

PO-CH/NL/0408

PART D

Part D.

SECRET

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MANAGEMENT - IN - CONFIDENCE

Begins: 1/12/87
Ends: 29/1/88



PO -CH /NL/0408



PART D

Chancellor's (Lawson) Papers:

TAX APPROXIMATION AND
VALUE ADDED TAX REFORM

DD's: 25 Team

19/12/95

PO -CH /NL/0408

PO -CH

PART D

FROM: I C R BYATT
DATE: 1 December 1987

CHANCELLOR

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr Scholar
- Mr Edwards
- Mr Culpin
- Miss Sinclair
- Mr Mortimer
- Mr Riley
- Ms Munro
- Mr Ford
- Mr Unwin)
- Mr B Knox)
- Mr Allen) C & E
- Ms French)
- Mr Oxenford)

Ch. / Shall we organize a meeting with Mr Byatt et al, as he suggests?

*25
2/12.
you psu.
M. Whit.
Jas at (via Ford & Hamman) where X is m.*

ECONOMIC POLICY COMMITTEE ON 26-27 NOVEMBER: TAX APPROXIMATION

I attended EPC on 26-27 November when the group had a first exchange of views on the subject of tax approximation. I was accompanied by Alison French (Customs) and Chris Ford (Treasury). The discussion gave a useful first indication of other Member States' attitudes to the proposals. Although it is clear that we are in a minority, we are not alone in having fundamental difficulties with the Commission's approach, and all Member States foresee problems of one kind or another with the proposals.

2. The French Chairman, Mr Milleron, opened the meeting by suggesting that the EPC should study both the micro and macro economic implications of indirect tax approximation. He recognised that it would not be possible for the Committee to produce conclusions in time for the December ECOFIN but hoped that by then it would be possible to reach some general conclusions and to indicate areas requiring further study.

BYATT
TO
CH/EX
1 DEC

UK Position

3. I set out the British position questioning whether the approximation of indirect taxes was necessary for further progress on establishing the internal market and emphasising the need to fully examine the costs and benefits of any such proposals. I suggested that particular areas of concern included:

- (i) the proposed "clearing house" mechanism;
- (ii) restrictions on the ability of governments to alter the balance between direct and indirect taxation;
- (iii) the inability of countries to pursue particular social objectives through the taxation of products such as alcohol or tobacco.

Summary of National Views

4. It is clear that the Danish and Luxembourg positions have much in common with our own. The Italians too emphasised the importance of eliminating the administrative costs associated with intra-Community trade and expressed especial concern both about the implications of the proposals for fiscal sovereignty (a concern echoed in several other quarters) and about the excise proposals. Doubts about excise duty approximation were widespread, with the Greeks, the Portuguese, the French, the Irish and the Germans (who suggested perhaps there was no need to tax wine) also singling them out as areas of particular difficulty. The Irish laid greatest stress on the need for countries which were adversely affected by approximation to receive compensation.

5. The Belgian, French and Dutch representatives indicated that they regarded indirect tax approximation as a priority objective. The Germans and the Spaniards also supported the Commission's approach. Nevertheless, they all foresaw difficulties of one sort or another with the proposals. The Portuguese picked out the loss of VAT zero rating as an area of particular concern. Although broadly in agreement with the Commission's approach several

delegations, including the French, Germans and Spanish, questioned the feasibility of the VAT clearing mechanism. The German representative, Mr Molitor, pointed to particular difficulties arising from the proposal to use the ECU as the unit of account.

Chairman's Report

6. In summing up, the Chairman declared his intention to give an interim report at ECOFIN on 7 December. An official text of his remarks should be available later this week. His report will say that EPC agreed that, in the long term, completion of the internal market must be accompanied by greater harmonisation of indirect taxes. Further work is needed on the various problems identified during discussion and the clearing mechanism and excise proposals present considerable problems. Mr Milleron believes EPC will need to consider the timetable for progress towards greater harmonisation, but the problems already identified will make it difficult for this to be precise.

7. Mr Emerson (for the Commission) undertook to provide more information on the "cost of non-Europe" within a few weeks. In the light of this the Chairman suggested it would be possible to impose a three month deadline on the Committee's work, with the aim of reporting back to ECOFIN in March 1988.

December ECOFIN

8. The Danish representative was reluctant for the topic to appear on the agenda of the December ECOFIN, but the Commission made it clear they would insist on its inclusion. The best (and the most likely) outcome that we can hope for is that Mr Milleron will make his report and the Presidency will simply thank him and look forward to the full report, without any need for Ministerial discussion at this stage.

Further Work

9. I don't think we have done badly so far and I am not worried about what Mr Milleron will say to the ECOFIN next Monday. But I

foresee some problems ahead. The French, the Germans, the Dutch, and the Belgians favour the Commission proposals - at least as far as approximation of tax rates are concerned. So do the Spaniards. I can assemble some kind of alliance - Denmark, Luxembourg, Italy (to some extent) Ireland and Greece - but cannot be a powerful one. The cost and complexity of the clearing house is a strong card. Harmonisation of the excise duties will present everyone with some kind of problem; and it is not obvious that the economic advantages of harmonisation are large. But we could easily be isolated on VAT and find it difficult to offer an economic justification for our zero rate.

10. It would help us if we could talk to you about these issues. We will examine weaknesses in the clearing house mechanism proposed by the Commission. But I would also like to be able to spell out alternatives in the EPC discussion - in particular a market approach which would not involve formal tax approximation. It would be helpful to discuss the options under this with you, if possible before Christmas. This may cut across work being undertaken to fulfil the remit by OD(E) to work up an 'alternative strategy' but EPC's deadlines will be tight so this seems unavoidable.

11. The EPC timetable is not clear. We shall shortly have a new Chairman, probably Mr Molitor, who will have his own views. He might try to push things through in one meeting - in February. If a market alternative is to be considered, we shall have to put it on the table.

B

I C R BYATT

FROM: P B KENT
DATE: 2 DECEMBER 1987

ECONOMIC SECRETARY

cc PS/Chancellor
Chief Secretary
Financial Secretary
Paymaster General
Mr Edwards
Mr Scholar
Miss Sinclair
Mr Cropper

EUROPEAN COMMUNITY: PROPOSAL FOR AN EIGHTEENTH COUNCIL DIRECTIVE
AMENDING THE SIXTH VAT DIRECTIVE

This submission seeks your approval of a Supplementary Explanatory Memorandum which sets out the latest position on the draft Eighteenth VAT Directive. We should be grateful if you would sign it and return it to us for duplication and distribution to Parliament as soon as possible.

The proposal was originally examined by the Scrutiny Committees of both Houses in 1985. A supplementary EM explaining amendments to the proposal was submitted on 7 August 1987. The Commons committee decided not to recommend the proposal for debate, but asked to be kept informed of developments. We still await the decision of the Lords, who referred the question to a sub-committee. In the meantime, negotiations have progressed well, and there is a good prospect of agreement on a compromise text at a Council meeting on 7 December. Noting the appearance of the proposal on the Council agenda, the Commons committee have called for a further supplementary EM explaining the present state of negotiations. Any agreement reached on 7 December would be subject to a Parliamentary scrutiny reserve.

A separate submission will follow shortly, dealing with outstanding issues in relation to negotiations on the draft Eighteenth VAT Directive in Brussels.

P B KENT

Internal Distribution

CPS	VA Assistant Secretaries
Mr Knox	Mr Cockerell
Mr Jefferson Smith	Mr Craske
Mr Fotherby	Mr Walton UKREP

1 am not @ all happy with this. X seems to imply that only the UK & Ireland are affected: what about other countries? I have not a decision at Y: who has to make a choice. At Z, @ X is a problem for the withdrawal states & do not really need to be highlighted or a (b) is the 7000 in a year or less of revenue? Finally, the whole EM is written

In a way which makes it quite unworkable because as to what precisely the directive does.

**SUPPLEMENTARY EXPLANATORY MEMORANDUM ON EUROPEAN COMMUNITY
LEGISLATION****PROPOSAL FOR AN EIGHTEENTH COUNCIL DIRECTIVE ON THE HARMONISATION OF
THE LAWS OF THE MEMBER STATES RELATING TO TURNOVER TAXES - ABOLITION
OF CERTAIN DEROGATIONS PROVIDED FOR IN ARTICLE 28(3) OF DIRECTIVE
77/388/EEC - COMMON SYSTEM OF VALUE ADDED TAX**

Submitted by HM Customs and Excise

December 1987

SUBJECT MATTER

Article 28 of the Sixth VAT Directive provides for transitional provisions, or derogations from the Directive. These permit member states to continue with their existing practice in certain defined circumstances, and have been used, in part, by all member states. The transitional period was initially to last for five years, up to 31 December 1982. The Council was then to review the derogations on the basis of a report from the Commission and, acting on proposals from the Commission, decide unanimously whether any or all of the derogations should be ended. The Commission submitted its first report on the use of the derogations to the Council on 17 January 1983 and, in November 1984, submitted its draft Eighteenth VAT Directive which proposed the abolition of some of them.

An Explanatory Memorandum on the draft Eighteenth Directive (Doc 11176/84) was submitted on 23 February 1985. It outlined the proposed changes to the Sixth VAT Directive and highlighted those derogations for which abolition was proposed and with which the UK was concerned.

An Explanatory Memorandum on the proposed amendments to the draft Eighteenth Directive (Doc. 7422/87) was submitted on 7 August 1987.

Many member states, including the UK, have major difficulties with the proposed abolition of certain derogations. In an attempt to give the draft directive some impetus, the Danish Presidency has therefore produced a compromise solution which seeks the abolition from

1 January 1989 of all but two of the derogations regarded by the Commission as 'easy' to concede and therefore included in its proposed first phase of abolition. The compromise package obliges the Council to consider the abolition of the remaining items before 1 January 1991. The Council is empowered to adopt the compromise package if there is unanimous agreement.

The derogations included in the package for abolition and which concern the UK are the following:

Annex E: (Derogations to tax where Sixth Directive envisages exemption.)

Items 4 and 5: Certain services linked to sport, physical education and culture.

Items 9 and 10: Agency commissions in relation to transactions in securities and management of unit trust funds.

Annex F: (Derogations to exempt where Sixth Directive envisages taxation.)

Items 21 and 22: Fuelling and provisioning of private boats and aircraft proceeding outside the national territory.

X As to other member states' derogations, the UK would benefit from the adoption of the proposed compromise directive as Ireland would forgo its exemption from VAT (Item F4) of supplies of greyhounds and thoroughbred horses, which distorts Community trade and particularly disadvantages the UK.

If the UK accepted the present compromise proposal, it would be signalling its agreement only to future consideration of abolishing other derogations but not at this stage agreeing to abolition itself. For example, the current exemptions given to funeral services and building land and the zero-rating of passenger transport and military aircraft and warships, which are sensitive issues or could have major financial implications for the UK, would be given consideration at a later date.

The UK is being asked to abandon its use of the six transitional derogations mentioned above on the understanding that all member states make equally significant sacrifices in the interests of harmonisation of EC VAT practice.

MINISTERIAL RESPONSIBILITY

The Chancellor of the Exchequer.

LEGAL AND PROCEDURAL ISSUES

(i) Treaty basis

The proposal for a Directive is based on Article 99 of the Treaty of Rome. The amendments to the proposal were presented by the Commission under Article 149 of the Treaty.

(ii) Co-operation procedure

The co-operation procedure is not applicable.

(iii) Voting procedure

Unanimity required.

(iv) Impact on UK law

The relevant law is covered both by Community law in the Sixth VAT Directive and by United Kingdom law in the Value Added Tax Act 1983 as amended and in subordinate legislation thereunder. If the present proposal were adopted amendments to United Kingdom subordinate legislation would be necessary. It is unlikely that any changes to United Kingdom primary legislation would be required.

POLICY IMPLICATIONS

The Presidency compromise package seeks the abolition of all but two of the derogations felt by the Commission to be less contentious and easier for member states to concede.

For the UK, the policy implications of the package are that, without the proviso regarding distortion of competition referred to below, there would be a radical change in the tax structure applicable to sports and cultural services, the latter requiring a corresponding rethink on funding for the arts sector if broadly the same levels of Government support are to be maintained.

The UK does not currently allow exemption from VAT in the areas of sports and cultural services and introducing it would lead to a greater distortion of competition than currently exists between commercial bodies, non-profit making bodies and bodies governed by public law. The UK would accept abolition of the derogation and the consequent introduction of exemption from VAT only when a proviso is included in the text of the directive to enable member states to take action as necessary to prevent distortion of competition. The only remaining concerns would be administrative, but not insurmountable, difficulties and revenue loss which it is estimated would not be substantial.

Introducing exemption from VAT of transactions in securities and the management of unit trust funds would bring them into line with the tax treatment of other financial services. The Big Bang altered the tax structure for many stockbrokers and substantially reduced the UK's need to retain the derogation for revenue reasons.

Current Government policy is to tax discretionary expenditure and ending the exemption from VAT would bring the fuelling and provisioning of private boats and aircraft into line with this. There would be some practical problems of definition and control, but these would not be insurmountable and would affect relatively a very small number of people.

However, the compromise package does not seek the abolition of the derogations which are most sensitive and serious for the UK with major revenue and policy implications. Those are left for future discussions of the Council, to be based on a new Commission proposal which the Council would be obliged to consider before 1 January 1991.

Y Overall, ~~the loss of the Irish derogation would mean that~~ the balance of the argument for the UK is very much in favour of agreement so long as the remaining minor difficulties can be resolved.

FINANCIAL IMPLICATIONS

Z As stated in the Explanatory Memorandum of 23 February 1985, the proposals in the draft Eighteenth Directive are, in some cases, of importance to the structure of value added tax in the UK in relation to particular sectors; the changes proposed in the Presidency compromise package could create some problems for particular interests (especially the cultural sector) and have revenue implications of the order, in total, of a maximum of £100 million.

TIMETABLE

The proposal for a draft Eighteenth Directive has been considered by the Economic and Social Committee and the European Parliament, who expressed favourable opinions on 3 July 1985 and 6 April 1987 respectively. Amendments to the proposal were presented by the Commission to the Council on 17 June 1987. The Danish Presidency is pressing hard for early adoption of a first phase package, and there is a good possibility of substantive agreement at a Council meeting due to take place on 7 December.

PETER LILLEY
ECONOMIC SECRETARY
HM TREASURY



FROM: P D P BARNES
DATE: 4 December 1987

NOTE FOR THE RECORD

cc **PS/Chancellor**
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
PS/Sir P Middleton

Mr Anson
Mr Scholar
Mr Culpin
Mr C W Kelly
Miss Sinclair
Mr Michie

PS/C&E
Mr Weston - C&E

MB 3(ii)

ECONOMIC SECRETARY'S VISIT TO HAMMERSMITH LOCAL VAT OFFICE

The Economic Secretary opened the Hammersmith local VAT office on Wednesday 2 December.

2. At discussions with the staff after the opening, general discontent was expressed about pay and conditions. In general, most officers claimed to enjoy their jobs but claimed that they earned insufficient to live in London, considerably less than experienced officers were being offered by private sector employers, and that staff losses imposed additional burdens on those that remained. In addition, a number of officers complained that they were kept inadequately informed about possible changes in their working practices.

3. Specific points included:-

- (i) Pay had been omitted from scope of a recent review about the retention of VAT officers. Yet experienced officers earning around £10,000 could increase their salaries by 50% or 100%

MANAGEMENT IN CONFIDENCE

by moving to the private sector, as well as being offered fringe benefits of health insurance and a car. And the implementation of Keith III would mean that demand for experienced Customs officers from the private sector would increase.

- (ii) Experienced officers could bring in additional revenue of many times their salaries, and even at the moment revenue was being lost through inadequate control of the trading population, especially in London.

- (iii) The 4½ per cent increase in London weighting had been inadequate to compensate for the higher costs of living in London. Many officers moved to the provinces as soon as they had completed a basic three year stint in London and, primarily because of house price differentials, officers from the provinces were unwilling to move to London. Some officers estimated that an extra £5,000 a year would be sufficient to attract experienced officers from the provinces. Moving outfield offices out of London was not seen as a practicable solution because of the need to be close to traders. (Staff did not appear aware of the scrutiny report on the London problem).

- (iv) The heavy losses of experienced staff had had the effects on those remaining

MANAGEMENT IN CONFIDENCE

of: reducing their collective experience;
increasing their work load, when it
had not been possible to fill vacancies;
and increasing the amount of time it
was necessary to devote to training
new recruits.

4. The Economic Secretary noted the comments made.

PB

P D P BARNES
Private Secretary

Ch

4/12/87-

Thurs

UKREP say conclusions on tax approximates will be (roughly)

"After preliminary discussion of the Commission's proposals, the Council confirmed to remit to EPC to come forward as soon as possible with a macro-economic study. When this has been received the Council will have a political debate on the whole package."

The Chairman was pressed hard by the Germans to say they would definitely be a debtor in December. He resisted, saying it was possible but he couldn't guarantee it.

C O N F I D E N T I A L

67-9/12 PMP
[Signature]



FROM: P D P BARNES
DATE: 4 December 1987

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Scholar
Mr Culpin
Miss Sinclair
Mr Michie
Mr Cropper
Mr Tyrie

Note.
- Asked PS/EST to elucidate.
AT

Mr Battishill - IR
Mr Isaac - IR
Mr Painter - IR
Mr Prescott - IR
Mr Lewis - IR
PS/IR

FRINGE BENEFITS TAX

Your minute of 1 December asked for comments on the recent notes from FP and the Inland Revenue.

2. Mr Prescott's paper confirms the Economic Secretary's view that we should go ahead with a Fringe Benefits Tax, preferably at a rate equivalent to the top marginal rate, and non-deductible.

Priority?
PS

P D P BARNES
Private Secretary

Part in meeting folder; this meeting

FROM: I C R BYATT
DATE: 16 December 1987

CHANCELLOR

cc

- Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir P Middleton
- Mr Scholar
- Mr Edwards
- Mr Culpin
- Miss Sinclair
- Mr Mortimer
- Mr Parkinson
- Mr Riley
- Ms Munro
- Mr Ford

- Mr Unwin)
- Mr B Knox)
- Mr Nash) C & E
- Mr Allen)
- Ms French)
- Mr Oxenford)

Handwritten notes in red ink:
 ✓ *Chairman*
Low level
under James
with 1 hour - course
problems. I am central
with 20 minutes
agenda
My priority
to be postponed
wh. sh

ECONOMIC POLICY COMMITTEE'S REPORT ON TAX APPROXIMATION

Postponed

I attach an annotated agenda for the meeting on Friday 18 December at 10.30 am.

2. After further discussions with members of the Committee I am now able to give a more precise indication of the likely EPC timetable than that contained in my minute of 1 December.
3. There will be no discussion in the EPC until early February when there may be two one-day meetings with the aim on producing a report for the March ECOFIN. This target is ambitious and the report may not be ready in time.
4. A paper is likely to be circulated before the February meeting under the authority of the Chairman or Secretary. I have been invited to draft sections dealing with the clearing house and with the market approach. You may wish to discuss the options I can put forward as the "market solution" in your meeting on Friday.

BYATT
TO
CH/EX
16 DEC

5. The EPC's final report is likely to make a gesture towards the need for the completion of the internal market; accepting the need for indirect tax approximation in the longer term. However it will draw attention to a number of problems inherent in the Commission's proposals including:-

(i) the proposed clearing house;

(ii) the excise proposals;

(iii) the extent to which restrictions in a country's ability to vary indirect tax rates will place all the burden of adjustment onto direct taxation.

6. I will try to ensure that the report also includes figures indicating the limited extent to which trade barriers would be reduced by the Commission's proposals. In an unguarded moment at the November EPC meeting Mr Emerson (for the Commission) suggested that the total cost of border controls amounted to 1.5 per cent of Community trade. But I think the Commission is likely to oppose any such quantification in the report.

7. The Danish and Luxembourg positions are very similar to that of the UK. We will want to work closely with them in the EPC's forthcoming discussions, whilst encouraging other countries to make clear their reservations.

8. I also enclose a copy of the interim report of the EPC presented to ECOFIN on 7 December.



I C R BYATT

MARKET APPROACH TO INDIRECT TAX APPROXIMATION

The Chancellor's paper to OD(E) (paragraph 7) suggested concentrating on the progressive reduction of frontier controls. This would avoid the economic and political drawbacks of the Commission's tax approximation proposals whilst increasing the scope for market forces to constrain differences between member states' tax rates.

2. Is the British position that the single market (ie greater competition) is the objective and tax approximation largely a by-product?

3. Should we aim for an EPC report which raises serious questions about the feasibility of the Commission's proposals but accepts the principle of approximation as a long term objective or should the EPC be encouraged to examine alternative approaches?

alt. approach
Measures to lower barriers to competition

4. The UK endorses the need to reduce the delays and costs caused by border controls. Towards the end of January a number of options will be discussed in a report by EQO to OD(E).

5. Controls for fiscal purposes are only a small element in border controls: many controls are carried out by Customs and Excise for other departments. Some simplification may be possible. The main fiscal simplification would be the reintroduction, on a Community-wide basis, of the Postponed Accounting System (PAS).

6. PAS would ease accounting requirements and give businesses a cash flow advantage. The once-for-all PSBR cost would be £1.6 billion (this cost would be halved if PAS was restricted to intra-Community trade). If coupled with reduced frontier controls there would also be an increased risk of fraud. Is the reintroduction of PAS acceptable in principle?

7. Whilst administrative simplification can reduce the costs of border controls, to go further in the case of VAT would imply moving from the Destination principle to the Common Market Principle. This would involve either significant revenue transfers between member countries or a complex clearing arrangement which would increase the likelihood of fraud.

Distinguish between VAT and Excise Duties?

8. EPC is likely to want to make a distinction. The harmonisation of excise duties produces problems for many more countries than does the approximation of VAT. As there are more goods subject to VAT this is where the main cost on traders arises. Excise duties are particularly important for individuals shopping across frontiers.

Measures to increase the pressure of market forces on Governments

9. An increase in travellers' allowances would lead to more cross-border shopping putting pressure on governments to move their tax and duty rates closer together. It would also reduce the need for customs checks on travellers.

10. Advocating this approach for non-dutiable goods could lead to a conflict with potential allies (such as Denmark).

11. As British excise duties are significantly above the Community average, higher allowances for alcohol and tobacco would lead to a loss of revenue and downward pressure on UK duty rates. Would this be consistent with the desire to place greater emphasis on indirect taxation?

UK Strategy

12. Administrative simplification (and, in the longer term, advances in information technology) could enable firms to trade across Community frontiers as easily as they can currently trade across the Benelux frontiers. This would produce many of the

✓ ● benefits of a single market whilst retaining frontier posts which are required for non-fiscal checks.

yr 13. Is this an acceptable outcome for the UK? It has, however, the presentational problem that two of the Benelux countries, Belgium and the Netherlands, would like to go further down the route proposed by the Commission.

Rep

THE ECONOMIC ASPECTS OF THE HARMONIZATION OF INDIRECT TAXATION

- Oral Report by the Chairman -

1. The Economic Policy Committee has conducted an initial examination of the economic aspects of the harmonization of indirect taxation, as proposed by the Commission. It placed its work in the context of the Single European Act. The Committee took note of the work done by the Council's ad-hoc group on the elimination of fiscal frontiers and its considerations have to be seen as a complementary contribution.

2. There are important micro-economic issues raised by fiscal harmonization. These include the conditions for competition and the stimulus which a greater openness of markets would give to the economies of the Community.

3. The macro-economic analysis will cover the consequences of fiscal harmonization for major variables, such as prices and tax revenues. It was noted that the scale of adjustment required will create serious budgetary problems for some Member States. Any quantitative assessment of these effects is however subject to the severe limits set by the nature of the analytical tools available.

4. At its first meeting the Committee emphasized the importance of progress with the internal market as a mean of increasing competitiveness within the Community. The reduction of frontier and other barriers would play an important role and help to create economic conditions similar to those in large unified markets, such as the US and Japan.

5. There is broad agreement that in the longer term the completion of the internal market must be accompanied by greater harmonization of indirect taxation and that there must be a time horizon for this. However, several issues still have to be resolved, such as timing and the kind of mechanisms necessary to achieve harmonization of indirect taxation.

6. The Committee reaffirmed the fundamental advantages of VAT as a consumption tax which is neutral and broad-based. The Community has, with great effort, developed this type of taxation as one of the central taxes. Harmonization of VAT, however, still raises problems relating to structures and to rates:

- As regards structure, there was general agreement on the need to achieve a common tax base as soon as possible.
- As regards rates, it was considered important to simplify and, where possible, reduce the number of rates.

7. In its examination of the possible effects of harmonization in the field of VAT tax rates, the Committee wants to examine further how the range of rates proposed by the Commission will affect trade between Member States. There may be problems of trade diversion, in particular in neighbouring Member countries which will find themselves at different ends of the proposed range. Problems arising from the existence of ranges may be viewed differently in the cases of reduced and of higher rates: their consequences are probably more serious in the case of the higher rates.

8. Whereas the harmonization of VAT has already made considerable progress within the Community, the Committee is of the opinion that the harmonization of excise duties, which are less neutral than VAT, poses particular issues, related above all to the large differences which exist in the national objectives lying behind excise duties. In fact, excise duties are often directly related to objectives concerning health, transport, environment, energy etc. Hence the Committee feels the need to develop a conceptual framework which would take account of these factors.

9. The proposed link of taxation to the ECU would in the view of the Committee entail difficult adjustments when exchange rates change, and therefore cause problems for the management of the EMS. Furthermore, a regular indexation of duties could run counter to stabilization policies in the Community.

10. Finally, the Committee proposes to examine the economic difficulties and administrative costs related to the working of the clearing mechanism proposed by the Commission.

11. In its further work, the Committee will also examine various types of arrangement for achieving fiscal harmonization.

12. On the basis of further analysis to be provided by the Commission, the Committee will finish the main part of its work in the next three months and report to ministers.

FROM: MISS C EVANS

DATE: 17 December 1987

PAYMASTER GENERAL

ECONOMIC SECRETARY

cc Chancellor
 Chief Secretary
 Financial Secretary
 Sir Peter Middleton
 Sir Geoffrey Litter
 Sir Terence Burns
 Mr Anson
 Mr Scholar
 Mr Cassell
 Mr Byatt
 Mr Odling-Smee
 Mr A Edwards
 Mrs Lomax

Mr Turnbull
 Mr Culpin
 Mr Mortimer
 Mr Gieve
 Mr Dyer
 Mrs Burnhams
 Mr Cropper
 Mr Tyrie
 Mr Call
 PS/C&E
 Miss French C&E
 PS/IR (know)

TCSC : EC HEARING

Following the TCSC's meeting yesterday to discuss its work programme the Clerk has conveyed the Committee's request for an oral hearing with Treasury Ministers, on 13 January, to discuss the EC budget and tax approximation. The purpose of the hearing would be to inform the Committee of recent developments and to explain the Government's position. It might not lead to a report.

2. On the EC budget the Committee would like to know about the problems discussed at Copenhagen, and the prospects for the February summit. On tax approximation the Committee would like to ask about the implications of the Cockfield proposals and whether, if we were to go down this road, there are any implications for the 1988 Budget.

3. This is inconvenient, but we feel that there is probably no option but to agree to the Committee's request (I understand that you are both available on the date suggested). On tax approximation it would be useful to consider at the Chancellor's meeting tomorrow whether there is a case for a new statement of the Government's position ahead of the hearing.

4. Are you content to accept this invitation? If so, will you wish both to attend together or to divide the hearing into 2 parts, perhaps starting with the EC budget, and then moving on to tax approximation? The Clerk would appreciate a response as soon as possible. We shall make proposals for official support nearer the time.

* 4.30 pm

C Evans

MISS C EVANS

EVANS
 TO
 PMG
 &
 EST
 17 DEC



A handwritten signature in black ink, appearing to be 'JMG'.

FROM: J M G TAYLOR
DATE: 21 December 1987

MR BYATT

cc PS/Paymaster General
PS/Economic Secretary
Sir P Middleton
Mr Scholar
Mr Edwards
Mr Culpin

Mr Unwin - C&E
Mr Knox - C&E

ECONOMIC POLICY COMMITTEE'S REPORT ON TAX APPROXIMATION

The Chancellor was grateful for your minute of 16 December and for the enclosed annotated agenda, with which he is content. As you know, the meeting has had to be postponed until January. He trusts this should not cause any problems.

A handwritten signature in black ink, appearing to be 'JMG'.

J M G TAYLOR

JMGT
TO
BYATT
21 DEC

FROM: CJEVANS
DATE: 11 January 1988

1. MR MORTIMER *Am. 11*
2. PS/PAYMASTER GENERAL

cc: PS/Chancellor *
PS/Chief Secretary *
PS/Economic Secretary *
Sir Geoffrey Littler *
Mr Edwards
Mr Mercer
Mr Bonney
Mr Kaufmann/Miss Bogan
Mrs Imber/Mr Wanless
Mr Parkinson *
Mr Addison *
Mr R K C Evans
Mr Lavelle * Cabinet Office
Mr Kerr * FCO
Mr Oxenford * C&E
Miss N Whitehead*DTI
Miss G C Evans
* Minute plus Flag A only

TCSC HEARING ON EC FINANCES - WEDNESDAY 13 JANUARY 4.30 PM

The Paymaster General is giving evidence to the TCSC on Wednesday. I attach three sets of briefing (for the Paymaster General, Mr Stern and yourself), as discussed.

2. At flag A is a suggested opening statement.
3. At flag B are possible questions received from the Clerk to the TCSC, interleaved with suggested replies. The questions were given to us informally and no indication should be given in the session that we have seen them.
4. At flag C is a full set of briefing notes, based on those provided for the Commons debate on 18 November. The notes have been brought up to date where necessary, and changes from the earlier version are sidelined. There are a few new notes, indicated as such on the index. The notes are indexed according to broad subject matter. I am afraid some notes are not yet ready - to follow tomorrow.

5. At flag D is a copy of the evidence last given to the TCSC by the Paymaster General on this subject, on 13 May 1987. The Committee did not produce a report on that occasion.

6. Mr Edwards, Mr Bonney, Mr Mortimer and I will accompany the Paymaster General. I understand that the plan is for the Paymaster and us to step down after three-quarters of an hour or an hour, to make way for the Economic Secretary and his officials to answer questions on tax approximation.

7. No doubt you will let us know of any queries and/or briefing meeting.

8. I am grateful to Mr Edwards for drafting the opening statement; to Mr Mortimer for coordinating the replies to the TCSC's specific questions; and to them and to Mr Mercer, Mr Bonney, Mr Donnelly, Miss Bogan, Mrs Imber, Mr Wanless, Mr Parkinson, Mr Oxenford and Miss Whitehead for contributions to the replies and briefing notes.

Chris Evans

C EVANS

OPENING REMARKS

1. Thank you, Mr Chairman, for inviting me to give evidence once again. I am delighted to find this Committee in top gear again after the interruption of its activities.
2. The Treasury officials who surround me are Mr Edwards, Mr Bonney, Mr Mortimer and Mr Evans.
3. It may be helpful if I begin by saying a word or two about the stage we have reached in the future financing negotiation- what happened at Copenhagen, the timetable for the next few weeks and the United Kingdom's position.
4. As the Prime Minister told the House on 8 December, the Copenhagen European Council made considerable progress even though no agreement was reached.
5. The two areas where disagreement was most explicit were agricultural stabiliser mechanisms and the structural funds.
6. Taking these in turn, all member states accept that agricultural stabiliser mechanisms are required. But the German and French delegations have argued for less stringent proposals on cereals and oilseeds than others, including the UK and the Commission, thought right. The Germans also want a set-aside scheme which would reduce the need for price cuts.
7. As regards the structural funds, the Commission's proposal to double expenditure in real terms by 1992 has attracted much support, notably from the member states who would benefit from such an increase. Several member states including the United Kingdom, while accepting the case for some increase in the funds, could not accept an increase on this scale and have underlined the need for non-obligatory expenditure as a whole, including the structural funds, to be properly controlled.

8. In addition to these areas of explicit disagreement, there are four other areas where member states have expressed differing views, which remained unsolved at Copenhagen.

- The first of these is the level of the guideline limit for agricultural market support expenditure and the proposed provision for exceptional circumstances or a monetary reserve to deal with large exchange rate fluctuations.
- The second is the level of the own resources ceiling. All member states other than the UK have confirmed their willingness to see an increase in the ceiling. But several member states argued for less than the 1.4 per cent of GNP ceiling proposed by the Commission.
- The third area is the structure of own resources, where the Commission have proposed a new fourth resource based on the difference between member states' GNP and VAT bases. The Italians in particular are very unhappy about this proposal, which would result in a substantial increase in their gross budgetary contributions.
- The fourth area is the UK abatement. Other member states have made clear from time to time their continuing dislike for the UK abatement. But the Commission's proposed alternative to the Fontainebleau system has not in practice been much discussed. The Prime Minister made clear at Copenhagen that the UK was not prepared to see any dilution of the Fontainebleau abatement.

9. Looking ahead, the next major landmark is the resumed European Council meeting at Brussels on 11-12 February. Between now and then, the Foreign Affairs Council is due to meet twice, on 25/26 January and on 1/2 February. The Agriculture Council will also have two meetings during this period, and ECOFIN may possibly discuss the subject at its 9 February meeting. There will also be extensive bilateral consultations.

10. The Government hopes very much that the agreement which eluded heads of Government at Copenhagen will be achieved at Brussels in February. This will not, however, be easy. If there is no agreement at Brussels, the Heads of Government will have to pick up the subject again at the June European Council in Hanover.

11. The United Kingdom's approach continues to be founded on two main propositions.

- First, there must be agreement on effective and binding budget discipline, backed by effective and adequate stabiliser mechanisms, before decisions can be taken on the own resources ceiling.
- Second, on the UK abatement and the structure of own resources, any changes made must not leave the UK, as a major net contributor, worse off than we would be with a continuation of the existing structure and abatement arrangements.

12. Mr Chairman, that is all I wish to say by way of introduction. I will now do my best to answer the Committee's questions.



ESTG
to phone
back

phoned through. pmp

H M CUSTOMS AND EXCISE
KNOLLYS HOUSE BYWARD STREET
LONDON EC3R 5AY
01-382 - 5319

FROM: B J COCKERELL
DATE: 12 January 1988

PS/ECONOMIC SECRETARY

*It's going to be a low
haul, Economic Sec link try 1.76
about 1000 - 1500
a new - proposals - lower
for Courts. This is
the 1.76
proposals
our
current
strategy.*

cc PS/Chancellor
PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Mr Edwards
Mr Culpin
Miss Sinclair
Mr Parkinson
Mr Cropper

**EUROPEAN COMMUNITY PROPOSAL FOR AN EIGHTEENTH COUNCIL DIRECTIVE
AMENDING THE EC SIXTH VAT DIRECTIVE**

1. An article in the Sporting Life of 14 December, prompted the Economic Secretary to question whether our whole negotiating strategy on the draft Eighteenth VAT Directive was pointless. Your note of 16 December to Mr Knox refers.

The Sporting Life article

2. The article is misleading in two major respects. Firstly, it is incorrect in stating that the current Irish exemption from VAT of supplies of greyhounds and thoroughbred horses is due to expire on 1 January 1989. The derogation which allows the exemption is permitted by Article 28.3, in conjunction with Annex F, of the Sixth VAT Directive and is valid until the Council unanimously determines, on the basis of a proposal from the Commission, that it should be abolished.

Internal distribution:-

- | | | |
|--------------------|---------------|-----------|
| CPS | Mr Allen | Mr Green |
| Mr Knox | Mr G F Taylor | Mr Craske |
| Mr Jefferson Smith | Mr Fotherby | |

3. As currently drafted, the Danish Presidency compromise text of the proposed Eighteenth VAT Directive seeks the abolition of many Annex E and F derogations on 1 January 1989, but in respect of the Irish derogation 1 January 1991 is proposed. Without the agreement of Ireland and all other member states, the draft Directive cannot be adopted; the derogation to exempt from VAT supplies of greyhounds and thoroughbred horses, as well as all the other Annex E and F derogations from the Sixth Directive, would remain valid until agreement is reached on a Directive embracing them.

4. A second misleading point in the article concerns Mr Haughey's contention that a 1.7% rate could certainly be applied to horses. If the Irish derogation were to be ended the rate of VAT to be applied in Ireland to horses would be a "new" rate. The rules governing "new" rates, as opposed to "existing" rates protected by derogations, are contained in Article 12 of the Sixth Directive. There is no specific rule fixing particular rates, but Article 12.4 precludes the introduction of a rate which would result in regular repayments of VAT to registered traders. With our present tax structure, we judge the minimum rate UK could apply to be of the order of 4-5%. We do not know for certain what the minimum rate would need to be in Ireland to satisfy the Article 12.4 criterion, but we seriously doubt that it could be as low as 1.7%.

Ireland's lower rate

5. Ireland had a low rate of VAT for "livestock", which includes cattle, sheep, pigs, goats and deer, before 31 December 1975 and retained it when the Sixth Directive was implemented. This is permissible under the terms of Article 28.2 provided that the measures are "for clearly defined social reasons" and "for the benefit of the final consumer". The rate is presently 1.7% and it is likely that Mr Haughey had in mind applying that same rate to thoroughbred horses and greyhounds if the 18th Directive were adopted and the derogation to exempt those animals from VAT lapsed.

6. The foundation for such an approach would be that extension of the 1.7% rate to horses amounted only to a permissible marginal adjustment of the low rate for livestock "protected" by Article 28.2 and that taxing in that way fulfils the criteria of "for clearly defined social reasons" and "for the benefit of the final consumer". We believe that this is a very weak foundation given the restrictive wording of the entry on "marginal adjustments" in the Council Minutes when the Sixth Directive was adopted.

7. The European Commission's challenge on our zero-rates was founded on the allegation that the two criteria were not fulfilled for certain items. Significantly the Commission challenged Ireland, at the same time, over some of its zero rates but did not attack the 1.7% rate for livestock; it is possible that this was because the Commission was satisfied that the two necessary criteria were met for it.

8. It is also relevant to note however, that, in infraction proceedings initiated by the Commission against France (Case 95/82), the Commission contended, inter alia, that the supply of thoroughbred (or race) horses self-evidently did not satisfy the "clearly defined social reasons" criterion. France conceded in the case without it proceeding to a judgment of the European Court.

9. Thus we doubt that Ireland could satisfy the Commission that the application of a VAT rate of 1.7% to racehorses and greyhounds would be permissible as a marginal adjustment of an existing Art 28.2 reduced rate or that it would satisfy the conditions of Article 12.4 as a new rate. If such a rate were introduced by Ireland, the Commission could initiate proceedings of its own volition, Member States could complain to the Commission which could begin infraction proceedings, or if it declined to do so, a Member State could itself bring a case against Ireland before the European Court of Justice.

CONCLUSION

10. The abolition of the Irish derogation for racehorses would be a most welcome step from the UK point of view, even if it were effective only from 1 January 1991. As long as the Annex F derogation covers Ireland's exemption of racehorses, its position is unassailable to the detriment of the interests of the UK racehorse industry. Once it is removed, the Irish must apply a positive rate and, if it chooses one as low as the 1.7% suggested, it is vulnerable to challenge that the rate is not compatible with the Sixth Directive and it could be obliged to increase it. But the first step must be to remove the protective cover of the Annex F derogation. Thus we believe that our negotiating strategy remains sound.



B J COCKERELL

CONFIDENTIAL

FROM: J M G TAYLOR
DATE: 12 JANUARY 1988NOTE OF A MEETING HELD IN THE CHANCELLOR'S ROOM, HM TREASURY
AT 2.30 PM ON FRIDAY, 8 JANUARY 1988

Present: Chancellor of the Exchequer
Paymaster General
Economic Secretary
Mr Byatt
Mr Culpin
Mr A J C Edwards
Mr Riley
Miss Sinclair
Miss G C Evans
Mr C Ford
Mr Cropper
Mr Call

Mr Knox, C&E
Mr Nash, C&E
Mr P R H Allen, C&E
Mr Oxenford, C&E

TAX APPROXIMATION

1. Papers: Mr Byatt's note and annotated agenda of 16 December; Miss Evans' minute to the Paymaster General and the Economic Secretary of 7 January.

2. Mr Knox reported on recent developments relating to the Court's judgment on VAT zero rates. His latest intelligence was that we should not receive the judgment until after the Budget. We should therefore need to implement the judgment, if necessary, during Committee Stage. The Chancellor said this was most unsatisfactory. The size of the changes could be very large. He would need to consider this further.

NOTE of
TAX
APPROX.
MTG.
8/1



3. The Chancellor invited the meeting to consider the annotated agenda attached to Mr Byatt's minute of 16 December. He confirmed that the UK's position was that the single market (ie greater competition) was the objective, and tax approximation largely a by-product.

4. The Chancellor said that we should encourage the EPC to examine the alternative approach implicit in OD(E)(87)19, involving the gradual reduction of border controls and opening up the scope for market forces to act across frontiers, as in the United States. As far as the Postponed Accounting System (PAS) was concerned, we had stated in 1984 that if at any time the rest of the Community wanted this system, we would reintroduce it. We should hold to this position.

5. The Chancellor said that we should stick to the "destination principle". As far as distinguishing between VAT and excise duties was concerned, we should want to rest our case on health grounds. On travellers allowances, we should argue for progressive increases toward a situation where no limits applied, except for those goods which carried an element of health hazard. More generally, our position was that we did not believe that harmonisation of individual taxes was necessary for completion of the internal market, but that if it were decided to move towards approximation, this should be via the market rather than bureaucratic imposition. It would be important to ensure that,



if our approach did not run, we were not committed to conceding the principle of the Commission's approach. The Commission should not seek to impose on individual countries in the Community more than the US Federal authorities were able to impose on the constituent States.

6. The Chancellor did not consider that the risk of a conflict with potential allies arising from our advocacy of gradual increases in allowances should weigh significantly in our considerations.

7. The Chancellor said that a summary of our approach should be prepared for use at the TCSC hearing. This should not be used as a basis for an opening statement: instead an opportunity should be found to set out our position in the course of questioning. Summing up, the Chancellor said that our market-based solution had considerable political attractions. Zero rates were not threatened by such a solution, while the possibility of higher rates was covered by health considerations.

A handwritten signature in black ink, appearing to be 'J M G TAYLOR'.

J M G TAYLOR

cc Those Present
Sir P Middleton
PS/Customs & Excise

C O N F I D E N T I A L

psyp



FROM: P D P BARNES
DATE: 14 January 1988

PPS

cc PS/Chief Secretary
PS/Financial Secretary
PS/Paymaster General
Sir P Middleton
Mr Scholar
Miss Sinclair
Mr Cropper
Mr Tyrie
Mr Call

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

VAT : STATEMENT BY LORD BEAVERBROOK

The Chancellor may be interested to see the attached statement by Lord Beaverbrook in the Lords yesterday that, "there are no proposals at the moment to include books in VAT."

RB

P D P BARNES
Private Secretary

THE TIMES

14 JAN 1988

No plans for books VAT

Lord Beaverbrook, a Government whip, said that the Government had no proposals at this moment to levy value-added tax on books but that he could not give any long-term commitment.

He was replying to concern from peers during question time that, in order to achieve a single internal market within the EEC, the Government might give in to pressure to extend VAT to food, children's clothes and books.

Lord Bottomley: My Lords, will the Minister say whether the Prime Minister has given consideration to inviting the Prime Minister of Israel to come to London so that they can discuss this matter face to face and, one hopes, make some progress?

Lord Glenarthur: My Lords, I am not aware of any such approach, or that my right honourable friend has made any comment upon it.

Lord Gladwyn: My Lords, will the Government say what in their view is the ideal solution to this terrible problem? Do they think it would be sufficient if there was just autonomy, that is to say, practical independence for the West Bank and for Gaza in some kind of relationship with Israel, or would they contemplate the formation eventually of some Israel/Arab state with joint responsibilities and joint rights for both races within the boundaries of the old Palestinian mandate?

Lord Glenarthur: My Lords, the purpose of the kind of international conference we hope will eventually take place would be to resolve precisely those problems.

Lord Molloy: My Lords, if, as the Minister has quite correctly said, the same rights apply to the Arabs in the occupied territories as to the Israelis, as created by the United Nations, does it not therefore follow that at some time the Israelis must withdraw from the lands they stole and give them back to those from whom they took them? Before that happens we must concentrate, would not the Minister agree, on trying to get the international conference that he has called for? Will the Government now appeal to the great powers on this earth as well as to Israel and Arab lands to get together before something really dreadful happens which could possibly engulf that entire area in a fearful war?

Lord Glenarthur: My Lords, the Government will continue to urge the Israelis to withdraw from territories occupied in 1967 in accordance with Security Council Resolution 242. Meanwhile the Government will urge them to fulfil their obligations as an occupying power. The United Kingdom and the Twelve have come out firmly in favour of an international conference. The United States has not; that is why we shall continue our efforts to convince the Americans and the Israelis, as I said earlier.

EC: Single Internal Market

2.49 p.m.

Lord Campbell of Croy: My Lords, I beg leave to ask the Question standing in my name on the Order Paper.

The Question was as follows:

To ask Her Majesty's Government what progress they are making, in concert with the other EC member states, in achieving a single internal market by 1992.

Lord Beaverbrook: My Lords, we and our community partners are making encouraging progress towards the completion of the single market by the target date of 1992. Over 100 individual measures aimed at removing barriers have been agreed in the past 18 months, 48 of them during the UK Presidency in the second half of 1986. Completing the single market will involve new opportunities and challenges for British firms. My noble friend has recently announced the launching of a national campaign to ensure that companies are aware of them.

Lord Campbell of Croy: My Lords, I thank my noble friend for that encouraging reply and wish all good fortune to the new enterprises announced today. Do the targets for 1992 include uniformity in the application of VAT to goods and services; for example, uniformity in zero-rating and exemptions?

Lord Beaverbrook: No, my Lords. There is no such commitment and the United Kingdom has said that it will discuss the role of appropriate tax measures in the completion of the single market. However, in line with the Brussels European Council meeting last year, we do not see that as a priority area. In common with other member states, we have some fundamental difficulties with the present proposals, which cannot be adopted except by unanimity.

Lord Gladwyn: My Lords, is the noble Lord able to say whether the Government are aware of the opinion of the British Commissioner in Brussels, Lord Cockfield, as regards whether or not satisfactory progress is now being made towards the attainment of a single internal market? Is he entirely satisfied with the attitude of Her Majesty's Government in that respect?

Lord Beaverbrook: My Lords, we make no apologies for seeking the best results for this country. What is significant is the amount of common ground which we share, although there are differences of perception. Completing the single market will mean that there are a large number of individual measures which member states will have to negotiate and decide. We cannot accept that there is a single Commission package which we shall have to take or leave.

Lord Williams of Elvel: My Lords, will the noble Lord tell the House precisely what extra taxes the Government are prepared to impose in order to achieve the Community aim of a single internal market?

Lord Beaverbrook: My Lords, the Government are not intending to impose any extra taxes; there is no commitment whatsoever.

Lord Renton: My Lords, is it not true that the reduction of taxes on tobacco and alcohol and the imposition of VAT on food, children's clothing and school books would be a high price to pay in order to achieve further European integration?

Lord Beaverbrook: Indeed, my Lords. My right honourable friend the Prime Minister has made it clear that the United Kingdom cannot accept proposals restricting our right to apply VAT zero rates. We have made it clear that VAT will not be extended to food, gas, electricity or young children's clothing and footwear.

Lord Williams of Elvel: My Lords, I am sorry to press the Minister. Do I understand that the Government are saying that they are not prepared to impose any extra taxes in order to achieve the internal market?

Lord Beaverbrook: No, my Lords. We have said that there can be no commitment to impose any extra taxes.

Lord Boyd-Carpenter: My Lords, does my noble friend say that his answer to the noble Lord, Lord Williams of Elvel, means that the Government do not regard it as a necessary condition of concluding the agreement that there should be equalisation of indirect taxation?

Lord Beaverbrook: My Lords, I have said that we will make no commitment in order to do that.

Viscount Montgomery of Alamein: My Lords, will my noble friend say what Her Majesty's Government are doing in order to accelerate the progress of metrication in order that we shall be compatible, competitive and not out of step when the single market becomes effective?

Lord Beaverbrook: My Lords, my noble friend has a good point. There is an existing derogation and we expect to be discussing the position with the Commission in the coming months.

Lord Allen of Abbeydale: My Lords, in view of the importance of securing the free movement of professionally qualified workers as part of the completion of the market, is the Minister able to give any up to date information about progress on the general directive as regards mutual recognition of higher education diplomas, which I believe it is hoped will be finalised this year?

Lord Beaverbrook: My Lords, the noble Lord will recall that I answered a question on that point towards the end of last year. At that time, I said that the Commission's proposal for a general directive was identified by Community Heads of Government in June 1987 as a priority for decision by the end of 1988. Work has been pursued energetically during the Danish Presidency with a view to ensuring that that counsel is met. Mutual recognition of higher educational diplomas is part of the completion of the internal market. It is the aim of the Government to achieve a satisfactory outcome in that area.

Lord Bruce of Donington: My Lords, reverting to the supplementary question asked by the noble Lord, Lord Gladwyn, will the Minister say, while desiring to maintain an absolutely correct relationship between the Government and the Commission, that

it is no part of the functions of Her Majesty's Government to please the noble Lord, Lord Cockfield?

Lord Beaverbrook: My Lords, I have already said that the interests of this country come first. We make no apologies for seeking the best results.

Lord Ezra: My Lords, perhaps the Minister can indicate what progress has been made in opening up the market for public procurement, bearing in mind that that could present many opportunities for our capital goods manufacturers? At the same time, it would open our markets to competition.

Lord Beaverbrook: My Lords, the noble Lord is quite right. The opportunities available in the internal market will be highly significant for companies and business concerns in this country. My noble friend has announced an awareness campaign in order to stimulate British awareness and interest in participating fully in that large new market.

As regards public procurement, I do not have a specific answer on that point. However, I shall look into the matter and write to the noble Lord. There are so many aspects to the internal market that it is not possible to carry around the full weight of answers that may be required. However, I shall write to the noble Lord on that point.

Lord Strabolgi: My Lords, are books to be zero-rated? If I heard the Minister aright, they were not included in the list which he read to the House.

Lord Beaverbrook: My Lords, the noble Lord is quite right in saying that books were not contained in the list which I read out. There are no proposals at the moment to include books in VAT. However, I cannot give any long-term commitment that that may not one day be the case.

Lord Campbell of Croy: My Lords, is my noble friend able to dispel the fears of some environmental bodies that the completed internal market would allow hazardous waste materials to be imported from other EC countries without the need for licensing or other authorisation?

Lord Beaverbrook: My Lords, the controls on imports of hazardous waste under the existing EC directive will not be affected. The directive establishes a system of prenotification by the exporter and acknowledgment by the receiving waste disposal authority in the United Kingdom. I can assure my noble friend that we are not establishing an internal free market in hazardous wastes.

Lord Carter: My Lords, in view of the miserable failure of the EC to create a common market in agricultural goods, which was an objective of the Rome Treaty, are the Government convinced that the creation of an internal market in other goods will not create many more problems than it solves?

Lord Beaverbrook: My Lords, of course problems will be created but opportunities will also be opened up. The Government believe that completion of the



the department for Enterprise

Robert Atkins MP
Parliamentary Under Secretary of State for Industry

Department of
Trade and Industry

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CH/EXCHEQUER	
REC.	26 JAN 1988
ACTION	
COPIES TO	Miss J SIMPSON
	MR M. CALL

Direct line 215 5186
Our ref
Your ref
Date

28th January 1988

Dear Private Secretary

C. Not worth much time, but anything to add to my brief replies overleaf?

REGIONAL BRIEFING PACK

As you may be aware, I am reviewing the Interdepartmental Regional Briefing Pack. In order to determine market needs, I would be grateful if you would complete the attached questionnaire and return it to this office by 1 February.

For information, a copy of the West Midlands Regional Brief is enclosed. The Briefs are published monthly and are divided into 9 regions - North West, North East, Yorkshire and Humberside, West Midlands, East Midlands, South West, South East, Eastern and London.

If you have any queries please do not hesitate to contact me.

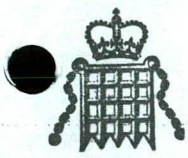
yours sincerely

Melanie Williamson

MELANIE WILLIAMSON
ASSISTANT PRIVATE SECRETARY

*has: 1 copy sent
all yr copies*





H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE

LONDON EC3R 7HE

Please Dial my Extension Direct:
Use Code (01)-382 followed by
Extension Number 5.0.2.3...

[Handwritten signature]

FROM: P R H ALLEN

DATE: 21 January 1988

ECONOMIC SECRETARY

cc PS/Chancellor

PS/Paymaster General

Sir P Middleton

Mr Byatt

Mr Edwards

Mr Culpin

Miss Sinclair

Mr Riley

Mr Michie

Mr Cropper

[Red checkmark]

TAX APPROXIMATION : REPORT BY THE SELECT COMMITTEE ON EUROPEAN
LEGISLATION

1. The Select Committee reported on 2 December on the explanatory Memoranda which we submitted on the Commission's tax approximation package. The Committee concluded that the proposals raise questions of legal and political importance and recommended further consideration by the House at an early date. It also looked to the Government to keep it informed of the progress of negotiations.

Internal circulation:

CPS

Mr Knox

Mr Jefferson Smith

Mr Nash

Mr Finlinson

Mr Kent

Mr Cockerell

Mr Oxenford

2. You mentioned this to me after the TCSC hearing and indicated that we should avoid any debate before the Budget. We have informed the secretariat of L Committee (who handle arrangements for a debate) that there should be no debate before the end of March at the earliest.

3. Since we need to provide a positive reason for delaying the debate, we propose to argue that the most appropriate time for a debate would be after the Economic Policy Committee (EPC) had reported to ECOFIN. This would enable the Government to keep the House fully informed of developments; (before then it is highly unlikely there would be anything new to report). It should also have the advantages of delaying a debate until after the Easter Recess and, on the reasonable assumption that the EPC report will provide some help to the UK case, enable you to present developments in this area in a positive light.

4. It is appropriate at this stage to write to the Lord President, who chairs L Committee, letting him know what we propose and giving him some briefing in case the question of a debate arises after the Business Statement. I attach a draft letter.

RA.

P R H ALLEN

DRAFT

The Rt Hon John Wakeham MP
Lord President of the Council
Privy Council Office
Whitehall
LONDON SW1A 2AT

January 1988

SELECT COMMITTEE ON EUROPEAN LEGISLATION : EIGHTH REPORT SESSION
1987-88 - INDIRECT TAXES : HARMONISATION

The Select Committee, commenting on the Commission's indirect tax harmonisation proposals in its Eighth report, recommended that they should be considered by the House at an early date and that the Government should keep the Committee informed of the progress of negotiations.

By way of background I should explain that the Commission's proposals have not been substantively discussed in the Council of Ministers. On 16 November, the Economic and Finance Ministers Council asked the Economic Policy Committee (EPC) to consider the economic and fiscal implications of the proposals. EPC are due to report in the early Spring. I appeared before the Treasury and Civil Service Committee on 13 January to answer their questions about the proposals. It is extremely unlikely that there will be any new developments on this front until after EPC has reported back to the Economic and Finance Ministers Council in the Spring.

It would therefore be sensible to delay any debate until after EPC has reported. The report should provide useful additional information about the wider economic and fiscal implications of the Commission's proposals and ought therefore to assist our general approach on this issue. I thus recommend that there

should be no debate this side of the Easter Recess. When the timetable for the EPC report is clearer I will write to you again.

I enclose suitable briefing for use after Business Statement.

I am copying to members of L and OD(E) Committees.

Peter Lilley

SELECT COMMITTEE ON EUROPEAN LEGISLATION : EIGHT REPORT - INDIRECT
TAXES : HARMONISATION

Line to take

1. Community Finance Ministers have asked their Economic Policy Committee to consider the economic and fiscal implications of the Commission's proposals. They are due to report back in March. What they say should provide valuable information about the effects of the proposals. The Government therefore propose to await the report before debating the matter in the House.
2. Government have already made position perfectly clear on zero rating. Will not accept proposals which in any way conflict with pledges given. Changes to EC tax law require unanimous agreement of Member States and no question of UK being obliged to accept proposals with which it disagrees.
3. Substantive discussion of the Commission's tax approximation package not yet begun. UK will take full and effective part in discussion when they begin, but too early to predict what form discussions will take. UK not alone in seeing difficulties in various aspects of package.

BACKGROUND NOTE

1. As part of its proposals for completing the single market, the Commission has proposed that all Member States' VAT rates should fall within two bands: a reduced rate band of 4 - 9 per cent; and a standard rate band of 14 - 20 per cent. There is no provision for the continuation of zero rating, although the Commission has hinted at the possibility of (temporary) derogations in cases of difficulty.
2. The Government has made it clear that it will not accept proposals which in any way conflict with the pledges it has given on VAT zero rates. This was reiterated by the Chancellor of the Exchequer when he met Community Finance Ministers in November 1987.

X pl.

SECRET



FROM: P D P BARNES
DATE: 22 January 1988

PS/CHANCELLOR

OK. As to timing, Budget may well be shortly but I cannot say when a matter is to be dealt with. So minor a matter as to Budget itself!

- cc: PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- Sir P Middleton
- Mr Scholar
- Mr Culpin
- Miss Sinclair
- Mr Michie
- Mr Cropper

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

VAT : CONFECTIONERY AND SAVOURY SNACKS

X The Economic Secretary has discussed with officials Mr Jefferson Smith's submission of 6 January. I attach minutes of the Economic Secretary's meeting.

2. He has concluded that we should legislate to tax all cereal bars at the standard rate of VAT by amending the definition of 'confectionery' so that cereal bars would be covered by the revised definition. This would be done by affirmative resolution order.

3. The Economic Secretary thinks that it may be best to announce this change at the time of the Budget, in order to minimise likely opposition to it. He would be grateful to know whether the Chancellor agrees with this view.

RB

P D P BARNES
PRIVATE SECRETARY



FROM: P D P BARNES
DATE: 22 January 1988

NOTE OF MEETING HELD IN RM 51/2 TREASURY CHAMBERS PARLIAMENT STREET,
AT 9.30am ON THURSDAY 21 JANUARY

Those present:

Economic Secretary
Mr Michie
Mr Cropper
Mr Jefferson Smith C&E
Mr G Taylor C&E

VAT : CONFECTIONERY AND SAVOURY SNACKS

The Economic Secretary thanked Mr Jefferson Smith for his submission of 6 January.

2. The Economic Secretary noted Mr Jefferson Smith's comments about the logic of including fancy biscuits and savoury snacks in VAT, but this would be very hard to reconcile with Prime Ministerial pledges about not putting VAT on food. So there was no point in considering these ideas further at this stage. The immediate problem was what, if anything, should be done about cereal bars.

3. Mr Jefferson Smith said that the principal problem was one of administration. The present law on what counted as confectionery, and hence was taxable at the standard rate, dated from 1962, and had survived unchanged when VAT replaced Purchase Tax. Recent innovation in the snack market, particularly the development of cereal bars, had created uncertainties about which products should be subject to VAT. Recent decisions by the VAT Tribunal and High Court had given different rulings about the correct tax treatment of very similar products. Even if cases could be taken to the highest possible Courts, litigation was unlikely to produce a clear and workable ruling on which products should be subject to the standard rate of VAT. So legislation would be necessary to resolve this problem.

S E C R E T

4. Mr Jefferson Smith thought that there was no case for differentiating chewy from crunchy bars, as the dividing line between these kinds of products was thin, and they were aimed at the same market. So the only option was to extend VAT at a standard rate to all cereal bars by either:

(i) Explicitly adding cereal bars to the list of snack products that attracted VAT at the standard rate;

or

(ii) Replacing the present complex definition of what is taxable by a simple provision taxing all confectionery (to be defined as products normally eaten with the fingers, made by a cooling process and containing a substantial amount of sweetening matter) while continuing the existing exclusion for cakes and non-chocolate covered biscuits.

5. In discussion, the following points were made,

(i) The suggested change would not add to the complications about Asian confectionery (which was mainly made from condensed milk with no added sugar). Most products were more akin to puddings than to confectionery and were consequently zero-rated. But in disputed cases, Customs would continue their current relaxed approach;

(ii) The possible reaction of the health lobby was discussed. But it was generally agreed that there was unlikely to be much opposition on health grounds to the extension of VAT to products which, even if arguably healthier than standard existing confectionery, still had a high fat and sugar content.

(iii) The small business lobby was considered. Customs thought that, all though they were not certain, the complicated machinery required for the production of cereal bars made it unlikely that there were any small producers of these products.

S E C R E T

(iv) It would no doubt be alleged that the extension, gaining £5 million a year, was inconsistent with the pledge not to tax food. But it would be difficult for this charge to be pressed with any force given the products involved, and the answer would be that the pledge could not possibly preclude borderline tidying up.

6. Summing up this part of the discussion, the Economic Secretary said that he thought all cereal bars should be made subject to VAT at the standard rate. This should be done by altering the definition of confectionery to include cereal bars in VAT, both because this was likely to give us better protection against further product innovations in the future, and because, in presentational terms, the change would be easier to defend than one presented explicitly in terms of extending the categories of edible products liable to VAT.

7. On implementation, Mr Jefferson Smith said that there was a choice between primary legislation and an affirmative resolution Order. It was customary for primary legislation to be confined to substantial changes, and it would be more in line with the presentation of this change as a minor tidying-up to introduce it by affirmative resolution Order. If this route was taken, the Order was likely to be discussed in Merits Committee, although there was a risk that the Opposition would press for a debate on the floor of the House. The Economic Secretary agreed that we should go for an affirmative resolution Order.

8. On the question of timing, the affirmative resolution Order needed to be moved within 28 days of its being laid, excluding periods of adjournment. There was something to be said for announcing this change in the Budget, as this was likely to make it less prominent, and diminish opposition. The operative date would then be 1 May. The Economic Secretary said that he would pursue this point with the Chancellor.

RB

P D P BARNES

Private Secretary

S E C R E T

*ppp for hwy*BRIEF
FOR
OD(E)
(88)1

FROM: M PARKINSON

DATE: 26 JANUARY 1988

(Not available)

1. MR EDWARDS
2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir G Littler
Mrs Lomax
Mr Peretz
Mr Culpin
Mr Mortimer
Mr F K Jones
Mr Revolta
Mr Tyrie
PS/C&E

SINGLE EUROPEAN MARKET - OUR OBJECTIVES: OD(E)(88)1

Lord Young's paper is to be discussed at OD(E) on 28 January. The paper reports on work agreed at OD(E) on 1 October to develop sharper negotiating objectives and tactics for completing the single market, including areas where the UK has problems. OD(E) will also consider the Cabinet Office's paper on the alternative strategy for reducing frontier controls (OD(E)(88)2), on which Customs are providing the main brief.

The DTI paper

2. Lord Young invites colleagues:
 - a. to agree conclusions and further work on standards, public procurement, financial services, company law and the liberalisation of capital movements;
 - b. to approve the outline strategy on frontier controls recommended by officials - the alternative strategy.

c. to endorse the suggested tactical negotiating approach.

d. to agree the proposed public presentation.

3. The paper notes a number of priorities, with an eye to a further review at the end of the German Presidency. They include the need for an effective compliance regime on public purchasing; developing objectives on financial services; making rapid progress on capital movements; and heading off unnecessary proposals on company law. On financial services DTI have not yet done much work of substance, and still show some tendency to try to "coordinate" Treasury/Bank business rather than to come to grips with detail in their own area. FIM suggest you recall your comments on the subject at the October OD(E) ie that these are sensitive issues where we must proceed on the basis of careful preparation and full consultation.

4. On frontier controls the paper suggests that we should avoid tackling the Commission head-on, but emphasise the limits to the extent to which controls can be abolished. (The Home Secretary reiterates the need to retain passport controls at the ports in his paper OD(E)(88)3 on Frontier Controls on People and the Single Market). The paper suggests that the UK should raise practical questions and be ready to put forward specific solutions with the aim of encouraging a (partially) new Commission to rethink early in 1989. The situation could be reassessed before the end of 1988.

5. The paper recommends that our negotiating tactics should involve effective coordination between departments. All issues should be pursued vigorously, while not adopting a negotiating line on relatively minor points, which is ultimately unsustainable.

The public presentation plans include a national conference at Lancaster House on 18 April opened by the Prime Minister, some 18 regional breakfasts with 200/300 business people each during the year, a booklet and information pack. The issue of frontier controls will need to be carefully handled to avoid an appearance that the UK has an alternative strategy. The paper does not set out the costs of the public presentation or comment on cost-effectiveness.

Objective

7. You will want to support Lord Young's recommendations, while emphasising the need for careful public presentation, particularly in regard to the Commission's tax approximation proposals.

Line to Take

8. In discussing Lord Young's paper, you might like to draw on the following points:-

- We have no problem with what the paper says about the way in which negotiating objectives and tactics are being developed and the proposed public presentation, although we would want this to be cost-effective.

- As the paper says, careful thought is needed in defining the message of the awareness campaign, particularly in areas where we have problems with the Commission's proposals such as tax approximation.

- On public purchasing, we have adopted a positive attitude in Brussels and progress is being made. But at present we should retain our line of opposing extending rules to private sector bodies. Compliance is important, and we should continue to work to produce an acceptable regime. On financial services, [you could confirm that] your officials will be consulting other Departments fully on the new banking directive. [You may wish to] emphasise generally the sensitivity of the issues in this whole area. It is essential not to compromise London's position as a world financial centre. It is important that there should be careful reflection and proper consultation before initiatives are launched with the Commission or other member states. On company law, the paper is right to recommend a firm line on measures which might undermine our domestic approach eg on information required on take-overs. (The separate subject of the potential EC Mergers Directive will be considered in a full OD(E) discussion on 25 February). On capital movements, we fully endorse the broad aim of capital liberalisation, although we have some caveats about the Commission's detailed proposals, and are aiming to make substantial progress under the German Presidency.

9. Customs are providing a brief on frontier controls (OD(E)(88)2). The Economic Policy Committee have been asked by ECOFIN to provide their opinion on the Commission's tax approximation proposals by March, but the subsequent ECOFIN timetable has not been decided. You have made clear our view on zero-rating. Many other member states have problems with the proposals. You may wish to agree with Lord Young on the need to raise practical questions on the proposals and aim for a new Commission re-think in 1989, along lines closer to our own views.

Mark Parkinson
 M PARKINSON

CONFIDENTIAL

bf in folder → J
27/1

H.M. CUSTOMS AND EXCISE
KING'S BEAM HOUSE, MARK LANE
LONDON EC3R 7HE
01-626 1515



FROM : M F KNOX

DATE: 26 January 1988

- BK 26/1*
1. DEPUTY CHAIRMAN
 2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir G Littler
Mrs Lomax
Mr Peretz
Mr Edwards
Miss Sinclair
Mr Mortimer
Mr Culpin
Mr Parkinson
Mr F K Jones
Mr Revolta
Mr Tyrie
Mr Walton UKREP

CUSTOMS
BRIEF
FOR
OD(E)
(88) 2

OD(E) MEETING, THURSDAY 28 JANUARY: SINGLE MARKET STRATEGY

1. OD(E) will discuss three papers on the UK's single market strategy:

OD(E)(88)1:- SINGLE EUROPEAN MARKET - OUR OBJECTIVES: Lord Young's paper on sharper negotiating objectives and tactics.

OD(E)(88)2:- FRONTIER CONTROLS AND THE SINGLE MARKET: Cabinet Office paper on alternative strategy for reducing frontier controls.

ODE(E)(88)3:- FRONTIER CONTROLS ON PEOPLE AND THE SINGLE MARKET: Mr Hurd's paper on immigration controls.

Internal Circulation: CPS; Mr Knox; Mrs Strachan; Mr Nash;
Mr Jefferson Smith; Mr Finlinson; Mr Weston; Customs A/S; Mr Allen;
Mr Cockerell; Mr Pratt.

Treasury officials are providing the brief on Lord Young's paper. This note provides the main briefing on the other two, with ancillary briefing by the Treasury.

FRONTIER CONTROLS AND THE SINGLE MARKET: OD(E)(88)2

2. Following up the 1 October OD(E) remit, officials have considered area by area the scope for reduction in frontier controls while safeguarding essential UK interests. The Cabinet Office paper reports the results of this review and, in paragraph 9, makes a number of recommendations concerning those existing controls on EC goods which could be either simplified (VAT and statistics) or abolished (MCAs), and identifies where changes would cause serious difficulties (animal and plant health, illicit drugs, firearms and pornography).

3. The main thrust of the recommended approach is to single out low-risk EC goods (those on which only VAT and statistics are collected) for more favourable treatment by the continuing and enhanced use of computerised procedures at the point of entry. These consignments constitute the majority of EC imports and, under the proposals, would benefit from speedier customs clearance by allowing the paper declaration (the SAD) to be submitted either shortly after release of the goods under the "fast lane" scheme, or periodically in schedule form under the simplified period entry procedures. Both schemes would maintain present levels of documentary and physical checks for VAT, statistics, CAP, health etc and there would be no relaxation in the standards of preventive checks for drugs, firearms, rabies etc, but substantial trade savings would be possible in transport and administration costs.

4. On tax approximation the general approach of progressively reducing frontier controls without abolishing them, while allowing greater influence for market forces on member states' tax rates through increases in VAT and excise duty paid allowances is acceptable and is consistent with what was agreed at the OD(E) meeting on 1 October. The VAT clearing house proposals are aptly described as a potential "bureaucratic monster" which would require hundreds of extra staff. When the Commission's proposals were discussed at a technical level last week, all member states agreed they were unworkable in their present form and needed major amendment to become viable.

The alternative approach involving a return of the Postponed Accounting System for VAT should, on the other hand, provide a small net saving in customs staff. It is also likely that the costs to business of this scheme would be the same as, or arguably less than, those under the clearing house. However, its re-introduction would be expensive in PSBR terms - even if phased in - so it would only be acceptable if the Community unanimously agreed to introduce it. The approach adopted on tax approximation in both the Cabinet Office and Lord Young's papers is consistent with that agreed at your meeting with officials on 8 January.

6. On plant health controls, a phytosanitary certificate has to accompany plants in intra-EC trade. Customs maintain 100% pre-clearance documentary checks on behalf of MAFF to ensure that all imported material is free from serious pests and diseases, irrespective of the plant health risks they present. However we consider that identification of high, medium and low risk traffic would enable some reduction in the delays caused by pre-clearance checks by allowing low risk plants to benefit from the "fast lane" scheme. MAFF officials have conceded that pre-clearance documentary checks on most fruit, vegetables and cut flowers could be eliminated without reduction in our plant health status. Despite this, and the Cabinet Office recommendation (paragraph 9(b) 5th indent), MAFF seem unwilling to agree to any relaxation in current plant health controls.

7. Treasury officials are briefing separately on MCAs and Statistics. The cumulative effect on transport and administrative costs of all the frontier facilitation measures proposed - EC fast lane, simplified period entry, PAS, abolition of MCAs, and statistical simplification - would be considerable.

Objective

8. You will want to endorse the conclusions of the Cabinet Office paper (paras 10-13) while emphasising that sufficient time must be allowed for the planning and development of new procedures in consultation with trade bodies. Any public presentation of these proposals at this stage before consultation with the trade would need to be low-key, and thus separate from the high profile DTI publicity campaign. It would be preferable for Treasury Ministers to make a statement at a more appropriate time in the light of developments in Brussels.

Time to Take

9. In discussing the Cabinet Office paper, you might like to draw on the following points:

- we have no problems with the paper's proposals on goods and policing functions

- although developments are already in hand in Customs on extensions to simplified procedures and computerised entry systems, the "fast lane" is an entirely new concept and would require several months of detailed planning to work up into a viable scheme which is consistent with EC legislation. With a possible lead time of two years for implementation, work on the scheme should not be delayed, but any public pronouncements should be kept to the minimum level required for consultations with the trade by officials.

- on plant health controls we consider that, with the exception of certain high risk imports, post-clearance checking of phytosanitary certificates would entail no serious risk to the UK's plant health status. The Minister for Agriculture might be pressed to review his Department's stance to permit the bulk of this traffic to benefit from the simplification proposals and proceed without delay.

FRONTIER CONTROLS ON PEOPLE AND THE SINGLE MARKET: OD(E)(88)3

10. The Home Secretary's paper supports the recommendations in the Cabinet Office paper for maintaining "security" frontier checks (drugs, firearms, etc) and argues that the UK should similarly retain passport controls at the frontier. He also wishes to increase public awareness of the risks of reducing frontier controls on people.

Analysis

11. In the face of Commission hostility to passport control at EC frontiers, the Home Secretary questions whether we can justify:

- a. retention of frontier passport control; and

This material is reproduced under item 3 as well.

b. examining all British and EC nationals' passports.

12. He concludes that we can and should, because inland controls through ID cards and checks on employment records would be less effective than frontier-based controls; and because only an examination of UK and EC documents will reveal fraudulent use.

13. The Immigration control problems of the single market exactly parallel our difficulties with drugs; it is more effective to concentrate our efforts at the frontier, across which bulk imports of drugs (and illegal immigrants) must pass, than to search for smaller needles in the inland haystack. The Home Secretary supports the concept of a common EC travel area with external frontier controls only, but regards it as a distant and uncertain prospect. We feel the same about relying on "weak-link" member states to counteract drug smuggling on our behalf at the EC's external frontier.

14. The Home Secretary recognises common features between immigration, terrorism, and drugs trafficking, and his proposal for a publicity campaign to justify retention of frontier controls would serve our interests as well as Immigration's.

Line to Take

15. You may wish to:

a. actively support the Home Secretary's arguments for retaining frontier controls on immigration;

b. refer to the similar justification for frontier controls on drugs, firearms etc; and

c. offer Customs' help in providing material for speaking engagements.



M F KNOX

CONFIDENTIAL

put with app. for meeting

FROM: M PARKINSON

DATE: 26 JANUARY 1988

- (Not available)
1. MR EDWARDS
 2. CHANCELLOR

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton
 Sir G Littler
 Mr Culpin
 Mr Bonney
 Mr Bottrill
 Mr Mortimer
 Mr Tyrie
 PS/C&E

HMT
 BRIEF
 FOR
 OD(E)
 (88) 2

FRONTIER CONTROLS AND THE SINGLE MARKET: OD(E) (88)2

OD(E) will be considering the Cabinet Office's paper on frontier controls and the single market on 28 January. The paper develops the alternative strategy to the Commission's package on Europe without frontiers, recommending reducing frontier formalities in a number of areas.

2. Customs are providing a detailed brief. But you might wish to note that the OD(E) paper makes recommendations on the abolition of monetary compensatory amounts (MCAs) and on the collection of trade statistics, for which further briefing is provided below.

3. On MCAs, the paper notes that MCAs impede the movement of agricultural goods, and suggests that we could support abolition in principle, although the timing would require careful consideration on public expenditure grounds.

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4. The qualification is important. In practice, there seems little prospect of the abolition of MCAs in terms acceptable to us. They are integral to the operation of the agrimonetary system, which allows a wide difference in farm prices between Member States through the application of fixed "green" rates of exchange to Community agriculture prices set in ecus. MCAs, taxes and subsidies on intra-Community trade are designed to prevent distortion of trade between Member States. Although the system is due for review later this year, an extensive review in 1987 showed that there is a clear reluctance among the majority of Member States to agree to any change in the system which would reduce the average level of farm prices. Abolition of MCAs would be most likely to result in the levelling up of farm prices to those in Germany, currently some 20% above those in the UK. This would add to both EC budgetary costs - by some 900 mecu - and to UK public expenditure - approximately £200 million. We would not be prepared to contemplate increases in the current financial situation.

5. On trade statistics, the paper recommends that we should continue to discuss the Commission's approach to collecting statistics by survey, but examine alternative ways of collecting reliable statistics on a simpler basis than at present. It notes that the Commission's proposals have particularly serious consequences for the use of the visible trade statistics for macroeconomic and other purposes.

6. The paper's recommendation is acceptable. There may be scope for some simplification. But it is vital that the accuracy and

timeliness of statistics required for macroeconomic policy judgements does not deteriorate.

Line to Take

7. In discussing the Cabinet Office paper, you may like to draw on the following points.

- the abolition of MCAs cannot be considered lightly. Most other Member States would resist any change in the system which would cut farm prices. The most likely approach would be to bring prices in other Member States up to the German level. This would add substantially to the EC budget and to public expenditure, and would be a major factor in any negotiations to abolish MCAs.

- although some simplification of the collection of trade statistics may be possible, the requirements for ^{both} timely and accurate figures for macroeconomic policy analysis are vital.

Mark Parkinson

M PARKINSON



from GREG KNIGHT M.P.

Tel: Derby 44856
or House of Commons
01-219-6508

Please reply to:
House of Commons
London SW1A 0AA

Nigel Forman Esq MP
House of Commons
Westminster
London SW1A 0AA

Ch has seen
29 JAN 1988

GK/TM

29th January 1988

M

Dear Nigel

I enclose herewith a copy of two EDM's, which have been signed by MP's of all parties and I hope that you will draw Nigel's attention to the points raised therein.

Yours sincerely

Mr Greg Knight
 Mr Lawrence Cunliffe
 Mr John Watts
 Mr Michael Welsh
 Mr Michael Howles
 Mr Ernie Rice

Mr Nicholas Winterton Mr Ken Eastham

★ 32

That the House considers that the payment and administration of bingo duty imposes onerous burdens on non-profit making members' clubs; notes that the thresholds have remained unchanged at £400 per day and £1,000 per week since 1982; notes that liability to pay duty continues for 13 weeks once a threshold has been reached; and calls upon Mr Chancellor of the Exchequer to increase the thresholds to £500 per day and £1,400 per week, and to reduce to four weeks the period of liability to duty after reaching a threshold.

★ The figure following this symbol gives the total number of names of Members appended, including those names added in this edition to the Notices of Questions and Motions.

GAMING MACHINES AND VALUE-ADDED TAX

Mr Lawrence Cunliffe
 Mr Greg Knight
 Mr Michael Welsh
 Mr John Watts
 Mr David Clelland
 Mr John Cummings

Mr Nicholas Winterton
 Mr Bob Litherland
 Mr Tony Lloyd
 Mr Ken Eastham
 Mr Richard Caborn
 Mr Stan Orme
 Mr Jim Callaghan

Mr Roger Stott
 Mr Sean Hughes
 Mr George Howarth
 Mr John Evans
 Mr Allan Rogers
 Mr Tom Pendry
 Mr Allen McKay

Mr Keith Bradley
 Mr Terry Lewis
 Mr Don Dixon
 Mr Ray Powell
 Mr Ian McCartney
 Mr Allan Stewart

★ 45

That this House notes that gaming machines in members' clubs are the only form of gaming subject to value-added tax; considers that the imposition of value-added tax creates an excessive burden on non-profit making members' clubs; and calls upon Mr Chancellor of the Exchequer to remedy this anomaly by removing gaming machines from liability to value-added tax.

Mr Greg Knight
 Mr Lawrence Cunliffe
 Mr John Watts
 Mr Michael Welsh
 Mr Michael Lowles
 Mr Ernie Ros

Mr Nicholas Winterton Mr Ken Eastham

★ 32

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