Secretary, but he will not always be in his present position.

[Mr. Foulkes]

I hope that he is the Parliamentary Secretary for as long as the Government are in power, but I hope also that that will not be for very long. I am sure that the hon. Gentleman understands that qualification.

Why is 40 per cent. the magic level? I am grateful to the Minister and to the hon. Member for Tayside, North for not arguing that it should be so considered, but that has been the argument of one or two of my hon. Friends and of the Scotch Whisky Association. The Sale of Food and Drugs Act 1875 and the Licensing Act 1921 specified a minimum strength for whisky of 35 deg. under proof. The hon. Member for Tayside, North will know that that is 65 deg. proof. This minimum is applied to whisky, gin, rum, brandy, and vodka. It was the tradition to bottle at three strengths, which were 65.5 deg., 70 deg. and 75 deg. As we have adopted the new definition of alcohol by volume, these strengths have been converted to 37.5 per cent., 40 per cent. and 43 per cent. In some instances 37.5 per cent. has become 37.2 per cent., which is nearer to 37.14 per cent., which is the exact equivalent of 65.5 deg. proof.

Mr. Bill Walker: I hope that the hon. Gentleman will remember that in my introductory remarks I said that I understood that the strengths now in use substantially throughout the industry are the result of experience of selling the product and retaining its quality worldwide. That is the essential element that underlies everything in the Bill.

Mr. Foulkes: I am grateful to the hon. Gentleman.

Some 43 per cent. whisky is still produced. There are some who like stronger whisky and ask for it deliberately. That is their preference. Duty is calculated on the absolute alcohol level, which means that duty is much higher on 43 per cent. whisky than on that imposed on 40 per cent. and 37.5 per cent. whisky. That makes the lower-strength whiskies cheaper, and that means that a bottle of low-strength whisky can be bought for less than £6. In some instances that is the only way in which people can afford to buy a bottle of whisky. If it is always to be produced at 40 per cent., and only 40 per cent., there will be some who will not be able to buy it. Witness the growth in the sales of High Commissioner, Arden House and other low-strength whiskies.

As one who wishes to encourage people to drink whisky, I recognise that the product has now to compete directly with vodka, Bacardi and other modern and, unfortunately, increasingly popular drinks. For the miner in the working men's club, the girl in the dance hall, or whoever, it is sometimes the price of a drink that has a particular attraction.

At present, Bacardi is the largest-selling drink in the world, selling 229.2 million bottles at 37.5 per cent. proof. Smirnoff vodka is the second largest, selling 169.2 million bottles also at 37.5 per cent. proof. Surely so long as whisky is a good-quality blend, it should be allowed to compete in one form in the same market as Smirnoff vodka and Bacardi.

The hon. Member for Tayside, North, again in an intervention, spoke about exports and the world market. Not all whisky which is sold abroad is at 40 per cent. I have here a label, not for Glen Catrine or CWS whisky, but for the whisky of a member of the SWA—for Haig's fine old Scotch whisky produced at Markinch in Scotland and guaranteed wholly distilled and matured in Scotland.

Unfortunately, it is bottled in Australia. This Scotch whisky, produced by a member of the SWA, has 37.5 per cent. alcohol by volume. I am led to believe that Australians are as hard drinkers as the Scots. Why is 37.5 per cent. the alcohol level for whisky in Australia? It is presumably because it is popular and Australians want to buy a bottle of whisky at a reasonable price. Haig is satisfying that demand in this particular case.

Mr. Bill Walker: The hon. Gentleman, whether deliberately or unintentionally, is again suggesting that this particular brand sold in one particular country reflects the 85 per cent. of our exports. He knows that is not true. May I remind him that in an earlier intervention I mentioned different climatic conditions as a variable, and the conditions in Australia are different from those in north America?

Mr. Foulkes: I was not seeking to mislead the House; I was merely saying that all whisky exported is not at 40 per cent. A large amount that goes to Australia is at 37.5 per cent.

The Association of Low Strength Whisky Producers is arguing to give customers a choice between 37.5 per cent. or 37.2 per cent., 40 per cent. and 43 per cent. Why not have different-sized bottles? We could have litres, 75 cls and 70 cls bottles. What is important is that the bottle is clearly labelled and there is no attempt to confuse customers. I would support any legislation or regulation which ensured that there was no attempt to confuse or to cheat customers. Bottles must be labelled absolutely clearly.

The SWA in its letter stated:

"there was a need to tighten the definition . . . to reflect . . . current practice."

"Current practice" includes 37.2 per cent. and 37.5 per cent. Seven per cent. and more of whisky consumed in Britain is at that level, and there is an increasing demand for it.

I agree with the SWA that we do not want widely differing strengths. We do not want the 30 per cents., the 25 per cents. and Albanian whisky. I even received a bottle of Argentinian whisky the other day, for reasons which hon. Members may guess. Fortunately, I did not drink it, but gave it to someone as a present. [HON. MEMBERS: "Typical."] Yes, it is typical.

I would not object if we set one of the three acceptable levels as the minimum, and I know that the Minister has some ideas on this. Indeed, that would not in any way harm the production of Grant's excellent whiskies and the other excellent whisky about which hon. Members have spoken. I do not understand why anyone—I hope it is not the hon. Member for Tayside, North—including the Scotch Whisky Association, is trying to squeeze out Glen Catrine. What can anyone have against an operation that is providing jobs in my constituency? What can anyone have against CWS or Edward Butler? Those are three of the main producers of slightly lower-strength whisky.

Mr. McElvey: I believe that there are people who drink High Commissioner because they like the flavour of it, but my hon. Friend should reflect on this. If all whiskies were set at the minimum level of 37.2 per cent., which equals the proof of High Commissioner, would not the advantage that it now has over the market disappear? Alternatively, is my hon. Friend confident that, because those people buy by taste, they would continue to buy High Commissioner?

Mr. Foulkes: My hon. Friend has made a good point. The whisky at Glen Catrine is produced at two levels. At 37.2 per cent. it is called High Commissioner and at 40 per cent. it is called Glen Catrine. Glen Catrine whisky sells well to people who can afford to pay for that higher-strength whisky. I am confident that it will continue to expand. It would be open to members of the SWA to produce lower-strength whisky as well as to compete directly against High Commissioner and Arden House. We would have to accept that. It would be perfectly understandable if they did that. There is a market for it as long as it is a good-quality blend. All that it contains is a little more water, but it is still a good quality blend, as I think my hon. Friend the Member for Kilmarnock and Loudoun agreed when he had a drop of it the other day.

We want Glen Catrine to expand and develop. Unemployment is at 28 per cent. in the Cumnock and Sanquhar area. There is potential for expansion and development, and I hope that it will not be strangled because of the vested interest of the big boys in the SWA, the headquarters of which and almost all of whom are domiciled out of Scotland. We are all concerned about that. I commented about Guinness recently. I think that the hon. Member for Tayside, North had some appropriate things to say about Guinness.

Mr. Bill Walker: I am sorry to interrupt the hon. Gentleman once more, but I hope that he will remember that I have had substantial support from Opposition Members for any activities in which I have been involved in the Scotch whisky industry in the past. I hope that he will also remember that one was an Opposition Front-Bench spokesman.

Mr. Foulkes: I never forget those things. I am grateful to the hon. Gentleman for underlining that.

I am grateful to the Minister for saying that he has no set view about what the minimum level should be. It is just a matter of the principle of setting that minimum level. I know that he has given sympathetic consideration to the views represented by the Association of Low Strength Whisky Producers. He gave me an assurance that if the Bill is enacted, he will consult that association. I am sure that that consultation will be genuine. Opposition Members have been concerned about consultation in education and other areas recently, where no account has been taken of the views represented. However, I am sure that the Minister will take account of the various pressures. I am keen to find any way to outlaw the low level that is giving Scotch whisky a bad name.

I hope that I shall have the opportunity to table one or two amendments in Committee, to see whether we can give some protection in law to the people and the interests that I represent. If proper account is not taken of those considerations in Committee, I shall hope to talk at greater length at a later stage, and not just make a short contribution as I have done today. On that basis, I should not press to total opposition the concern that I have about one part of the Bill, which was introduced by the hon. Member for Tayside, North and is supported by so many of my hon. Friends.

12.49 pm

Mr. John Browne (Winchester): I congratulate my hon. Friend the Member for Tayside, North (Mr. Walker) and the sponsors of this outstanding Bill. For an English

Member, this has been a very interesting debate—I might call it positively picturesque. I enjoyed the description of the whisky-laden air in the village of the hon. Member for Kilmarnock and Loudoun (Mr. McKelvey). Some people say, "Oh, to be in England," but many people would echo my thoughts of, "Oh, to be in Kilmarnock," when I heard that.

It is with a certain trepidation that I rise to speak, even briefly, in a debate which has essentially been a Scottish debate. But aside from the fact that my late mother was a Black Douglas and I have an "e" on the end of my name, my only reason for speaking is as an English Member many of whose constituents are consumers. In Winchester and Alton, for example, and in many other constituencies, there are enormous numbers of consumers of whisky who have a great interest in ensuring that the standard of Scotch whisky is maintained. Not only do they enjoy drinking whisky at home, but when they order Scotch—which is a worldwide name of standard and quality—they expect that quality even when they are abroad.

I strongly support the Bill. I do not see it as featherbedding. I see it as enhancing quality. I think that it will be widely supported even outside the production side in Scotland itself.

May I close by referring to the poem that was so beautifully quoted by the hon. Member for Argyll and Bute (Mrs. Michie). I feel sure that the late Sir Winston Churchill would agree entirely with the poet. I congratulate my hon. Friend the Member for Tayside, North and wish him all good luck in the further progress of the Bill.

12.51 pm

Mr. Harry Cohen (Leyton): I congratulate the hon. Member for Tayside, North (Mr. Walker) on winning first place in the ballot and on introducing this Bill. He has shown much dedication to the subject. I know that we are not supposed to mention names in the Chamber, but it is wholly appropriate for someone called Walker to introduce a Bill on Scotch whisky. His mother must have made a mistake when she called him Billy instead of Johnnie. My only criticism of the hon. Gentleman is that he did not lay on a tasting for hon. Members. Indeed, I criticise my hon. Friend the Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes) for not extending to other hon. Members the general tasting that he mentioned so that we could all have spoken in a more expert way in the debate.

This is an important Bill because the whisky industry employes about 16,000 people. I have a constituency interest in that many of my constituents like to drink Scotch in the pub. Indeed, one of them especially—my wife—likes a wee dram. She told me that she got the taste for Scotch when she first came to London in 1977 in the mayor's parlour. I was a Waltham Forest councillor then and I took her into the mayor's parlour, where she was offered a whisky. Now that my local authority is under such financial restrictions from the Government, including rate capping, anyone going into the mayor's parlour would be lucky to get a glass of designer water, let alone a glass of Scotch. This is a serious point. Rate capping has an adverse effect on the Scotch whisky industry, because if it was still served in the mayor's parlour, more people might get a taste for it and become hooked on it.

[Mr. Harry Cohen]

My wife likes to mix her whisky with a drop of dry ginger. I asked her whether, because she mixed her drink, the inferior strength brands made any difference. She said, "Oh no, no, no, everyone can clearly tell the quality of the Scotch in a mixed drink." I merely throw in that point for the House to consider when discussing strength and quality, because it is as important to protect the quality.

I am concerned about the influx that might occur under the new EEC regulations. Indeed, I understand that even Japan wants to expand its Scotch industry—although it is a strange name for a Japanese whisky. We must block any threat to the Scottish industry and the quality of Scotch whisky.

The EEC definition of "spirituous beverages" permits the use of substances such as synthetic enzymes. As all experts know, the Scotch whisky produced in Scotland certainly does not include that process. Euro-whisky will diminish the quality of Scotch. As the Scotch Whisky Association has rightly said, it could be dangerous and confusing. It will be cheaper than, but inferior to, Scotch whisky. It is important to take that into account when discussing the Bill.

Lower strength Euro-whiskies in pubs could be a nightmare for trading standards officers. The Local Authorities Co-ordinating Body on Trading Standards said:

"The law at the moment is so lax and the descriptions are so vague that it almost comes into the area of unfair trading." It wants better controls.

The *Sunday Times* of 8 November, under a headline "Weak whisky cuts no ice with Scots", described lower strength whisky as "a drop of the soft stuff."

It said:

"Trading standards officers also warned that the new Scotch could be sold in pubs as full-strength whisky at full-strength prices. The clear temptation will be for unscrupulous landlords to display the bottle on the dispenser with the label out of view."

The *Sunday Times* said that it had consulted an expert, who said that although it was not the same quality Scotch, it had very clever labelling.

Mr. Corbett: I am currently sitting on the Licensing Bill Committee. Does my hon. Friend accept that, if landlords try to mislead customers in the way that he has suggested, it will be an offence? However, I absolutely accept what he said about the difficulties of councils in employing proper numbers of trading standards officers. Will he comment on a point that I have already raised a couple of times? Are there not advantages in having less than 40 per cent. proof whisky, provided that that is clearly stated on the label?

Mr. Cohen: I shall indeed deal with the point about lower strength whiskies. It is right that landlords should be prosecuted if they breach trading standards law. Indeed, the Sale of Food and Drugs Act of 1875 still applies because it lays down that the product sold should be of the nature, quality and substance demanded.

Unscrupulous landlords may endeavour to get away with it and the difficulty is catching them. When one goes into a pub and asks for a pint of beer, the barman or bar lady sometimes says, "OK," and goes round to the other bar to pour out the drink out of sight. There is a distinct danger of that happening with whisky if the landlord is

unscrupulous. Indeed, we could replace the famous workers' song about the man who watered the workers' beer with a song about the very fat man who watered the workers' whisky.

The expert quoted in the *Sunday Times* said that the weaker whisky would not fool a true Scotsman but that it would fool many English, and, I suppose, Welsh, men and women.

That would be unfair to the public, as well as being a nightmare to trading standards officers trying to implement the rules; it would make their job much harder. While sales of weaker whisky could be a source of easy profit for unscrupulous landlords, they could damage the long-term interests of the stronger Scotch industry as a whole. I am worried about that aspect of low-strength whisky sales.

I have heard the controversy about lower-strength whisky this morning, but I think that we could find a way out of this problem in Committee. Let me throw in my suggestion. A three-tier system could be put into operation quite easily. The first category would include Scotch whisky of 40 per cent. proof or more, which is proper Scotch of the best quality. The second tier could consist of Scotch containing 37.2 per cent. alcohol, which is close to the 65 per cent. proof mark, providing—this is the essential point—that it was brewed in Scotland, if brewed is the right word—

Mr. McKelvey: Distilled.

Mr. Cohen: I am sorry; that was a terrible gaffe, for which I apologise.

The whisky would have to have been distilled in Scotland with Scottish water. Lower-strength whisky would have to be clearly marked as under strength. At the moment, the labelling is inadequate. It needs to be made clearer that the whisky is under strength. Those two categories could both be on sale and, as long as they were made in Scotland, the system could be of benefit in affording protection to employment.

Mr. McKelvey: I understand my hon. Friend's argument, although it would create difficulties in legislation. I used to serve as the chairman of a licensing board. I cannot recall anyone ever being prosecuted for selling large measures or over-strength whisky. All the prosecutions arose because whisky had been adulterated or because customers had been sold short measures. That is why it is important to establish a minimum base. If people wish to double the alcohol content, that is of no concern to us or to the whisky industry. However, the minimum has to be set, to protect the quality of Scotch whisky.

Mr. Cohen: I fully appreciate my hon. Friend's point. I am stating two minimums, one for the best quality and one for a slightly lower quality. Such minimums would protect my hon. Friend's constituency.

Mr. John Marshall (Hendon, South): Does the hon. Gentleman agree that, if there are two standards of whisky, the passing-off problem could be substantial? He may not be aware that the former chairman of Bell's used to say that an awful lot of whisky other than Bell's whisky went through Bell's bottles in unscrupulous hotels and pubs. Does he agree that, if his proposal were to be accepted, there would be a great risk that much low-quality whisky would go into Bell's, Johnny Walker and other high-quality brand whisky bottles?

Mr. Cohen: That would clearly be a danger. I talked about the problems for trading standards officers in the first place. I was thinking particularly of the problem of the inferior whisky that will come from the Common Market, and perhaps from Japan. It is a problem. Nevertheless, if we set the second minimum at 37.2 per cent. alcohol content, we would still guarantee a reasonable quality for Scotch whisky. As the hon. Gentleman said, there is always the danger of low-quality whiskies being put into high-quality whisky bottles, even if we set the minimum at 40 per cent. proof. I understand the hon. Gentleman's point.

My main purpose was to try to protect jobs in the industry and also to protect the Scotch industry as a whole. The main purpose of doing that is to have a stricter regime—it would be the third tier—against foreign Scotches, particularly EEC Scotches. Such a regime should be quite strict. It would have to be done through labelling. The Government must promote more effective labelling. That applies also to the second grade of Scotch that is produced.

Even more important, the House has legislated in respect of the labelling of foreign whiskies. I have thought of some titles. I even pondered whether they should be called whisky at all. In no circumstances should they be called Scotch. That would seriously mislead the public. If they are to be called whisky, perhaps they should be called EEC whisky, so that people would clearly know what they were getting. They could even be called subnormal whiskies because, of course, they would be subnormal in character. I concluded that they should be labelled "whisky and water"—in equal sized lettering—so that people would know that that is what they will get with the lower grade EEC whisky.

My point about water gave rise to some thought. The hon. Member for Chislehurst (Mr. Sims) talked about the quality of water in Scotland as opposed to that in England. We must also consider the quality of water on the continent. It must be a worrying factor in regard to the sort of brands that are produced. Because of the Government's policies, water in England is becoming increasingly polluted. The Government have not been effective in countering water pollution. It would be terrible if water pollution were to extend to Scotland and have an adverse effect on the Scotch industry. It is important for the Scotch whisky industry that the Government clean up the water supply in this country.

Although that was a diversion, I think that it made an important point. I concluded that the inferior EEC and Japanese whisky that comes into this country should be labelled "whisky and water" in equal-sized lettering and should, perhaps, have a higher duty placed on it.

Mr. John Marshall: The hon. Gentleman referred to labelling a subnormal whisky an "EEC whisky". That may well suggest what he feels about the EEC, but does he not realise that consumers outside the European community know that Scotland is in the EEC and may regard an EEC whisky as a pure genuine Scotch whisky?

Mr. Cohen: As I have said, my interest in the debate is to protect the Scotch whisky industry and the consumers in my constituency who like to drink that whisky. The hon. Gentleman has embarked on a dangerous course if he is seeking to allow inferior EEC whisky into this country and to flood world markets. That poses a danger to the Scotch

whisky industry and to the many jobs to which I have referred. Despite the EEC regulations, there may well be a case for putting high duties on any lower-strength whiskies that the EEC may seek to bring in.

In the past, the United States has embarked, and at any time could do so again, on a trade war with the Common Market or Japan. It has placed restrictions on EEC products by using "retaliation lists". However, when the United States had those retaliation lists, it was quick to take Scotch whisky off the lists so that it could be imported into the United States. The United States may well decide in the future that inferior Scotch whiskies do not have such significance and may then produce its own Bourbon. The Scotch whisky may get caught up with those other inferior EEC whiskies and be included on a hit list that the United States might produce in a trade war with the EEC, and that is a dangerous prospect.

I have tried to keep my remarks as brief as possible, but those are the main points that I wanted to make and I think that they are important. I hope that Scottish Members will forgive me for taking up time in the debate. I know that this is primarily a debate for Scottish Members but I wanted to make those important points about this vital industry and to try to protect the jobs in the industry and the consumer, the man in the pub in Leyton, who likes a nice Scotch.

1.13 pm

Mr. John Marshall (Hendon, South): When I first entered the House, I received one piece of advice from a colleague. It was, "Hide from the Chief Whip if you have ever been to Scotland in your life, at least until the Scottish Grand Committee has been fully staffed by volunteers." Therefore, it is with great trepidation that I rise to speak in this debate, having listened to the interesting speeches made by Scottish Members.

I was especially interested in the speech by the hon. Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes), although at first I thought that there was some discrimination in what he said, as did the hon. Member for Leyton (Mr. Cohen), because a whisky tasting took place in this House for Scottish Members—

Dr. Godman: It was not in this House, but in the St. Ermin's hotel.

Mr. Marshall: Well, a whisky tasting took place in the St. Ermin's hotel. That hotel is run by a fine public company, started by a Glaswegian, Mr. Stakis. The whisky tasting took place at the hotel, but only hon. Members representing Scotland were invited. We are constantly told by those Members that not enough Members representing England take an interest in Scottish affairs. However, that was an occasion when every hon. Member representing England could have gone along to show their interests in Scottish affairs. Who knows, we might have been more expert at discriminating between the 37.2 per cent. and 40 per cent. whiskies.

Dr. Godman: They could not have been any worse.

Mr. John Marshall: I am sorry that the hon. Gentleman believes that the Members representing Scotland were so bad, but perhaps that suggests that they had all consumed the 40 per cent. proof whisky.

Mr. McKelvey: I am a Scotsman who was not only able to distinguish between the low-level under-strength brands and the other three brands, but was also able to distinguish between the three proprietary brands.

Mr. Marshall: I hope that the hon. Gentleman was well rewarded. I hope that he was not rewarded with a bottle of Arden House—that brand appears to demonstrate a nostalgia for “Dr. Finlay’s Casebook”. I do not know whether a whisky of that strength would be a just reward for an hon. Gentleman with such skills.

I congratulate my hon. Friend the Member for Tayside, North (Mr. Walker) on his good fortune in the ballot and upon his wisdom for introducing such a non-controversial Bill. It is only right and proper that he should have introduced the Bill because his interest in the Scotch whisky industry is long established and the Bill also reflects his constituency interests.

When one visits Perth, one remembers that it is the home of Bell’s—the foremost Scotch whisky brand in the United Kingdom. I am sure that all hon. Members would pay tribute to the remarkable ability of Mr. Raymond Miguel who transformed that brand from having a small share in the United Kingdom whisky market into the pre-eminent brand. The other brand located in Perth is Dewars. That brand was number three in the United States, but it is now the pre-eminent brand in that market.

It is right and proper that my hon. Friend introduced the Bill, especially as, in 1986, he had the foresight to campaign for the independence of Bells when it was subject to a bid from Guinness. It is unfortunate that the Leader of the Liberal party supported Guinness rather than Bells.

We have heard of the problems that face the Scotch whisky industry. One problem is the fact that Japan is not very kind towards the Scotch whisky industry. I believe that the United Kingdom and the European Economic Community have reached the stage when we must take a tougher line with the Japanese. If the Japanese will not allow Scotch whisky to compete on fair terms in the Japanese market, we should restrict Japanese imports to the United Kingdom and the EEC. The EEC represents an important part of international trade and it has the clout to act against the Japanese.

Sir John Farr: My hon. Friend may be interested to know that, a couple of years ago, the former Labour Member for Glasgow, Govan, James White — a conscientious Member of Parliament — and I had occasion to approach the Japanese regarding the way in which they were pirating Scotch whisky. That whisky was blended with large amounts of foreign substances and sold to the unsuspecting public in the far east as genuine Scotch. That has caused considerable concern to hon. Members on both sides for a number of years.

Mr. Marshall: I concur with everything my hon. Friend has said.

I was going to move on to the subject of bulk whisky exports, which was mentioned so movingly by the hon. Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes). He quite properly talked about employment in distillation and in blending and bottling in the whisky industry. He said that blending and bottling produce much more employment than the distilleries, but it would have been more correct to say that, because the distilleries were

formerly situated in small villages in Scotland, there was all too often no alternative employment. So, when the Distillers Company had to close down a number of distilleries, there was no chance of the people concerned being offered alternative jobs. I hope the Scotch whisky industry can look forward to a brighter future now that its ownership has become clearer.

The hon. Member for Carrick, Cumnock and Doon Valley was right about the danger inherent in bulk whisky exports. As my hon. Friend the Member for Harborough (Sir J. Farr) has just pointed out, bulk whisky exports can be used to produce ersatz Scotch whisky, which can then be passed off as almost the same thing. I well remember, about two years ago, stopping over in India when flying to Hong Kong. We went for a walk and saw that the whisky being sold bore the legend:

“Only for sale in the state of Madras”.

That was as near being Scotch whisky as the umpiring in Pakistan is to being unbiased. I was glad that it was to be sold only in the state of Madras.

Wherever one looks outside the United Kingdom, one sees various phoney Scotches being passed off as Scotch. I remember once going to a distiller’s house in St. James’s square and being shown a whole range of labels of ersatz Scotch whiskies, which had no doubt partially come about because of bulk whisky exports. So I agree with everything the hon. Member for Carrick, Cumnock and Doon Valley said about the problems created by bulk whisky exports.

The second problem referred to today was that of taxation. I regret that there has been no member of the Treasury team here today to listen to what was said on that subject. There is a real danger that excessive taxation can kill the Scotch whisky industry. The law of diminishing returns applies, and I hope there will be no increase in whisky taxation in next year’s Budget.

There is a real risk, too, that the quality image of Scotch will be destroyed by low-quality products. Worldwide, it is the quality products that people really want. I am not terribly impressed by High Commissioner which may have a quality-sounding name, but I suspect that it is not quite of the quality of The Famous Grouse. In the United Kingdom market, The Famous Grouse is roaring ahead and gaining market share at a dramatic speed. I am sure the vast majority of whisky consumers have heard of The Famous Grouse, but they think that High Commissioner is the poor unfortunate who has been trying to sort out the problems in Pakistan.

In the United States market, the Scotch whiskies that are doing well are Dewars, J and B, Johnnie Walker and other premium brands, rather than the nasty ersatz Scotches that some people have discussed today.

I pay tribute to the work of the Scotch whisky industry in Europe. Wherever one goes in the European Community, one can see that the Scotch whisky industry is doing well. I am told that one of the most rapidly expanding markets for Scotch whisky is in Spain. Another rapidly expanding market is France, where Johnnie Walker and J and B are doing surprisingly well. In all those European markets, the quality Scotch has been successful because that is what the European consumer prefers.

In Japan, the Scotch whisky industry has to compete with the law greatly biased against it. The Scotch whiskies that have done well there are those in the gift trade which, by definition, sells to the top end of the market. Wherever we look in the world, we see that it is the quality Scotch whiskies that people want. I hope that the House will give

the Bill a Second Reading because it will help the industry to defend its livelihood and its trade marks against the attack from low-quality whiskies.

In my visits to distilleries and to other parts of the Scotch whisky industry, I have always been impressed by the quality and devotion of the work force. I have also been impressed by the quality of labour relations in the industry. Some of our other great exporting industries have strikes; hon. Members will remember strikes in the motor car industry at Ford or British Leyland. However, it is rare to have one day lost in the Scotch whisky industry. The industry's success in avoiding strikes and the loss of days through ill health may well advertise the medicinal qualities of Scotch whisky. Perhaps a wee dram at the end of a day's work encourages people to come back the next day and keeps them in good heart.

The industry has a fine reputation and a fine history of skill and devotion to standards. In this interesting debate, hon. Members from all parts of the House have paid tribute to the history and to the future of the Scotch whisky industry. I hope that the Bill will be passed unanimously, so that the industry can defend its standards and its markets as it has done so successfully in the past. As hon. Members have reminded us, the Scotch whisky industry has an export trade of £1,000 million. It is a great national asset and it is up to the House to defend that asset with every power at hand. The Bill deserves to be passed unanimously.

1.26 pm

Mr. Robin Corbett (Birmingham, Erdington): I congratulate the hon. Member for Tayside, North (Mr. Walker) on raising this topic. By listening to most of the debate, I have been on a steep learning curve. I was delighted to find, by courtesy of the Scotch Whisky Association, that it is not injurious to health to drink whisky with oysters or with other shellfish but that that is an ancient superstition for which there is no foundation. The association says:

"A personal experiment will furnish the proof."

The booklet provided by the Scotch Whisky Association asks the fascinating question: what is the worm? I am sure that hon. Members from Scottish constituencies will have a ready answer. I do not want to run an "Any Questions" session, but the term "worm" intrigues me.

The booklet tells me:

"The Worm and its surrounding bath of cold running water, or worm-tub, form together the condenser unit of the pot still process of manufacture."

Alas, as an old pencil journalist, I have a passion for old-fashioned methods of production and I was saddened to read at the end of that paragraph:

"The worm is being replaced gradually by the more modern tubular condenser."

Apart from a visit to the bottom of a very deep and dark pit in the Fife coalfield, I can claim no Scottish connections. I am happy to tell hon. Members that my most frequent acquaintance with Scotland comes when I have a glass in my hand. I like to think that it is one sign of maturity, but perhaps it is only because I am getting older that the palate dictates malt whisky rather than blended whisky. It may surprise Scottish Members to know that that is an experience and a learning process for many of us who were born south of Hadrian's wall. I was born very far south of it, in western Australia.

Generally in England, we have to go through the process of appreciating whisky over the years. I have come to appreciate very much the pronounced bouquet and taste of malt produced from the pot still method. Again, I have learnt this morning, although I suppose that it should have been obvious to me, that as the method of production of malt whisky does not enable a continuous production process, bottles from the same distillery and with the same label, although similar, are not identical.

You will be aware, Mr. Deputy Speaker, of a bar on these premises that boasts one of the finest choices of malt whiskies in London. I do not doubt that there are connoisseurs and experts who, even if blindfolded, could not only name the brand of malt that they were drinking, but probably make a good stab at comparing it with one that they had drunk three weeks or, perhaps, six months ago. If my hon. Friends from Scotland would like to take me in hand so that I can learn the business properly, I should be a more than willing recruit.

I am trying now to parade my ignorance. I did not know, for instance, that there were four different types of malt whisky. I knew about the Islay malts—I have spent many a happy evening with one or two of those—but I did not know about the highland malts, lowland malts and Campbeltown malts which, regrettably, are produced only by the single main distillery on the Mull of Kintyre.

We have been told about the superb export record of Scotch whisky. Exports now exceed £1 billion a year. Some countries, of course, have stricter attitudes towards alcohol use and abuse. If one is fortunate enough to be travelling on an aeroplane or a ship to Norway or Sweden, and quite properly purchase a bottle of whisky in the duty-free shop, it may be worth almost its weight in gold. I ran into someone who had worked in Sweden, where, he said, the cost of living was very high compared with that in Britain. The better to make ends meet, he and a friend used to take in their allowance of Scotch whisky. Without any hassle, he could regularly get six or seven times the price that he had paid on the boat. That did him good, and it did the Scotch whisky industry no harm, because it spread the real stuff into parts that it might otherwise be difficult for it to reach because of the pricing policy.

I have been asking some of my hon. Friends, in particular, about the alcohol level argument. Some hon. Members want a 40 per cent. alcohol "bottom" in what can be properly be called Scotch whisky. My hon. Friend the Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes) — he always seems to me to have three constituencies—argues that there should also be a place in the market for whiskies with an alcohol level of 37.2 per cent. Having been on the Licensing Bill Committee, I have a special interest in the Government making better efforts to combat alcohol abuse and misuse, especially among under-age drinkers. It must be taken into account that if some of the whiskies with an alcohol level of less than 40 per cent. can contribute to helping people not to abuse alcohol, there must be a place for them.

Dr. Godman: Every Scottish Member who has spoken today is keenly aware of the problems associated with alcohol abuse and misuse. The theme has surely been that alcohol is to be taken in moderation.

Mr. Corbett: I am grateful to my hon. Friend for that intervention. I do not wish to imply that the producers of Scotch whisky or those who are responsible for its

[Mr. Corbett]

distribution and sale can be blamed, wholly or in part, for the misuse and abuse of alcohol. There are outlets for the sale of alcohol apart from pubs, and I recognise that those who manage licensed premises cannot be blamed for the misuse and abuse of alcohol. Unfortunately, in many parts of our three countries in this kingdom, alcohol is a menacing problem, especially in the form of under-age drinking. It is regrettable that there has been an alarming increase in the misuse of alcohol by younger women. I believe that to be the case in Scotland.

Mr. Bill Walker: I trust that the hon. Gentleman will bear in mind that I explained at the beginning of my remarks in introducing the Bill that I have always been teetotal. I no more condone over-indulgence in alcohol or the misuse of it by those who are under age than I condone the misuse of cars or the under-age driving of cars. I put both forms of misbehaviour in the same category.

Mr. Corbett: I accept what the hon. Gentleman says. No Member of this place would condone the abuse or misuse of alcohol. I am sure that we would all take a similar attitude to the misuse of drugs.

I understand that the hon. Member for Hendon, South (Mr. Marshall) said that he did not want any increase in the duty on whisky in the next Budget. Of course, that is a matter for the Chancellor of the Exchequer. I believe that there is a case for considering an increase in the duty on beers, wines and spirits, because in real terms the price of alcohol has decreased over the past 20 years. I was informed recently in a written answer that a 10 per cent. increase in the duty on beers, wines and spirits would produce about £285 million.

If the Government are to tell us that they are short of money properly to put in place measures to combat alcohol abuse and under-age drinking, for example, they should recognise that a levy on those who regularly use alcohol could make a significant contribution to financing a suitable campaign. The imposition of duty has the merit that those who drink the most contribute the most. A parallel is to abolish the road fund licence and to increase the duty on the petrol that we pump into our tanks.

In real terms, the cost of a bottle of whisky has fallen by about one third over the past 20 years. About 20 years ago, it took about six hours of work to earn enough money to buy a bottle of whisky. It now takes about two hours of work. I am glad about that in one sense, because it is of benefit to Scotch whisky producers and those who are concerned in the distribution and sale of the product, but the evidence from other countries is that when price decreases and availability increases because of an increase in the number of outlets and different types of outlets, such as supermarkets and corner shops, there is an inevitable increase in consumption. As consumption rises, so does the incidence of alcohol-related disease, which imposes such a heavy cost on families, industry and the National Health Service.

I am sensitive to the calls which have come from both sides of the House for the better protection of the Scotch whisky industry. These have come in the form of arguments in favour of minimum strength, the better to protect the industry from what is no more than counterfeiting of Scotch whisky by Japan and other countries. Others have said that some members of the

Scotch Whisky Association could contribute to the protection of their industry by reducing the exports of whisky that is not bottled.

My hon. Friend the Member for Leyton (Mr. Cohen) talked about low-strength whisky, which has been described as "a drop of the soft stuff". I understand the point that he is making. It is right to say that he declared a constituency interest. The hon. Member for Tayside, North (Mr. Walker) and others have said that the best way to protect the industry is to create a minimum proof floor so that everybody knows what he is getting. There is a problem with that on health grounds.

I listened with great interest to what my hon. Friend the Member for Leyton said about having two or three different standards. I suspect that Scotch whisky users would not find that much help in safeguarding their market, especially exports and overseas sales. While we in the United Kingdom could perhaps understand that, I suspect that it would be a different kettle of fish in the clubs and pubs of Bangkok, Brisbane and Buffalo. It could make misrepresentation of Scotch whisky easier for those who feel that they can get away with it and make a bigger buck in the process. I must admit that I have not reached a conclusion on this. If I am fortunate enough to serve on the Committee, perhaps we could pursue this.

Scotch whisky is no stranger to the courts of Scotland, England and Wales. I am told that as long ago as 1644 the Scots Parliament — it was then a Scots Parliament — passed an Excise Act fixing for the first time a liquor duty. From 1707 and the Union of the Parliaments, revenue staff sought to control and license distillation in Scotland. One learns this also while one reads for these debates.

It was well past the middle of the 19th century before there was some uniformity in whisky. It came from the product of a single distillery, grain or malt, and because of the limitations of technology of the time, and factors such as the supply of water and, I daresay, the quality of the water and barley, the product of a single distillery could vary widely from year to year. In other words, if one bought a bottle of whisky one could never be quite sure what one was getting. That went on for years. There was a report on 28 July 1909 by a Royal Commission under the chairmanship of Lord James of Hereford, and the definition was updated by the Finance Act 1969.

My hon. Friend the Member for Leyton may be interested to know that in the early 1900s the malt distillers were growing increasingly worried about the success of blended whisky. In 1904, Islington borough council, probably not then under Labour control, took proceedings against several local publicans for selling what they called "brandy", which was a mixture of brandy and neutral spirit. It was a test case to see whether the drink sold was

"not of the nature, substance and quality of the article demanded by the purchaser",

and thus unadulterated. In November 1905 the council did exactly the same to whisky. The publicans were selling blended whisky, a mixture of grain and malt whiskies, as they had done for many years. They were duly taken to court to see whether or not the whisky that they sold was the genuine article. The magistrate ruled against them, which clearly meant that grain whisky was not the true whisky. Since then, things have moved on, but it supports my preference for a malt rather than a blended whisky.

This is an important Bill for Scotland and I am sure from what has been said today that it will have an interesting Committee stage. I am sure that it will be of great help and value to the Scotch whisky industry.

1.44 pm

Mr. Martin Flannery (Sheffield, Hillsborough): I know that the promoter of this admirable Bill, the hon. Member for Tayside, North (Mr. Walker), wants a little time to answer the debate, so I shall make my remarks brief.

My first consideration is unemployment in Scotland. I am a member of the Labour steel committee, and that committee has studied cases such as Ravenscraig. The unemployment is alarming. When one thinks of the tremendous output of Scotch whisky and the way in which it is revered and loved throughout the world, it would be catastrophic if anything of major proportions went wrong.

There are considerations other than unemployment. My knowledge of the Celt and the Gael is not totally lacking. I have an Irish name, and I come from Yorkshire. Somebody with a rare sense of humour, probably connected with the War Office, called up a Yorkshireman named Flannery to a couple of Scottish regiments, one after the other. I learnt to drink a dram of whisky on the odd occasion, as a sheer defence. It was a curious thing. On the first Friday night that I spent in the Scottish Borders I pulled up with three Scots chaps—

Mr. Corbett: It would be hard not to.

Mr. Flannery: On the contrary, there was a large number of miners from Yorkshire and many people who were not Scots in the Scottish regiments. Anyone who thinks that all the people in the regiments were Scottish is dreaming.

I learnt the hard way. We received 10 shillings. Some hon. Members may be old enough to remember. We went out on only one night a week because of that. I was losing heavily because I did not drink whisky and called for half a bitter. After the third Friday I thought that I had to look at things afresh. I realised that I just had to drink whisky. I found it not a terrible thing to do.

If my Scottish connections, whom I still know from those days, thought that in this debate I had not defended Scotch whisky and the employment of those in the industry they would take me to task in no uncertain manner next time I went to Scotland, where I go for a holiday every year.

The Bill admirably defends Scotch whisky. I shall speak solely about the 40 per cent. level. Unless the Minister is kind, as he promised to be, that part of the Bill could have its dangers. To me, Scotch whisky is 40 per cent. I say to the hon. Member for Tayside, North, although he is a teetotaler, that that level is not unconnected with its name. People who love and drink it in moderation do so because of the 40 per cent. level. The protection against drunkenness is to drink moderately and not a great deal of it. The Bill states:

"It shall be unlawful . . . to sell Scotch whisky at an alcoholic strength less than any such strength as may be specified for the time being in an order made by the Ministers under this section."

That has a certain amount of danger. The level can go down to 37.5 per cent. or 37.2 per cent., as it apparently does, or even lower. I am not sure, but I think that there could be a grave danger of whisky no longer being seen as the whisky that it now mainly is. There could be a danger

of sales dropping off and of unemployment flowing from that fact. Equally dangerous, whisky might be demeaned and not be nearly as good as it is.

Therefore, I defend the 40 per cent. level. I visit Rabbie Burns' cote regularly in the area represented by my hon. Friend the Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes). I support what he said. If we leave it to the Minister to decide, I am afraid that, if we do not get the necessary protection, the dram will taste a bit different.

Mr. Sims: Does the hon. Gentleman appreciate that there is no legislative protection for the 40 per cent. strength? No law says what the strength should be. The clause would enable the Minister to specify a strength below which Scotch whisky could not be produced.

Mr. Flannery: Is the hon. Gentleman asking that the 40 per cent. strength be enshrined in law?

Mr. Sims: No. The minimum has not yet been discussed. This is simply an enabling measure. The hon. Gentleman wishes to defend the present figure of 40 per cent., but I should tell him that it is not protected in law.

Mr. Flannery: I am sure that the hon. Member for Tayside, North will say something about that.

1.50 pm

Mr. Bill Walker: With the leave of the House, Mr. Deputy Speaker, I will reply to what has been an interesting and well-informed debate. Although some speeches may have had more to do with deer than with quality, all of us would agree that some unusual Jocks have participated in the debate.

The hon. Member for Carrick, Cumnock and Doon Valley (Mr. Foulkes) asked me why we needed the Bill. The answer is that we had to take into account the experience of attempting to negotiate in Europe and the problems that may be created in the United Kingdom and abroad by the introduction of a Euro-whisky. Since I had decided to introduce a Bill on that aspect of the Scotch whisky industry, I thought it proper to include all the other areas of concern, including the problems of the quality end of the Scotch market.

Dr. Godman: I forget to ask the hon. Gentleman about the legal definition of Scotch whisky and why it is to be protected by civil law, not criminal law. Does the hon. Gentleman know whether, in France, the production of champagne is protected only by civil law or by a combination of civil and criminal law?

Mr. Walker: Only a European lawyer could understand French law properly. I am not a European lawyer and I will not try to unscramble the position in French law, but I can tell the hon. Gentleman that, in the United Kingdom, this matter will be dealt with in civil law. We judged it to be the best vehicle, and that is why the Bill is constructed as it is.

One problem that has been highlighted is the difficulty of protecting the quality of Scotch. The majority of those who spoke in the debate understand that the quality of Scotch makes it sell in vast quantities worldwide. Although we could argue about what is 7 per cent. of 15 per cent., or what is 6 per cent. of 3 per cent., we must never forget that sales in the United Kingdom represent only a tiny fraction of total sales. The sales worldwide provide the jobs that we are all anxious to maintain and

[Mr. Walker]

enhance. That is why we deemed it necessary to give the Minister the ability to introduce orders laying down a clearly stated minimum strength for the alcohol content of Scotch whisky.

Hon. Members have spoken about the good work of the Scotch Whisky Association and the splendid industrial relations in the industry. I have no hesitation in endorsing those remarks.

I am sometimes surprised by Opposition Members who chastise me about some of the matters in which I am involved. I defy anyone to say that he has heard me suggest that there is something wrong with trade unions. After all, I was a shop steward and a member of the national executive of my trade union. Anyone who criticises me fails to realise that I believe that trade unions are an essential part of the negotiating process. That is why I have no hesitation in saying that the trade unions in the whisky industry are an example to many other unions. Indeed, I wish that all trade unions were of their standard.

Dr. Godman: I am sure that the hon. Gentleman will agree about the importance of making known the excellent industrial relations record of the industry to those acquisitive-minded international companies that seek to invest in it. Is not one of the main reasons for such a good record the fine, indigenous management, as well as first-class trade union representation?

Mr. Walker: I have no hesitation in fully agreeing with the hon. Gentleman. I only wish that we could say the same about so many other industries. The management of the Scotch whisky industry has a fine record.

I have been careful not to stray into areas of great controversy because of my past record. However, it is important to place on record that one of the greatest skills of the management of the Scotch whisky industry has been its motivation and leadership of the work force. That has resulted in excellent industrial relations at all levels within the unions.

I endorse the comments and compliments about Raymond Miguel. He suffered badly in the media in Scotland during the takeover of Bell's. That has now substantially changed, and I am delighted that that former chairman of Bell's is now active in many areas in Scotland, not least as chairman of the Scottish Sports Council. I am sure that he will do the same fine job there as he did at Bell's.

We need the Bill to ensure the continued success of a very fine industry. I hope that the House will show their agreement by supporting the Bill.

Question put and agreed to.

Bill accordingly read a Second time and committed to a Standing Committee pursuant to Standing Order No. 61 (Committal of Bills).

Slaughter of Deer Bill

Order for Second Reading read.

1.57 pm

Miss Emma Nicholson (Torridge and Devon, West): I beg to move, That the Bill be now read a Second time.

The purpose of the Bill is only the welfare of deer; it is neither to encourage or discourage deer farming nor to authorise or forbid the lawful killing of deer in slaughter houses.

Our standpoint is taken from the report of the Farm Animal Welfare Council on deer, which is that deer have different characteristics and a heightened sensitivity to humans and to other animals that is not generally shared by the more commonly farmed animals.

The number of deer farms has risen rapidly. In the early 1970s there were only a few, but in 1980 the Farm Animal Welfare Council found 14 deer farms and in 1984 more than 100, with 5,000 deer, excluding park deer. In October 1987—the latest statistics to hand—Scotland alone had 56 deer farms with 12,250 farmed deer, and elsewhere in the United Kingdom there were upwards of 80 farms, with the largest cluster outside Scotland being in Devon; hence my interest.

It is interesting to note that in Scotland the land used is 80 per cent. rough grazing or scrub woodland and that the distribution is mainly in the less favoured areas. It is amusing to note that Brian Aldridge of "The Archers" is now farming deer. It is a sensible move as the gross margin for red deer is £1,000 per hectare compared with lowland sheep or 24-month-old beef at £520 per hectare and suckler beef at £300 per hectare. Although the best margin may be on the sale of breeding stock, venison gets a good price. Indeed, it accounts for 0.5 per cent. of Europe's red meat consumption. Prime quality farmed venison commands a substantial premium over game venison and other meats. The retailer pays the farmer 50 per cent. more than for beef. Deer farming is thus a profitable, new small industry.

The United Kingdom now produces 2,300 lb of venison, both feral and farmed, annually, of which two thirds is exported. The Chernobyl factor fractionally dented our exports to West Germany, which consumes 43,500 lb a year, but it has now been overcome and the figures are increasing again. Current world venison consumption figures are of the order of 50,000 to 100,000 tonnes.

Dr. Norman A. Godman (Greenock and Port Glasgow): Is there a preference in the German market for wild rather than farmed venison?

Miss Nicholson: At the moment the preference is for game venison.

With Christmas coming, the Scandinavians cull and eat their own reindeer, so there is no export market there. The export market is in Europe, north America, Japan and Australia, and these markets have been opened up by New Zealand.

I remind hon. Members that we seek alternative farming and that many products are in surplus but they exclude venison. In New Zealand one in 10 farmers now farm venison compared with one in 100,000 here. The product attracts no subsidies. It is governed by no European Community legislation. We have no quotas and no meat mountains, but the production of excellent lean meat economically from grass. Venison is healthy eating

FROM: R K C EVANS
DATE: 14 DECEMBER 1987

MOS WALLACE

R/2 Ch/
Is this OK or shall we try to put them off? (You would be inside working on your speech, + Arthur could take at door.)

cc Mr Culpin
Miss Sinclair
Mr R Allen
Mr Bush
Mr Michie
Mr Towers
Mr Gunton
Mr Flitton
Mr Sutton
C&E Press Office

my

Done

*OK. Ben
Arthur 5
hand 16.
m.*

mpw 14/11

BUDGET REPRESENTATION: NEWSPAPER SOCIETY

The Newspaper Society which represents the provincial newspapers will be delivering a budget representation at No 11 at about midday on Wednesday, 16 December.

2. The method the Society has chosen to publicise its report is to deliver a mock newspaper to No 11. Instead of hard news the newspaper will contain anti-VAT propoganda. It will be handed in by a lad from Stoney Stanton who normally delivers the papers from the village newsagent.

3. Contact: John Reynolds, Public Relations, Newspaper Society - 636 7014.

Richard Evans

RICHARD EVANS

Is it you care?
#mpw

M

FROM: MRS T C BURNHAMS
DATE: 15 December 1987

- 1. MISS SINCLAIR *As 15/12*
- 2. FINANCIAL SECRETARY

cc PS/Chancellor
Mr Culpin
Mr D Shaw IR

MEETING WITH THE LANDOWNERS' GROUP ON 16 DECEMBER

You are to meet the Landowners' Group at 3pm on 16 December to discuss their Budget Representations.

2. We understand the following will attend:

- | | |
|------------------------|---|
| MR J M (MICHAEL) SWORD | The Bedford Estates, Chairman of LOG taxation committee |
| MR R J WELSH | The Howard de Walden Estates |
| MR I S FERRIS | Agent for Iveagh Trust |
| MR W R BENYON MP | Member for Milton Keynes, Chairman of Conservative forestry sub-committee, farmer and landowner |

3. The group represents the interest of large estates, both urban and rural and their representations, as last year, concentrate on capital taxation issues. They propose:-

- i. the top rate of inheritance tax should be reduced to 30 per cent with corresponding reductions in lower rates and for lifetime transfers.
- ii. the tax penalty for reserving a benefit out of a lifetime gift should apply only to the value of the benefit reserved not to the whole of the property donated.

iii. CGT should be reduced to 25 per cent, indexation abolished and tapering relief from third to sixth year of ownership with no charge after seven years. Alternatively, rebasing from 1965 to 1982.

iv. Additional Rate Tax should be abolished or reduced to 15 per cent and should not apply to the income of Maintenance Funds.

4. I attach briefing on these points and also a short note about the paper enclosed with their representations - "Drawing the teeth of Inheritance Tax".

5. Mr Benyon may raise the question of taxation on forestry in view of the recent speculation in the press, however, because of the proposals at present under consideration you will not wish to offer any comment and briefing has not, therefore, been provided.

6. Official support at the meeting will be provided by Mrs V C Evans and Mr B K Lakhanpaul from the Inland Revenue.



MRS T C BURNHAMS

INHERITANCE TAX - RATES

Background

LOG propose a threshold of £250,000 and 3 bands of 10, 20 and 30 per cent. This top rate would not be reached until an estate exceeded £1m. It is claimed that yield would not be affected but our estimate is a cost of £1 billion in a full year ie 85 per cent of current yield.

Line to take

1. Substantial reductions in the tax burden have been made already -
 - top rates cut in 1984
 - abolition of lifetime charges on most gifts in 1986 and 1987
 - reduction of cumulation period, threshold raised by 27 per cent and number of bands reduced from 7 to 4 in 1987.
2. The effective rate of tax - less than 34 per cent, is more relevant than the marginal rate they emphasise.
3. The Government is committed to reducing the tax burden across the board when prudent to do so.

INHERITANCE TAX - GIFTS WITH RESERVATIONS (GWR)

Background

Under IHT outright gifts between individuals are exempt if made more than seven years before death. Special rules apply to gifts made with a reservation of benefit to the donor, and gifted property is deemed - for the purpose of the death charge - to remain in the donor's estate until any strings attached to it are removed. The LOG proposal would effectively neutralise the GWR provisions.

Line to take

1. IHT provision on GWRs were deliberately introduced, to protect the tax charge on death.
2. They work on the principle that a gift is not perfected until the reserved benefit is finally given up and the death charge applies to the value of the gifted property.
3. LOG's proposal of charging the value of the reservation only, produced abuse under CTT because a reservation for the donor's life is virtually valueless at the time of death.

CAPITAL GAINS TAX

The Financial Secretary is familiar with the arguments the LOG put forward and will want to say very little apart from noting the points made.

The main arguments against their proposals are as follows:

- abolishing indexation would bring taxpayers into the system who are at present outside it.
- tapering is not simpler than indexation because of the problems with share pools and would cost most of yield (estimated yield for 1987/88 including companies over £2 billion).
- rebasing would be expensive and would exempt real gains as well as inflationary gains.

ADDITIONAL RATE TAX

Current income tax treatment

Additional rate tax is chargeable on income of accumulation and discretionary trusts in addition to basic rate tax. When trust income is distributed to beneficiaries they are given credit for tax suffered by trustees. If

they are not liable to tax, or are liable to less than the aggregate basic plus additional rates, they can claim back all or part of the tax paid by the trustees. It is calculated by deducting the basic rate for the year from the second higher rate (currently $45\% - 27\% = 18\%$)

Maintenance Funds

If the owner or occupier of a heritage property establishes a maintenance fund, the income of the fund is treated as his income and taxed at his marginal rate (ie up to 60 per cent). But the trustees may elect to have the income for any particular year taxed instead at the basic additional rates.

Line to take

The Financial Secretary will simply wish to note the points LOG make.

"Drawing the Teeth of Inheritance Tax"

LOG has produced an analysis which purports to show that inheritance tax and income tax need to be cut to reduce the "tax on saving" to 58 per cent, which they claim is the maximising rate. They calculate the present level of tax to be 86 per cent by looking at the gross income needed over a 25 year period in order to meet the inheritance tax bill for an estate which attracted a marginal 60 per cent top rate.

Assessment

Their calculation of the revenue maximising tax rate is not based on any evidence of behavioural response. Alternative assumptions could yield higher or lower revenue maximising rates.

Line to take

Government's objective to reduce marginal tax rates. The basic rate of income tax has been reduced from 33 pence to 27 pence and top rate of income

● tax on investment income from 98 pence to 60 pence. Not committed to any particular tax rates on basis of revenue maximising arguments - which can give a range of answers. Must assess priorities between different taxes and can only reduce when prudent to do so.

mpw

FROM: M HANNAFORD
DATE: 15 DECEMBER 1987

*Ch/Arthur has
been briefed.*

cc Miss Wallace - 12/2
Mr Towers

FRONT DOOR No.11

FRONT DOOR No.10

mpw 15/12 ✓

BUDGET REPRESENTATION: NEWSPAPER SOCIETY

The Newspaper Society which represents the provincial newspapers will be delivering a Budget representation at No.11 at about noon on Wednesday, 16 December.

Those coming will be:

1. Duncan Parsons (Stoney Stanton newspaper boy)
2. Chris Conroy (Leicester Mercury)
3. Press Association photographer
4. Northcliffe Newspaper Photographer
5. G Cullen or J Reynolds of the Newspaper Society

M. Hannaford

M HANNAFORD



FROM: P D P BARNES
DATE: 16 December 1987

MR WHITMORE

A handwritten signature in dark ink, appearing to be "PDP", written over the name "MR WHITMORE".

cc PS/Chancellor
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair

Mr Knox - C&E
Mr Jefferson-Smith - C&E
Mr Allen - C&E
PS/C&E

REPRESENTATIONS FROM THE BREWERS' SOCIETY

The Economic Secretary has seen Major General Mangham's letter to the Chancellor of 11 December.

2. The Economic Secretary would welcome your comments on paragraphs 8, 13 and 14 of General Mangham's letter.

Handwritten initials "PB" in dark ink.

P D P BARNES
Private Secretary

ppp

FROM: MISS S WALLIS

DATE: 14 December 1987

- 1. MRS BURNHAMS *ZB 15/12*
- 2. MISS SINCLAIR *AS 16/12*
- 3. MCU
- 4. ECONOMIC SECRETARY

cc PS/Chancellor 12/2
 PS/CST
 PS/FST
 PS/EST
 Mr Michie
 PS/C&E
 Mr J Fisher

BUDGET DEPUTATION : THE WINE AND SPIRIT ASSOCIATION OF GREAT BRITAIN AND NORTHERN IRELAND

The Wine and Spirit Association's letter of 2 December encloses their Budget representations and asks for a meeting to discuss them with Ministers.

2. The Wine and Spirit Association are not on the "core list" of organisations to be seen by Ministers. However, they are a major trade association in wine and spirits and they were met last year. Therefore, we and Customs suggest that you agree to a meeting.

3. I attach a reply.

S Wallis

MISS S WALLIS



Treasury Chambers, Parliament Street, SW1P 3AG

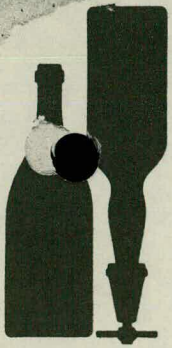
G N Gent Esq
The Wine and Spirit Association of
Great Britain and Northern Ireland
Five Kings House
Kennet Wharf Lane
Upper Thames Street
LONDON EC4V 3BH

December 1987

Thank you for your letter of 2 November, which enclosed your representations for the Budget.

I would be delighted to meet a deputation from The Wine and Spirit Association of Great Britain and Northern Ireland. I have asked my office to be in touch with the details.

PETER LILLEY



The Wine and Spirit Association of Great Britain and Northern Ireland

(Incorporated) Limited by Guarantee

Five Kings House, Kennet Wharf Lane
Upper Thames Street, London EC4V 3BH

Telephone:
01-248 5377/8

Telex:
888941 LCCI G WSA

FROM THE CHAIRMAN

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

BR

HM TREASURY - MCO	
REC'D	4 DEC 1987 2nd December 1987
ACTION	Mrs Busham P.
	CC CE
	EST.
	29082/87

Dear Sir,

On behalf of this Association I have pleasure in enclosing three copies of our formal representation in respect of the forthcoming Budget.

While not wishing to repeat any of the points made in this document, it seems appropriate to refer to the new element apparent in Government thinking on fiscal matters related to proposals already tabled in Brussels. The Commission's proposals, if adopted, would require that any changes in excise duties should be in the direction of the mean rates established as the reasonable standard for all Member States. In view of the expressed policy of the Government which emphasizes the importance for British industry of the removal of internal barriers, we have every hope that no changes in excise duty will be contemplated that would have the effect of widening the gap further.

May I add one further point concerning the particular situation of fortified wines? The decision to make no changes to excise duty rates on drinks in 1987 has meant, unfortunately, that the excessive burden on fortified wines has continued to affect adversely both sales and revenue. A reduction in real terms of the duty charged on this category of product is more than ever justified and would lead to a much-needed recovery of buoyancy both in demand and in terms of revenue receipts.

Contd/.....

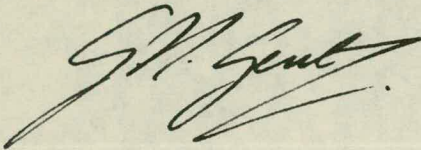
The Rt. Hon. Nigel Lawson, MP

-2-

2nd December 1987

I would take this opportunity to request formally that you, or one of your Ministers, will at a convenient date receive a deputation from this Association so that we may be afforded the opportunity of amplifying and clarifying our supporting argument. In this connection, I should not normally make so bold as to suggest dates but we have received advice that this might, in fact, be welcome. May I then put forward as possibilities the dates 1st, 3rd or 4th February for the hearing requested?

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'G.N. Gent', with a stylized flourish at the end.

GN Gent
Chairman

Enc.

WINE AND SPIRIT ASSOCIATION
OF
GREAT BRITAIN AND NORTHERN IRELAND

Representations
to the Chancellor of the Exchequer
on his forthcoming Budget

December 1987

Wine and Spirit Association of Great Britain and Northern Ireland make the following representations to the Chancellor of the Exchequer in connection with his forthcoming Budget.

The wines and spirits trade continues to be intensively competitive. The published accounts of the 100 companies for which 3 years' figures are available show that their average profits on sales, before tax, were as follows:

1985/86	2.5%
1984/85	2.1%
1983/84	2.5%

("Wine and Spirit Merchants" ICC Business Ratios 1987)

For comparison the ratios in the three years to 1979/80 were 3.7%, 3.4% and 4% respectively (73 companies).

The consumer has benefited from this intense competition. He has also benefited from the decline in real terms in the price levels of wines and spirits in recent years. Taking the 1st January 1974 as 100, the general retail price index for September 1987 was the equivalent of 404. On the same base the separate retail price index for wines and spirits compiled by the Department of Employment was 333.5. This is a "discount" on the general index of 17.5%.

Developments in the various commodity divisions of the trade are described in the following paragraphs. The respective tax burdens, the quantities consumed and the yields to the Revenue are set out in the Appendix to these representations. The Association understands that the data are not disputed by H.M. Customs and Excise.

Sterling amounts have been expressed at constant prices throughout, so that valid comparisons can be made between one year and another.

The tax burden consists of excise duty and value added tax. The principle was acknowledged by the Chancellor of the Exchequer in the Financial Statement and Budget Report 1973-74 as follows:

"Tobacco, spirits, beer, wine and British wine and matches.

"It is proposed to reduce from 1st April 1973 the rates of customs and excise duty by such amounts as are broadly necessary on average to offset the application of value added tax to these commodities".

The Report of the Commissioners of Customs and Excise for the year ended 31st March 1974 used similar words.

WINES NOT EXCEEDING 15% ALCOHOL

The attached chart for still wines shows that consumption has increased since 1976/77 to nearly 3 times the level of that year, and revenue to nearly 2½ times. Tax burden per unit volume, on the other hand, has fallen by 20%. Both the trade and the Revenue have thus benefited greatly in conditions of restrained taxation.

The Association asks that nothing should be done to disturb this mutually beneficial state of affairs.

FORTIFIED WINES

Quantities released for consumption in the year to 31st March 1987 plunged still further, to 39% of the base year 1976/77. This was a fall of 25 points in the last year alone. Total tax revenue fell to 43% of the base year, a fall of 31 points.

Consumption of wines in this group has for years been on a declining trend but the decline became very steep following the rise in excise duty in March 1984. This coincided with a sharp fall in the rate of duty on light wines. The difference between the duty on light wines and that on the medium group widened from £32.90 to £67 per hectolitre, a severe competitive disadvantage. It is now £71.

Vermouths of 17% alcoholic strength have since been largely discontinued while there has been a growth of vermouths not exceeding 15% strength, bearing excise duty at the light wine rate.

The combined effect of the changes in the light wine and vermouth groups, taking 1984/85 as the starting point, appears to have been a rise in total duty charged from about £471 million to about £505 million; an increase of 7½%. At constant prices there has been a fall of about 1½%.

It is clear from the fall in consumption of wines exceeding 15% alcohol that their tax burden is far too heavy. The trade is adopting such measures as it can to lighten the burden. The Revenue is suffering. Countermeasures, such as reclassification of vermouths for duty purposes, would not alter the economic facts.

The Association asks that the duties on wines exceeding 15% alcoholic strength should be reduced in real terms by about 10%. In current conditions the risk of loss of Revenue would not be real: rather does the risk to the Revenue lie in continuing with the status quo.

SPIRITS

The rate of excise duty on spirits has remained unchanged since March 1985, so that there has been a fall in real terms. The VAT element of the total tax burden (estimated to be about 30%) varies with current prices and does not fall in real terms.

As the accompanying chart shows, consumption and total tax revenue rise when the tax burden falls, and fall when it rises. However the long term trend in revenue is downwards, owing to the failure of consumption to respond adequately to downward changes in tax burden.

The Association urges that there is an evident need for a further reduction in excise duty on spirits in real terms. Certainly any increase would result in reduced consumption and reduced total tax revenue.

DEFERMENT...

DEFERMENT

This thorny question remains unresolved. The Government may not be averse in principle to deferring the collection of duty to nearer the time when on average the trade has the opportunity of recovering it from the consumer. However any such deferment would have the effect of transferring about one month's revenue from such duties from one fiscal year to the next. This transfer, amounting at the latest estimate to £190m, the Government refuses to contemplate on account of fiscal pressures.

From the trade's point of view it is permanently encumbered with the financing of the duty until it can be recovered from its customers, on whom the burden is actually intended to fall.

The position is quite different with the most modern indirect tax, namely VAT. In this case the trader has from one to four months to discharge his liability - say, an average of ten weeks. The discrepancy between the impacts of the two taxes is glaring.

The wine and spirits trade yields some £3.5 billion per annum in excise duty and value added tax. The Association's estimate is that the Government's revenue from the trade in these indirect taxes alone is at least five times the profits before tax of the traders themselves. Thus the Government is "the senior partner" and should have a direct interest in the wellbeing of the trade.

The Association urges that traders should be permitted one month's postponement of the payments due from them month by month under present arrangements.

The Association hopes that these representations will be of service to the Chancellor, and that he will act on them.

TABLES AND CHARTS

In the attached tables and charts -

quantities released for consumption are as reported by Customs and Excise;

excise duties charged are as reported by Customs and Excise;

value added tax is as estimated by the Central Statistical Office; In the case of wine the total estimated by the C.S.O. has been apportioned between the different categories according to a formula discussed between the Association and Customs and Excise;

sterling values are expressed at constant prices, calculated by means of the retail price index.

WINE

8.10.87

1977 = 100

1976/77 PRICES

	QUANTITIES RELEASED FOR CONSUMPTION		AVERAGE DUTY + VAT PER HL		TOTAL DUTY + VAT CHARGES	
	HL	INDEX	£	INDEX	£	INDEX
<u>STILL WINE NOT EXCEEDING 15%</u>						
1976-1977	1.763.000	100	83.95	100	148.000.000	100
1977-1978	1.842.000	104	81.4	97	150.000.000	101
1978-1979	2.147.000	122	77.8	93	167.000.000	113
1979-1980	2.591.000	147	74.9	89	194.000.000	131
1980-1981	2.574.000	146	84.3	101	217.000.000	147
1981-1982	2.932.000	166	82.2	98	241.000.000	163
1982-1983	3.191.000	181	86.8	103	277.000.000	187
1983-1984	3.419.000	194	89.7	107	306.500.000	207
*1984-1985	4.314.000	245	66.9	80	289.000.000	195
1985-1986	4.487.000	255	72.3	86	324.500.000	219
1986-1987	5.151.000	292	68.1	81	350.500.000	237
<u>STILL WINE EXCEEDING 15%</u>						
1976-77	1.263.000	100	102.5	100	129.500.000	100
1977-78	1.176.800	93	97.1	95	144.250.000	88
1978-79	1.413.100	112	93.1	91	131.500.000	102
1979-80	1.416.900	112	89.5	87	126.800.000	98
1980-81	1.204.900	95	101.5	99	122.250.000	94
1981-82	1.169.000	93	105.2	103	123.000.000	95
1982-83	1.054.000	83	111.5	109	117.500.000	91
1983-84	1.087.500	86	116.0	113	126.200.000	97
*1984-85	1.179.000	93	106.1	103	125.050.000	96
1985-86	812.600	64	117.7	114	95.600.000	74
1986-87	498.600	39	112.9	110	56.300.000	43
Note:- The above group is the aggregate of two sub-groups - still wine 15%-18% and still wine over 18%. Details of these two sub-groups appear below.						
<u>Still Wine Exceeding 15% Not Exceeding 18%</u>						
1976-1977	983.000	100	98.3	100	96.650.000	100
1977-1978	1.045.000	106	95.2	97	99.450.000	103
1978-1979	1.285.000	131	91.4	93	117.400.000	122
1979-1980	1.302.000	133	87.6	89	114.100.000	118
1980-1981	1.112.000	113	99.5	101	110.600.000	114
1981-1982	1.089.000	111	103.6	105	112.800.000	117
1982-1983	974.000	99	109.5	111	106.750.000	110
1983-1984	1.006.000	102	114.0	116	114.650.000	119
*1984-1985	1.097.000	112	104.2	106	114.300.000	118
1985-1986	731.500	74	115.2	117	84.300.000	87
1986-1987	416.400	42	109.1	111	45.400.000	47

CONTINUED....

1976/77 = 100

1976/77 PRICES

	QUANTITIES RELEASED FOR CONSUMPTION		AVERAGE DUTY + VAT PER HL		TOTAL DUTY + VAT CHARGES	
	HL	INDEX	£	INDEX	£	INDEX
<u>Still Wine Exceeding 18%</u>						
1976-1977	280.000	100	117.3	100	32.850.000	100
1977-1978	131.800	47	112.3	96	14.800.000	45
1978-1979	127.900	46	110.3	94	14.100.000	43
1979-1980	115.300	41	110.3	94	12.700.000	39
1980-1981	93.200	33	125.2	107	11.650.000	35
1981-1982	79.700	28	128.1	109	10.200.000	31
1982-1983	79.600	28	135.5	116	10.750.000	33
1983-1984	81.800	29	141.3	120	11.550.000	35
* 1984-1985	82.100	29	131.2	112	10.750.000	33
1985-1986	81.000	29	137.7	117	11.200.000	34
1986-1987	82.200	29	132.6	113	10.900.000	33

* In 1984-1985 a good deal of still wine of less than 15% alcohol was blended with still wine exceeding 18% alcohol, in both cases after being charged to duty, to produce still wine 15%-18% alcohol. The figures in the above tables show the estimated quantities of the wines of the different strengths passing into consumption after taking account of this blending. They also show the total duty and VAT charges borne by the different categories, and the average duty and VAT charge per hectolitre.

SPARKLING WINE

1976-77	134.000	100	116.9	100	15.650.000	100
1977-78	145.000	108	113.55	97	16.450.000	105
1978-79	168.000	125	110.4	94	18.550.000	118
1979-80	193.000	144	110.6	95	21.350.000	136
1980-81	173.000	129	130.15	111	22.500.000	144
1981-82	194.000	145	122.9	105	23.850.000	152
1982-83	196.000	146	131.9	113	25.850.000	165
1983-84	208.000	155	138.3	118	28.750.000	183
1984-85	243.000	181	126.15	108	30.600.000	195
1985-86	256.500	191	137.55	118	35.250.000	225
1986-87	284.000	212	129.75	111	36.850.000	235

SPIRITS

8.10.87

1976/77 = 100

1976/77 PRICES

	QUANTITIES RELEASED FOR CONSUMPTION		AVERAGE DUTY + VAT PER HL OF ALCOHOL		TOTAL DUTY + VAT CHARGES	
	HL OF ALCOHOL	INDEX	£	INDEX	£	INDEX
1976-1977	905.000	100	1081	100	978.000.000	100
1977-1978	844.000	93	1049	97	885.000.000	90
1978-1979	1.057.000	117	930	86	983.000.000	101
1979-1980	1.111.000	123	892	83	991.000.000	101
1980-1981	992.000	110	928	86	921.000.000	94
1981-1982	894.000	99	993	92	888.000.000	91
1982-1983	872.500	96	986	91	860.500.000	88
1983-1984	943.500	104	951	88	897.500.000	92
1984-1985	907.000	100	964	89	874.000.000	89
1985-1986	964.500	107	932	86	898.700.000	92
1986-1987	909.500	100	927	86	843.000.000	86

J.C.B.

WINE

STILL- EXCEEDING 15% ALCOHOL

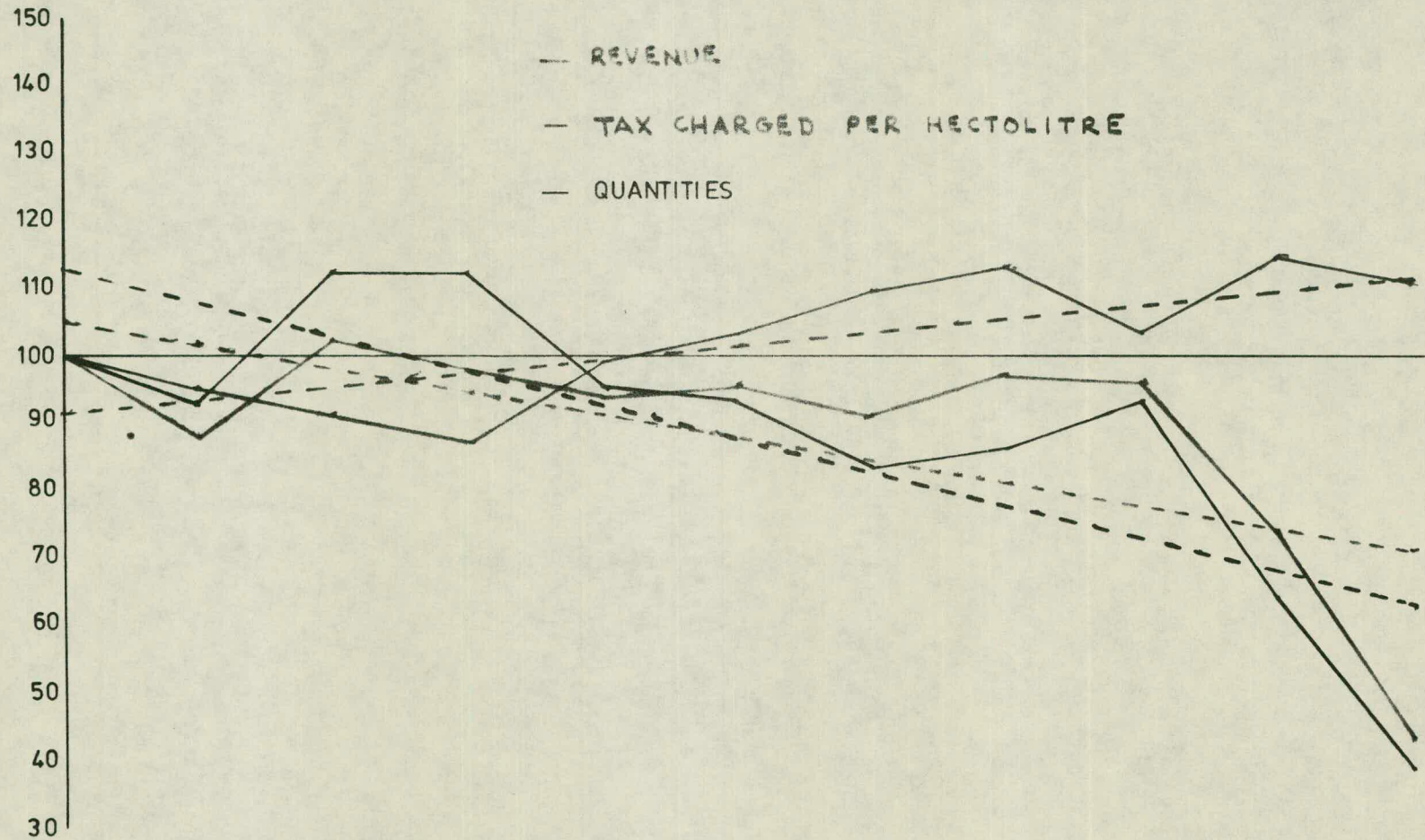
1976/77 = 100

QUANTITIES CLEARED

DUTY & VAT CHARGES

TAX CHARGES AT 1976/77 PRICES

1976/77 1977/78 1978/79 1979/80 1980/81 1981/82 1982/83 1983/84 1984/85 1985/86 1986/87



WINE

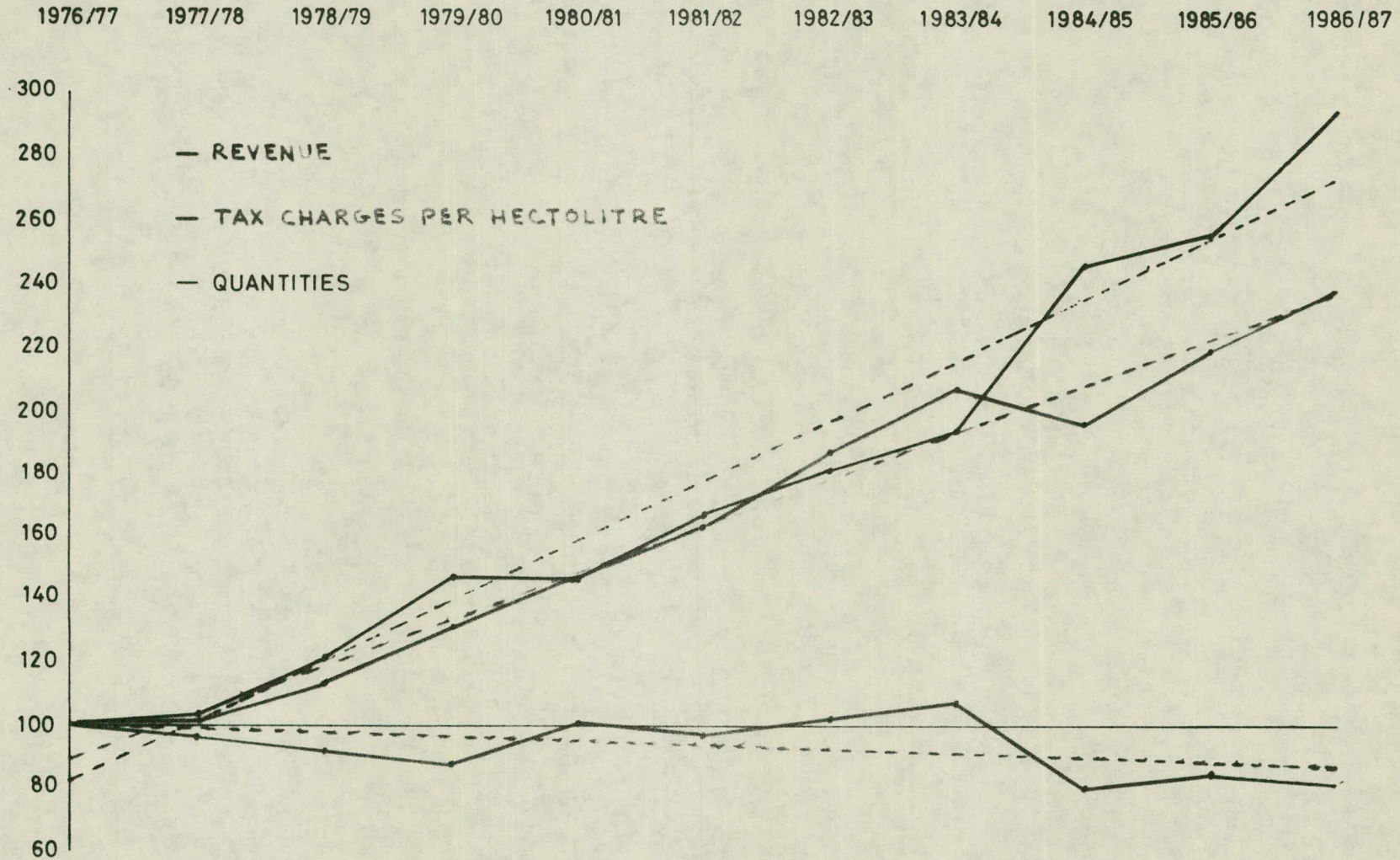
STILL - NOT EXCEEDING 15% ALCOHOL

1976/77 = 100

QUANTITIES CLEARED

DUTY & VAT CHARGES

TAX CHARGES AT 1976/77 PRICES



WINE

SPARKLING

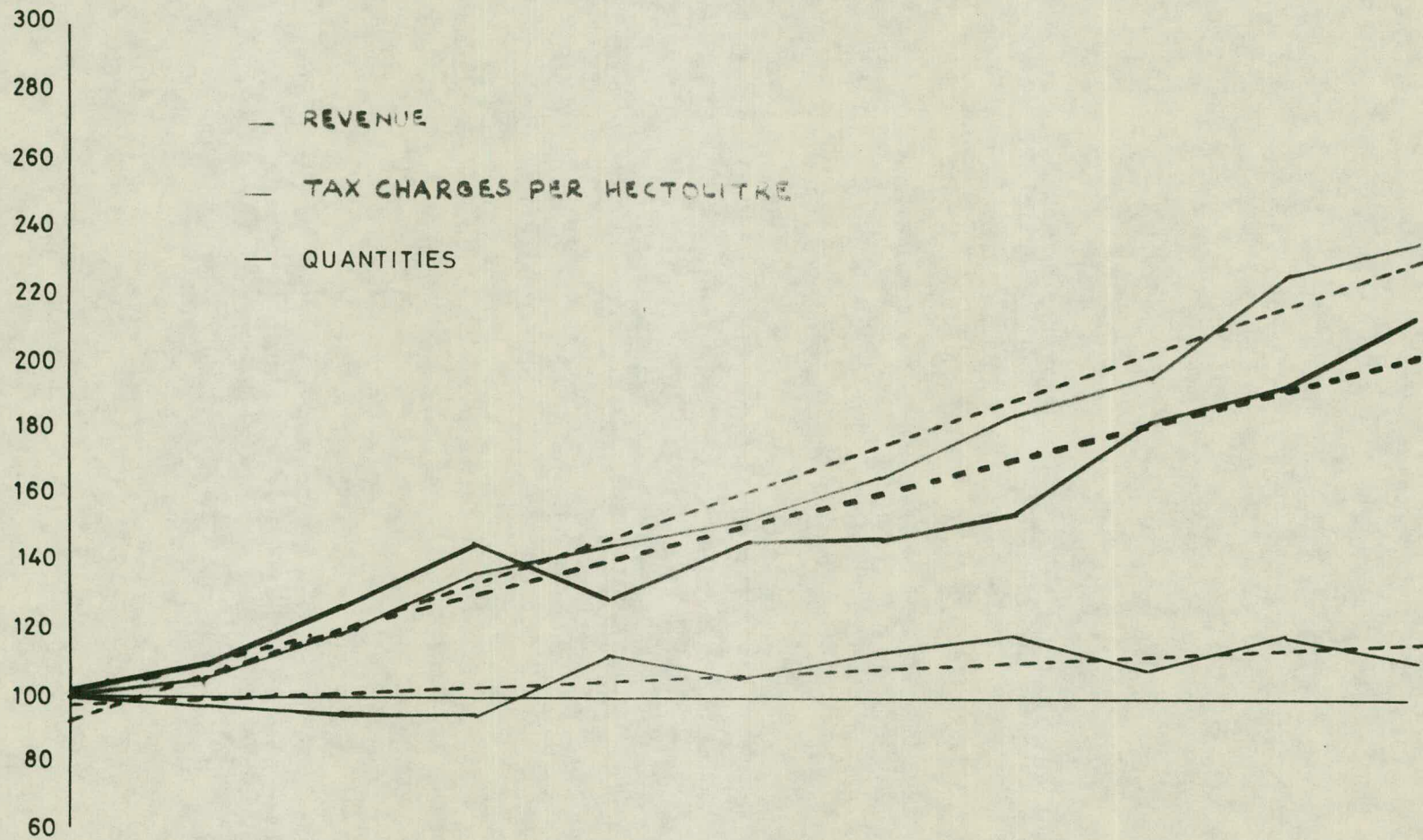
QUANTITIES CLEARED

DUTY & VAT CHARGES

1976/77= 100

TAX CHARGES AT 1976/77 PRICES

1976/77 1977/78 1978/79 1979/80 1980/81 1981/82 1982/83 1983/84 1984/85 1985/86 1986/87



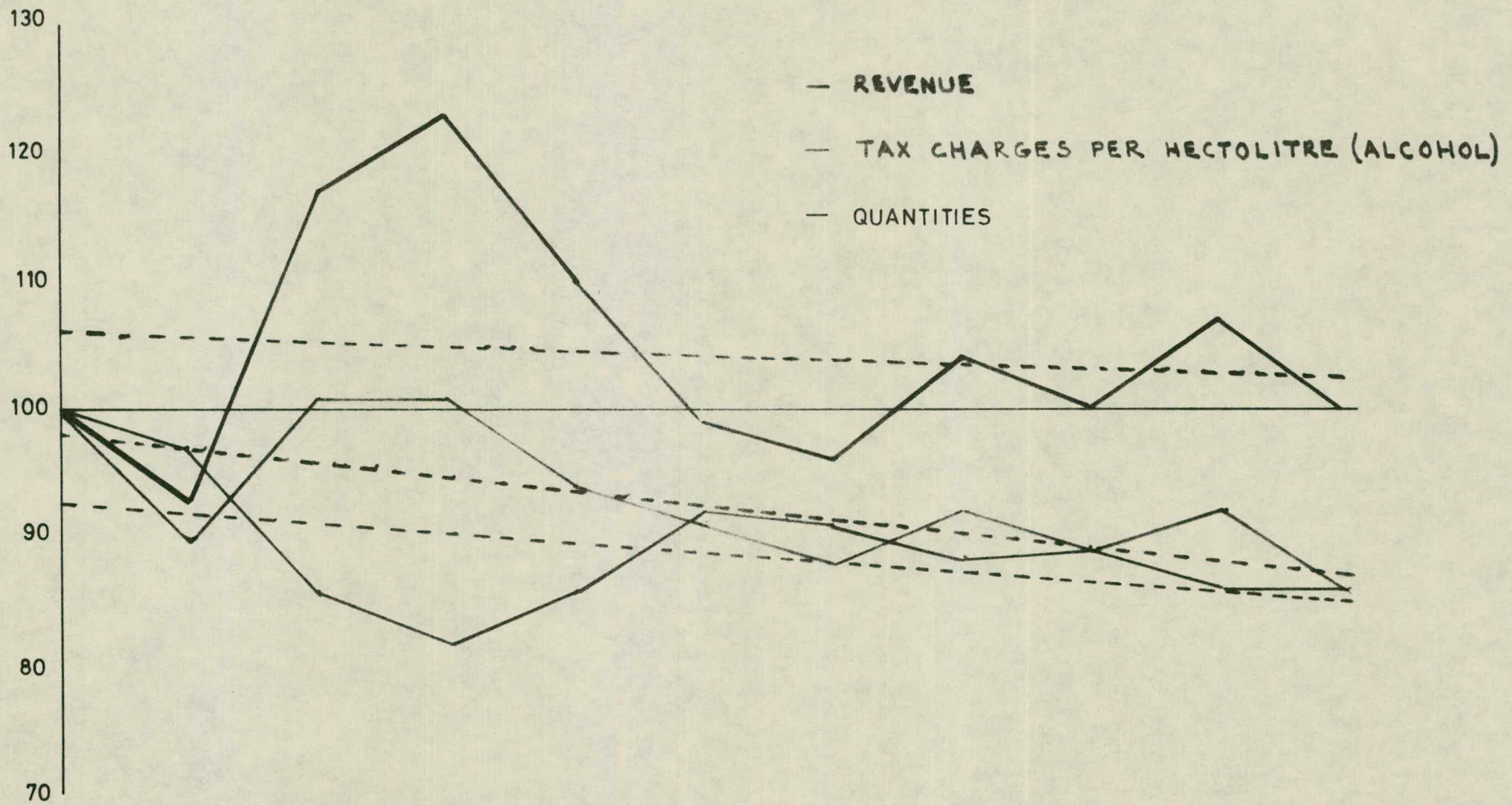
SPIRITS

QUANTITIES CLEARED
DUTY & VAT CHARGES

1976/77=100

TAX CHARGES AT 1976/77 PRICES

1976/77 1977/78 1978/79 1979/80 1980/81 1981/82 1982/83 1983/84 1984/85 1985/86 1986/87



BF to 25 7/11
BF 7/11
(to get a Burnham memo)

PMP

Refer Miss Evans to
provide these points

FROM: MRS T C BURNHAMS

DATE: 14 December 1987

16/112

- 1. MISS SINCLAIR
- 2. CHANCELLOR OF THE EXCHEQUER

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Sir T Burns
- Mr Cassell
- Mr Monck
- Mr Scholar
- Mr Culpin
- Miss Evans
- PS/IR
- Mr Draper IR
- PS/C&E
- Mr R Allen C&E

*Thanks
Pst let me see 804- No
Representations matrix Budget
2. What is state of play on
C&E simplified? discuss
in paper for Mr Houghton
3. What is state of
play on addition
rate of tax, list
of small Budget
changes*

1988 BUDGET REPRESENTATIONS

Following last year's practice, I attach a summary of the Budget representations received from the main organisations to the end of November.

2. The detail provided for each organisation is not intended to be fully comprehensive but simply highlights the major points each of the representations make. Should you wish to see any of the representations in full, copies will be provided.

3. For the first time this year, a table has been prepared (Annex A) listing the principal issues raised in Budget representations from members of the public, either made directly or through their MP. The table also takes into account representations from the less important organisations, which are generally concerned with a single issue; these organisation are listed in Annex B. There have been concerted campaigns from opposing camps on tobacco duty and also by supporters of the Country Landowners Association to reduce the burden of Capital Gains Tax.

4. After tobacco, the subject which has generated the most interest is mortgage interest relief and most correspondents oppose the present "penalty on marriage".

5. There have also been a significant number of letters from members of the public supporting increased public spending rather than further tax cuts and most refer particularly to spending on the NHS. The 23 letters received on this topic include 2 petitions signed by 124 Scottish Christians.

6. A further summary will be submitted at the beginning of January.

T. C. Burnhams

MRS T C BURNHAMS

BR(88)1**1988 BUDGET REPRESENTATIONS - First Edition**

The Association of Corporate Treasurers	3 August 1987
The British Casino Association	18 September 1987
The Country Landowners Association	1 October 1987
Business in the Community	9 October 1987
Confederation of British Industry (technical representations)	9 October 1987
The Scottish Landowners' Federation	12 October 1987
The Institute of Directors	22 October 1987
The Law Society of Scotland	27 October 1987
The National Farmers' Union	30 October 1987
Tobacco Advisory Council	2 November 1987
The Institute of Taxation	4 November 1987
The Institute of Chartered Accountants	4 November 1987
The Royal Institute of Chartered Surveyors	4 November 1987
Managerial, Professional & Staff Liaison Group	5 November 1987
ICC	5 November 1987
Landowners Group	10 November 1987
The Chartered Association of Certified Accountants	11 November 1987
The Institute of Chartered Accountants of Scotland	20 November 1987
Automobile Association	20 November 1987
British Invisible Exports Council	24 November 1987
British Venture Capital Association	25 November 1987
The Association of British Insurers	26 November 1987

The Confederation of British Industry

Main Budget Representations made in the booklet - "Maintaining the Momentum of the Economic Recovery". The main thrust is that the burden of tax on businesses should be reduced to allow increased investment, public sector capital expenditure should be increased and Government should continue to foster enterprise by individuals and small firms. A list of the detailed proposals made in their technical representations is also attached.

The Scottish Landowners' Federation

Concerned with reducing the burden of CGT, inheritance tax and income tax. Support the CLA's proposal on CGT.

Institute of Directors

Technical representations only received. Summary of recommendations attached.

The Law Society of Scotland

Representations include abolition of CGT and stamp duty, extend relief for hobby farming, extend relief for covenants to students below age 18, increased minor personal allowances, increase PIID threshold, widowers to get bereavement allowance, rollover relief for milk quotas, transferable CGT allowance for each spouse.

The National Farmers Union

Support UK becoming full member of EMS. Advocate

- 100% capital allowance on first £10,000 of investment in plant and machinery or a 25% write down allowance on plant and machinery on a straight line basis
- the restoration of 10% Agricultural Building Allowance
- no CGT if asset held for 7 years

Tobacco Advisory Council

Suggest increase in duty on cigarettes no more than the rate of inflation to prevent consumption falling and increasing sales of imported cigarettes

The Institute of Taxation

On indirect taxes their main concerns are:

- VAT penalties
- VAT disaggregation
- Repayment Supplement

On direct taxes they make a number of detailed proposals concerning income tax and corporation tax, CGT, Stamp Duty and inheritance tax.

The Institute of Chartered Accountants

The main concerns are:

- personal tax rates and the steep tax progression
- tax returns time limits should be reviewed
- simplification of CGT
- the removal of close company legislation

The Royal Institute of Chartered Surveyors

Propose:

- CGT indexation of pre 1982 gains
- Stamp Duty on residential property should be less regressive
- improved tax position for partnerships
- position on inheritance tax when death occurs after less than 7 years to be improved

Managerial, Professional and Staff Liaison Group

Support a shift from direct to indirect taxation, the introduction of a married person's allowance and the maintenance and improvement of public and social services

ICC (International Chamber of Commerce)

Concerned about unitary taxation - Government should continue to press for changes in California. Main proposals

- tax relief for losses incurred on repayment of foreign currency borrowing
- greater alignment between CGT and income tax for companies
- relief for capital losses from intra-group lending

Landowners Group

Main recommendations are:

- reduced capital taxes
- reduced rates of inheritance tax
- reduced CGT, indexation and taper abolished
- abolition of additional rate tax or reduction to 15% and exemption for maintenance funds

The Chartered Association of Certified Accountants

They support reducing the burden on taxpayers and businesses generally and in particular less harsh penalty regimes for VAT, income tax, CGT and corporation tax. Propose

- cash accounting for VAT to be extended
- extension of the VAT registration period
- BES carryback relief to be increased to £20,000
- simplification of CGT rules

Also support independent taxation but oppose increasing use of retrospective legislation and secondary legislation

The Institute of Chartered Accountants of Scotland

Generally opposed to retrospection and propose:

- separate assessment of wife's unearned income
- retirement relief rules should be more favourable for full time directors
- a review is needed on CGT on contingent rights
- increased uniformity for provisions, warranties and restoration costs
- relief for farming losses should be available if attributable to genuine economic or climate reasons
- improved carryback provisions for loss relief

Automobile Association

Support increased road investment, continued freeze on petrol duty and VED. Also propose exempting new vehicles using unleaded petrol from car tax.

British Invisible Exports Council

Wish to increase the attractiveness of London as a financial centre. Also propose:

- the abolition of Stamp Duty on securities transactions
- the introduction of aggregation of overseas taxes for obtaining credit against UK tax
- rollover relief in respect of balancing charges on the sale of ships
- additional capital allowance for shipping

British Venture Capital Association

Support increased incentives for potential entrepreneurs by means of tax relief and the removal of CGT on sale of equity. Also higher limit (6 times salary) for approved share option schemes subject to £100,000 limit overall.

The Association of British Insurers

Technical representations only received. The Association makes a number of proposals aimed at 'restoring' fiscal parity to insurance companies eg by giving tax exemption to insured pension schemes. Also propose a number of changes to CGT, tax treatment of exchange losses and double taxation relief.

MOD: SUMMARY OF RECOMMENDATIONS

Budget and Finance
Bill process

reduce Budget secrecy on technical matters
avoid restrospection
publish Inspectors' manuals on interpretation
reduce use of Statutory Instruments, improve scrutiny of them

VAT

extend cash accounting to all registered traders
bad debt relief on same basis as for direct taxes
statutory time limit for Customs to agree repayment claim

CGT

rate of tax to be reduced ^{to} by well below IT and CT rates
exempt pre-1982 assets held for 10 or 20 years
losses: allow carry back for 2 years, introduce group relief
extend annual exemption to companies
extend rollover relief to certain share disposals
action on disincorporation in 1988 FB

*Simplify
first*

IHT

give business and agricultural property relief if property
qualified at date of gift
tax on gifts between 3 and 5 years before death to be no more than
50% of charge on death

Business expenditure
disallowed

extend 'nothings' list to include: exchange rate losses, capital
allowances for commercial buildings,
extend pre-trading expenditure relief,
relief for incidental costs of equity finance,
computer software etc

CT

reduce restrictive rules for losses and group relief
apply small companies' rate to the first £100,000 profits of
all companies and groups

IT

abolish PIID threshold
no further increase in car scale relative to running costs
make health insurance premiums tax deductible

CBI TECHNICAL BUDGET REPRESENTATIONS 1988

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MAIN ISSUES RAISED IN CORRESPONDENCE FROM MEMBERS OF THE PUBLIC AND MINOR ORGANISATIONS UP TO 30 NOVEMBER 1987

<u>SUBJECT</u>	<u>NO OF LETTERS</u>	<u>COMMENT</u>
Freeze duty on tobacco	26	Campaign by Tobacco Alliance on behalf of tobacconists
Mortgage interest relief - end penalty on marriage	25	
Increased expenditure rather than tax cuts	23	Includes 2 petitions with 124 signatures from Scottish Christians
Increased concessions for the elderly	21	Mostly from organisations concerned with Health eg Royal College of Surgeons
Increased duty on Tobacco	19	
Lower CGT	19	Campaign by Country Landowners Association
Support independent taxation	16	
Increase personal tax allowances	14	
Tax relief for nannies and other home help	10	
Increase threshold for Stamp Duty on house purchase	5	
Relief for lead-free petrol	5	
Tax relief for private medical costs	5	
Abolish VED	4	Usually with increased tax on petrol
Increase mortgage interest relief	2	
Reduce mortgage interest relief	2	
Increased tax reliefs for renting accommodation	2	

<u>SUBJECT</u>	<u>NO OF LETTERS</u>	<u>COMMENT</u>
Increase VAT threshold	2	
Increase tax relief for self employed	2	
Reduce income tax	2	
Increase reliefs for widows	2	
Increase taxes	2	
Increase higher rate tax	2	
Reduce tax on company cars	1	
Deductions for business expenses allowable against VAT	1	
Increased duty on alcohol) Reduced duty on alcohol)	1	
More tax concessions for Charities	1	
Abolition of Stamp Duty on Life Assurance	1	
Abolition of inheritance tax	1	
Tax relief on capital investment for small businesses	1	
Extension of tax relief to one off donations to charities	1	
Improved terms for "art in lieu" acceptances	1	
Reinstatement of 100 per cent first year allowances on plant and equipment	1	
Exemption from Additional Rate Tax on Maintenance Funds	1	
Restoration of PRT relief on - share	1	

LIST OF MINOR ORGANISATIONS

Northern Ireland Council for Voluntary Action
National campaign for the Family
Life Reassurance Circle
The National Art Collection
Royal College of Physicians
Royal College of Obstetricians and Gynaecologists
Royal College of Radiologists
Royal College of Pathologists
Faculty of Community Medicine of Royal Colleges of Physicians of the UK
Royal College of Surgeons of England
British Heart Foundation
Royal College of Psychiatrists
Cancer Research Campaign
Pharmaceutical Society of Great Britain
Royal College of Physicians and Surgeons of Glasgow
Vale of Glamorgan Conservative and Unionist Association
Conservative Women's Committee of the Northern Area
Sheppards Moneybrokers Limited
The Pipesmokers Council
Business in the Community
G Smith and Sons
The Fawcett Society
British Hotels, Restaurants and Caterers Association
Bury and Walkers Solicitors
The Mothers' Union
Unquoted Companies Group
Action Research into Multiple Sclerosis
Historic Houses Association
British Property Federation
Kelvingrove Property Company
Teredo Oils Limited
Central Association of Agricultural Valuers

The Unquoted Companies' Group

Founded in 1968 to study the contribution of the unquoted sector

Date: 14th December, 1987

The Rt. Hon. Nigel Lawson, M.P.
Chancellor of the Exchequer
Treasury Buildings
Parliament Street
LONDON SW1P 3AG.

BR

REC'D.	16 DEC 1987
ACTION	MRS BURNHAM
	REV 27552/87
	cc ADS/CHX
	IR
SIGNATURE	CHX
REF. NO.	30140/87

Please reply to:

Sir Emmanuel Kaye C.B.E.
Lansing Bagnall Limited
Kingsclere Road
BASINGSTOKE, Hants.
RG21 2XJ

Tel: (0256) 473131.

My dear Chancellor,

BUDGET REPRESENTATIONS, 1988

With this letter I am sending you our Representations for your 1988 Budget. Our recommendations are summarised on pages 1 and 2.

The further thought that we have given to Inheritance Tax over the last year has confirmed our assessment of last December. The abolition of tax on gifts to individuals made seven years or more before the death of the donor, welcome though it is, has not provided the solution to the problem of death taxation for most unquoted companies. Owner-managers of unquoted companies wish not only to transmit their shares free of death tax but also, no less importantly, to ensure that the recipients are those best qualified to run the company in the next generation. By the time the succession can be decided in the light of experience, the children will be in their thirties and the parents will be of an age at which death within the seven year period is a real risk and one that may be expensive or even impossible to insure against.

The increase of business property relief to 100 per cent for both controlling and all minority interests would be the simplest and cheapest way of resolving the problem and would also remove a major obstacle to the ownership of the shares of unquoted companies by their employees.

*Yours sincerely,
Emmanuel.*

pwp

FROM: MISS S WALLIS

DATE: 16 December 1987

1. MRS ✓ BURNHAMS *CB 12/2*
2. MISS SINCLAIR *AG 12/12*
3. MCU
4. ECONOMIC SECRETARY

cc PS/Chancellor *12/2*
 PS/CST
 PS/FST
 PS/Paymaster General
 Sir P Middleton
 Mr Wilson
 Mr Michie
 PS C&E
 Mr J Fisher (C&E)
 PS I/R
 Mr D Shaw (IR)

BUDGET DEPUTATION : SOCIETY OF MOTOR MANUFACTURERS AND TRADERS (SMMT)

The SMMT have sent in their recommendations for the Budget and request a meeting to discuss these with the Chancellor. They have also made a similar request to Sir Peter Middleton.

2. The SMMT are not on the "core list" of organisations to be seen by Ministers as a matter of course, although they were met last year. We and the Revenue Department's feel that their representations this year offer nothing new, and there would, therefore, be no strong reason to meet them. However, they are ~~felt to be a~~^{an} rather influential organisation in the motor trade industry and you may, therefore, feel they should be met again this year.

3. I attach a choice of replies, depending on your decision. If you do not wish to meet them this year, we could perhaps offer a meeting with officials.

S Wallis
 MISS S WALLIS



Treasury Chambers, Parliament Street, SW1P 3AG

Sir G Messervy
The Society of Motor Manufacturers
and Traders Limited
Forbes House
Halkin Street
LONDON SW1X 7DS

December 1987

Thank you for your letter of 26 November to the Chancellor of the Exchequer which requested a meeting to discuss your representations for the 1988 Budget.

I would be delighted to meet a deputation from the Society of Motor Manufacturers and Traders Limited. I will ask my office to be in touch with the details.

PETER LILLEY



Treasury Chambers, Parliament Street, SW1P 3AG

Sir G Messervy
The Society of Motor Manufacturers
and Traders Limited
Forbes House
Halkin Street
LONDON SW1X 7DS

December 1987

Thank you for your letter of 26 November which requested a meeting to discuss your representations for the 1988 Budget.

You will understand that Treasury Ministers receive numerous requests for meetings from representative bodies, and I am sure you will appreciate that we cannot see every organisation who requests a meeting, therefore, I am afraid that it will not be possible for Treasury Ministers to see you in the run-up to the Budget. I can assure you, however, that your submission will be given careful consideration in the run-up to the Budget.

PETER LILLEY

SMMT

THE SOCIETY OF MOTOR MANUFACTURERS & TRADERS LTD.
FORBES HOUSE · HALKIN ST.
LONDON SW1X 7DS
TELEPHONE 01-235 7000 · TELEX 21628
LONDON SW1
FAX NO 01-235 7112

OUR REF. FGP/PW/
YOUR REF.

30 November 1987

Mrs Burnham

Sir Peter Middleton, KCB
Permanent Secretary
HM Treasury
Parliament Street
London SW1

2 DEC 1987

Ms Sinclair → *Mr G. Little*
Mr Schöta
Mr Culpin
Mr Waller

Dear Sir Peter

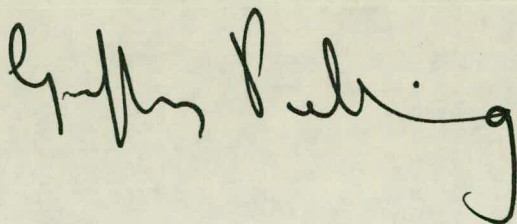
TECHNICAL BUDGET REPRESENTATIONS 1988

I have pleasure in enclosing our Technical Representations for the 1988 Budget.

We believe that the measures recommended would improve the efficacy and equitability of the UK's taxation system. The proposals are concerned with matters of relevance to UK businesses generally, as well as those issues of specific interest to the motor industry.

We would be very pleased to discuss these Representations with you or to hear of any comments you may have on them.

Yours sincerely



F G Pelling
Chief Economist

enc.

8/114

1. The SMMT's 1988 Technical Budget Representation contains proposals for a number of changes which would improve the efficacy and equitability of the UK's taxation system. These proposals reflect the views of all sectors of the motor industry and are consistent with the recommendations of other bodies, such as the CBI. The changes would reduce current administrative burdens on companies, reduce undesirable anomalies in the tax system and enhance the competitive position of the UK motor industry.

Burdens on Business: The Schedular System

2. The format of the present schedular system constitutes an excessive administrative burden for many companies. Moreover, its application can lead to serious inequities concerning the total tax levied on individual companies. For example, taxes on certain types of income are levied independently of the standard corporation tax liability assessment (under Schedule D). Companies find therefore, that they are paying tax on certain types of income regardless of the fact that they may not be making profits overall. This fundamental defect could be overcome if different forms of income were not differentiated for assessment purposes. The figure which forms the basis for corporation tax assessment should be that profit or loss figure that appears in audited final accounts. Specific adjustments could be made to this figure; for example, certain expenditures not considered to have been incurred as part of the running of the business could be disallowed.

3. It is also the case that presently, the schedular system militates against the deductibility of all bona fide business expenses. For example, such items as the costs of raising equity capital or the costs of abortive capital projects or feasibility studies are currently not tax deductible.

4. The SMMT believes therefore that serious consideration should be given to the replacement of the schedular system. If the system is to be retained, its application could be made more equitable and less burdensome by the introduction of greater flexibility into the reliefs available for offset against companies' profits.

5. The Taxation authorities should also give greater consideration to reducing the excessive administrative burden that currently falls on many companies. A particularly onerous burden is the increased administration resulting from present arrangements for the recovery of VAT on imports. Not only is industry hampered by having to pay VAT and recover it at a later date, but the accounting requirements associated with VAT on imports have proved excessively laborious. Inland Revenue Inspections also create an unwelcome administrative burden in the degree of detail they require. The SMMT also believes that the new VAT penalty rules (also referred to in Paragraph 12) should be introduced with some form of mitigation being available in recognition of the large administrative burden associated with VAT.

Capital Allowances on cars

6. Cars costing over £8000 when new are currently subject to a restriction on the writing down allowance for depreciation to a maximum of £2000 in any one year. Effectively, the maximum restriction merely defers allowances being utilised by companies. This annual restriction has not been changed since 1979, it is now therefore the case that a wider range of vehicles are affected by the restriction than in 1979. Moreover, the allowance limit of £2000 per annum is now increasingly a small proportion of actual depreciation on many cars.

7. A restriction also applies to lessees who have hired such vehicles for business purposes; they are unable to deduct from their taxable income a proportion of the lease rental cost. As this represents a legitimate business expense, the application of the restriction in such cases contravenes the basic principle that all business expenses should be deductible.

8. The SMMT believes therefore that the restriction on write-down allowances on cars costing over £8000 should be abolished. The restriction serves only to defer allowances and hence its abolition would not result in a significant revenue loss. Failing abolition, the £8000 threshold should be raised to a level that ensures the restriction applies only to the types of vehicle covered by the restriction in 1979. Further, the position of lessees who are using vehicles affected by the present restriction for business purposes, should be examined with a view to enabling them to claim all of the lease rental cost against tax.

Taxation of Groups of Companies

9. The structure through which a company decides to do business should not affect its tax liability. A single company or a group of companies should, in principle, generate the same tax liabilities from undertaking the same business transactions. The present system deviates from this fundamental principle in its treatment of capital losses.

10. Companies can set off past or present losses against capital gains for a particular accounting period. A company can surrender trading losses to another company in a group which it can use to reduce its income subject to corporation tax. However, the company cannot surrender capital losses in a similar manner. This inconsistency should be corrected; present arrangements for group relief through the use of intergroup transfers of assets in which gains and losses arise are administratively complex and burdensome.

VAT reclamations on vehicles purchased for R & D

11. Companies other than the manufacturer should be able to reclaim the VAT on vehicles purchased purely for the purposes of research and development. VAT is a tax on final consumption and should not apply where a vehicle is purchased for research and development use and not private use.

New penalty rules

12. The new VAT penalty rules will substantially increase the compliance burden on companies. The application of penalty provisions by Customs and Excise should be undertaken with due consideration to the demands being imposed upon companies. In particular, the Serious Misdeclaration Penalty is not neutral between various types of company. For example, manufacturers generally have large inputs to set against their outputs; this contrasts with the position in service industries where labour costs are a higher proportion of total costs, and inputs are lower.

13. This discriminatory anomaly could be removed by basing the penalty calculation on a percentage of Inputs, if it is a default on Inputs, or a percentage of Outputs, if it is a default in Outputs. There should also be a maximum fixed on these penalties. This maximum should be fixed at a level that is sufficient to deter but is not excessive in relation to the infringement. A maximum penalty in the region of £15,000 would be appropriate.

SMMT

November 1987

DL/TDR/4/8/15

FROM THE PRESIDENT

Sir Godfrey Messervy

SMMT

THE SOCIETY OF MOTOR MANUFACTURERS & TRADERS LTD.
FORBES HOUSE · HALKIN ST.
LONDON SW1X 7DS
TELEPHONE 01-235 7000

26 November 1987

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

Dear Chancellor,

For the first time the SMMT Budget recommendations this year put into order of priority the various measures which could be taken to make the motor industry more competitive and to remove some fiscal anomalies.

The detailed Submission is attached and I would only emphasise that our aim is to be constructive and that the measures we propose would help the industry to make a greater contribution to the economy.

I very much hope that you will agree to see me and two or three senior members of the industry to discuss the rationale behind our arguments.

*Yours sincerely
Godfrey Messervy*

BR

HM TREASURY - MCU	
REC'D	30 NOV 1987
FILED	Mrs Barkham
	cc IR, CE
	EST
	28836/87

SMMT SOCIETY OF
MOTOR MANUFACTURERS AND TRADERS

**BUDGET
RECOMMENDATIONS**

1988

THE MOTOR INDUSTRY IN BRITAIN

Britain is a major manufacturing nation and the continued strength of this sector of the economy is vital to the nation's economic strength and prosperity.

At the heart of the manufacturing industry is the motor industry which creates more jobs than any other manufacturing activity. It is also the biggest manufacturing exporter. Taxation from the motorist and the road transport industry raised some £14 billion in 1986/87 - a tenth of the Government's entire revenue from taxation.

The motor industry has achieved a remarkable recovery in recent years, with improvements in product quality, productivity and industrial relations. The industry is at the forefront of Britain's manufacturing effort.

However, the motor industry operates in a climate of increasingly fierce international competition and it still lacks the level of economic and fiscal encouragement enjoyed by its main competitors.

If the motor industry is to remain internationally competitive it must have the means to compete with its European rivals on equal terms.

SMMT 1988 BUDGET RECOMMENDATIONS

SUMMARY

1987 has been a year of significant progress for the UK motor industry. Productivity has improved. Sales are up. Import levels are down.

But there is no room for complacency. Other major competitor nations continue to improve their productivity and competitiveness - and they have larger domestic markets.

The following measures are essential if the motor industry is to build on recent successes and make further headway in world markets.

Exchange Rate Stability

Greater certainty is needed for investment decisions and research and development expenditure. Now is the time for Britain to become a full member of the European Monetary System.

Capital Allowances

The abolition of the 100 per cent capital allowances has reduced the ability of firms to invest in capital goods at a time when such investment is critical to manufacturing industry's continued recovery. Therefore 100 per cent first year capital allowances should be restored.

Car Tax

The motor industry is still subject to a unique and discriminatory burden in the form of the special 10 per cent car tax. Even the partial abolition of this tax would:

- * Help to expand the UK car market
- * Exert downward pressure on prices
- * Help sustain jobs.

Company Car Benefit

Company vehicles are primarily used for business purposes. Allowing for the high business usage in most cases, their drivers are already taxed too heavily. Any further increases in the scale charges would be unjustified.

Company Car Fuel Benefit

Fuel benefit charges are excessive compared to the real value of fuel used by company car drivers on private journeys. There is no justification for any further increase.

VAT on Company Cars

The great majority of company cars are primarily business tools. They should therefore be VAT deductible in part if not in whole.

Research and Development Incentives

Fuels used for static engine testing should not be subject to excise duties which are a burden on UK research and development.

Vehicle Excise Duty on Commercial Vehicles

UK commercial vehicle operators are the most heavily burdened by vehicle excise duty of all the EEC states. VED rates must be urgently brought into line with competitor nations.

1988 BUDGET SUBMISSION

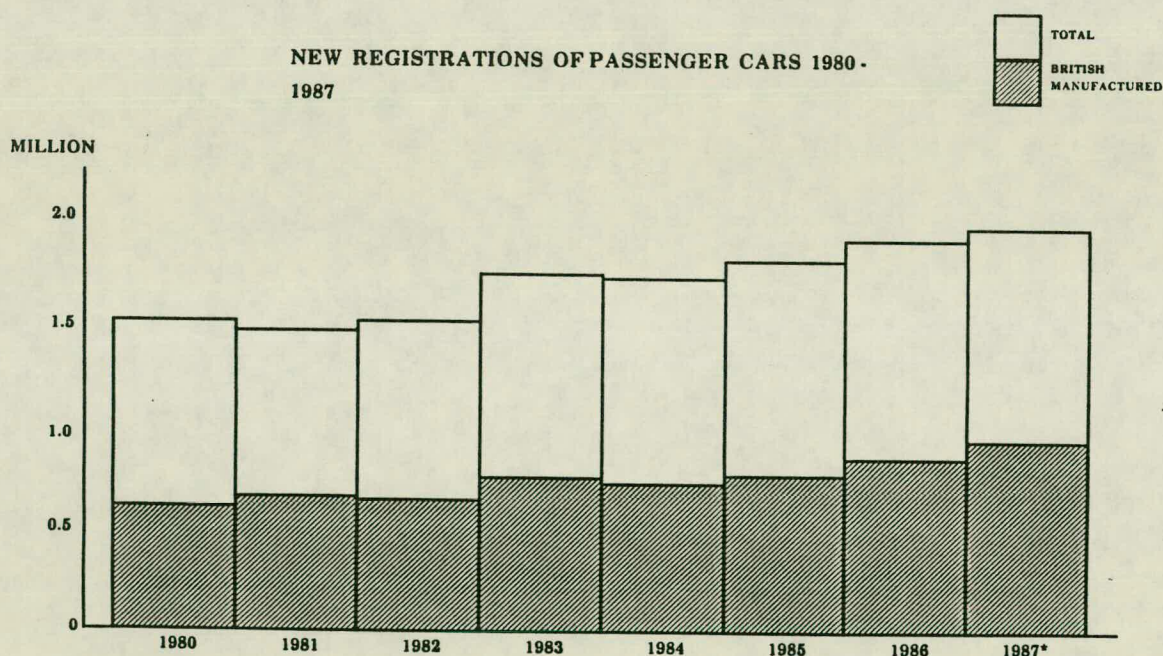
Introduction

1. 1987 has been a year of significant progress for the UK motor industry. The greatly improved productivity levels amongst UK manufacturers and the more realistic value of sterling against the major international currencies have combined to re-establish the UK as an internationally competitive centre for vehicle and component manufacture.

The industry has made great strides in the fields of productivity, industrial relations and product quality. Now is the time for the Government to take steps to encourage further progress.

2. The graph in Figure 1 shows that the forecast for total new car registrations in 1987 is expected to reach a record level at more than 1.95 million. British-produced vehicles are predicted to account for 49 per cent of these new registrations compared with 44 per cent in 1986.

Put another way, this means that the number of new cars built in the UK will rise by around 136,000 in one year. This confirms the progress made by the motor industry during 1987.



* Forecast out-turn

3. The industry is well aware of the pressing need to continue to reduce costs to remain internationally competitive. However, volatile movements in currency values can unpredictably alter both input and export price competitiveness. This produces uncertainty which makes long term investment planning extremely difficult. The industry feels sterling should therefore be maintained at a competitive level.

4. Although 1987 has been a record year for sales of new cars, the industry cannot afford to become complacent. The UK car market is still smaller than that of either Germany or France, two of our major European competitors.

The industry welcomes the recent Trade and Industry Select Committee's Report into the UK motor component industry* as a realistic assessment of the prospects facing the industry in the next few years. The industry is in full agreement with Committee Members in calling for the abolition of the uniquely discriminatory special car tax, especially as UK production is now taking an increasing share of the market. Import penetration has dropped from 56.4 per cent to 51.6 in one year and is continuing to fall**. Another reason why a tax stimulus to the industry would be timely is that the vehicle market is now widely expected to decline in 1988 or 1989.

5. In many ways 1987 can be seen as a watershed year for the UK motor industry. However, if recent progress is to be maintained, Government must ensure that the market is not adversely affected by unfavourable policies. The motor industry remains the largest single manufacturing employer. It is estimated that about 550,000 jobs are dependent on it.

If this level of employment is to be sustained, it is vital that domestic producers are confident of future levels of demand. The changes recommended in this submission will help to maintain and expand the current level of domestic demand, creating a favourable environment for future investment and production decisions.

* Third report from the Trade and Industry Committee - The UK Motor Components Industry. HC 407.

** Figures refer to imports in the periods January to October 1986 and 1987.

6. Specific measures sought by the industry are set out as follows:

Exchange Rate Stability

7. The depreciation of sterling during the past year, particularly against the D-mark and the yen, has been welcomed by most manufacturing companies as an aid to their international competitiveness. The motor industry also welcomes the Government's efforts to maintain the value of sterling at a competitive level with a combination of intervention on the foreign exchange markets and interest rate management.

However, it must be accepted that this form of ad-hoc currency management does not provide industry with any certainty as to future Government policy in this area. Therefore, investment decisions are being taken in a climate of nervousness about the path sterling might take in the future.

8. The industry believes that now is the correct time for the UK to become a full member of the EMS. It would not only help to eradicate unpredictable short term fluctuations in the nominal value of sterling, but could also help bring UK interest rates more into line with our major European competitors.

Obviously, full membership of the EMS runs the risk of more volatile interest rates. It is the view of the motor industry, and the majority of UK manufacturing industry*, that this is a price they are willing to pay for the extra certainty afforded by full EMS membership. A period of stability would allow industry to plan investment and research and development expenditure on the basis of long run business and market fundamentals, rather than worrying about unpredictable changes in international competitiveness brought about by erratic exchange rate movements.

* Survey of UK monetary policy's impact on business. Published by the CBI, August 1987.

Capital Allowances

9. In the 1984 Budget the Chancellor announced the phased abolition of first year allowances for expenditure on machinery and plant. Since 1 April 1986 the previous system of capital allowances has been replaced by a 25 per cent writing down allowance on a reducing balance basis.

Abolition of 100 per cent first year capital allowances restricts the ability of firms to invest in capital goods when such investment is crucial to the manufacturing industry's continued recovery. This is particularly true of smaller firms which are vulnerable to the cash flow implications of the change in capital allowances.

10. The Chancellor is therefore asked to restore 100 per cent first year capital allowances as an efficient method of stimulating capital investment when such investment is urgently required. Such a move would further improve the performance of UK industry and hence help its international competitiveness. Alternatively, a less helpful but worthwhile change would be to allow 25 per cent per annum depreciation on a straight line basis.

11. If the Chancellor is unable to reintroduce 100 per cent first year allowances (or four year straight line depreciation) as a general measure, the industry asks that these concessions be made as a specific move to help the UK commercial vehicle industry.

Although the market for UK commercial vehicles has shown signs of improvement in recent years, it is still well below the previous peak of 1979. The industry has undergone major restructuring during the past five years and is now exhibiting strong signs of renewed competitiveness.

12. The abolition of 100 per cent capital allowances has had a particularly adverse effect on the market for commercial vehicles. The 25 per cent writing-down allowance pushes more of the tax relief into the later years of the asset's life, whereas the average life of a commercial vehicle would not normally exceed six or seven years.

This severely limits the ability of buyers of heavy commercial vehicles to replace their vehicles as often as they would have chosen under the old system because of the adverse effect on cash flow.

This is also undesirable from the safety and environmental standpoints. Commercial vehicles are subjected to intensive use, which means that regular replacement is imperative if safety standards are to be maintained and the latest anti-pollution technology is to be widely used.

Car Tax

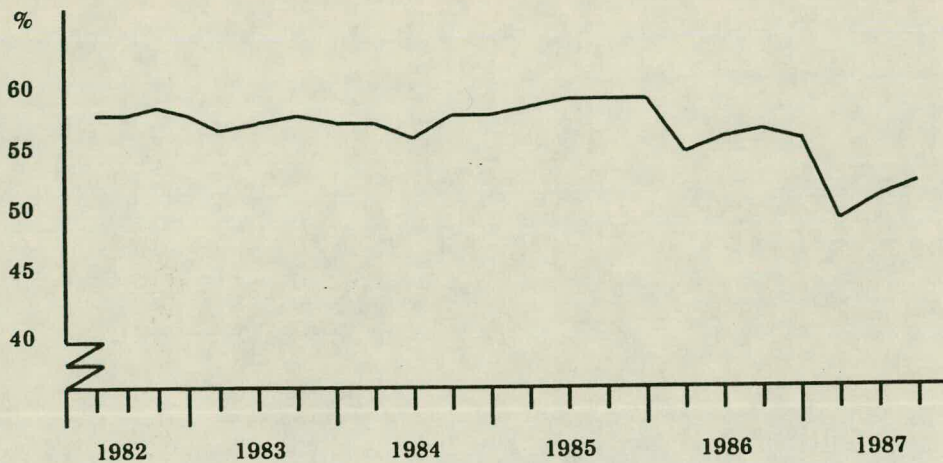
13. The motor industry is still subject to a unique and wholly discriminatory burden in the form of car tax. When VAT is taken into account a new car is subject to a tax burden of 24.6 per cent. This compares with 15 per cent basic rate of VAT levied on other consumer durables, for some of which there is virtually no domestic production and hence no home-based employment. This is clearly an inequitable situation.

14. In previous years, the Government has expressed concern that the benefits from abolition of car tax would disproportionately favour overseas manufacturers. However, the past 12 months have witnessed a decline in the import penetration of the UK passenger car market.

The graph in figure 2 shows that in the year to the third quarter of 1986 56.6 per cent of all new registrations were imported. In the same period this year imports have fallen to 51.6 per cent. The motor industry has for many years urged the Government to remove the special car tax. The recommendation of the Trade and Industry Select Committee* calling for the abolition of car tax is therefore welcomed.

* Third Report from the Trade and Industry Committee, the UK Motor Components Industry. HC 407.

IMPORT PENETRATION OF UK PASSENGER CAR MARKET*



* All figures show import penetration on a year to date basis at the end of each quarter

While abolition of the tax remains the ultimate aim, it is recognised that it would mean a substantial loss of government revenue. A reduction from the current 10 per cent rate to say five per cent, rather than abolition in one step, would help to overcome this objection. The industry would welcome a chance to meet with Ministers to discuss the precise nature and timing of such a change.

15. Abolition of car tax would not only help expand the UK car market but would also be consistent with other Government policy objectives. First, it would exert a downward pressure on prices, albeit a once and for all effect.

Secondly, increasing the overall size of the market would secure employment both within the vehicle manufacturing sector and in the companies, many of them small firms, which the manufacturers support. Therefore, any extension to the home market for cars would inevitably produce beneficial employment and wealth creation effects throughout the domestic economy.

Taxation of Company Car Benefit

16. In his 1987 Budget speech the Chancellor stated that 'the car scale charges still fall well short of the true value of the benefit, and as last year I propose to increase them by 10 per cent'. This increase was well in excess of the expected rise in the RPI for the period 1988/89 and the industry believes this is not consistent with the available evidence on the private use of company cars.
17. The views of the industry on the taxation of company cars are well known to the Government and need not be given in detail. However, a Harris research survey, commissioned by the SMMT during Autumn 1986 showed that 73 per cent of the average annual mileage covered by company car drivers was on business. This proves that the majority of company cars are primarily business tools. Further increases in the scale charges could not therefore be justified.

Taxation of Company Car Fuel benefit.

18. The motor industry welcomed the Chancellor's decision not to increase the scale charges for fuel benefit in the 1987 Budget. However, this decision merely recognised the fact that past increases in the benefit scales have been considerably higher than the increases in petrol prices.

Fuel benefit charges are excessive compared with best available estimates of the value of fuel used by the average company car driver on private journeys. For example, according to the latest Harris data, the average company car user driving a 1.6 litre vehicle covers 6,250 private miles per annum. At current prices the value of the fuel used would be about £365 compared with a fuel benefit charge of £575. There can be therefore no justification for any further increase in the fuel benefit charge. As with car benefit, the industry's concern is that excessive taxation is not only unfair but may adversely affect the important company car market.

VAT on Company Cars

19. It has long been the view of the industry that as VAT is a tax on final consumption it should not be levied on legitimate business inputs such as company cars. Against this, Government has persistently argued that because company cars are often made available for private use, expenditure on them should not be VAT deductible.

However, the latest Harris Research data on company car usage proves that company vehicles are primarily used for business purposes (73 per cent of annual mileage) and therefore should be VAT deductible.

20. The European Commission has recognised* that the current UK system is inconsistent with the majority of European countries and as part of its harmonisation proposals suggests 50 per cent VAT deductability, the introduction of which should be phased. The industry welcomes this proposal as it would reduce the unfair taxation of legitimate business expenses. However, a phased introduction of partial deductability would severely distort the market because it would lead to deferment of purchases. Therefore, the industry feels that the Government should introduce partial deductability but do so in one step.

Research and development incentives

21. The recent Trade and Industry Select Committee Report into the UK Components Industry reviewed the research and development performance of this sector and recommended more favourable tax treatment of capital spending on research and development. The industry would welcome any measures which might aid investment in this field, although it recognises that expenditure decisions concerning research and development should always be made on commercial grounds.

* EEC 12th VAT Directive

22. There is one small but useful step that Government could take to reduce the industry's research and development costs: rectification of the anomalous position of excise duties on hydrocarbon oils used in motor industry engine testing work.

Government's concern about the use of fuel for unauthorised purposes is fully understood. Full duty relief should be granted on fuel - both petrol and diesel - used for static testing. This would accommodate much of the concern of Customs and Excise whilst lowering the input costs of an important domestic industry. The total cost to the Exchequer of such a move is estimated at £3 million per year.

Vehicle Excise Duty on Commercial vehicles

23. UK commercial vehicle operators are more heavily burdened by vehicle excise duty (VED) than their counterparts elsewhere in the EEC. VED constitutes between four and five per cent of road hauliers' operating costs. Moreover, the UK and the Irish Republic are the only two countries in the EEC that limit the maximum vehicle weight to 38 tonnes. This puts UK operators at a further competitive disadvantage compared with operators from other EEC countries.

Given the background of a liberalised transport sector within the EEC by 1992 and a Commission proposal allowing limited cabotage in the meantime, the current VED rates should be brought into line with other EEC countries as speedily as possible. If this is not done, UK hauliers will lose ground in intra-EEC competition with damaging consequences for the commercial vehicle industry and its component suppliers.

Conclusions

24. It is important for the recovery of the UK manufacturing industry that the progress the UK vehicle industry has made during 1987 be continued in 1988. The Government must continue to pursue policies which will maintain the fundamentally sound underlying economic climate. To this end, it is essential that the value of sterling remains at a level which will not damage competitiveness of UK industry.
25. In 1988 or 1989 the market for new vehicles is likely to decline at the same time as capacity is expanding because of developments at Nissan UK and elsewhere. Any significant reduction in new car production, with the consequential adverse effects on employment and industrial relations, would greatly harm the hard won progress made by British-based manufacturers in recent years. Therefore, abolition or at least reduction of car tax is seen as the major priority.
- Reduction of car tax to five per cent would cost the Government around £500 million a year in lost revenue in nominal terms. However, when the additional revenues from increased VED, petrol duty and VAT are taken into account, the net cost to Government would only be about £250 million a year.
- The other priority items for the 1988 Budget are tax relief on fuel used for engine testing, reintroduction of 100 per cent first year capital allowances and reduction of VED on commercial vehicles so that British-based hauliers - the most important buyers of British-made vehicles - can compete on a more equal basis with their EEC counterparts.

prep if we have a
general budget

MISS WALLACE

FROM: MRS T C BURNHAMS

DATE: 18 December 1987

[rep]

box

Thank you for sending me a copy of the reply which went to the BMA - I was slightly surprised to see the copy list. It's unfortunate that there was some confusion over this Budget representation, as both Customs and Excise and ST were of the opinion that the Chancellor should be advised to see the BMA this year, in order to provide some balance with the deputations which are received by the Chancellor and other Ministers from the pro-tobacco lobby. If the BMA return to the charge we can reconsider our position but otherwise I suggest no action.

2. The BMA is not on the core list and the general rules governing requests for meetings unless supported by an MP is to turn down but there will always be some exceptions to the normal rules and in order to avoid any mishaps in the future I think it would be helpful if all letters which are in the nature of Budget representations should be sent to me via MCU (as would normally happen) so that I can consider in conjunction with other interested parties what action would be appropriate. As you know we have standard responses to all reps which have been approved by the Chancellor. In addition FP are commissioned to keep a record of all Budget reps in order to provide regular summaries *for* the Chancellor. We do try to ensure that all requests for meetings are treated urgently so that you are in a position to field follow-up telephone calls from organisations about meetings.

3. I hope you will be content with the arrangements I suggest.

T C Burnhams

MRS T C BURNHAMS

From the Director General

22 December 1987

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

**Motor
Agents Association**

In Association with the
Scottish Motor Trade Association
201 Great Portland Street
London W1N 6AB
Telephone 01-580-9122
Telex 261962
Fax 01-580 6376

Dear Chancellor

I enclose this Association's 1988 budget submission, which is also being copied to the Secretary of State for Trade & Industry.

You will see that, while our members take a very positive view of many of this Government's achievements, it is now felt that some important further steps are necessary to ensure the longer term growth in our economy that the Government and British industry have been working towards in recent years.

We have endeavoured to confine our comments to the most important issues affecting companies in the retail motor trade and I hope this will be apparent from the summary of recommendations with which the attached submission begins.

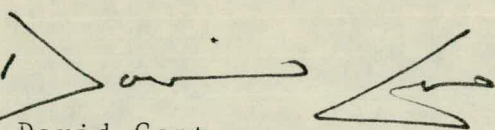
Perhaps the most important points which we make are:

- the need for a sustained climate of lower real interest rates;
- the value of a further cut in the smaller companies' rate of corporation tax in stimulating investment in this increasingly important sector;
- the need to recognise now that the special Car Tax will have to be removed by 1992 and to initiate the first steps in that direction in the next budget so as to avoid costly side effects for the retail, credit and leasing sectors;

Cont'd/.....

- Inheritance Tax has always been an intellectually unjustifiable form of double taxation which acts as a positive and continuing disincentive to enterprise. It should be abolished;
- the increasing congestion on our roads, due to the continuing inadequacy of the Government's highway infrastructure investment programme will cause increasing problems for British Industry; and
- we urge the Government to take positive note of the dangers arising from a reduction in present levels of funding for future youth and adult training. The Government has taken some far-sighted initiatives in this area and should recognise that economies at this stage can only prejudice the nation's prospects of longer term growth.

Yours sincerely



David Gent

enc.

1988 BUDGET



A Submission from the
MOTOR AGENTS ASSOCIATION

**1988 BUDGET SUBMISSION:
SUMMARY OF RECOMMENDATIONS**

1. A sustained climate of lower real interest rates, and greater incentives for enterprise, are required to achieve higher rates of economic growth.
2. A further cut in the smaller companies' rate of corporation tax is required to stimulate investment in a sector typically comprising small businesses.
3. Car tax is anomalous and arbitrarily limits the size of UK car market. It should be phased out over a period of not less than three years, creating higher levels of demand and employment.
4. Cars used by companies and other organisations are primarily working assets and should therefore be VAT deductible.
5. Company cars average very high annual mileages fulfilling an essential need for employee mobility in today's business environment. Any further uplift in car benefit scales would be unjust and arbitrary.
6. Car benefit scales for diesel cars should be redrawn to reflect their different performance criteria.
7. Inheritance tax is a form of double taxation and a disincentive to enterprise. It should be abolished.
8. Our investment in highway infrastructure is insufficient to meet our needs, despite its importance to our economy. The trunk road network should be extended and the backlog of maintenance removed.
9. Government should take note of the dangers arising from a reduction in the funding of future youth and adult training programmes. Economies in this area can only prejudice the nation's prospects for longer term growth.

1988 BUDGET SUBMISSION

1. The Motor Agents Association is the representative body for the 35,000 businesses which comprise the retail arm of the UK motor industry. This important sector generates an annual turnover of around £50 billion per annum, and directly employs some half a million workers.

THE UNITED KINGDOM ECONOMY

2. The Association recognises that the wider issues affecting the UK economy generally, and the role within our economy of industry and commerce in particular, will have been considered in detail by the Confederation of British Industry, whose general stance we support. However, the Association does draw particular attention to the importance of a sustained climate of lower interest rates, and greater incentives for enterprise, which will jointly form the right background for all sectors of the economy to prosper.
3. We further support the central objective of the Government's medium-term financial strategy - the ultimate removal of the evil of inflation - and the importance attached to rewarding individual effort through the mechanism of lower rates of personal taxation.
4. There are, however, a number of fiscal measures with major implications for the longer term which should be considered by the Chancellor to be of significant importance. Some of these issues, which are of pressing concern to businesses operating within the retail motor industry, have been

outstanding for a number of years. Certain elements of the current tax regime have undoubtedly held back growth in the principal markets covered, to the long term detriment of employment levels and business potential.

TAXES ON THE SECTOR

5. The motor industry and vehicle operators - both private and commercial - have traditionally represented major sources of revenue for the Exchequer. The retail motor industry, in particular, has become the largest retail tax gatherer in the United Kingdom. Total tax receipts on vehicle purchase, usage and maintenance have risen from around £1 billion in 1965 to approximately £15 billion in the current fiscal year.

6. The Association urges the Chancellor to exercise restraint in imposing further tax burdens upon the industry and vehicle operators.

CAR TAX

7. The retail and manufacturing motor industry has long laboured under the weight of Car Tax, which has distorted the market for new passenger cars since 1973, and the market for new motorcycles since 1981. It has imposed an unacceptable and unparalleled burden on business and the consumer, adding a tax component - compounded by VAT - of 24.6 per cent to the vehicle price.

8. The continued imposition of this tax has been widely and loudly condemned. In the Third Report from the Trade & Industry Committee*, examining the motor components sector, the Committee noted that:-

* Third Report, House of Commons Trade & Industry Committee, Session 1986 - 87, 'The UK Motor Components Industry'.

'Uniquely in the EEC, the UK levies a 10 per cent tax on the wholesale price of cars and motorcycles - the only consumer durable goods subject to an ad valorem tax in addition to VAT. The tax structure cannot be easily understood by the retail buyer ... this tax is anomalous and arbitrarily limits the size of the UK (car) market.

'Now that UK-based manufacturers once again supply over half of the new cars sold in the UK, we recommend that this is the appropriate time to abolish the special car tax'.

9. Further, a recent report from the European Committee on Economic and Monetary Affairs and Industrial Policy* drew specific attention to the 'serious distortions' caused by this unique fiscal levy, describing Car Tax as 'a discriminatory tax which should be eliminated'.

10. It is the present administration's aim to create an even more competitive, more efficient and more open economy. Indeed, unfettered access to other national markets of Europe should shortly become a reality, as we move towards the 1992 target for completion of the internal market. By that date, Car Tax - a clear barrier to trade - should have been removed in the UK.

11. The Association is not seeking outright abolition of Car Tax in the approaching fiscal year. Such a move would imply a major impact on the wider UK tax structure. The Association believes instead that the phased removal of Car

*** Report to European Parliament on the European Community Automobile Industry: Committee on Economic & Monetary Affairs and Industrial Policy (1987).**

Tax - over a period of not less than three years - would permit the Chancellor gradually to spread the tax burden more fairly within the economy as a whole.

12. Phased removal would allow the UK manufacturing sector time to react to the opportunities presented by higher levels of demand; and would permit a progressive fall in the residual values of cars in the UK parc without costly side effects for the retail, credit and leasing sectors.

13. The additional stimulus to the motor industry arising from the phased removal of this distortion would play a major part in reinforcing the home market, to provide a stable and healthy base for design and development work, as well as sufficient production volumes to enable British companies to compete successfully at home and abroad.

VAT DEDUCTIBILITY

14. A further burden on business arises from the non-deductibility of VAT on purchases of passenger cars by companies. This discriminatory mechanism unfairly raises industry's costs and imposes a downward drag on annual passenger car sales, largely impacting adversely on home-based vehicle manufacturers. The present system negates the concept that VAT is neutral as between different types of supply and distorts the wider marketplace. The substitution of VAT for Purchase Tax was intended to eliminate such anomalies.

15. The Chancellor is urged to amend this anomalous treatment of legitimate

business expenditure which would in our view be substantially compensated for by higher motoring taxation flows - through higher unit sales of passenger cars - and through clawback via the Corporation Tax mechanism.

CAR BENEFIT SCALES

16. The Association believes that the current benefit scales for the provision of a 'company car' are unjustifiably high, penalising employees who rightly require the use of a passenger car or van to further their employer's business.

17. The company car is not a substitute for earned income. The vast bulk of company cars are provided for employees to meet the essential needs of their company or organisation, with their significantly higher-than-average annual mileages heavily biased towards their use as essential business tools.

18. Despite evidence from independent research that the average private element of corporate vehicle mileage is low, the Chancellor introduced in his 1987 Budget Statement a further major uplift in the scale charges from April 1988, following swingeing and arbitrary increases announced in 1986 for the 1987/8 fiscal year. These increases themselves followed earlier increases in the benefit scales of around 10 per cent in each of the fiscal years 1985/6 and 1986/7.

19. The Association agrees with the broad principle that notional values should be attached to any benefit, for tax assessment purposes, but such assessments should be just. Government has recognised - at least in

part -the unjust nature of the present scale of notional benefits for essential users by the introduction of a mileage hurdle, beyond which the scale benefits are halved. We believe that this hurdle has been set too high, penalising essential car users.

20. It should be recognised that, as we move towards the 1990's, our work environment and needs have changed. The need for the mobility provided by the car is paramount. Any alternative system would be expensive and inefficient. The Association believes that there can be no fiscal or economic justification for further increasing these benefits scales, beyond simple indexation.

DIESEL CARS

21. Businesses are discouraged from taking further advantage of the increased economy and reliability offered by modern diesel-engined passenger cars as the present structure for the scale benefit charges unfairly penalises employees operating these fuel efficient vehicles in furtherance of their work. The cubic-capacity band framework is a blunt instrument, taking no account of relative power outputs and fuel economies.

22. The Association urges the Chancellor to alter the tax breaks to take heed of the different engine capacity limits appropriate to diesel-engined vehicles; or to impose lower scale charges for benefits in kind in the case of employees who are required or elect to drive diesel-powered passenger cars.

WRITING-DOWN ALLOWANCES

23. The amount by which a car used in a business may be written down as an allowable expense has been limited since 1961. Although there have been revisions over the years, to take account of inflation, these revisions have occurred at irregular intervals. It is now nine years since the maximum capital figure was increased - to £8,000 in 1979 - even though powers were also then taken to enable the figure to be altered subsequently by Statutory Instrument.
24. The real value of the capital sum has been greatly eroded by inflation having fallen to one half of its 1979 level. In that year, this sum effectively covered all passenger cars available on the UK market, bar relatively exotic vehicles. The picture is now much changed in 1988 - with the bulk of fleet passenger cars now approaching or exceeding this capital limit - and this contrast will become even more pronounced in years to come.
25. The Association calls upon the Chancellor either to abolish this arbitrary relic of Socialist taxation policy, or at least to raise the maximum writing-down allowance to £15,750, restoring the real value of the capital sum to its 1979 level, and to make this revised limit subject to annual indexation.

INCENTIVES FOR BUSINESS GROWTH

26. In common with other distributive trade sectors, the retail motor industry typically comprises small businesses, the mainstay in recent years of new job creation within the economy. It is essential that the Government sees

as a priority the introduction of specific incentives to improve the business climate for small companies, and to encourage business - and hence employment - growth.

27. The most valuable incentive, which the Association urges the Chancellor to introduce without delay, would be a further reduction in the smaller companies' rate of corporation tax.

28. An improvement in the tax regime would be of critical importance to businesses concerned with vehicle sales, service and repair activities, who are faced with the prospect of, what is for them, very significant levels of investment to support the requirements of a rapidly changing marketplace, and major technological change in the product base, at a time of endemic low profitability.

29. On the broader front, the full rate of corporation tax acts as a powerful disincentive to commercial success. A further reduction would provide a powerful stimulus to business confidence, and would generate increased demand within the economy without the potential dangers inherent in major boosts to consumer spending.

THE BURDEN OF HIGH INTEREST RATES

30. Companies of all sizes within the retail motor industry have been forced to conduct their business in recent years under the very onerous burden of high real interest rates. In the ultra-competitive market-place in which these

companies operate, upward movements in their cost base cannot easily be passed on to the consumer and are ultimately reflected in unnecessarily adverse trading figures.

31. Despite the very welcome easing of rates in recent weeks, the Association is extremely concerned about the medium to longer term view. The real cost of investment funds remains too high. The retail motor industry is unusually dependent upon borrowed funds, not least in its ongoing requirements for vehicle stock finance.

32. The real level of interest rates in the UK has consistently been higher than in other major OECD economies. We appear to have put behind us the era of low, single-figure, rates of interest that we enjoyed in our not-too-distant past. Indeed, the mechanism of interest rate management in the UK has become a blunt instrument, constricting the very business community which creates the country's wealth.

33. The Association urges the Chancellor to adopt a general budget strategy which will permit a climate of sustained low real interest rates - both in absolute terms, and in comparison with rates prevailing in the major OECD economies.

INHERITANCE TAX

34. The Association welcomed the uplift in the inheritance tax threshold, and the simplification of the rate structure, set out in the 1987 Finance Act, but believes that there is still substantial scope for sensible concessions by the

Chancellor. In a sector still heavily populated by small companies owned and managed by family units, the longer term stability of these businesses would be greatly enhanced by the total abolition of what has always been an intellectually unjustifiable form of double taxation.

35. Entrepreneurs and their families are already taxed on their earnings. Yet they are still faced with partial and potentially substantial confiscation of their savings on death. Better provision for one's family is indisputably an important ongoing incentive to commercial and industrial enterprise.

36. Whilst total abolition of inheritance tax would remove revenue flows to the Exchequer in the short term, this would be substantially compensated for in the longer term by the additional stimulus to enterprise that would undoubtedly result. It is not desirable that successful entrepreneurs are presently encouraged to sell their business to larger concerns merely to accommodate liabilities under the inheritance tax regime.

HIGHWAY INFRASTRUCTURE

37. The economic welfare of our industrial sector is, in good part, a function of our investment in highway infrastructure, with 84 per cent of total freight tonnage carried in the UK now moved by road. An efficient and well-maintained road network, with adequate capacity potential to meet foreseeable traffic growth, allows industry to increase its productivity, frees assets tied up in stocks and permits production of goods for home and export markets at lower final prices.

38. With Europe moving inexorably towards total economic union, with the programme for the completion of the internal market now well underway, the competitive environment within a more-open market place will undoubtedly harden. Government must recognise the importance of our road infrastructure to UK industry's medium and longer term competitiveness.

39. The UK's highway system fails to match those of our neighbours within the Community and many major roads have long exceeded their designed traffic capacity. The Association urges the Chancellor to allocate significant additional funds to increase planned expenditure for extending and strengthening the trunk road network, and to ensure that the backlog in trunk road maintenance can genuinely be achieved by the 1991 target.

TRAINING INITIATIVES

40. The Association has welcomed and supported the far-sighted initiatives taken by this administration to extend the scope of education and training schemes in the UK genuinely to meet the needs of industry and commerce. Such programmes represent one of our major investments for the future and we believe that it is now time for this initiative to be taken further, with more central funds being made available to extend training - and re-training - schemes to cater for the rapidly changing needs of the market-place.

41. However, we are concerned at the Government's current policy - in its drive for economies - to reduce its central funding of YTS and adult training programmes, and to place a far greater financial burden on the shoulders of

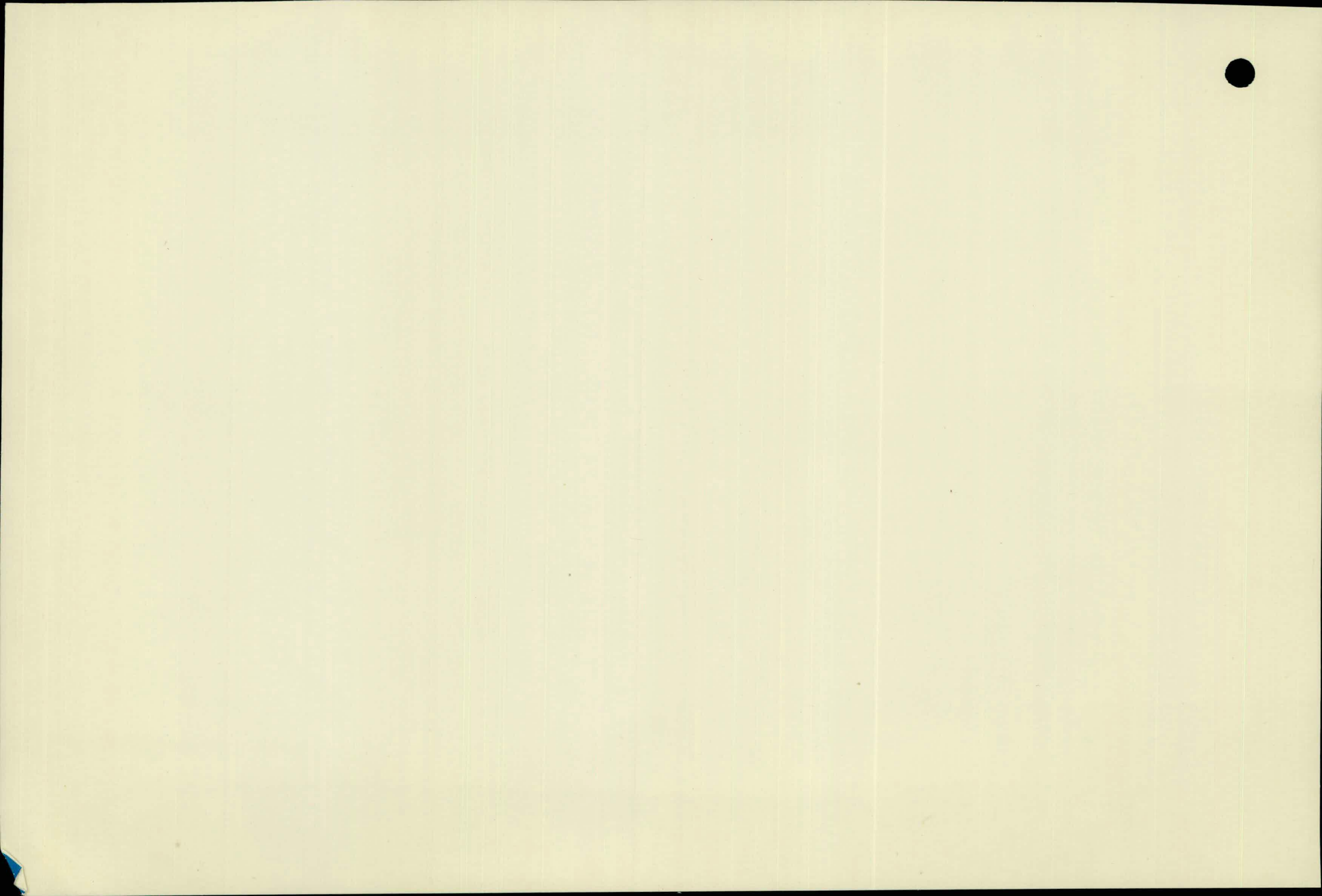
employers. We believe that we face a very real danger of such schemes becoming increasingly less attractive to employers, who as a result will be inclined to confine training to their essential short term needs. This must ultimately produce significantly lower orders of relevant workforce skills within the economy, at a time when there are real prospects of further longer term growth if we have the skills available to meet the demands of a frequently changing and more-demanding global commercial environment.

42. This administration has made great strides in its efforts to raise the overall standards of new entrants into the UK labour market. We urge Government to take positive note of the dangers outlined above in its review of the present policy for the funding of future youth and adult training programmes.

Motor Agents Association

December 1987

ANM/MAA ECAFF/12.87



2 Ps/CHK, Ps/CST, Ps/FST

Ps/PMG

Sir P Middleton

Mr Wilson, Miss Siclei

Mr Michie, Mr Burnham

Ps/CTE

Miss Wallis

PS/IR



Treasury Chambers, Parliament Street, SW1P 3AG

PMG

Sir Godfrey Messervy
The Society of Motor Manufacturers
and Traders Limited
Forbes House
Halkin Street
LONDON
SW1X 7DS

21 December 1987

Dear Sir Godfrey

Thank you for your letter of 26 November to the Chancellor of the Exchequer which requested a meeting to discuss your representations for the 1988 Budget.

I would be delighted to meet a deputation from the Society of Motor Manufacturers and Traders Limited. I will ask my office to be in touch with details.

Yours sincerely
Peter Lilley

PETER LILLEY

451/048/AC

cc Ps/chancellor 2
Ps/cst Ps/FST
Miss Sinclair
Mrs Burnham
Mr Michie
Miss Wallis
Ps/c+E
Mr Jefferson
-Smith
C+E

copy



Treasury Chambers Parliament Street, SW1P 3AG

G N Gent Esq
The Wine and Spirit Association of
Great Britain and Northern Ireland
Five Kings House
Kennet Wharf Lane
Upper Thames Street
LONDON EC4V 3BH

21 December 1987

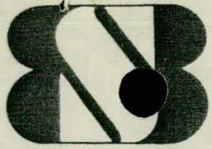
Dear Mr Gent,

Thank you for your letter of 2 November, which enclosed your representations for the Budget.

I would be delighted to meet a deputation from The Wine and Spirit Association of Great Britain and Northern Ireland. I have asked my office to be in touch with the details.

Yours sincerely
Peter Lilley

PETER LILLEY



THE SMALL BUSINESS BUREAU

32 Smith Square London SW1P 3HH 01-222 0330

22nd December, 1987. ^{BR}

The Rt. Hon. Nigel Lawson, M.P.,
Chancellor of the Exchequer,
H.M. Treasury,
Parliament Street,
London SW1P 3AG.

HM TREASURY - MCU	
RECD	23 DEC 1987
ACTION	Mrs Burnhams, FR
	cc: ARS/CHX, IR 1AE3
	CHX
	30163/87

Dear Nigel,

Small Business Bureau's 1988
Budget Submissions

I am writing to send you the Small Business Bureau's submissions for your consideration for the 1988 Budget.

Our submissions have been produced in consultation with the Back Bench Small Business Committee as well as with the Small Business Bureau's Vice-Presidents Panel.

In addition to the points raised in the attached paper our members have endorsed the following two points:-

1. That the concept of Tax relief on investments made by individuals in small companies should be extended to give tax relief to companies making investments in such companies.

Small companies need help and advice and in particular marketing resources which could be given by larger companies if the concept of Corporate Venturing were to be encouraged.

2. That employee share ownership is beneficial to the development of the entrepreneurial culture, but methods by which it may be achieved tax efficiently are limited.

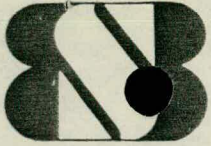
We therefore urge you to introduce measures to encourage companies to form trusts which would hold shares on behalf of employees.

*Yours,
Michael Grylls*

Michael Grylls, M.P.
Chairman

mg/ij
Encs

Life Patron: The Lord Taylor of Hadfield
National President: Philip Coussens Chairman: Michael Grylls, MP
Vice Chairmen: Spencer Batiste, MP Graham Bright, MP Bill Cash, MP Neil Hamilton, MP
Christopher Kirkham-Sandy, FCA Andrew Rowe, MP Fred Tuckman, MEP
National Organiser: Alan Cleverly Administrator: Irene Jeffery



THE SMALL BUSINESS BUREAU

32 Smith Square London SW1P 3HH 01-222 0330

Budget Submission

An important factor in the re-election of this Government was the support of the increasing numbers of self employed and small businesses both through the reduction in unemployment (which this increase has helped to bring about) and through the re-creation of the entrepreneurial culture. The reduction in all forms of taxation has been the cornerstone of the policy not least because the reductions of income tax have allowed people in their 30's and 40's to accumulate sufficient wealth to accept the risk of starting a business of their own. It is therefore an important part of small firm philosophy to argue for the continuation of the policy of income tax reduction allied, as it currently is, to the reduction in the corporation tax rates for small firms.

In addition to this overall policy there are certain important additional changes which should be brought about in the 1988 budget to accelerate the creation and growth of small firms. It should be stressed that the emphasis of these changes is not seeking to divert resources raised from other sources, rather it is leaving more of the entrepreneurs' or small businesses' resources where they are earned so that further and faster growth can occur.

The small company's rate of corporation tax seeks to achieve this aim but the differential between the small company's rate and the normal rate has been eroded and an immediate entry point to payment of tax at 27% is still too high. An additional problem is encountered in a company's band of taxable profits between £100,000 and £500,000 where the rate rises to in excess of the standard rate on a portion of those profits. Without seeking to reduce the Treasury's income from company profits up to £500,000 it is suggested that the present system should be replaced by a graduated rate of corporation tax starting with a small nil rate band and then instituting two intermediate rate bands before reaching the standard corporation tax rate.

Once this has been achieved payments of tax remain a considerable burden and the creation of an enterprise bond to be issued to companies (by the Treasury) which would be offset against taxable income and redeemable at the companies' option would allow companies to provide for future expenditure on Research & Development and equipment. At present a company would have to pay the tax in one year and not be able to effectively reclaim it to pay for part

Life Patron: The Lord Taylor of Hadfield
National President: Philip Coussens *Chairman:* Michael Grylls, MP
Vice Chairmen: Spencer Batiste, MP Graham Bright, MP Bill Cash, MP Neil Hamilton, MP
Christopher Kirkham-Sandy, FCA Andrew Rowe, MP Fred Tuckman, MEP
National Organiser: Alan Cleverly *Administrator:* Irene Jeffery

of the expenditure until nine months after its year end making a maximum time of twenty one months after the expenditure on the Research and Development is incurred.

Whilst there is no shortage of venture capital available in the U.K., most of it is invested at the later stages of a young company's growth and in the early stages young companies often find it difficult to raise the first tranche of "outside" equity. It is interesting to note that amounts invested under the Business Expansion Scheme have risen over the last 3 years but the amounts invested in companies where total BES investment per company is less than £500,000 has actually fallen. Three refinements are suggested to overcome this hurdle:-

1. The limit on the Small Firms Loan Guarantee Scheme should be increased from the present level of £75,000 and the range of authorised lenders should be increased to include local Enterprise Agencies and reputable venture capital companies. In the latter case a reasonable basis might involve the issuing of loans to a maximum of 50% of the equity subscribed by venture capital companies.
2. The Business Expansion Scheme should restrict relief to £250,000 invested in any one company so that funds are directed to where they are most needed.
3. The continued increase in the creation of small companies depends on attracting individuals in secure employment to take the risk of leaving their job to start in business. The flow of such people would be considerably increased if individuals investing in their own businesses were to be afforded tax relief on their investment through repayment of taxation paid in previous periods.

Expansion of many businesses is restricted by the owner's reluctance to sell his shares because of the realisation of a taxable capital gain. Investment in unquoted companies is also restricted since the incidence of Capital Gains Tax will reduce the rewards of investing in a higher risk business thus making it unattractive compared to investment in quoted companies. It is noted from Mr. Lamont's answer to Mr. Bright's question on 27th November, 1987 that Capital Gains Tax collected from unquoted shares is estimated to total £200 million. Although the answer indicated that the cost is estimated at 1.7% of this yield, the Inland Revenue resources taken to

agree such gains are likely to exceed the average. It is therefore proposed that gains accruing on investments in unquoted shares should be free of Capital Gains Tax (as BES investments now are) to encourage investment in this sector and to encourage continued expansion of such firms. In addition many entrepreneurs will realise gains on the sale of quoted shares when raising capital to invest in their own business. In these circumstances it is suggested that gains accruing on assets realised to invest in new shares in unquoted trading companies should be rolled over until the unquoted shares are sold.

Once many unquoted businesses have expanded, the problem of succession has to be faced. Unquoted companies operate to different criteria to the advantage of local communities.

Such a measure is estimated to cost £20 million. Such a tax distorts business decisions. We believe strongly that in a healthy entrepreneurial climate there should be no Inheritance Tax on the transfer of shares in unquoted companies.

However another solution to the problems of small and growing unquoted companies would be to introduce 100 per cent business property relief and to extend such relief to significant minority holdings (in excess of 10 per cent). This measure is estimated to cost only £1 million.

In conclusion the continued development of the small firms sector is vital to the growth of the economy and employment. Reductions in taxation will undoubtedly help but set out above are a range of relatively minor adjustments which would not demand considerable resources from the Treasury but would act as a political and financial incentive both for more people to accept the risk of becoming employers and for existing businesses to expand.

SECRET

psf

FROM: K SEDGWICK
DATE: 23 December 1987


- KB 23/11*
1. MRS BURNHAMS
 2. SIR PETER MIDDLETON

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Economic Secretary
Sir Terence Burns
Mr Anson
Sir Geoffrey Littler
Mr Kemp
Mr Byatt
Mr Cassell
Mr Wilson
Mr Monck
Mr Lankester (o.a)
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Pickford
Mr Dyer
Miss Evans
Mr Sparkes

I attach the latest timetable covering the period from the beginning of January 1988 to end April 1988. Many of these dates are, of course, still provisional. In particular the dates in square brackets are not plans but simply indicate the likely dates if these events take place at the same time as last year.

K Sedgwick

K SEDGWICK
FP Division

DATE	CHANCELLOR'S AND OTHER ENGAGEMENTS	PARLIAMENTARY TIMETABLE	FINANCE BILL AND BUDGET TIMETABLE	PUBLIC EXPENDITURE	STATISTICS	
					AVAILABLE WITHIN HMT	DATE PUBLISHED
JANUARY						
4				*30 - Proofs of Public Expenditure White Paper (PEWP) back to printers		
	9- Chevening 10- Weekend		9- Chevening 10- Weekend		*5 - Final Reading of PEWP at Printers	4
11	11- ECOFIN	11- H of C returns 11- H of L returns				
	13- NEDC + TCSC EC hearing 14- Autumn Statement debate	14- 1st Order			12, 13	14 - Unemployment 15 - RPI
18	18- Overview meetings begin 19- Centre for Policy Studies speech		18 - Overview meetings begin			
				*15 - PEWP - Confidential Final Revise copies delivered		
25				*19 - Publication of PEWP	19	19 - PSBR 21 - Prov money
	*29- Anglo-French Summit			*27 - PEWP: TCSC officials' evidence	28	28 - Trade 29 - Full money
FEBRUARY						
1				*3 - PEWP: TCSC CST's evidence	1	2 - Reserves
8	8- ECOFIN					
	11- European Council	11 - 1st Order	11 - [Economic Cabinet]		9, 10	12 - RPI 16 - PSBR
15					17	18 - Prov Money 18 - Unemployment
22			22 - Last date for decision on VAT & most excise duties	22 - [PEWP debate]		
			29 - Last date for decisions on income tax basic rate		26	29 - Full money

*Provisional date

DATE	CHANCELLOR'S AND OTHER ENGAGEMENTS	PARLIAMENTARY TIMETABLE	FINANCE BILL AND BUDGET TIMETABLE	PUBLIC EXPENDITURE	STATISTICS	
					AVAILABLE WITHIN HMT	DATE PUBLISHED
MARCH						
					1	2 - Reserves
7	7- ECOFIN		7 - Last date for decisions on income tax allowances			
		10 - 1st Order			9	
			*11 - Final draft of FSBR			
14	15- Budget Day	15 - Budget Day	15 - Budget Day & FSBR published		16	16 - PSBR 17 - Unemploy 18 - Prov money
	*18) Conservative 19) Central Council		16) 17) Budget Debates 18)			
21					23	25 - RPI
28	29 - American Corres- pondents in London speech				28	29 - Full money
31						
APRIL						
4			EASTER RECESS		5	6 - Reserves
8						
11	14) Spring Interim & 15) Development Cttee meeting: IMF World Bank	*14 1st Order			13	15 - RPI 15 - Unemployn
18	18- ECOFIN				19	20 - PSBR 21 - Prov mon
25					28	29 - Full money

*Provisional date

Prof

FROM: MISS S WALLIS
DATE: 23 December 1987

BS 23/11

- 1. MRS BUENHAMS
- 2. MISS SINCLAIR
- 3. MCU
- 4. FINANCIAL SECRETARY

cc PS/Chancellor 12/2
 PS/CST
 PS/Paymaster General
 PS/EST
 Mr Wilson
 PS/IR
 Mr D Shaw

BUDGET DEPUTATION: THE UNION OF INDEPENDENT COMPANIES' (UIC)

The Chairman and the National President of The Union of Independent Companies' (UIC) enclosed Budget representations with their letters of 4 and 11 December. The letters also ask for a meeting to discuss their representations with Ministers.

2. The UIC are not on the "core list" of organisations to be seen by Ministers, but they were seen last year. We and the Revenue feel that their representations offer nothing new this year and we recommend that you turn down their offer of a meeting.

3. I attach a reply turning down a meeting.

S Wallis

MISS S WALLIS



Treasury Chambers, Parliament Street, SW1P 3AG

W G Poeton Esq
National President
The Union of Independent Companies
PO Box 186
LONDON SW7 2TF

January 1988

Thank you for your letter of 11 December and Mr Lyon's letter of 4 December to Nigel Lawson, and for representations for the Budget on behalf of the Union of Independent Companies.

As you can imagine, Treasury Ministers receive numerous requests for meetings from representative bodies before each Budget. I am sure you will appreciate they cannot see every organisation which requests a meeting. I am afraid, therefore, that it will not be possible for Treasury Ministers to see you in the run-up to the 1988 Budget.

I can assure you, however, that your representations will be carefully considered.

NORMAN LAMONT

THE UNION OF INDEPENDENT COMPANIES



Please reply to:

National Information
PO Box 186
London SW7 2TF
01-589 1945

The Rt Hon Nigel Lawson MP,
The Chancellor of the Exchequer,
Treasury Chambers,
Whitehall,
London, SW1.

11th December 1987.

Nigel

Herewith, once more, our self-explanatory Budget discussion document for your department's perusal.

Last year we had very useful discussions with Norman Lamont over the incidence of inheritance tax on the unquoted independent company - we still think your people don't really understand the nature of the problem."

I'm sure our new Chairman, Tom Lyon, and his colleagues would be pleased to discuss the matter and the other contents of our proposals at your convenience.

Yours truly

W.G. Poeton

W.G. Poeton
National President

BR

HM TREASURY - MCU	
RECD	14 DEC 1987
ACTION	Mrs Brothans PP
	a IR
	FST
	29/12/87

National President
W. G. Poeton

Vice Presidents

G. Bannock The Rt. Hon. Cecil Parkinson Rt. Hon. Sir Edward Du Cann R. A. Levan M. Grylls MP J. Bowman

Chairman B. A. Baldwin Vice Chairman D. G. Gittos T. R. S. Lyor. CBE., TD. Hon. Secretary J. Ormiston Hon. Treasurer G. M. Raine

National Executive Committee E. N. Addison R. W. Harris S. A. Mayo C. Tubbs M. Wahlberg D. T. A. Young

Correspondents Rachael White (Pensions) Julian Forrester (Defence Procurement) George Edwards (Finance) Alan Randall (Education)

THE UNION OF INDEPENDENT COMPANIES



Please reply to:

National Information
PO Box 186
London SW7 2TF
01-589 1945

The Rt Hon Nigel Lawson, MP
The Chancellor of the Exchequer
Treasury Chambers
Whitehall
London SW1

4 December 1987

Dear Chancellor,

1988 BUDGET PROPOSALS

I am writing on behalf of the UIC to let you have our recommendations for your consideration when framing your 1988 Budget Statement.

As our principal consideration is the smaller and medium sized manufacturing sector in the UK, we would encourage the continuing commitment of the Government to achieving a more balanced and stronger economy. We welcomed the resistance earlier in the year of the temptation to stimulate the economy, with the emphasis being placed on reducing the Budget deficit. We appreciate that this led subsequently to a rise in interest rates to keep sterling steady when concern was being expressed about the possibility of inflation edging up and the deterioration of the balance of payments position. This situation has now been eased and there has been a welcome reduction in interest rates.

It is encouraging that Britain is now growing faster than nearly every other OECD country, although it is anticipated there will be some slackening in this rate of growth over the next year or so. At the same time there is the very worrying feature of the current Stock Exchange downturn which might still lead to a loss of business confidence in the foreseeable future and the erosion of the substantial progress which has been achieved.

It would appear that the current UK growth is at last having some effect on unemployment levels. This is very encouraging. However, there is the worry about the increasing skill shortage in this country to maintain the growth in manufacturing. Despite this, we are hearing talk of the so called "virtuous economic cycle" in which rising output leads to higher productivity, thus enhancing competitiveness; which in turn is said to lead to higher investment and employment.

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Whilst the current increase in productivity is undoubtedly containing the high rate of growth of manufacturing earnings, there must be some doubt as to the extent to which this can continue and therefore the possibility of some overheating in the economy. However, there is the substantial reassurance that this country may well have balanced its Budget in the current year, the first time such an event has occurred for nearly twenty years and for which you deserve the support and congratulations of all businesspeople.

The Government's privatisation policy is also ensuring the growth and spread of national wealth and the widening and growth of a capital owning society. Alongside this fundamental change is the phenomenon of management buy-outs, which are helping to restructure British industry, breaking down some big operations into smaller ones and releasing entrepreneurial energy.

We consider that it is absolutely essential for the UK to maintain its manufacturing base, to ensure that there is not any further contraction and to encourage significant expansion from the stronger but much reduced foundation which is now in place. We cannot simply rely on services, particularly in the export market, to match our propensity to import, and becoming an assembly shop for the products of other advanced countries. This expansion of our productive capacity is becoming increasingly vital as signs emerge of a shortage of capacity. If such expansion is to lead to increased employment in the sector, it is unlikely to be provided by big organisations as the largest 40 UK manufacturers already employ a greater percentage of the manufacturing workforce than in our main competitor countries. Furthermore the 100 companies which make up the FTSE index, although accounting for some 70% of the market capitalisation and 22% of our GDP, only employ 13% of our workforce and only 32% of their turnover represents value added, of which about a half is employment costs.

We believe that there is a need for the Government to build on the successful and continuing initiatives affecting the SME sector which have already been taken to date. There are also certain fundamental problems which remain to be overcome in this drive for a continuing impetus across the SME sector. This impetus should recognise the major concerns of the owners of SMEs who have the potential for increased generation of wealth, job creation and home produced goods and services to reduce dependence on imports. At the same time, greater confidence and opportunity should encourage more independent firms to export; following the current campaign by the BOTB aimed at smaller firms. These major concerns, to which our recommendations are directed, are:

- 1 Improving the conditions on which funds are made available to SMEs.
- 2 Greater retention of self-generated funds for growth by SMEs.
- 3 Reducing the costs of employment, particularly for lower paid workpeople, and giving greater encouragement to work by increasing the net after tax take home pay of such workpeople.

It must be understood that the level of interest rates necessary to maintain low inflation can undermine the investment confidence of smaller manufacturers in this country. Over the ten years during which the UIC has been representing the concerns of small and medium sized manufacturers, the cost of money, and the uncertainty of that cost in the medium term, has continued to be at the forefront of the concerns expressed to our national executive by our members.

Recently, we canvassed our members about the opportunities and their expectations for expanding their business in the short to medium term. In particular we posed questions about the cost and availability of monies to fund investment, whether it would be helpful to press financial institutions for interest payment roll-up or deferral, and/or greater application of capital repayment holidays for a minimum of two years, as well as the opportunity to repay a loan in full without penalty before the expiry of its term. We also covered such matters as availability of technological advice and management guidance through non-executive directors and industrial consultants.

Those members with mature businesses and a demonstrated track record of success were almost unanimous in putting the real cost of money as the single most important issue deterring them from seeking faster growth. In addition they cited the shortage of skilled people and the costs associated with employment during skill training and before a new project achieves a positive cash flow.

It is our belief that the cost of investment monies for smaller manufacturers is too high and should be reduced and that there should be a greater certainty of the cash flow cost of investment monies for the anticipated period of particular projects. This is the case in certain of our competitor countries where special measures have been adopted to ensure that smaller firms, particularly where it can be demonstrated that new jobs are being created, are able to borrow medium to long term funds at fixed rates of interest which are generally about half the going rate for such funds. It is clear that a project which offers a return of 20% to 25% cannot be attractive if a bank or other institution is seeking 12% to 15% on the funds advanced to support the venture. The risk can well be considered too great in relation to the return.

It is in this context that we consider the first priority to stimulate increased investment by successful smaller manufacturers, and so put the success achieved to date at risk by seeking greater growth, should be the reduction of the cost of loan monies from recognised financial institutions to manufacturers which are not listed on any market. This could be achieved by the granting of an interest subsidy to ensure that the real rate of interest does not exceed 6% annually on any loans to such manufacturers who create at least 1 new job for each £10,000 borrowed. The cost to the taxpayer would be between £500 to £800 annually for each job. We consider that this proposal would be highly cost effective and would create a substantial growth of investment by the privately owned part of the sector. An alternative approach would be to waive the employer national insurance contribution on the net increase in jobs achieved by smaller manufacturers for the next five years.

In addition, there is a growing need to increase the availability of funds to SMEs, particularly those younger firms lacking a full track record of management experience and sustained growth, on conditions which are attractive to them, as well as ensuring that there is a greater retention of self-generated funds to provide the confidence of a strengthened business base.

It is now clear that the so-called "equity gap" is reaching up to £250,000. Although record sums are being raised by venture capital funds in 1987, enormous amounts are now going into management buy-outs and large syndicated investments. It is possible that the recent traumas on the Stock Market may lengthen the "almost instant profit" mentality of these institutional backers (as a result of an early listing following such investments), but the large rewards being made are likely to continue and to divert a large proportion of available funds into these areas.

The most recent figures released by the largest venture capital organisation in the country indicate that it made 960 investments in the year ended 31 March 1987 at an average of £383,000 each. Of these investments 251 were said to be start-ups, averaging £267,000 each and 109 were management buy-outs, averaging £927,000 each.

We have already given to Mr John Cope, the Small Firms Minister, our proposals to strengthen the Government loan guarantee scheme and to make it more attractive. A copy of our proposals is attached. We are encouraged by the recent figures issued by the Small Firms Division of the Department of Employment indicating that loan guarantees issued in the last financial year are more than double those of the previous year and that the default rate is dropping. However, we support the Government view that the scheme has potential for wider use. We hope that the Government will sanction a substantial expansion of the Scheme in the near future, particularly by increasing the maximum loan under it to £250,000 and introducing the other proposals set out in our Paper.

I enclose copies of the following UIC Policy Briefings -

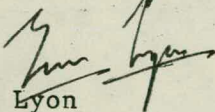
- * The cost and availability of money
- * Relief from inheritance tax on independent trading companies
- * Reducing the costs of employment and giving greater encouragement to the lower paid to work
- * Personal taxation - removing some of the anomalies

These Briefings give the background to the following proposals which we consider are of particular importance at this time, in addition to the matters set out above:

- * Introduction of a nil rate band of corporation tax for small companies on the first £20,000 of taxable profit provided it can be demonstrated that the funds are required in the business

- * Reduction of the small companies rate of corporation tax from 27% to 25%
- * Payment of interest on loans for manufacturing investment net of tax, as it is with house purchase, to reduce the cash flow cost of capital
- * Full holdover of inheritance tax on gifts of shares in unquoted trading companies to fulltime employees who have been employed in the business for a minimum of five years
- * Reduction of the basic rate of income tax to 25% and the top rate to 50% ("half for them and half for us")
- * Abolition of the wife's earnings and the married man's personal allowance and the increase of the single person's allowance to £2,600, providing that a married man would be entitled to claim his wife's single persons' allowance, in addition to his own, if she did not claim it, and vice versa
- * Increase of the weekly earnings level, for employees not contracted out, at which national insurance contributions are payable by both employees and employers to £100; other types of contribution to be adjusted accordingly - between £101 and £150 weekly the rate of contribution for both employee and employers to be 5% respectively, between £151 and £200, 7%, and above £200 weekly the maximum rate to be 9%.
- * The taxable benefit for the private use of a business car to be increased to 20% annually of the capital cost (two thirds of annual leasing cost under a full repairing lease) and for petrol for private motoring, 10% annually of the capital cost
- * The taxable benefit for the private use of business owned residential property to be the open market rent and of other business owned assets to be 100% of market value for three years only
- * The taxation of short term (disposal within two years of acquisition) capital gains as income; short term losses to be available only to offset against short term gains
- * The restriction of mortgage interest relief on residential property to the basic rate of income tax; the increase of the mortgage limit to the average cost of a first time house purchase in the South East and the maximum limit to apply to one residence only (house or self-contained flat) irrespective of the number of owners of the property

I hope that these proposals are of assistance to you and we shall be pleased to discuss them with you in greater detail if this would be helpful.

See us by you

Tom Lyon
National Chairman

Enclosures

Please reply to:

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PROPOSALS FOR IMPROVING THE GOVERNMENT LOAN GUARANTEE SCHEME August 1987

Background

- 1 These proposals are put forward in anticipation of a review by the Department of Employment of the current Loan Guarantee Scheme recognising the continuing lack of interest by a substantial majority of venture capitalists in providing funds below £100,000 and, in some cases, below £250,000. Although certain of these venture capitalists, which operate on a national scale, claim to be interested in the lower end of the market, the largest organisation is highly selective in the proposals which it accepts under £100,000 and its current rate of acceptance is below eight per week of such proposals.
- 2 Whilst we are concerned to ensure that the cost of the Scheme to the tax payer is contained, we believe that there is a strong case at the present time to increase marginally the attractiveness of the Scheme to borrowers. We would anticipate that the current appraisal and monitoring procedures, properly enforced by the current lenders in the Scheme, should be adequate to ensure that losses are contained at the current level.
- 3 Despite the efforts made by the Small Firms Division and the Small Firms Minister, we are not certain that the banks are effectively promoting the Scheme at branch level. This problem is compounded by the fact that the banks do not appear to have achieved the necessary culture change, also at this level, and continue to assess lending requirements in terms of the level of security available and discounting the value of such security by up to 50%.
- 4 In addition we are concerned that the Scheme appears to be wholly targeted at younger businesses, possibly because they are considered to give better opportunity for job creation. This is evidenced by the evaluation of the Scheme being demonstrated on a cost per job basis. Whilst we accept that guaranteed loans should only be available where the lender is not prepared to offer a comparable facility without a Government Guarantee, banks normally require personal guarantees from the business owner in addition to fixed and floating charges over business assets. If an existing businessman refuses to give personal guarantees then the normal bank facility would not go ahead and the LGS could not be substituted.

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5 The result of this means that for many continuing businesses the LGS is no longer an option. We deplore this situation and consider very strongly that although it might be necessary that a businessman should be prepared to permit a second charge on his house, to support normal bank borrowing, it is unreasonable to insist that a personal guarantee should be given, carrying with it the implication of bankruptcy, particularly as LGS lending is free of personal guarantees.

6 It is important that the LGS should be available to encourage those businesses, which have survived the initial existence stage and are successful, to put that success at risk and go for additional growth if the opportunity is available. As noted below we consider that, although personal guarantees should not be taken as security to cover any part of a guaranteed loan, the availability of personal assets, over which a specific charge might be taken, should form part of the security to cover a guaranteed loan, particularly to existing businesses. However this fundamental change in the Scheme would have to be part of a package including the other changes proposed below.

Application and appraisal procedures and monitoring

7 All applications should continue to be supported by outline business plans (in accordance with present guidelines), monthly cashflow and forecast profit and loss accounts and balance sheets for at least one year, but preferably for two.

8 In the case of new firms (under two years old):

(a) the information in 7 above should be prepared/reviewed, free of charge, by a Small Firms division counsellor, local enterprise agency adviser or a bank approved professional adviser;

(b) a condition of the loan approval should be that the counsellor/adviser (or an alternative agreed by the bank) in 8(a) should monitor the business loan for the first two years and report quarterly to the bank. The cost of the monitoring will be agreed in advance and included in the loan application. This will ensure that there is a proper monitoring of the business on a regular basis and that the lender is supplied with the relevant information on a timely basis.

9 In the case of existing businesses it should be left to the judgement of the lender whether the monitoring information should be reviewed/prepared by a suitably experienced adviser. We consider that the Scheme would be more effectively controlled if such a review was carried out, as we are not certain that the lenders are applying this important monitoring function on a consistent and timely basis.

Size of loan

10 (a) New firms (under two years old) - loans should be restricted to a ceiling of £75,000;

(b) Established firms - the current ceiling should be increased to £150,000.

Term, draw down and repayment of loans

- 11 To remain unchanged.

Eligibility of firms, activities and purposes

- 12 To remain unchanged.

Cost of money

- 13 (a) the Government premium should be reduced from 2½% to 2% annually, calculated on the balance of the guaranteed portion of the loan outstanding at the beginning of each year and payable annually in advance;
- (b) the rate of interest charged by the approved lending institutions should not exceed 2% over base rate, to encourage banks to use their normal small firms lending schemes, wherever possible, in preference to the Loan Guarantee Scheme.

Level of guarantee

- 14 The Government guarantee should be restored to the original level of 80% of the loan outstanding to encourage the banks to promote the Scheme more effectively in appropriate circumstances, subject to the improvement in the monitoring procedures set out above.

Charges on assets

- 15 Mixed lending, comprising normal bank lending (loans and/or overdraft) and Loan Guarantee Scheme monies, should be forbidden - loans under the Scheme should not be made to any smaller firm which has an outstanding loan or overdraft from a financial institution. In this way all lending, where appropriate, should be under Scheme, with all available business assets secured against such lending, so preventing the Scheme being used by lenders where they consider a particular customer is "security exhausted" but they wish to make an additional loan as a top up to an existing arrangement.
- 16 All business assets should be charged as security for loans under the Scheme, together with fixed charges on specific personal assets if required by the lender. Personal guarantees should not be requested or given.
- 17 The increase in the ceiling of Guaranteed Scheme loans to established firms, by £75,000 to £150,000 as set out in 10 above, would only be justified if mixed lending is stopped and paragraph 16 above implemented where applicable. We are strongly of the opinion that these changes would make the Scheme more effective to all firms and particularly attractive to established firms.



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THE COST AND AVAILABILITY OF MONEY

- 1 Over the last eight years a number of changes have been made by the Government to ease the burdens on industry, both large and small, and to redress the balance of restrictions which were becoming a severe disincentive to the creation of wealth. They have been welcomed with gratitude.
- 2 Despite all this however, the number and variety of goods made abroad and sold on the UK domestic market continues to be unacceptably high. A large proportion of these goods should and could very easily be made in this country. British manufacturers do not lack the will, flair or design ability to produce them. It has long been accepted that, as a race, we British are the most inventive and innovative in the world.
- 3 The reasons for this situation are not understood by the majority of our people. To those of us who are engaged in manufacturing or closely related activities, the reasons are only too obvious.
- 4 The relentless march of technology has resulted in plant, equipment and tools increasing in cost well above the rate of inflation. Many an injection-moulder or a designer-and-fabricator has seen a market opportunity and has declined to take advantage of it, simply because to add another item to his range would mean extra tooling costs and stocks of raw materials, work in progress and finished goods — all of which absorb working capital.
- 5 The demand for working capital within the majority of independent manufacturing companies outstrips that which can be generated from post tax income. The private company does not have the opportunity to increase capital through a rights issue. The private company has to compete for borrowing in a market which favours credit cards, interest-free credit and house purchase. The private company is clearly disadvantaged and yet is looked to by Government and the nation to provide more jobs.
- 6 The independent manufacturing company sector is indeed capable of making a very much greater contribution to wealth creation and to new employment. Ways must be found to assist in these acute problems.
 - (1) Corporation tax should have a nil rate band for the first £20,000, provided it can be demonstrated the funds are required in the business.
 - (2) Interest on loans for manufacturing investment should be paid net of tax, as it is with house purchase, to reduce the cash flow cost of capital.
 - (3) Loans at low interest rates, but with a chance of capital appreciation should be established, as with the Net Worth Investment Shares Scheme currently being promoted by the IUC.

It is in the national interest that action should be taken URGENTLY.



RELIEF FROM INHERITANCE TAX ON INDEPENDENT TRADING COMPANIES

- 1 We are concerned that there appears to be a lack of adequate understanding of the impact of Inheritance Tax on independent enterprise in this country. This lack of understanding extends to the willingness of one generation of proprietors to keep a business intact within a local community to pass on to the next generation of managers at a time dictated by commercial reality and not by the avoidance of taxation. The value of the creation and maintenance of local wealth, together with the balance which it gives to a local economy with the maximum number of diverse enterprises, whose decision making is locally based, cannot be over-emphasised.
- 2 The continuing Inheritance Tax provisions, similar to those of Capital Transfer Tax previously, are potentially the most harmful tax on independent enterprises. These provisions often force independent businessmen to consider complex avoidance schemes which involve artificially reducing the value of their shares and the dictation of timing of changes in shareholdings without recognition of the level of maturity of the recipients. Furthermore, many of the options depend in part on future events which cannot be foreseen. As a result this remains an area in which further fundamental change is necessary.
- 3 Every encouragement should be given to the owners of independent trading companies to continue to hold the controlling shares, whilst they are fully employed by the company, if it is their wish to do so. The need to consider schemes which have no basis in commercial logic, except the avoidance of taxation, or pass the shares to the next generation at an immature age or into trust, inevitably undermine the confidence of a controlling shareholder to develop the business to its full capacity and to continue to accept the level of risk to the business and his personal wealth which is inherent in such expansion.
- 4 Where steps have not been taken to avoid Inheritance Tax prior to death and all or a major portion of the individual's assets are committed to the successful enterprise, the only resources to meet this tax will be represented by the shares in the company or by increased remuneration or distributions from the company. The result will be an erosion of retained earnings and therefore its ongoing viability and strength for expansion.
- 5 This can lead to a decision simply not to expand the business and not to create the additional problem which will inevitably arise with the successful growth of the company and passing it on to the next generation of managers, if death should take place prior to retirement or before the seven year gift period has elapsed in full.
- 6 We consider that it is imperative that full holdover of Inheritance Tax should be given on gifts of shares in unquoted trading companies to the next generation of managers, provided they have been wholly employed in the business for a minimum of five years, in circumstances in which such gifts are made by an individual who has been in full-time employment by the company for a minimum of five years or on death during such employment.

**REDUCING THE COSTS OF EMPLOYMENT AND GIVING
GREATER ENCOURAGEMENT FOR THE LOWER PAID TO WORK**

- 1 The amount of revenue raised by the Exchequer in the form of direct taxation on the value added content of business activity is hugely disproportionate to the amount of indirect taxation generated from this source. It is estimated that nearly 50% of value added by a business ends up in the coffers of the Exchequer, in the form of income tax on wages, salaries and Schedule D profits, national insurance contributions of employers and employees, together with corporation tax on the profits of companies. This should be contrasted with the 15% rate of Value Added Tax which, ignoring Excise duties on specific goods, is the only tax on consumption.
- 2 This fiscal environment is effectively subsidising consumption to the benefit of importers and confiscating too high a proportion of self-generated funds which are needed for business confidence, growth and employment creation. This whole situation bears unfairly on SMEs, which in the main are highly labour intensive compared to large organisations. SMEs, therefore, are likely to generate higher added value for every £ of turnover compared to most industrial organisations, which are more capital intensive and generate proportionately less added value.
- 3 It is vital to initiate without continuing delay certain reform of personal taxation by shifting further the personal tax burden away from income and towards spending. Excessively high payroll taxes, in the form of employers' and employees' national insurance contributions, and too low a threshold for income tax, reduces the opportunity for employers to create new jobs and for lower paid employment to be attractive to the unemployed. At the same time there is a need to abolish all minimum wage levels, particularly if there is a substantial increase in the threshold at which national insurance contributions and income tax are levied.
- 4 Not only would this stimulate job creation and work encouragement for the lower paid, but also it would assist in reducing the pressure for wage increases, encourage more home produced goods and services at a lower cost and reduce the demands on the Exchequer of unemployment and social security benefits. It must make sound economic sense that when people are in surplus, as at the present time and for the foreseeable future, reducing the cost of employing them would be the most positive response to the market situation.
- 5 We consider that the most effective way of introducing higher thresholds would be to abolish the wife's earnings and the married man's personal allowances and to increase the single person's allowance to £2,600. A married man should be entitled to claim his wife's single person's allowance, in addition to his own, if she did not claim it, and vice versa. Furthermore, the weekly earnings level, for employees not contracted out, at which national insurance contributions are payable by both employees and employers should be increased to £100. Other types of contribution should be adjusted accordingly. Between £100 and £150 weekly the rate of contribution should be 5% only in respect of employee and employer contributions, and between £150 and £200 weekly these rates of contribution should be increased to 7%. Above £200 weekly the maximum rates of contribution should be 9% for both employee and employer.



PERSONAL TAXATION — REMOVING SOME OF THE ANOMALIES

- 1 We are concerned that greater efforts have not been made to grasp the nettle of a more effective taxing of short term capital gains and of 'fringe benefits'. It is unreasonable that those living on short term capital gains effectively enjoy a lower level of taxation than those earning the equivalent gross amount.
- 2 Despite some increase of the levels of taxable benefits, they remain significantly out of line with the actual value of such benefits. The employer who provides 'Perks' is effectively being subsidised by the employer who does not, in terms of cost to the business of the worth of the remuneration package to the employee.
- 3 This is blatantly unfair and leads inevitably to the more widespread use of such tax efficient rewards. In these circumstances the taxable benefit of this type of advantage should be almost punitive in its impact, unless of course there is substantial business use of the asset concerned:
 - (i) Motor vehicles — 20% annually of the capital cost to the business (or two-thirds of the annual leasing cost under a full repairing lease).
 - (ii) Petrol for private motoring — 10% annually of the capital cost of the car (or equivalent cost if the car is leased by the business).
 - (iii) Residential property — open market rental and not 'annual value'.
 - (iv) Other company owned assets — 100% annually, for three years only, of the market value when first used to provide a benefit.
- 4 Short term capital gains, following the disposal of an asset within two years of acquisition, should be taxed as income. Any short term losses should only be available to offset against short term gains. It is time that we abolished the concept that it is more tax effective to live on short term capital gains compared to achieving a similar increase in net personal wealth by creating income.
- 5 The time is right to review the present level of mortgage interest relief, particularly in the light of the massive amount of investment monies which are being diverted to fuel the enormous boom in house prices in the South East.
- 6 We can find no continuing justification for allowing mortgage interest relief at an individual's marginal rate of tax, following the reduction of the higher rates of income tax over recent years and the rate of real growth of personal incomes which have taken place.
- 7 Mortgage interest relief should be restricted to the basic rate of income tax only and the present mortgage limit should be increased from £30,000 to the average cost of a first time house purchase in the South East. In addition, this increased limit should apply to one residence only and the present opportunity for unmarried couples to claim double relief should be stopped.

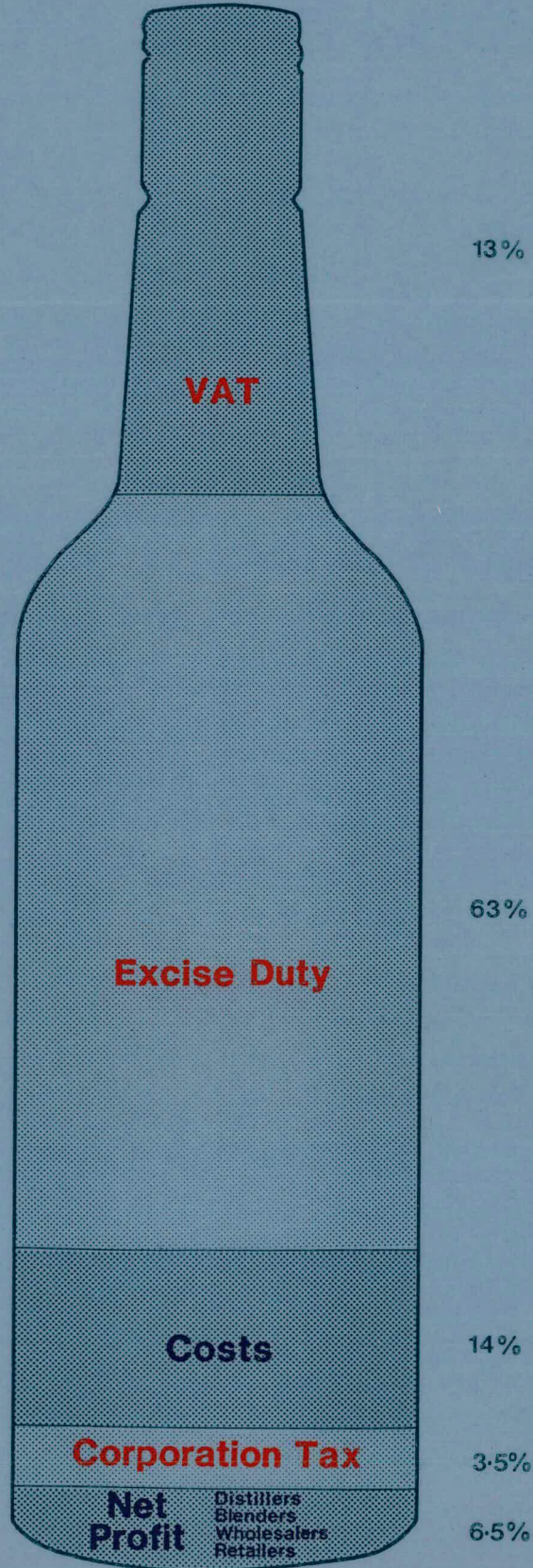
SCOTCH WHISKY

The Burden of Tax

B133

A Report prepared for
The Scotch Whisky Association

by
Pieda
1986



SCOTCH WHISKY
THE BURDEN OF TAX

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November 1986

COVER

The bottle on the cover depicts the % component share of the retail selling price of an average priced bottle of Scotch whisky in 1986. This is based on the following:

		<u>Source</u>
Average Retail Price	£7.50	Based on Nielsen Liquor Index
<u>Components of Price</u>		
Excise Duty	£4.73 -	Customs and Excise
VAT	£0.98 -	Customs and Excise
Distillers' Costs	£1.04 -	The 1985 Scotch Whisky Industry Review (Campbell Neill & Co.)
Gross Profit	£0.75	
35% Corporation Tax on Gross Profit*	£0.26	
Distillers } Blenders } Wholesalers } Retailers }	NET PROFIT £0.49	

* Distillers effective Rate of Tax after COSA - 45%

Total Tax Content 80%

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1.0 REPORT SUMMARY

The Market

1.1 The Scotch Whisky Industry faces the most difficult market situation it has experienced since the Second World War and the market continues to deteriorate rapidly. In this situation it is severely discriminated against by the government, in the following respects:

- * it experiences a much higher effective rate of Corporation Tax than all other industrial and commercial enterprises;
- * excise duty is still levied at almost twice the rate of beer and wine on a per degree of alcohol basis; and
- * the system of duty deferment penalises the industry and is not consistent with practice in other member states of the European Community.

The Remedy

1.2 We therefore ask the Chancellor that the 1987 budget should:

- * introduce a statutory maturation allowance for all stocks of maturing Scotch whisky distilled in the previous three years, thus reflecting the statutory requirement to mature Scotch whisky for a minimum period of three years;
- * provide a continuing and more rapid movement toward a system of drinks taxation with the same rate of tax per degree of alcoholic strength in line with the principle of fiscal neutrality;
- * as an interim measure to reduce the anomalies in the present system of drinks taxation of mixed drinks, introduce a new band for all mixed drinks below 15% alcohol volume; and
- * increase the period of duty deferment from four to eight weeks.

Summary

- 1.3 The commonplace observation that there has been a major shift in tastes and preferences in favour of wine and against other drinks, including spirits, is strongly confirmed by the econometric evidence reported in the Technical Appendix. This demonstrates that the major market shifts occurred in the 1980s.
- 1.4 In the face of these very adverse market circumstances home sales of spirits:
- * have declined in volume from 1980;
 - * the real price per bottle of Scotch has fallen while the real price of beer has risen; and
 - * secondary brands have taken an increasing share of the home market for Scotch, although this probably represents 'loss leading' sales.
- 1.5 The removal of stock relief has resulted in a situation where the effective rate of Corporation Tax on Scotch whisky companies is 45% compared to the normal situation for UK manufacturing companies of 38-39%. Companies specialising in quality malts or blends, the heart of our industry, face effective rates of Corporation Tax which are commonly over 50%.
- 1.6 Although the Chancellor has reduced the extent of excise duty discrimination against spirits, these changes in the structure of taxation have lagged behind the rapid shift in market circumstances. Moreover, the rate of tax per degree of alcohol remains almost twice as high for spirits compared to wine and beer. Such discriminatory taxation reflects mere historical prejudice. It does not reflect either the realities of today's market place or the interests of the Exchequer.
- 1.7 The current difficulties experienced by the Customs and Excise in the growing mixed drinks market highlights the anomalies in the present system of drinks taxation. While we propose an interim measure for this Budget, these difficulties ultimately will only be resolved by taxation on a per degree of alcohol basis.

- 1.8 A shift in the burden of excise duty from spirits to wine and beer could be accomplished without serious loss of revenue or any significant impact on beer sales. Wine sales would fall, but this would simply reflect the removal of the **privileged position** the Exchequer has granted to imported wine as against home produced spirits.
- 1.9 There is an average period of three months between payment of excise tax by the trader and its recovery from the consumer. The industry at present has a tax deferment period on spirits of an average of four weeks only, this being much more discriminatory than the situation prevailing in the European Community. The industry finances this additional two month excise duty, which places an additional financial burden on Scotch whisky.

2.0 MARKET CHANGES

- 2.1 The Scotch whisky industry has become increasingly aware that the market conditions it faces in the 1980s are very different from the conditions of the 1960s and 1970s. The demand for Scotch has fallen. Falling sales have resulted in increased stocks, downward pressure on prices and trading down in the market, in terms of the share of sales of whisky accounted for by lower priced Scotch which are often sold at prices below replacement cost.
- 2.2 To test this systematically and to demonstrate the change in market conditions facing the industry, we outline below the results of an econometric model which examines the relationship between price and demand for spirits, beer and wine in the last twenty years. The details of the model and the data utilised are explained in the Technical Appendix. The major conclusion is that there was, around 1982, a downward shift in the demand for Scotch whisky, all spirits and beer, while there was an upward shift in the demand curve for wine. Figures 2.1-2.4 summarise the results in graphical form. **What they show is that from 1982 onwards, for any given level of real price, the demand for Scotch whisky, spirits and beer was 18%, 13% and 14% lower, respectively, than prior to 1982 estimates. With wine, demand was some 8% higher at any given level of real price.**
- 2.3 The analysis supports the commonplace observation that there has been a shift in tastes and preferences against Scotch, all spirits and beer and in favour of wine. It demonstrates strong statistical support for the hypothesis that a significant structural change occurred in the early 1980s in the relationship between price and the demand for alcoholic beverages in the UK.
- 2.4 It should be noted that the econometric evidence confirms the results of previous studies which indicate that the demand for spirits is price elastic relative to the demand for beer. Indeed, the new results reported indicate that the price elasticity of the demand for beer is not significantly different from zero. Hence, a shift in excise duty from spirits to beer could be accomplished without any significant impact on beer sales. As beer and wine taxation is on a common footing, such a shift would also affect the price of wine, the sales of which are more price elastic than previously supposed. However, the fact that the existing system of taxation has discriminated in favour of imported wine against home produced spirits is not in itself a good argument against reform.

FIGURE 2.1
The Downward Shift in the Demand Curve for Whisky

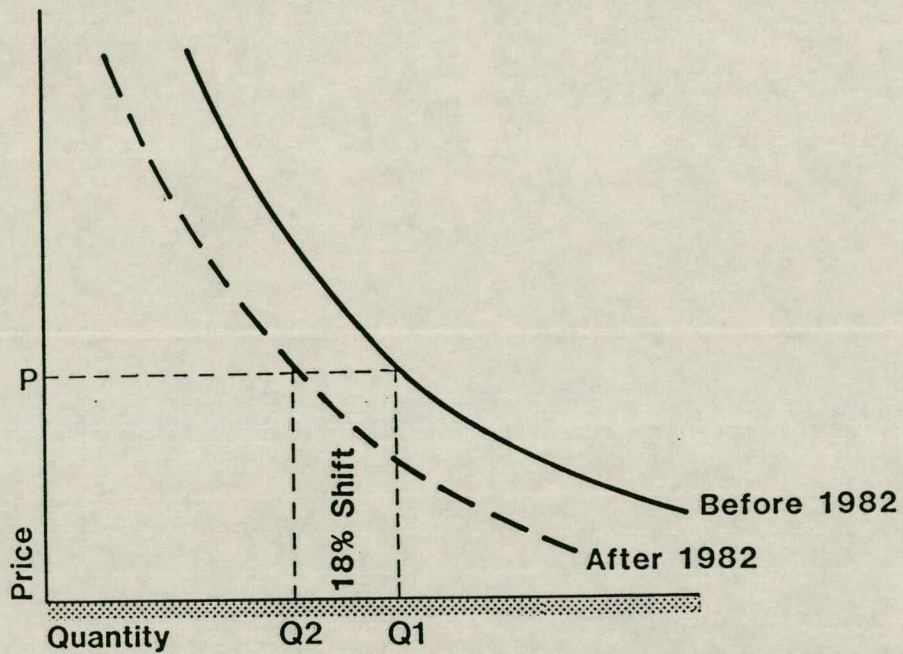


FIGURE 2.2
The Downward Shift in the Demand Curve for Spirits

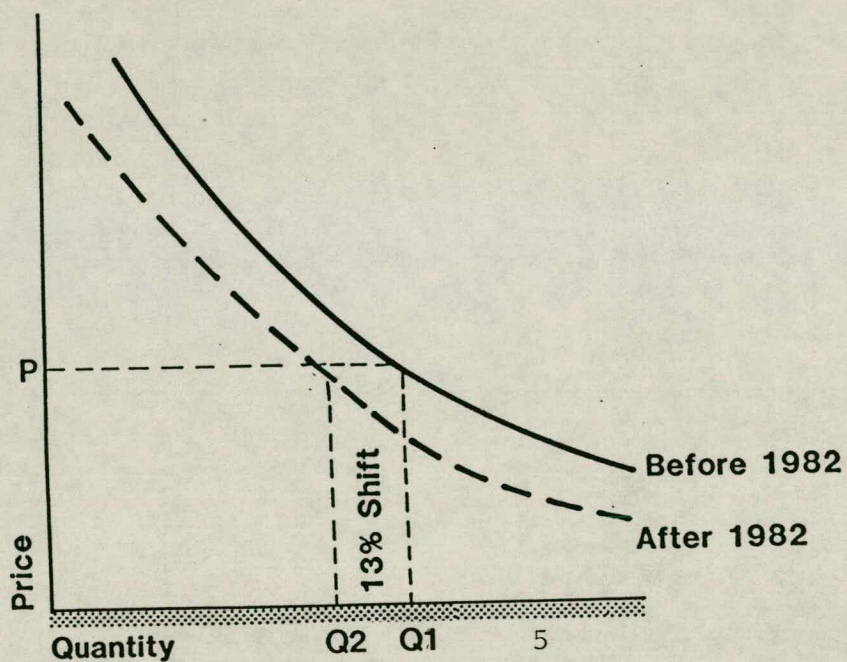


FIGURE 2.3
The Downward Shift in the Demand Curve for Beer

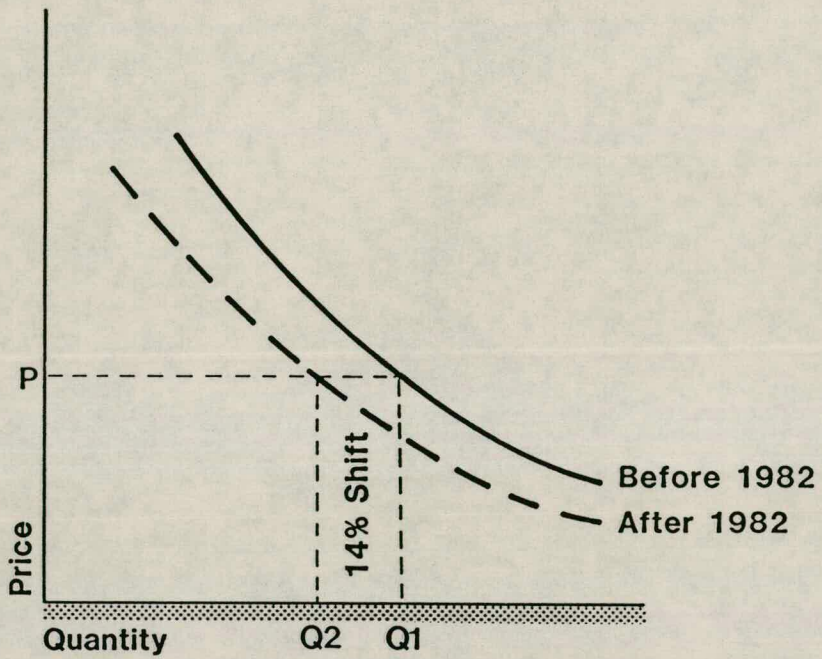
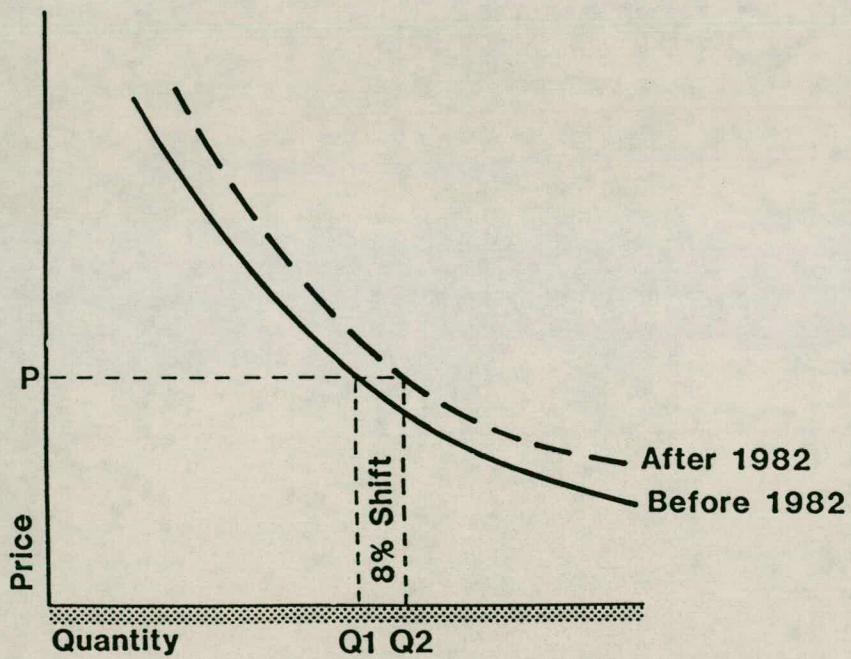


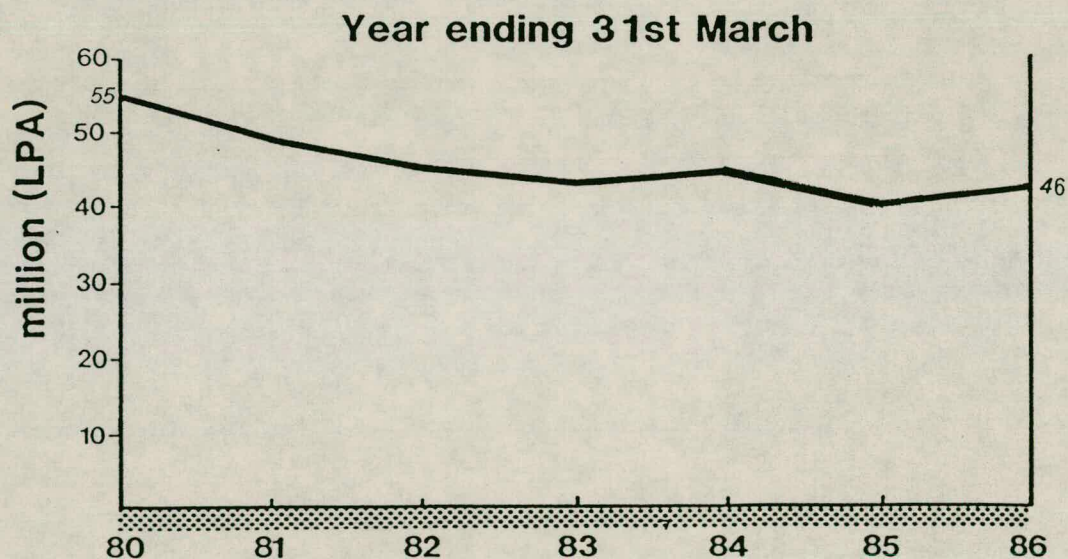
FIGURE 2.4
The Upward Shift in the Demand Curve for Wine



- 2.5 The econometric analysis also tested the possibility that the observed changes in tastes and preferences for different types of drinks, took place over a longer period. In fact, there is statistical evidence in the trend equations which indicates, over a long period, a secular shift in favour of wine. For whisky and beer, however, the statistical properties of the equations used to test the shift thesis are better than those in the trend equations.
- 2.6 Spirits are taking a smaller share of expenditure on alcoholic drinks, falling from 20% of 1981 expenditure to 17% of 1984 expenditure, as measured by the Family Expenditure Survey. This compares with a share of almost 30% of expenditure on alcoholic drinks in the early 1970s. For the first time expenditure on wine exceeded expenditure on spirits in the 1983 Family Expenditure Survey and this was repeated in the 1984 Survey. This is entirely consistent with the results of our econometric analysis.
- 2.7 Within a spirits market under pressure from other drinks, the share of Scotch has fallen from 51% in 1978 to 47.5% in 1984. Actual sales since 1980 are depicted below in Figure 2.5.

FIGURE 2.5

SCOTCH WHISKY
UK Consumption 1980-1986



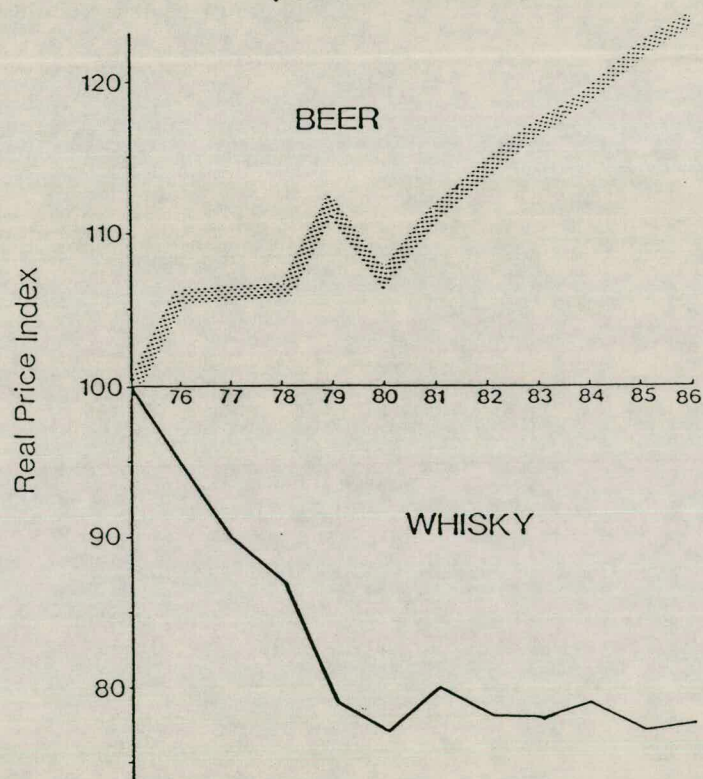
2.8 It is essential to grasp the extent of the change in the market place and the particular problems it poses to our industry. It places the industry, facing a hostile tax regime despite the recent efforts of the Chancellor on excise duty, in an environment of low profits from which it is difficult to mount an effective marketing response. Moreover, some of the short term measures taken to counter these market pressures may have a serious adverse impact on the quality 'image' which is so essential for the successful marketing of Scotch.

3.0 THE DEMAND FOR SCOTCH

3.1 In the last decade the real price of Scotch whisky in the retail market has fallen by more than one fifth, whereas the real price of beer has risen by almost one quarter, as shown in Figure 3.1.

FIGURE 3.1

Changes in the Real Price of Whisky & Beer
(1975-1986) 1975=100

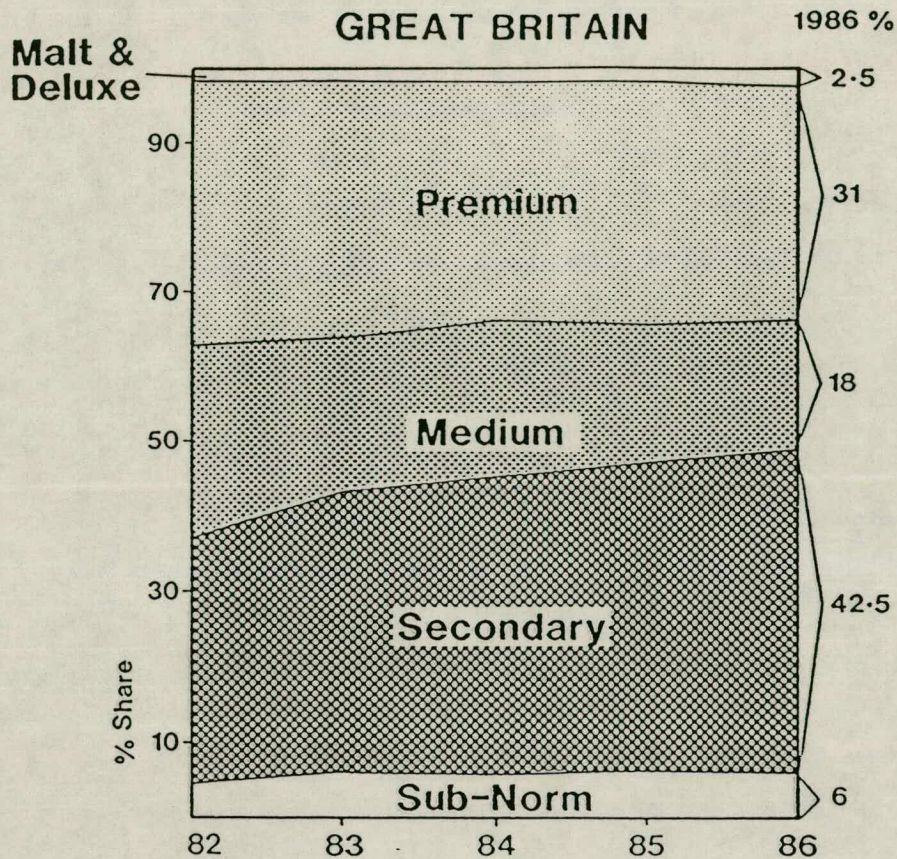


Source: Price - Custom & Excise - Retail Price Index - Economic Trends
1986 Estimates The Brewers Society Scotch Whisky Association

3.2 In the changed market circumstances of the late 1970s and early 1980s, Scotch whisky producers have been unable to raise prices in line with general inflation or the prices charged by other drink producers, particularly beer. This is reflected by the econometric evidence which shows the price elasticity of beer to be extremely low, while that for spirits is high. Moreover, with the market for Scotch, there has been, in the 1980s, very considerable trading down, with lower priced secondary brands squeezing the retail market share of premium and medium brands, as demonstrated in Figure 3.2.

FIGURE 3.2

WHISKY SALES BY CATEGORY¹
(1982-1986)



Source: Based on Nielsen Liquor Index

These are based on February/March sales, a representative period in category sales with 15% to 16% of annual sales value.

1. Premium sales - Over £8 a bottle in 1986 -Average price £8.29
 Medium sales - £7.40 -£8 a bottle in 1986 -Average price £7.75
 Secondary sales - Under £7.40 a bottle in 1986 -Average price £6.77

3.3 This increase in secondary sales from 33% to 43% of all whisky sales in such a short period, represents considerable trading down in the retail market for Scotch in terms of quality and price. Secondary and sub-normal strength sales were 49% of all sales in 1986, compared with 38% of all sales just four years earlier. Conversely, the premium market share has contracted from 37% to 31% of all Scotch whisky sales and the share of medium price whisky has fallen from 24% to 18% of Scotch whisky sales between 1982 and 1986.

- 3.4 The extent of trading down reflects the severity of the price competition faced by Scotch producers. The industry, which had laid down stocks in expectation of a continued increase in demand in home and export markets, experienced a fall in its domestic market share of spirit sales, when spirit sales were themselves under pressure from increased wine sales. In addition, exports sales also fell considerably. With substantial stocks and the cost of holding stocks sharply increased by the removal of stock relief in 1984, producers have been forced to shift volume, this resulting in the increase in the share of the market accounted for by secondary brands.
- 3.5 These sales of secondary brands are, frankly, uneconomic, largely reflecting 'loss leader' tactics through 'own label' brands provided by the multiples. Secondary sales in Feb/March 1986 had an average price of £6.77 per bottle (Nielsen Liquor Index). The tax content is £4.73 excise duty and the deduction of VAT of £0.88 leaves only a further £1.16 to cover the costs of production, blending, bottling and marketing. The 1985 Scotch Whisky Industry Review (Campbell Neill & Co) estimated 1986 production costs as in Table 3.1.

Table 3.1

Scotch Whisky Production Costs

<u>Whisky Sold in 1986</u>	<u>Pence per case</u>	<u>Pence per bottle</u>
Whisky production (laid down cost)	521	43
Blending Bottling and other costs	434	36
Distribution and selling expenses	300	25
Total Cost	1,255	104
Selling Price after deducting duty (4.73) and VAT (£0.88)		116
Net Profit		12

The 12p profit per bottle has to be distributed between the distiller, blender/brand owner, wholesaler and retailer. It is clear that **secondary brands, which now account for 43% of sales in Great Britain are making virtually no contribution to profits and prevent orderly marketing of Scotch.** When surplus stocks have been run down prices will have to rise, bringing reductions in the industry's market share, unless there is a major shift in fiscal policy.

4.0 TAX TREATMENT OF STOCKS

- 4.1 As we have demonstrated in previous submissions, the removal of stock relief in the 1984 Budget places the Scotch whisky industry at a unique disadvantage, this flowing from the fact that its stock to sales ratio (at some 9:1) is naturally much higher than any other major industry. The taxation of profits on an historical cost basis means that Scotch producers are taxed on nominal profits, which take no account of the higher cost of stock replacement resulting from inflation.
- 4.2 In our previous discussions the Treasury accepted the fact that the industry was uniquely disadvantaged during the transition period to the lower rates of Corporation Tax of 35%. Moreover, it is now accepted that the removal of stock relief, in conditions of continuing inflation, must result in the industry continuing to face, in perpetuity, a higher effective rate of Corporation Tax than that experienced by other industries. **This is a major retreat from the goal of 'fiscal neutrality' properly established by the Chancellor and the extent of the discrimination against our industry is massive, as it affects all sales, whether in the domestic or overseas market.**
- 4.3 Scotch whisky companies, like almost all UK companies, publish their accounts on an historic cost, rather than current cost basis. However, the companies are able to provide a Cost of Sales Adjustment (COSA) estimate which shows the financial consequences of replacing stocks at the current cost of replacement. In effect, COSA shows the sum of money companies have to find to maintain themselves as ongoing businesses and, consequently, it is possible to calculate the effective rate of Corporation Tax after making allowance for stock replacement.
- 4.4 Table 4.1 shows the effective rate of Corporation Tax for 15 major companies. The effective rate of Corporation Tax is 61% on an unweighted basis, and 45% on a weighted basis, against a nominal rate of 35%. As we demonstrated in last year's submission the effective tax rate for most of UK industry is 38-39%.

Table 4.1

Effective Tax Rate after C.O.S.A

<u>Company</u>	<u>Reporting Year</u>	<u>Pre-tax Profits</u> £m	<u>Tax at 35%</u> £m	<u>C.O.S.A Estimated</u> £m	<u>C.O.S.A % of pre-tax Profits</u>	<u>Effective Tax Rate After C.O.S.A. %</u>
Seagram Distillers plc	31. 1.86	35.1	12.3	11.0	31.3	51.0
Distillers Company plc	31. 3.86~	-	-	-	-	43.8*
Arthur Bell & Sons plc	30. 9.85	38.8	13.6	5.3	13.7	40.6
Edrington Holdings Ltd	31.12.85	13.0	4.6	2.4	18.5	43.4
William Grant & Sons Ltd	28.12.85	12.1	4.2	2.2 ⁺	18.2	42.4
The Highland Distilleries Co. plc	31. 8.85	9.5	3.3	2.0	21.1	44.0
Hiram Walker & Sons (Scotland) plc	31. 7.85	35.4	12.4	8.0	22.6	45.3
Invergordon Distillers (Holdings) plc	31.12.85	4.6	1.6	1.4	30.4	50.0
William Lawson Distillers Ltd	31.12.85	1.9	.7	1.0	52.7	77.8
Long John International Ltd	1. 3.86	4.7	1.7	1.9	40.4	60.7
Macallan-Glenlivet plc	31.12.85	.73	.26	.34	46.6	66.7
Macdonald Martin Distilleries plc	31.12.85	1.7	.6	1.4	82.4	200.0
Stewart & Son of Dundee Ltd	1. 3.86	.76	.27	.25	32.9	52.9
William Teacher & Sons Ltd	1. 3.86	8.1	2.8	2.9	35.8	53.8
Whyte & Mackay Distillers Ltd	30. 9.85	.1	.04	2.0	2000.0	"taxable loss"
International Distillers & Vintners Ltd	31.12.85	100.2	35.1	11.3	11.3	39.5**

+ Actual from published accounts

~ 15 months

* Provided by Distillers Company plc - for their whisky related activities.

** Whisky only part of IDV sales

Effective Rate of Tax after C.O.S.A:

Unweighted average 61.3%

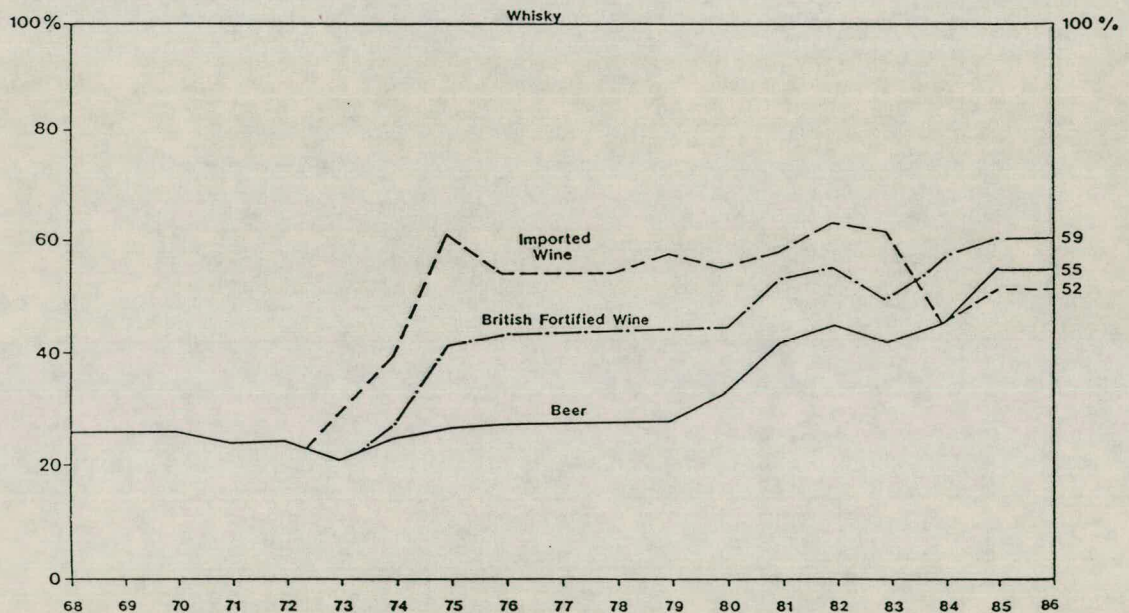
Weighted average (on Pre-tax profits) 44.8%

- 4.5 Two of the most striking results are those for Macallan-Glenlivet and Macdonald Martin. It is clear from them that the present tax regime is particularly biased against companies which specialise in the marketing of quality single malts, which together with quality blends are the heart of our industry.
- 4.6 We therefore repeat our request for a statutory maturation allowance which would reflect the unique statutory requirement placed on the Scotch whisky industry to mature its stocks for a minimum of three years. The Chancellor will recognise that such a measure would still leave our industry at a considerable disadvantage but it would nevertheless recognise the unique nature of Scotch Whisky and hence the case for special treatment. Even if a maturation allowance was introduced, the industry would continue to experience a higher effective rate of Corporation Tax than that experienced by other industries. **Our industry has not and does not seek discrimination in its favour but it is entitled to demand that the extent of discrimination against Scotch should be diminished.**
- 4.7 We would emphasise that this change is essential for improved prosperity in our industry. In recent years there has been a movement toward a more equitable regime as regards excise duty but, while we hope this will continue, it is of secondary importance relative to stock relief which affects all sales, 83% of which are exports. Hence, we would ask the Chancellor as a matter of considerable urgency to introduce a statutory maturation allowance, measured by applying the current annual inflation rate (the RPI) to the opening balance sheet value of all stocks of maturing single whiskies distilled in the previous three years only thus reducing to some extent the current discrimination.

5.0 EXCISE DUTY

5.1 As we recognised in our 1986 Budget submission, the industry accepts that the Chancellor is aware of the difficult market circumstances faced by spirits in general, and the Scotch whisky industry in particular. This has been reflected in a reduction in the extent of the excise duty discrimination against spirits but, as is demonstrated in Figure 5.1, the excise duty per degree of alcohol remains almost twice as high for spirits, as opposed to wine and beer.

FIGURE 5.1
Tax per Degree of Alcoholic Strength *



* Whisky Tax = 100 each year

Relative Tax is taken as Excise Duty, plus VAT on Excise Duty only

5.2 While the changes in the structure of excise duty on drinks have been welcome, the pace of change has been slow relative to the rapid shifts which are occurring in the market place. Moreover, we would contend that the high price of spirits, through tax, has significantly contributed to these trends. Spirits, including whisky, are poor value due to their high tax content, when compared to beer and wine, ie the tax per degree of alcohol is 83% and 94% higher than that for beer and wine respectively. Consumers, and particularly young consumers with limited incomes, have been attracted to beer and wine on price and this has helped to establish the tastes and preferences of a new generation of

drinkers, faced with a wider array of choices.

Mixed Drinks

- 5.3 **The difficulties arising from the lack of any underlying rationale to the structure of drinks taxation is highlighted by the growth of the mixed drinks market.** At present, mixed drink products of the same alcoholic strength are paying different rates of excise duty. For example, a beer based mixed drink would be classified as a made-wine, and would be taxed almost four times as much as a wine based mixed drink of the same alcoholic strength. As a result producers are seeking to maximise the 'tax efficiency' of drinks which introduces substantial distortion to the market place.
- 5.4 In addition, attempts to deal with the overlap between table wines and low-strength fortified wines are compounding anomalies and in some cases, like vermouth, dictating the alcohol content of a product.
- 5.5 In order to limit the present confusion, we propose an interim holding measure of a new band for all mixed drinks with an alcoholic strength below 15% alcohol volume.
- 5.6 The Custom and Excise, in their recent "Review of the Structure of the Duties on Wine and Made-Wine", recognise that further adjustments to their present excise duty structure are becoming increasingly impossible to defend on a rational basis. They have declared that any new structure should be:
- * practical
 - * in accord with international obligations
 - * fair, and
 - * implemented without loss to the revenue
- 5.7 It would be our contention that these criteria cannot be met by ad hoc adjustments, which would simply compound the present anomalies. Their fulfilment requires a re-examination of fundamentals, which should result in taxation on a per degree of alcohol basis.

Excise Duties

- 5.8 Discrimination against spirits is simply an historical anomaly, relating back to Lloyd George and Chamberlain's Budgets of 1918, 1919 and 1920 which introduced, for the first time, discriminatory taxes against spirits, partly on the grounds that people did not drink wine!
- 5.9 These prejudices are hardly a satisfactory basis for drinks taxation, particularly when the value of sales of wine in the UK exceeded the sales of spirits for the first time in 1985. Indeed, if the phrase, 'fiscal neutrality' is to have any meaning, it must surely apply to the taxation of drinks, as to other activities. Hence, we would ask the Chancellor to set as an objective a system of drinks taxation where all drinks are subject to the same rate of tax per degree of alcoholic strength. **This is the accepted basis of taxing beer relative to wine, and there is no convincing health, social or economic argument against its application to spirits.**
- 5.10 The objection raised to this principle is usually the political 'impossibility' of a rapid move toward equality of tax treatment because of the possible impact on the price of beer. Given that the taxation of beer is linked to wine, this then protects wine from its 'fair' share of drinks taxation.
- 5.11 In the light of the evidence of Figure 3.1, it must be said that the 'politics of beer' argument is totally unconvincing. The low rate of tax on beer has resulted in a situation where brewers have simply pushed up prices, so that the consequence of favourable tax treatment has been increased profits, not lower prices. Again, while there is some remaining support for the argument that beer is the 'poor man's drink', this particular piece of social engineering is less convincing, given that the Government has accepted that the taxation of beer is related to that of wine. **We consider that there is remarkably little support for treating claret more favourably than Scotch!**
- 5.12 As we have indicated in previous submissions, the course of action we are proposing, of a more equitable tax on spirits by adjusting the excise duties on beer and wine, is also in the interest of the Exchequer. The econometric evidence reported in the Technical Appendix suggests that the price elasticity of demand for beer is not significantly different from zero. The other

interesting conclusion is that the price elasticity of demand for wine is higher than previous estimates have suggested.

5.13 It follows that a move toward a system of tax on a per degree of alcohol basis could be accomplished with very little impact on Exchequer revenue or beer sales. Wine sales would fall, but this would simply reflect the fact that the current system of taxation discriminates in favour of imported wine against home produced spirits.

5.14 We would press strongly on the Chancellor that the present system of drinks taxation is based on nothing more substantial than historical prejudice. The only logical way to arrive at 'fiscal neutrality' is to tax drink on a per degree of alcohol basis, a system which would be attained without any serious adverse consequence to the Treasury. We would therefore propose that the Chancellor should move much more rapidly toward tax equalisation on a per degree of alcohol basis.

6.0 DUTY DEFERMENT

- 6.1 A four week deferment of duty on excise tax in 1983 has been followed by the loss of stock relief, the withdrawal of tolerances on the declaration of spirit strengths and liquid retention (equivalent to losing 60% of the duty deferment benefit in a bottle of spirits) and the loss of postponed accounting for VAT (PAS). The accumulation of these additional costs to distillers has far outweighed the relief granted by the four weeks duty deferment.
- 6.2 The payment of excise duty, four weeks after withdrawal from the bond, leaves, on average, a further eight week interval before the trader recovers excise duty from the retailer. The trader is, therefore, effectively borrowing to finance the cost of tax collection, this being two-thirds of the period between clearance from bond and cash collection.
- 6.3 This is an ongoing commitment, representing a financial burden on the industry, which could be avoided or substantially alleviated by the Government by further deferment of the collection date, thus moving closer to the normal situation where tax is levied at the final point of sale. **This would involve a once and for all delay in revenue collected in the year in which the change was made,** but would add nothing to the administrative costs of revenue collection. (Parliamentary answer by Mr B Hayhoe - Hansard 30th April 1985 - Column 96.)
- 6.4 The treatment accorded to the UK spirits industry compares very unfavourably with that of our competitors within the European Community, the respective deferment periods being shown in Table 6.1.

Table 6.1

Tax Deferment Periods on Spirits

United Kingdom	1 month

Belgium	4 months
Luxembourg	2-6 months
Denmark	45 days
France	2 months
West Germany	3 months

Source: Parliamentary answer from Mr B Hayhoe - Hansard 30th April 1985.

6.5 The duty deferment accorded to European competitors places the UK industry at a further comparative tax disadvantage. In view of this, we request that an immediate concession of an additional 28 days deferment be granted on the existing period. Such a move would mean that the trade would not be asked to finance more than one month of the cost of duty collection on average. This would have the advantage of facilitating European Community harmonisation and would leave the trade with a stronger home base and therefore better placed to build vital exports.

TECHNICAL APPENDIX

TECHNICAL APPENDIX: THE DEMAND FOR ALCOHOLIC BEVERAGES

A1 The work described in this appendix has two main purposes. First, to examine the ways in which the relationship between price and demand has changed for different drinks, particularly in recent years. Second, to obtain more recent statistical information on the price elasticities of demand for alcoholic beverages in the UK.

A2 The model assumed is a fairly straightforward log-linear demand function, similar to that employed by M Duffy in "The Demand for Alcoholic Drink in the United Kingdom 1963-1978" Applied Economics vol. 15, 1983. The general form is:

$$\log Q = a + b.\log P + c.\log Y \quad (1)$$

where Q represents physical quantity sold,
P represents price per unit, and
Y represents income.

Two variants of this basic relationship were estimated. The first employs the current price of the beverage as an explanatory variable, and makes explicit, and independent allowance for movements in the retail price index as follows:

$$\log Q = a + b.\log CP + c.\log RP + d.\log Y \quad (2)$$

A3 This formulation allows for the possibility of money illusion in the demand function by permitting the values of b and c to be different in absolute terms. Second, equation (1) was estimated using the real price of the beverage as a determinant, which represents a restricted form of equation (2), where b and c are constrained to be equal in absolute value. The results are presented in Tables 1 and 2.

A4 A number of points emerge. Generally, the diagnostic statistics are satisfactory, though there is some evidence of serial correlation of residuals in the equation for beer. The price terms are all significantly different from zero, except for those in the current price equation for beer. The estimated income elasticities are also generally significantly different from zero.

A5

A very important note from a comparison of Tables 1 and 2 is that the current and real price variants are essentially the same for all beverages. The coefficients of the own current price, and retail price index terms in Table 1 are quite similar in magnitude (though of opposite sign) in all cases, and are very close to the values of the price elasticities estimated in the real price formulations in Table 2. There are consequently good grounds for believing that the demand functions are homogeneous of degree zero in prices, and all further work concentrates on the relationship between demand and real price. (Note, however, that no formal tests of homogeneity were carried out.)

Table 1

$$\log Q = a + b.\log CP + c.\log RP + d.\log Y$$

(OLS estimates)

	a	b	c	d	\bar{R}^2	DW
Whisky	-3.5615 (-0.78)	-1.1081 (-3.49)	1.0155 (3.42)	1.2149 (2.03)	0.9024	1.6121
Spirits	0.0436 (0.01)	-1.0683 (-3.69)	1.0315 (3.81)	1.0927 (2.00)	0.9239	1.7874
Beer	-4.4144 (-2.16)	-0.6736 (-1.76)	0.7079 (1.59)	0.9357 (3.05)	0.7925	0.6624
Wine	-16.7483 (-6.69)	-0.7370 (-4.45)	0.8180 (5.95)	2.3219 (6.59)	0.9854	1.1815

Table 2

$$\log Q = a + b.\log RP + d.\log Y$$

(OLS estimates)

	a	b	c	d	\bar{R}^2	DW
Whisky	3.1889 (0.63)	-1.0184 (-3.46)		0.8766 (2.10)	0.9043	1.3819
Spirits	5.6167 (1.24)	-1.0327 (-3.90)		0.9585 (2.55)	0.9274	1.6966
Beer	-2.3627 (-3.39)	-0.5583 (-2.14)		1.0448 (6.59)	0.8015	0.6794
Wine	-14.5306 (-5.84)	-0.8280 (-6.05)		2.5871 (11.47)	0.9854	1.1779

(Note: Figures in parentheses are t-statistics)

- A6 The values of the parameter estimates suggest that the demand for spirits, including whisky is generally price elastic, whilst for beer it is inelastic. The estimated elasticity for beer is, however, higher than obtained in many previous studies, though there are grounds for believing that this may be due to factors omitted from this specification. This view is supported by the evidence of serial correlation.
- A7 The estimated income elasticities suggest that the demand for spirits and beer is proportionate to income, whilst wine appears particularly income elastic.
- A8 Owing to the nature of the underlying model, and the fact that the data interval is annual, there is some likelihood of simultaneous equation bias in OLS estimates of the functions described. To take account of this possibility, equation (2) was re-estimated for each of the drinks using two stage least squares. This procedure was carried out under the assumption of a "supply price function" of the general form:

$$\log RP = f(\log Q, \log T, \log RW) \quad (3)$$

where RP represents the real price of the beverage,
Q represents physical quantity sold,
T represents the real level unit taxation, and
RW represents real wages per unit output (as a proxy for labour costs).

The assumed exogenous variables are Y, T, and RW. The resulting estimates are presented in Table 3.

- A9 Clearly, there is very little difference between the OLS and TSLS estimates, either in the statistical determination of the equations and parameters, or in the numerical parameter values.

Table 3

$\log Q = a + b \cdot \log RP + d \cdot \log Y$
(Two stage least squares estimates)

	a	b	d	\bar{R}^2	DW
Whisky	6.1596 (5.58)	-1.1976* (0.33)	0.6420 (0.46)	0.9024	1.4811
Spirits	8.8793 (5.04)	-1.2295* (0.30)	0.7009 (0.41)	0.9253	1.8155
Beer	-2.4946* (0.71)	-0.6958* (0.29)	1.1160* (0.17)	0.7986	0.7679
Wine	-14.8180* (2.66)	-0.8117* (0.15)	2.6110* (0.24)	0.9854	1.2069

Note: Figures in parentheses are asymptotic standard errors.

* indicates significantly different from zero at the 5% level.

A10 An important purpose of this exercise is to investigate the ways in which the basic relationship between demand, price and income has altered over time in the UK. There is some casual evidence in an examination of the data that a major shift in market conditions has occurred in recent years, to the particular disadvantage of spirits, though possibly affecting beer to some extent. This section describes an attempt to quantify this phenomenon.

All The approach is fairly straightforward. The hypothesis is that the demand function for spirits has shifted downwards in recent times, whilst the elasticity of demand with respect to price has remained quite stable. This idea may be tested by estimating an equation of the form:

$$\log Q = a + b \cdot \log RP + d \cdot \log Y + e \cdot D \quad (4)$$

where Q, RP and Y have already been defined above, and

D represents a shift dummy variable, taking the value of 1 for years after the change occurred, and being zero for years prior to the change.

Note that whilst the shift is additive in the logarithmic equation, its effect is multiplicative on the actual level of demand, given price and income.

A12 Although the primary aim is to establish the magnitude of the shift for whisky and spirits in general, equation (4) was estimated for all beverages for comparative purposes. Table 4 presents the OLS estimates of this function, with the shift dummy taking unit value from 1982 onwards. (Experiments were made with the shift occurring in earlier and later years, and a start year of 1982 was found to give optimum results, from a statistical standpoint.) Table 5 gives the TSLS estimates.

Table 4

$$\log Q = a + b \cdot \log RP + d \cdot \log Y + e \cdot D$$

(OLS estimates)

	a	b	d	e	\bar{R}^2	DW
Whisky	-1.5488 (-0.38)	-0.8848 (-3.84)	1.3789 (3.94)	-0.1924 (-3.72)	0.9429	2.2690
Spirits	1.9376 (0.48)	-0.9289 (-4.11)	1.3486 (3.93)	-0.1419 (-2.94)	0.9482	2.2398
Beer	-3.6200 (-6.97)	0.1317 (0.63)	0.9345 (8.80)	-0.1468 (-5.11)	0.9146	1.4324
Wine	-14.1754 (-6.12)	-0.7880 (-6.13)	2.5103 (11.80)	0.0796 (2.02)	0.9874	1.3687

Note: Figures in parentheses are t-statistics.

Table 5

$$\log Q = a + b \cdot \log RP + d \cdot \log Y + e \cdot D$$

(Two stage least squares estimates)

	a	b	d	e	\bar{R}^2	DW
Whisky	1.0932 (4.55)	-1.0398* (0.26)	1.1667* (0.38)	0.1870* (0.05)	0.9415	2.3184
Spirits	5.0013 (4.49)	-1.1087* (0.25)	1.1025* (0.38)	-0.1431* (0.05)	0.9464	2.3154
Beer	-3.6250* (0.52)	0.1818 (0.26)	0.9187* (0.12)	-0.1504* (0.03)	0.9144	1.4488
Wine	-14.5579* (2.47)	-0.7650* (0.14)	2.5423* (0.22)	0.0807* (0.04)	0.9874	1.4151

Note: Figures in parentheses are asymptotic standard errors.

* indicates significantly different from zero at the 5% level.

A13 Comparing Tables 2 and 3 with Tables 4 and 5 reveals a substantial degree of robustness in the estimates of price and income elasticities. In general, the income elasticities maintain their values, though the price elasticities estimated in the equations involving the shift dummy do tend to be somewhat lower overall in absolute magnitude. A change of particular note, however, is in the price elasticity of demand for beer. Both OLS and TSLs estimates of this parameter have perverse signs, and are not significantly different from zero. Nevertheless, the statistical definition of the equation is better in terms of goodness of fit, and with respect to serial correlation than the specification omitting the shift factor. This supports the remark made in paragraph 2.4 above regarding possible omitted influences in the beer relationship.

A14 A very strong feature of the results presented in Tables 4 and 5 is the apparent importance of the shift variable. In all equations, the dummy is statistically different from zero. In the cases of Scotch whisky, spirits and beer the shift in the demand function is downward, whilst for wine there is an upward movement. In numerical terms, taking antilogs of the estimated parameters, the suggestion is that **from 1982 onwards, for any given level of real price and income, the demand for Scotch whisky, spirits and beer would be 18%, 13% and 14% lower respectively than prior to 1982** (using the OLS estimates). With wine, demand could be expected to be some 8% higher.

- A15 If equation 4 is re-estimated in current price terms allowing independently for the RPI, the coefficients on the shift dummy are -0.2593, -0.2221, 0.1519 and 0.0799 for Scotch whisky, spirits, beer and wine respectively. Those for Scotch whisky, spirits and beer are all significantly different from zero. The implications of this current price formulation are downward shifts in demand of 23%, 19% and 14% for Scotch whisky, spirits and beer respectively.
- A16 In general, the statistical properties of the shift dummy equations are better than those of the non-shifted functions described in Section 2. In particular, the adjusted R^2 values are higher, and the previous evidence of serial correlation is diminished (though the problem appears to persist with whisky to some extent).
- A17 It may be concluded that there is strong statistical support for the hypothesis that a significant structural change in the relationship between price, income and the demand for alcoholic beverages in the UK occurred in the early 1980's, this change taking the form of a downward shift in the demand curves for Scotch whisky, spirits and beer, and an upward movement in the demand curve for wine.
- A18 Whilst evidence for a shift in the demand curves for the various beverages is strong, it was felt that there was some merit in investigating the hypothesis that the change in relationship takes the form of a long run trend, rather than a fairly sudden movement. This idea was examined by estimating equations of the form:

$$\log Q = a + b.\log RP + d.\log Y + r.T \quad (5)$$

where Q, RP and Y are defined above, and
T represents time.

Note that with an appropriate definition of T, the parameter r can immediately be interpreted as a secular (ie non-price, non-income generated) annual rate of growth in demand.

- A19 Again, equation 5 was estimated for each type of drink using both OLS and TSLS. Results are presented in Table 6 and 7, respectively. Comparing Tables 4 and 5, with Tables 6 and 7 once again reveals a general robustness of results in the cases of spirits and wine as far as price and income elasticity estimates are concerned. With beer, however, there is a substantial increase in the estimate of the price elasticity.

Table 6

$$\log Q = a + b.\log RP + d.\log Y + r.T$$

(OLS estimates)

	a	b	d	r	\bar{R}^2	DW
Whisky	-1.8784 (-0.25)	-1.0047 (-3.39)	1.5340 (1.81)	-1.3420 (-0.89)	0.9032	1.5673
Spirits	1.7814 (0.26)	-1.0223 (-3.81)	1.4561 (1.90)	-1.0157 (-0.75)	0.9257	1.8529
Beer	1.7583 (0.39)	-0.8949 (-1.99)	0.6319 (1.33)	1.2319 (0.92)	0.7999	0.6689
Wine	-6.4853 (-2.16)	-0.7148 (-6.35)	1.4330 (3.86)	2.7706 (3.54)	0.9909	1.3115

Note: Figures in parentheses are t-statistics.

Table 7

$$\log Q = a + b.\log RP + d.\log Y + r.T$$

(Two stage least squares estimates)

	a	b	d	r	\bar{R}^2	DW
Whisky	1.2210* (8.07)	-1.1816* (0.33)	1.2803 (0.88)	-1.2955 (1.52)	0.9013	1.6476
Spirits	5.2030 (7.33)	-1.2175* (0.30)	1.1760 (0.80)	-0.9643 (1.38)	0.9235	1.9510
Beer	10.7401 (6.98)	-2.0513* (0.79)	-0.1028 (0.67)	4.0291* (2.11)	0.7263	1.2672
Wine	-6.8602* (3.05)	-0.6777* (0.12)	1.4526* (0.37)	2.8437* (0.79)	0.9909	1.4173

Note: Figures in parentheses are asymptotic standard errors.

* indicates significantly different from zero at the 5% level.

- A20 The trend variable is a significant explanatory factor for wine, and in the TOLS estimated equation for beer. If this specification were to be accepted, the implication would be that there has been a secular increase in the demand for wine of almost 3% per annum, and on the basis of the TOLS estimates, a secular increase in the demand for beer of around 4% per annum.
- A21 It is to be noted, however, that in all cases except wine, the statistical properties of the shift dummy equations (Tables 4 and 5) are better than those of the trend equations. The comparison is fairly marginal in all cases except for beer, where the goodness of fit for the shift specification is substantially better than for the trend counterpart.
- A22 Hence, while a secular trend can explain the data for beer and wine, the statistical evidence is in favour of a comparatively sudden shift in market conditions during the early 1980's for whisky, spirits in general and beer. In the case of wine, the evidence is very marginally in favour of a long run upward trend in demand of some 3% per annum.

Conclusions

- A23 The statistical evidence therefore confirms the common-sense observation that there has been a shift in tastes and preferences in favour of wine, and the previous statistical evidence that the demand for spirits is more price elastic than the demand for beer. The main conclusions are:
- (i) The demand curve for whisky, spirits in general and beer shifted downwards during the early 1980's. The extents of the shifts suggest that on average, for any given real prices and incomes the demands for whisky, spirits and beer could be expected to be 18%, 13% and 14% respectively lower post 1982 than previously.
 - (ii) The evidence is marginally in favour of a long run upward secular trend in the demand for wine of some 3% per annum, rather than a sudden shift in market conditions.
 - (iii) The price elasticity for whisky and spirits is high (around -1). The figure for wine is somewhat less (around -0.8), whilst the demand for beer is quite price inelastic (an elasticity insignificantly different from zero)

The four databases used are as follows:-

Database 1 - Whisky

	<u>Consumption</u> (million hecto- litres of alcohol)	<u>Average</u> <u>Price per</u> <u>Bottle (75cl)</u> ¹ £	<u>Total</u> <u>Tax per Bottle</u> (including VAT) £
1964	0.23329	2.76	1.50
1965	0.24883	2.95	1.70
1966	0.22537	3.26	1.87
1967	0.23284	3.40	2.00
1968	0.25355	3.58	2.20
1969	0.24105	3.84	2.20
1970	0.24821	3.94	2.20
1971	0.26936	4.05	2.20
1972	0.29808	4.12	2.20
1973	0.33153	4.05	1.98
1974	0.42207	4.41	2.14
1975	0.44099	5.88	2.78
1976	0.43219	5.64	3.10
1977	0.47265	6.85	3.41
1978	0.43149	6.83	3.41
1979	0.54178	7.56	3.63
1980	0.55082	9.32	4.09
1981	0.49727	10.71	4.69
1982	0.45601	10.99	4.99
1983	0.43137	11.72	5.24
1984	0.45369	12.64	5.34
1985	0.43130	12.64	5.34

Source: Reports of the Commissioners of HM Customs and Excise

1: Average Price is for both retail sales and sales on licensed premises

Database 2 - Spirits

	<u>Consumption</u> (million hecto- litres of alcohol)	<u>Average</u> <u>Price per</u> <u>Bottle (75cl)</u> ¹ £	<u>Total</u> <u>Tax per Bottle</u> (including VAT) £
1964	0.471158	2.76	1.50
1965	0.495205	2.95	1.70
1966	0.445246	3.26	1.87
1967	0.454354	3.40	2.00
1968	0.492994	3.58	2.20
1969	0.455185	3.84	2.20
1970	0.467122	3.94	2.20
1971	0.520682	4.05	2.20
1972	0.572373	4.12	2.20
1973	0.637963	4.05	1.98
1974	0.830989	4.41	2.14
1975	0.841291	5.88	2.78
1976	0.833099	5.64	3.10
1977	0.905264	6.85	3.41
1978	0.844017	6.83	3.41
1979	1.057005	7.56	3.63
1980	1.110967	9.32	4.09
1981	0.992207	10.71	4.69
1982	0.893981	10.99	4.99
1983	0.872025	11.72	5.24
1984	0.943462	12.64	5.34

Source: Reports of the Commissioners of HM Customs and Excise.

1: Average Price is for both retail sales and sales on licensed premises

Database 3 - Beer

	<u>Consumption</u> (million hectolitres)	<u>Price per</u> <u>Pint Pence</u>	<u>Total Tax</u> <u>Pence</u> (incl. VAT)
1964	48.279	8.8	3.5
1965	48.982	9.0	3.9
1966	49.720	9.6	4.2
1967	51.234	9.6	4.2
1968	51.627	10.0	4.7
1969	52.757	10.8	4.7
1970	56.151	11.7	4.7
1971	57.200	12.0	4.7
1972	59.062	13.0	4.7
1973	59.981	14.0	3.4
1974	64.272	17.0	4.3
1975	64.007	21.0	6.4
1976	64.554	26.0	7.3
1977	66.809	30.0	8.1
1978	66.998	32.5	8.1
1979	66.979	39.0	8.6
1980	68.835	44.0	10.5
1981	65.490	51.0	14.5
1982	61.094	57.0	16.4
1983	61.205	61.0	17.4
1984	62.488	65.0	19.3
1985	61.802	71.0	20.8

Source: Reports of the Commissioners of HM Customs and Excise.

Database 4 - Wine, Cider, and Perry

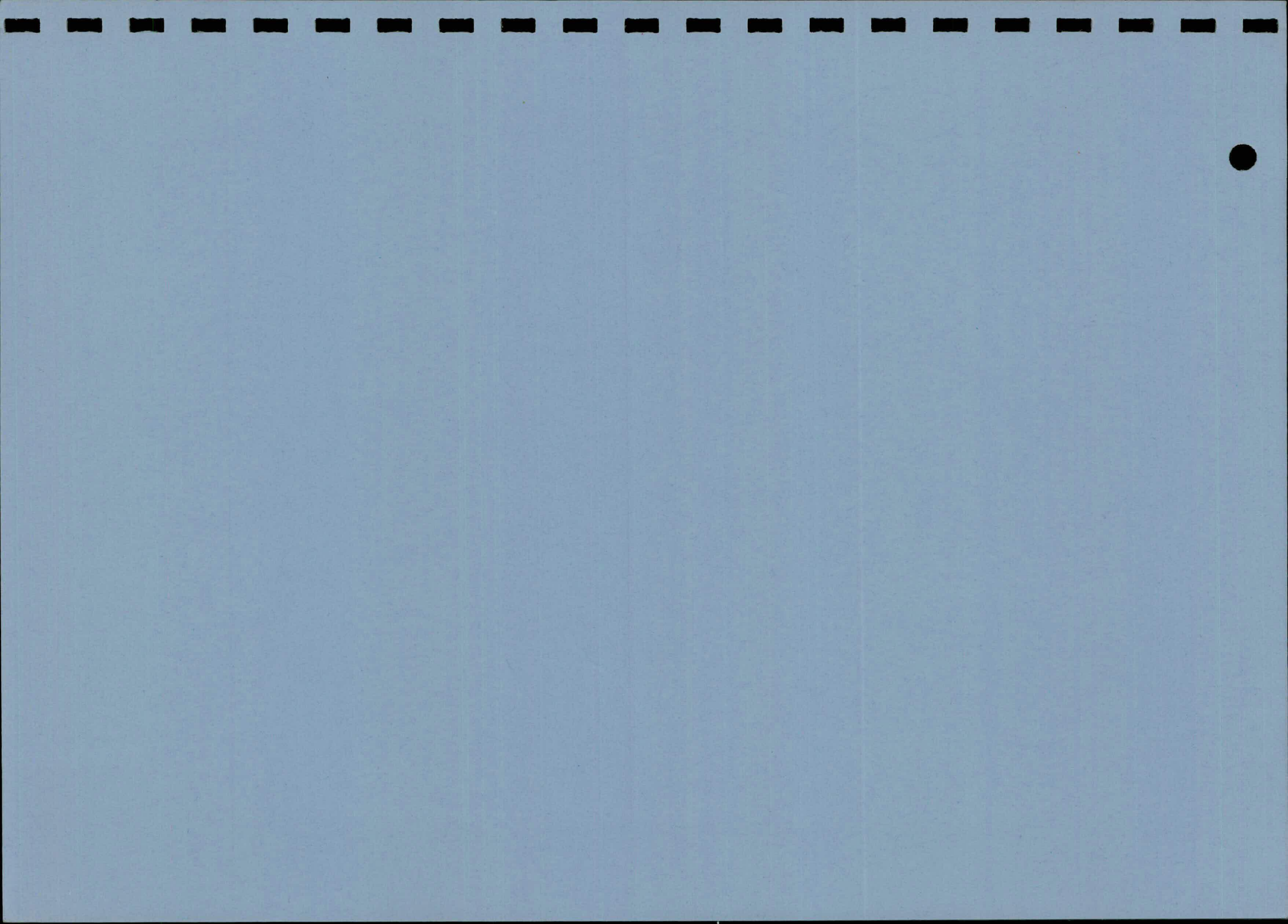
	<u>Consumption</u> (million hectolitres)	<u>Average</u> <u>Price per</u> <u>Litre (£)</u> ¹	<u>Total Tax Per</u> <u>Litre (£)</u> ² (on middle range) (incl. VAT)
1964	1.170	1.64	0.229
1965	1.246	1.58	0.253
1966	1.243	1.79	0.304
1967	1.290	1.91	0.334
1968	1.566	1.81	0.376
1969	1.551	1.99	0.414
1970	1.479	2.23	0.475
1971	1.701	2.37	0.475
1972	1.992	2.36	0.475
1973	2.372	2.55	0.523
1974	3.086	2.33	0.438
1975	2.846	2.93	0.424
1976	2.872	3.43	0.716
1977	3.159	3.57	0.891
1978	3.165	4.17	0.891
1979	3.728	4.40	0.949
1980	4.201	4.50	1.080
1981	3.952	5.75	1.413
1982	4.925	5.18	1.586
1983	4.000	7.35	1.678
1984	4.968	6.41	1.811

Source: Consumption and Tax - Reports of the Commissioners of HM Customs and Excise

Price - Customs and Excise make no estimate of incidence of duty as a percentage of consumers' expenditure on wine. We have therefore used consumer expenditure on wine contained in the National Income Accounts (CSO) to estimate price as expenditure divided by consumption per litre.

1: Average Price is for both retail sales and sales on licensed premises

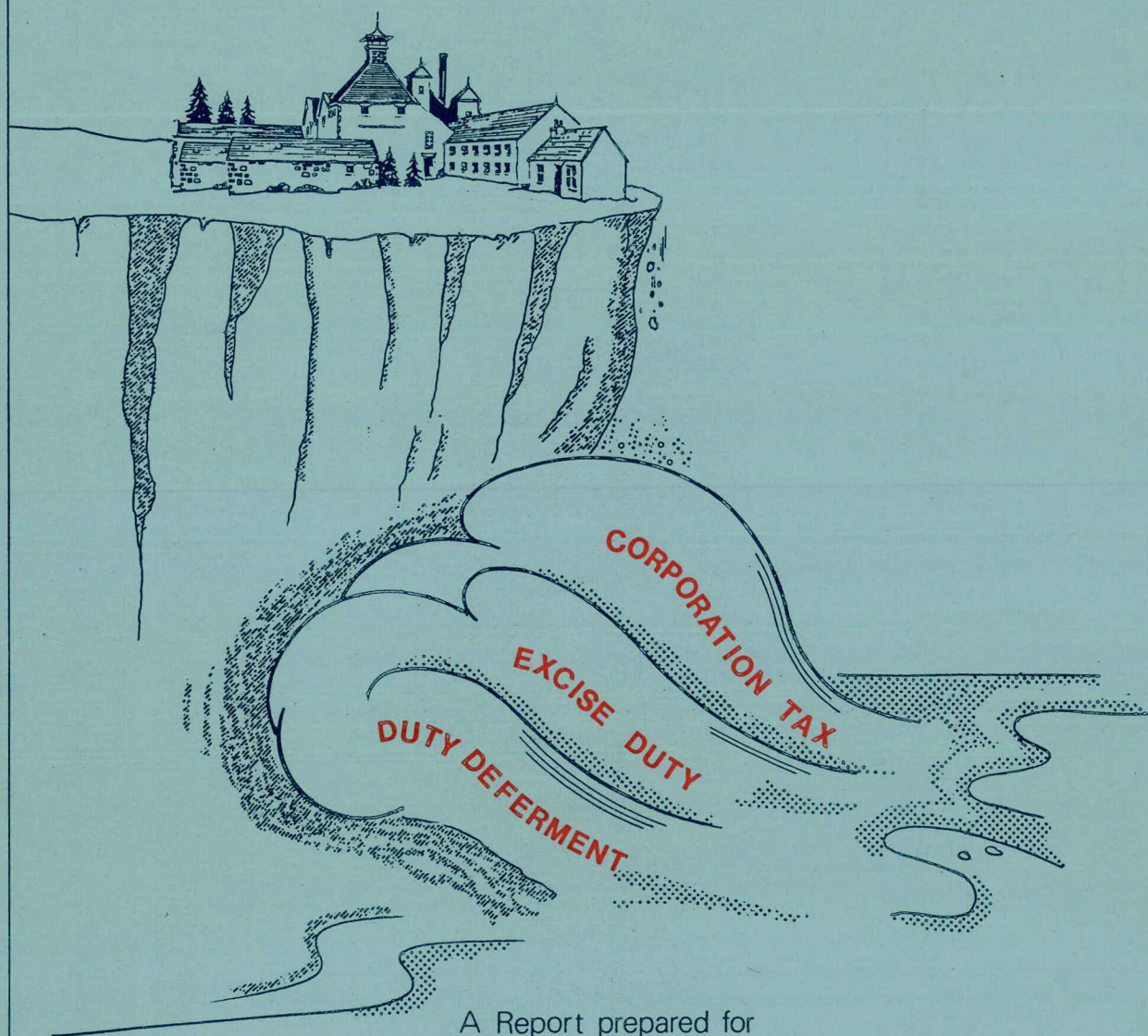
2: Includes 10% regular surcharge on wine in 1967 and 1969.



1987

SCOTCH WHISKY

The Erosion of a National Asset



A Report prepared for
The Scotch Whisky Association

by

Pieda

Planning, Economic and Development Consultants

SCOTCH WHISKY
THE EROSION OF A NATIONAL ASSET

by

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1.0 REPORT SUMMARY

The Market

- 1.1 Over the 1980s the Scotch Whisky industry has experienced falling sales and severe price cutting in the face of fierce competition from an ever growing range of new drink products. Against the erosion of a unique national asset that this represents, Treasury action has been too little and too late. We must therefore impress on the Chancellor the need to accept that the margin of tax disadvantage experienced by the industry is quite out of line with the market realities. The situation must be rectified as a matter of urgent priority.
- 1.2 The major shift in tastes and preferences in favour of wine and against other drinks was demonstrated in our 1986 submission, and is confirmed by subsequent developments. In the first half of this year, home trade clearances of Scotch Whisky were no less than 11% below their level a year earlier.
- 1.3 The shrinking home market, and consequent falling profitability, have materially affected the industry's ability to maintain its quality image and to invest in effective marketing, in a fiercely competitive market. Without a healthy home market as a base, exporting has become increasingly an uphill struggle.

The Remedy

- 1.4 We therefore ask the Chancellor that the 1988 budget should mark a sea-change in the burdens placed upon the industry by the Treasury and should:
- * introduce a statutory maturation allowance for all stocks of maturing Scotch Whisky distilled in the previous three years, this reflecting the statutory requirement to mature Scotch Whisky for a minimum period of three years;
 - * make a commitment to introduce, over not more than a five year period, a system of excise duty with the same rate of tax per degree of alcoholic strength for all alcoholic beverages, this being in line with the Chancellor's stated principle of fiscal neutrality;
 - * increase the period of duty deferment from four to eight weeks.

REPORT
SUMMARY

Summary

- 1.5 The industry is faced with significant adverse tax discrimination through:
- * a much higher effective rate of Corporation Tax than **all** other commercial enterprises;
 - * excise duty levied at almost twice the rate of beer and wine on a per degree of alcohol basis; and
 - * a system of duty deferment which imposes a burden of financing two-thirds of the present duty and which is not consistent with the practice of other member states of the European community.
- 1.6 Despite the benefit this year of lower stock replacement costs due to reduced energy and cereal prices, the effective rate of Corporation Tax for the industry currently averages 44%, compared to the nominal rate of 35% - a margin over other activities of no less than one-quarter. **The Treasury has never advanced any defence of this discriminatory treatment.**
- 1.7 While the Chancellor has held excise duty for two consecutive budgets, it is a fact that the tax per degree of alcohol for spirits remains almost twice that for wine and beer. Indeed, the anomalies of the present taxation system for drinks create the ludicrous situation of diverting substantial marketing and financial resources to the promotion of 'tax avoidance' concoctions. **We submit that both problems have a common solution - the Chancellor should implement the principle of fiscal neutrality and tax all drinks on a per degree of alcohol basis.**
- 1.8 Such a shift in the burden of excise duty from spirits to wine and beer can be accomplished without loss of revenue or any significant impact on beer sales. Imports of wine might be affected but this would simply reflect the loss of its present privileged taxation position.
- 1.9 The financing of duty some eight weeks prior to receiving payment from the retailer is costing the industry around £2.4 million. The commercial realities of this trade are much better recognised in other Community countries and we therefore ask for immediate harmonisation of this aspect of tax treatment.

2.0 MARKET CHANGES

The Domestic Market

2.1 Over the 1980s consumer tastes have shifted in favour of other lower taxed drinks, particularly wine. In consequence, UK wine sales have increased by 50% since 1979 (see Figure 2.1), that growth being particularly strong for wine paying lower rates of excise duty. Sales of wine not exceeding 15% volume have risen 250% in the last decade. By way of contrast Scotch Whisky sales have shown a volume reduction of 24% since 1979 (see Figure 2.2) resulting in the closure of 30 distilleries and the loss of one-third of its labour force.

Figure 2.1
WINE

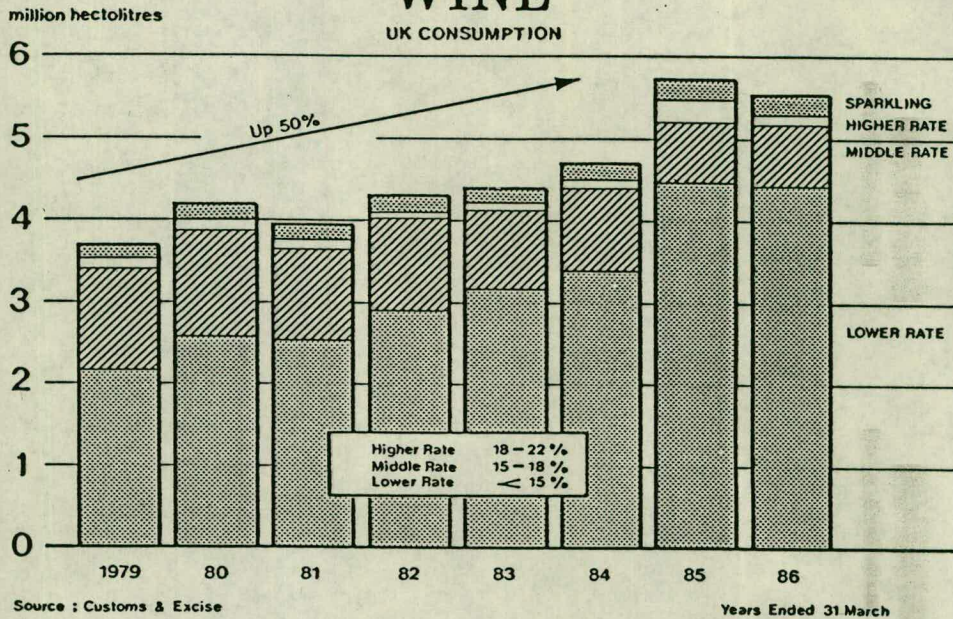
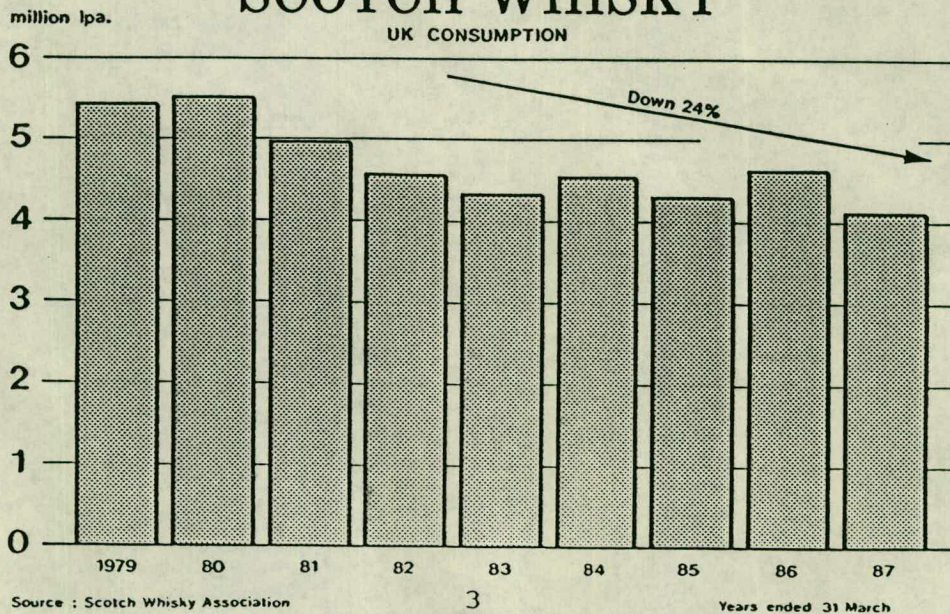


Figure 2.2
SCOTCH WHISKY



MARKET
CHANGES

2.2 Consumption expenditure data tell much the same story:

	<u>1979</u>	<u>1985</u>
	%	%
Spirits share of household expenditure on alcoholic drinks	21	17
Scotch Whisky's share of spirit sales	53	48

When considering Scotch Whisky's falling share of spirit sales, it should be noted that spirits other than Scotch Whisky are not stock intensive. Gin and Vodka are marketed six weeks after they are produced, and do not bear the cost of inflation in their replacement of stocks.

2.3 These unfavourable market trends have resulted in a substantial reduction in the real value of sales, as falling sales have exerted a downward pressure on real prices. The retail price of a bottle of Scotch Whisky has fallen in real terms by almost 30% since 1975 and over the last decade the real value of total sales (both on and off licence) has fallen by almost the same amount. The basic data on sales and prices are in Appendix 1.

2.4 This is in sharp contrast to the Beer Industry where the real price of beer has risen by a quarter since 1975. In spite of falling sales, the real value of output has increased by 14% over 1975-1986.

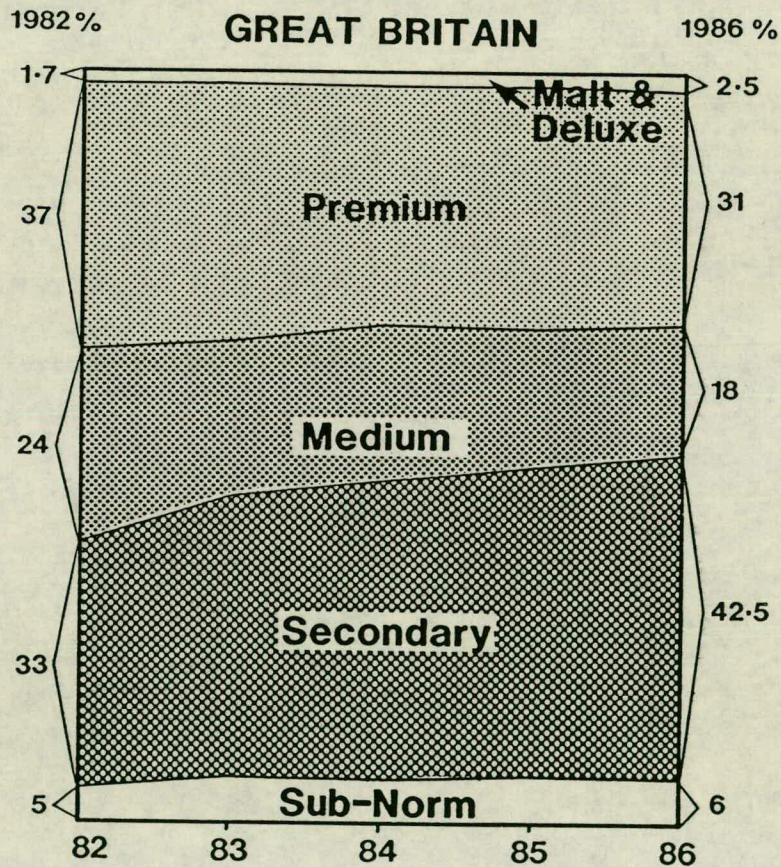
Quality

2.5 Trading down is evidenced by the growth of lower priced secondary and sub-normal strength brands of Scotch Whisky whose market share increased from 38% in 1982 to 49% in 1986. (see Figure 2.3). The Liquor Index is now collated by STATS.MR on a different basis and a direct comparison of the 1987 data is not possible. However, the latest yearly category sales to April/May 1987 confirm the trend of a contracting market share for premium and medium price brands.

2.6 These trends are of the very greatest concern to the industry. Scotch Whisky is synonymous with quality, which has been the cornerstone of its past outstanding exporting record. Trading down is not in the long-term interests of our industry or the national interest. It is a direct consequence of the market conditions and tax discrimination we experience, and undermines the image of the Industry's product, while reducing the funds available for promotion - the day being long past when the product 'sold itself'.

FIGURE 2.3

WHISKY SALES BY CATEGORY¹
(1982-1986)



Source: Based on Nielsen Liquor Index

These are based on February/March sales, a representative period in category sales with 15% to 16% of annual sales value.

1. Premium sales - Over £8 a bottle in 1986 - Average price £8.29
 Medium sales - £7.40 - £8 a bottle in 1986 - Average price £7.75
 Secondary sales - Under £7.40 a bottle in 1986 - Average price £6.77

The Export Market

- 2.7 In real value terms, export sales had just regained their 1975 level in 1986, having fallen to their lowest point in real value terms in 1983. Despite this, Scotch Whisky exports are still Scotland's largest export earner in terms of net value of exports and account for around 75% by value of UK exports of alcoholic drinks.
- 2.8 We sum up the current position of the Scotch Whisky market/industry as follows:
- * Home sales have contracted in real value terms by 26% since 1975.
 - * Secondary and sub-normal sales are now half of all UK Scotch Whisky sales.
 - * Since 1975 export sales have only maintained their value in real terms.

3.0 TAX DISCRIMINATION AGAINST SCOTCH

3.1 We recognise that the Chancellor has reduced excise duty discrimination against spirits but these changes have been totally insufficient in the light of the rapidly changing market situation and affect only the 15% of total sales accounted for by the home market.

3.2 Scotch Whisky faces three discriminatory taxes:

- * Higher Effective Corporation Tax
- * Higher Excise Duties
- * Financing Eight Weeks of Excise Duty

3.3 The combined effect of this discrimination is to reduce very substantially the return on capital and discourage any incentive to invest in laying down stocks, developing new brands and improving marketing. With each passing year, this continuing unfavourable treatment adds to the market pressures facing the industry. We must impress on the Chancellor that this can only have the effect of weakening the industry, as it is affecting the allocation of investment resources against Scotch Whisky and in favour of other drinks within some of the major drinks conglomerates which nowadays dominate the industry.

Higher Effective Corporation Tax

3.4 The taxation of profits on a historical cost basis means that Scotch Whisky producers are taxed on nominal profits, which take no account of the higher cost of stock replacement resulting from inflation. It should also be noted that the 1915 Immature Spirits Act requires the industry to hold its stocks for a minimum of three years, although in practice the majority of stocks are held for much longer periods.

3.5 The Treasury has acknowledged that the industry is uniquely disadvantaged because so long as the rate of inflation is positive, the industry faces, in perpetuity, higher effective rates of Corporation Tax than all other industries. This erodes the capital base of the industry as it reduces the rate of return on assets compared to other activities. Moreover, it results in a lower stock market valuation of Scotch Whisky companies making them vulnerable to takeover and restricting their opportunity to diversify their business.

TAX
DISCRIMINATION
AGAINST
SCOTCH

- 3.6 Table 3.1 shows the Effective Tax Rate after C.O.S.A. (Cost of Sales Adjustment) for thirteen Scotch Whisky companies, with an unweighted average of effective rate of tax after C.O.S.A. of 46% and a weighted (on Pre-tax profits) average of 44%. The margin of disadvantage is less than in previous years, because of the reduced cost of stock replacement, but this is a temporary phenomenon and even given this, the present effective rate of 44% compares to 38/39% for most other industries.
- 3.7 Further, it will be noted that this Table confirms the analysis of previous years, in that the highest effective rates of Corporation Tax are borne by the companies responsible for producing quality malts and blends.
- 3.8 We would reiterate our contention, which we understand is accepted by the Government, that the industry is uniquely disadvantaged in this regard by virtue of its stock: output ratio of 8:1. Moreover, as we are required by law to mature Scotch Whisky for a minimum of three years, we consider that the Government is able to recognise the unique circumstances of the industry by introducing a statutory maturation allowance. This would be measured by applying the current annual inflation rate (the RPI) to the opening balance sheet value of all stocks of maturing single whiskies distilled in the previous three years. The cost of granting such an allowance would not be significant to the Treasury but would be of material benefit to the Industry. It would also be of immense psychological value to the Industry which increasingly sees its taxation treatment as unfair and deeply prejudicial to its interests.

Excise Duty

- 3.9 The excise duty charged per centilitre of pure alcohol is 8.60 pence for Beer and 8.17 pence for Wine (less than 15%) compared to Scotch Whisky's 15.77 pence per centilitre of pure alcohol. This means that Scotch Whisky is carrying 83% more excise duty per centilitre of alcohol than Beer and 93% more excise duty per centilitre of alcohol than Wine. The excise tax differential in favour of beer and wine is then compounded by the application of VAT at 15%.

Table 3.1

Effective Tax Rate After C.O.S.A.

<u>Company</u>	<u>Reporting Year</u>	<u>Pre-tax Profits</u>	<u>Tax at 35%</u>	<u>C.O.S.A estimated</u>	<u>C.O.S.A % of pre-tax Profits</u>	<u>Effective Tax Rate After C.O.S.A</u>	<u>Effective Tax Rate Previous Year</u>
		<u>£m</u>	<u>£m</u>	<u>£m</u>		<u>%</u>	<u>%</u>
Seagram Distillers p.l.c.	31.01.87	35.5	12.4	9.5	26.8	47.7	51.0
United Distillers Group Ltd. (DCL Interest) ¹	31.12.86	290.0	-	-	-	43.8	43.8
Edrington Holdings Ltd.	31.12.86	14.4	5.0	1.4	9.7	38.5	43.4
Wm. Grant & Sons Ltd. ²	27.12.86	14.7	5.2	4.0	27.2	48.6	42.4
The Highland Distilleries Co. p.l.c.	31.08.86	10.3	3.6	1.7	16.5	41.9	44.0
Hiram Walker & Sons (Scotland) p.l.c.	31.07.86	30.5	10.7	3.6	11.8	39.8	45.3
Invergordon Distillers (Holdings) p.l.c.	31.12.86	5.2	1.8	.3 Cr.	5.8 Cr.	32.7	50.0
William Lawson Distillers Ltd.	31.12.86	2.6	.9	.5	19.2	42.9	77.8
Long John International Ltd.	28.02.87	5.9	2.1	1.1	18.6	43.8	60.7
Macallan-Glenlivet p.l.c.	31.12.86	1.2	.4	.2	16.7	40.0	66.7
Macdonald Martin Distilleries p.l.c.	31.12.86	2.2	.8	1.2	54.6	80.0	200.0
Stewart & Son of Dundee Ltd.	7.03.87	.8	.3	.3	.4	60.0	52.9
Wm. Teacher & Sons Ltd.	7.03.87	7.5	2.6	1.3	17.3	41.9	53.8

Notes: 1. Pre-tax profits are not available for United Distillers Group Ltd, but we believe these figures are reasonably accurate for the whisky related activities only.

2. C.O.S.A. taken from published accounts

Effective Rate of Tax after C.O.S.A.:

- Unweighted average 46.2%
- Weighted average (on Pre-tax profits) 43.8%

- 3.10 Scotch Whisky bears almost twice the excise duty of beer and wine on a per degree of alcohol basis. There can be no question but that this has contributed very significantly to the shift in consumer tastes. In a market with a high rate of new product innovation and heavily promoted drinks' products, consumers have increasingly chosen to buy more lightly taxed beer, lager, wine and mixed (and hence cheaper) drinks, because Scotch Whisky is a poor buy in terms of alcohol content relative to price. The falling real price of retailed Scotch Whisky (by almost 30% since 1975) has reflected the industry's attempt to remain price competitive with the tax favoured drinks, but the Industry would practically have to give Scotch Whisky away to offset the tax discrimination implicit in the present regime.
- 3.11 As the Chancellor knows, the existing tax differential arose in the budgets of 1918, 1919 and 1920 when spirit taxation was raised by a factor of five. This was instigated by the 'Temperance Champion', Lloyd George, and has become built into the structure of UK taxation in a period when the market circumstances are entirely different. That is, the discriminating excise duties applied to spirits are rooted in historical prejudice and reflect no equitable or logical taxation principle.
- 3.12 Nor do we find the 'politics of beer' argument acceptable. The treatment of beer as 'the working man's drink' is not consistent with existing social realities, as beer drinkers are clearly drawn from every socio-economic group. Moreover, the Chancellor's reluctance to tax beer has simply resulted in brewers' pushing up prices and enjoying higher profits. It is no accident that beer prices have risen by 25% in real terms since 1975 and that major Scotch Whisky producers have been taken over by beer based companies!
- 3.13 The econometric evidence demonstrates that it is perfectly possible to move toward an equitable system without sharp changes in volume or adverse impacts on tax revenue. We show below our estimates of the impact on sales volume and tax revenue of retaining excise duty on spirits at the present level, while raising duty on beer and wine to remove one-fifth of the existing margin of discrimination.

3.14 Reducing the tax differential between spirit and wine and beer by one fifth would require the following excise changes:

Spirits	No change
Beer	+ 3 pence per pint
Wine (not exceeding 15%)	+ 14 pence per 75cl. bottle
Wine (in excess of 15%)	+ 20 pence per 75cl. bottle

3.15 Using the own price elasticities which we understand are currently employed by the Treasury, the anticipated sales volume changes at the new excise levels would be:

Volume Changes

	<u>%</u>
Spirits	0
Beer	-0.75
Wine (not exceeding 15%)	-7.94
Wine (in excess of 15%)	-7.75

3.16 Table 3.2 shows, in its left hand column, our estimate of likely 1986 revenue based on the data presently available. The second column shows the estimated revenue given the changes in excise duty and VAT specified above. It can be seen that the tax rate is estimated to increase by almost 6% overall. This analysis is shown in full in Appendix 2. In addition, we have cross-checked our calculations using own and cross price elasticities, and on price data derived from the National Accounts rather than from Customs and Excise data. The resultant volume changes and excise and VAT increases were similar to those shown in Table 3.2.

Table 3.2

Receipts of Excise Duty and VAT (£ Million)

	<u>Present</u> <u>Estimate</u>	<u>New Tax</u> <u>Base Estimate</u>	<u>% Change</u>
Excise Tax	4611	4961	+7.6
V.A.T.	2080	2111	+1.5
Total	6691	7093	+5.7

- 3.17 The estimates suggest that there would be no significant impact on beer sales, the estimated change in volume sales being less than 1%. It should be noted that the suggested increase in excise duty per pint of 3 pence is less than the increase in price recently reported. Volume sales of wine would fall by around 8% but as wine sales have been growing by almost 10% per annum in recent years, it is difficult to imagine that the industry cannot absorb the changes.

Duty Deferment

- 3.18 In 1985-86 Scotch Whisky paid around £60 million a month in excise duty to the Treasury. This payment was made by distillers four weeks after withdrawal from the bond but eight weeks on average before excise duty was recovered from the retailer. The annual interest charge of financing this adverse cash flow is estimated to cost around £2.4 million (assuming a 12% annual interest rate on £120 million over a two month period).

- 3.19 This burden should be removed by treating duty deferment more generously as is the case in other Community countries. For example, duty deferment is 2 months in France, 3 months in West Germany and 4 months in Luxembourg.

- 3.20 Recently the view was expressed that:

"Moving towards the **normal situation** (our italics) where tax is levied at the final point of sale would involve a once and for all delay in revenue collected in the year in which the change was made, but would add nothing to the administration costs of revenue collection"

(Parliamentary answer by Mr B Hayhoe.
Hansard 30th April 1985 - Column 96).

- 3.21 In view of this we request that an immediate relief of an additional 28 days deferment be granted on the existing period of duty collection.

APPENDIX 1

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Appendix 1

Estimate of Value of UK Scotch Whisky Sales (Indexed to 1975 Value)

	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
	<u>Duty Per Bottle</u>	<u>Duty as a % of Consumers expenditure Per Bottle</u> ¹	<u>Average Price Per Bottle</u> ²	<u>No of Bottles Sold (year to March)</u>	<u>Sales Value: Current Prices (3x4) £ million</u>	<u>Retail Price Index 1975 = 100</u>	<u>Sales Value: Constant 1975 Prices (£ millions)</u>	<u>Sales Value: Constant 1975 Prices 1975 = 100</u>
1975	2.5772	45.4	5.68	146,998,000	834.949	100	834.949	100
76	2.8735	50.8	5.66	144,065,660	815.408	116.5	699.921	84
77	3.1605	46.1	6.86	157,551,000	1,080.800	135	800.593	96
78	3.1605	46.3	6.83	143,832,330	982.373	146.2	671.938	80
79	3.1605	41.8	7.56	180,594,660	1,365.291	165.8	823.457	99
80	3.5610	38.2	9.32	183,608,660	1,711.227	195.6	874.860	105
81	4.0800	38.1	10.71	165,759,330	1,775.279	218.8	811.371	97
82	4.3410	39.5	10.99	152,004,000	1,670.524	237.6	703.082	84
83	4.5570	38.9	11.71	143,791,330	1,580.263	248.6	635.665	76
84	4.6440	36.7	12.65	151,232,330	1,683.793	260.9	645.379	77
85	4.7310	35.4	13.36	143,769,330	1,913.085	276.8	691.143	83
86	4.7310	35.4	13.36	153,122,660	2,045.710	286.3	714.534	86
87	4.7310	35.4	13.36	138,307,330	1,847.782	298.3	619.437	74

1 Taken from 'Blue Book' accounts

2 It should be noted that the average off-licence sales price is only some £7.30 per bottle at present.

Source - Columns 1, 2 and 3 Customs and Excise Annual Reports

Column 4 - based on duty paid Scotch Whisky (LPA)
Scotch Whisky Association - Annual Review.

Column 6 - Economic Trends.

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ESTIMATE
OF VALUE
OF UK
SCOTCH
WHISKY
SALES

APPENDIX 2

The impact on volume of sales and receipts of excise duty and VAT, resulting from a reduction on the tax differential between spirits and wine and beer of one-fifth, is estimated in Table B assuming the following own price estimates:

Own Price Elasticities

Spirits	-1.3
Wine (less than 15%)	-1.1
Wine (in excess of 15%)	-1.1
Beer	-0.2

Table A

Receipts of Excise Duty and VAT
Based on
Existing Excise Tax Structure

<u>Units</u>		<u>Spirits</u>	<u>Wine in excess</u>	<u>Wine less</u>	<u>Beer</u>	
		<u>Bottles</u>	<u>of 15%</u>	<u>than 15%</u>	<u>Pints</u>	
Alcohol Content (cl) per unit		30.00	13.52	8.55	2.11	
1985 Sales ¹	(Million units)	429.67	142.53	598.27	10808.51	
1985 Price ²	(pence/unit)	1336.00	284.00	194.00	80.00	
Duty	(pence/cl alcohol)	15.77	9.39	8.60	8.60	
	(pence/unit)	473.10	126.91	73.49	18.11	
VAT	(pence/unit)	174.26	37.04	25.30	10.43	
<hr/>						
						<u>Total</u>
Base Total Excise	(£ Millions)	2032.77	180.88	439.68	1957.68	4611.02
Base Total VAT	(£ Millions)	748.75	52.80	151.39	1127.84	2080.78
Base Total Tax	(£ Millions)	2781.52	233.68	591.07	3085.53	6691.80

- 1985 Sales - Derived from Customs and Excise data (Customs and Excise Report, March 1986) and converted to units.
Bottle = 75cl. Pint = 0.5682 litres.
- 1985 Price - The Spirits and Beer price is derived from the Customs and Excise tax incidence (Customs and Excise Report: March 1986). The wine prices are derived by inflating their price in the November 1986 Report, 'Scotch Whisky The Burden of Tax'.

Table B

Receipts of Excise Duty and VAT
Based on
New Excise Tax

Units		<u>Spirits</u>	<u>Wine in excess of 15%</u>	<u>Wine less than 15%</u>	<u>Beer</u>	
		<u>Bottles</u>	<u>Bottles</u>	<u>Bottles</u>	<u>Pints</u>	
New Duty ¹	(pence/cl alcohol) (pence/unit)	15.77 473.10	10.67 144.16	10.03 85.75	10.03 21.13	
New VAT ²	(pence/unit)	174.26	39.65	27.13	10.83	
New Price ³	(pence/unit)	1336.00	304.00	208.00	83.00	
Price Change	(pence/unit)	0.00	20.00	14.00	3.00	
Sales Change	(Million units) (per cent)	0.00 0.00	-11.04 -7.75	-47.49 -7.94	-81.06 -0.75	
New Sales	(Million units)	429.67	131.49	550.78	10727.45	
						<u>Total</u>
New Total Excise	(£ Millions)	2032.77	189.55	472.27	2266.99	4961.58
New Total VAT	(£ Millions)	748.75	52.14	149.43	1161.36	2111.68
New Total Tax	(£ Millions)	2781.52	241.69	621.70	3428.35	7073.25
		<u>Base</u>	<u>New</u>	<u>Change</u>		
Overall Excise	(£ Millions)	4611.02	4961.58	+350.56		
Overall VAT	(£ Millions)	2080.78	2111.68	+30.90		
Overall Tax	(£ Millions)	6691.80	7073.25	+381.46		

1. New Duty - Existing Duty, increased for wine and beer to eliminate one-fifth of tax differential against spirits
2. New VAT - Change in Excise Duty x 1.15
3. New Price - Impact of 1 and 2 above on the initial price