

NBW file cover

CONFIDENTIAL FILING

Harmonisation of Excise Duties on Alcohol

EUROPEAN POLICY

Structure of the Beer Duty in the 1990s

VAT Rates in the EEC

October 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
22.10.90.							
7.11.91							
27.11.91							
28.11.91.							
16.1.92							
6.5.92							
22.7.92							
5.8.92							
14.8.92							

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CPB

London, 14 August 1992

by hand

File No. 400.Q.6

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PS / CO

Dear Prime Minister

1/ Prime Minister's office

Mr. Poul Schlüter has asked me to pass on to you the enclosed letter dated 13 August 1992, received by telefax in reply to your letter of 23 July 1992. The original letter will be forwarded to your office when it is received at the Embassy.

1071

Yours sincerely

attached

Finn Norman Christensen
Chargé d'Affaires a.i.

The Rt. Hon. John Major, MP
Prime Minister of the United Kingdom
Downing Street 10
London

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T.1813/92...

rec'd by
fax



THE PRIME MINISTER

Copenhagen, August 13, 1992

The Rt. Hon. John Major, MP
Prime Minister of the United Kingdom
of Great Britain and Northern Ireland
L o n d o n

SUBJECT
MASTER

Filed on:

Dear John,

Thank you for your letter dated July 23, 1992 concerning the minimum rate of VAT which - I am pleased to see - was solved at the extraordinary ECOFIN-meeting. I am sure you would agree that our delegation proved to be flexible on that occasion.

In my opinion, the Presidency was very skillful in - on the one hand - firmly sticking to the ECOFIN-conclusions of June 24, 1991 so as to keep member states to their mutual commitment to respect a minimum rate of 15 per cent for the standard VAT rate as of January 1, 1993, and - on the other hand - for the time being limiting the duration of the legal act on the EEC-level to 4 years.

Yours sincerely,

Prime Minister of Denmark



file

Kh

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 August 1992

During the ECOFIN discussion, at which agreement on the VAT directive was reached, I understand the Commission spokesman briefed very unhelpfully from our point of view. He also briefed while the discussions were still continuing.

The Prime Minister would like to explore the possibility of a ban on such Commission briefing, i.e. pressurising the Commission to agree that their spokesman should only brief at the end of meetings of the Council and in accordance with the conclusions. He has in mind the possibility of writing to President Delors to this effect. He would be grateful if you could consult Sir John Kerr and let him have advice.

I am copying this letter to Jeremy Heywood (HM Treasury) and to David Hadley (Cabinet Office).

J S WALL

Christopher Prentice Esq
Foreign and Commonwealth Office

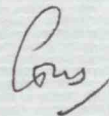
Kh

3 August 1992

MR WALL

PRESENTATION OF VAT AGREEMENT

We discussed the Prime Minister's comments on my note. We agreed that I would write to Andrew Hudson about the presentational strategy. You said you would discuss with John Kerr how to pursue the idea of putting more pressure on the Commission to try and dissuade them from briefing so strongly and so early against British interests.



A T O'DONNELL

PRIME MINISTER

29 July 1992

Crow / Stephens
 ① *M. refer*
 ② *brussels to a note to ch/x so new procedure*
 ③ *letter to House re briefing?*
 cc: Mrs Hogg
 Mr Allan
 Mrs Francis
 30.7

PRESENTATION OF VAT AGREEMENT

I have spoken to Andrew Hudson and Sir John Kerr to try and find out why we got such a bad press on the VAT agreement. There is general agreement that the ground was not well prepared in advance. This was partly because the Chancellor was not sure that they would reach agreement at this ECOFIN. It was not helped by the Chancellor's reluctance to undertake more interviews to back up what was a good performance at the press conference held at around 9pm. It is no use crying over spilt milk but it is worth considering whether the way we handle our relations with the Brussels press corps can be improved.

It seems to me that the main briefing paper for an ECOFIN should contain a section on presentation. This section should be considered at least one week in advance of the meeting. The paper should cover:

- a. how to handle the press;
- b. how to organise favourable responses from MPs;
- c. which businessmen will be lined up to support the likely outcome;
- d. any other lobbies or pressure groups that should be consulted/warned in advance.

My own feeling is that there is a strong need to brief early in the day to ensure that the Government's side of the argument is heard and understood before the Brussels correspondents start writing their pieces. We lose out when we wait until the meeting is finished before briefing. The Commission is certainly active in briefing well ahead of any agreement.

More generally I wonder if we should not try and tackle the problem head on by confronting the Commission about the nature of the briefings they give. Why should the Council allow the Commission to brief journalists in this way? The Commission could, for example, be banned from briefing until Council meetings have finished. I am not sure how workable such a system would be but there may be something to be said for putting pressure on the Commission and making them more cautious about putting their spin on every story.

Crow

A T O'DONNELL

Completely unworkable to have a ban - but pressure certainly
John

PRIME MINISTER

29 July 1992

cc: Mrs Hogg
Mr Allan
Mrs Francis

PRESENTATION OF VAT AGREEMENT

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Copy
A T O'DONNELL

very much
Gus: "agree, though a ban wouldn't work and would backfire" Britain gags Commission "isn't great journalistically. Sarah

22/8

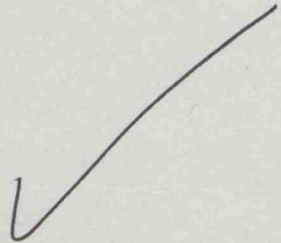


Rue Massok

Treasury Chambers, Parliament Street, London, SW1P 3AG
071-270 3000

29/7

PRIME MINISTER



ECOFIN: 27 JULY

On Monday this week I chaired a special meeting of the ECOFIN council to consider proposals on VAT and excise duties. Most Member States considered an agreement on these essential for the completion of the Single Market by 1 January 1993. John Cope represented the UK.

This dossier is one we inherited from the Portuguese who came close to reaching agreement at their last ECOFIN. We picked up their compromise package, re-shaped it in the light of several weeks of intensive discussions and bilaterals at both official and Ministerial level and reached almost final agreement on Monday night after a long and difficult meeting. Elements of the agreement are subject to Spanish and French reserves.

The main elements of the package are as follows.

Legally-binding minimum rate of VAT

We succeeded in securing a four year time limit for a minimum standard rate of VAT, which will be 15 per cent. A review will take place before expiry of the period and unanimity will be



necessary to set a new rate. Germany, Ireland, Greece, Netherlands and Luxembourg supported this proposal from the outset. Denmark, Portugal, Italy, France, Belgium and Spain all sought a stronger commitment but we succeeded in persuading them to drop this demand in return for some presentational amendments to the text and a minutes statement recalling the declaration last year in which we all expressed a political commitment not to reduce standard VAT below 15 per cent.

I am convinced that this is a sensible compromise which did not seem achievable even a month ago. It has no practical consequences for the UK - to move from 17½ per cent to 15 per cent would cost about £5½ billion in a full year - and we have made it quite clear on numerous occasions that we have no intention of changing the VAT rate. We are free in the review to argue for any successor minimum rate to be higher or lower. Any decision requires unanimity. Our zero rates are fully protected.

Scotch and Northern Irish Whisky

On excise duty on spirits, we secured a minimum rate of 550 ecu, which fulfils my Budget pledge not to agree to a rate which will force any Member State to raise its duty rate. John Cope has spoken to the Scotch Whisky Association who are pleased with this. They are less happy with other parts of the package which stop those Member States with a rate between the minimum and 1,000 ecu from lowering it and those with a rate higher than 1,000 ecu from reducing it below that level but do not plan to make a major issue of them. They had also argued against the special rate for ouzo consumed in Greece although the combined effect of the present VAT and excise changes in Greece will be to increase the price of ouzo relative to whisky. The package contains the commitment the Scotch Whisky industry were seeking that the review of alcohol



duty rates in two years' time should include a study into competition between the different categories of alcoholic drinks. Overall, therefore, we have secured their most important interests and, in the review, the means to secure further benefits in the future. Particularly when taken with the deal we secured last year on duty-frees - from which they are major beneficiaries they cannot justly claim that we have not protected their interests well and it would not appear that they intend to.

Sherry

The time-limited minimum VAT rate is conditional on a bilateral agreement being reached between us and Spain over the relative tax treatment of British and Spanish sheries. The Spanish have long wanted the name Sherry to be confined to the genuine (and highly controlled) Jerez product and not used by others. To pressurise us into agreeing this they are trying to get us to lower our tax differential (currently 42 per cent) against their product by comparison with British Sherry (most of which is 14.3 per cent less alcoholic). At present our producers can, under a derogation, use the name until at least 31 December 1995, subject to some infraction proceedings before the ECJ. The shorter the transitional period before the name changes the less the Spanish want the differential narrowed in the meantime. So the bargaining now centres around the length of the transitional period and the extent of narrowing of the differential. I have set a timetable of close Thursday for a decision to be reached. The decision is potentially of great consequence for the sales of two British producer companies. John Cope is in touch with the British sherry producers and will then speak again to the Spanish with the aim of finding a satisfactory outcome on this timescale.



Other items

Much of the meeting was taken up with resolving disputes in other areas, namely VAT on gold and horticultural outputs, in which no major UK interest was involved. We secured compromises on the former which were acceptable to all and on the latter to all except the French. Charasse, the French Finance Minister, proved particularly difficult at the meeting arriving late, leaving early, and leaving his ambassador with instructions to retain French reserves not only on agricultural outputs but also on two other items where France is totally isolated - they want a control levy on wine and also a higher minimum rate for heating gas oil. I have given France the same time limit to reconsider their reserves as I have given Spain over sherry.

If we do succeed in getting the French and Spanish reserves lifted it will be seen as a notable success for the UK Presidency to have secured agreement on a highly complex and politically difficult dossier so early in our term. We will also have secured a good deal for the UK. The line I have taken with the press which I would be grateful if colleagues would reflect in any comments they are required to make is as follows:

- the package represents an important step forward towards the creation of a Single Market in Europe. That is very good news indeed for British industry;
- it safeguards the UK's existing zero rates;
- it preserves the flexibility of future British Governments and Parliaments to set VAT rates;
- it requires no increase in any UK tax rate or duty;



- and it protects the special interests of the Scotch Whisky industry by ensuring that no EC country is forced to put up its duty on spirits.

I am copying this minute to Members of the Cabinet, the Chief Whip and to Sir Robin Butler.

N.L.

[N.L.]

29 July 1992

26.

29 July 1992

PRIME MINISTER

cc: Mrs Hogg
Mr Allan
Mrs Francis

PRESENTATION OF VAT AGREEMENT

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AT

A T O'DONNELL

OUT TELEGRAM (CONT)

CLASSIFICATION

UNCLASSIFIED

PRECEDENCE

IMMEDIATE

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is an sensitive political issue in the UK - neither Parliament nor the British public are willing to see Britain's right to set her own VAT rate permanently removed. Indeed, the Government has already encountered domestic political criticism for indicating a willingness to move even as far as we have towards a time-limited legally-binding minimum VAT rate.

4. I very much hope that ECOFIN will be able to reach an agreement on 27 July. I should be most grateful for your support for the Presidency compromise package, of which the time-limited VAT rate provision forms a key part.

YYYY

HURD

NNNN

PRIME MINISTER

ECOFIN: VAT AND EXCISE

We came close to a deal on excise duties at yesterday's meeting of ECOFIN. We failed to reach an agreement because we did not get what we wanted on a review of the minimum VAT rate. The Chancellor had Portuguese agreement to a review under which the minimum rate would have ceased to apply after x years unless renewed. The Commission supported him. But the Chancellor had done no prior lobbying of other Member States and Denmark, Belgium, Italy, Spain and France (who were not represented at Ministerial level) were unable to agree. They argued that the logical thing was for the new minimum rate to continue unless the review decided otherwise.

John Kerr thinks we could have done much better if the Chancellor had lobbied other Governments, as he was advised. JOK still thinks we could get our way if we lobby between now and the 13 July ECOFIN. He also thinks we will get an agreement on the excise duty on whisky. Member States have already moved a long way in our direction.

The Chancellor may tell you that he proposes to leave the whole thing until the autumn. JOK thinks this would be a mistake and would cause a row. There are 7 excise directives which have to be settled by the end of the year. If we do not try to move forward in July, other Member States (and the industries affected) will think we are cheating.


(J. S. WALL)

30 June 1992

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a skip

Alcohol and the Single Market

The Chancellor explained that the Scottish whisky industry were pressing for a "capping" arrangement on excise duties on spirits. This was designed to protect, in particular, their export sales: an EC proposal for a low or zero minimum excise duty for wine and harmonised spirits duties could lead to higher spirits duties and hence prices in many EC markets. But there were a number of strong arguments against capping. First, it was simply not negotiable within the EC. Second, it would constrain a future Chancellor's room for manoeuvre in the Budget: some forms of capping could rule out revalorisation altogether. Third, such unitary taxation of alcohol was quite against the spirit of UK excise duty practice.

The Prime Minister said he understood and accepted the arguments against capping of excise duties, while recognising why a number of Ministerial colleagues and the Scottish Whisky Association were in favour. Would the Government be better served by arguing for higher excise duties on wine? The Chancellor explained that decisions on excise duty on both wine and spirits were taken by QMV within the EC. The Prime Minister wondered whether there might be a blocking minority - for example, bringing in the Irish, Danes and Dutch. The Chancellor undertook to look at this further.

Finally, the Prime Minister said his instinct on this issue was to keep it as quiet as possible for as long as possible. The Chancellor should resist further discussion in advance of the Budget, though it would be necessary to speak again to the Scottish Whisky Association at some stage.

Note: Tax is wrong UK can avoid with up unilaterally.



CCPO
PK.

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Norman Lamont MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

6 May 1992

Norman Lamont top

I am writing with reference to our earlier correspondence on alcohol taxation in the EC, which rests with your Private Secretary's letter of 5 February to John Gummer's PPS.

The next ECOFIN meeting is due to take place later this month. It seems to me that there could be some advantage in having the discussion which your Private Secretary proposed in his letter before that meeting takes place.

I suggest Private Secretaries should arrange a suitable date.

I am copying this letter to the Prime Minister, John Gummer and Michael Heseltine.

Yours ever,

Ian

IAN LANG





CCP

Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

5 February 1992

D Rossington Esq
PPS/Minister for Agriculture,
Fisheries and Food
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1A 2HH

Dear David,

ALCOHOL TAXATION AND THE SINGLE MARKET

The Chancellor of the Exchequer was grateful for your Secretary of State's letter of 15 and 27 November. He has also seen the Secretary of State for Scotland letter of 7 November. The Chancellor would like to have an opportunity to discuss this with your Minister and with the Secretary of State for Scotland after the Budget.

Perhaps diary secretaries could be in touch to arrange?

I am sending a copy of this letter to Alan Fraser (Scottish Office) and Barry Potter (No.10).

Yours ever

Owen Barder

OWEN BARDER
Private Secretary



The Rt. Hon. Peter Lilley
Secretary of State for Trade and Industry

The Rt Hon Norman Lamont MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

Department of
Trade and Industry

Ashdown House
123 Victoria Street
London SW1E 6RB

Direct line
071-215 4440

DTI Enquiries
071-215 5000

13 December 1991

Dear Norman,

ALCOHOL TAXATION IN THE SINGLE MARKET¹

You copied to me your letter of 7 November to John Gummer and I have seen his reply of 15 November and further letter of 27 November together with Ian Lang's letter, also of 27 November. I am writing to endorse the points made by John and Ian in support of a post 1992 tax regime for alcoholic beverages which does not act against the interests of our spirits industry.

Other EC Member States are valuable export markets for the UK spirits industry. Spain, Portugal and Greece are seen by the industry as having particular potential for future growth. If other Member States (particularly those in the South where increased sales of spirits look promising) are able to protect their indigenous wine industries by a tax regime which excludes wine as an excisable product whilst at the same time allowing high levels of tax against spirits, there is a serious danger that sales of UK spirits will be placed in jeopardy. I know you have seen a copy of the study, albeit commissioned by the UK spirits industry but convincing nonetheless, which suggests that spirits are more sensitive to changes in price than other beverages and that consumption is likely to switch to beer and wine in response to increases in taxation.

I wholeheartedly endorse the case the industry has made for seeking the inclusion of wine as an excisable product in the post 1992 arrangements and also for setting the lowest possible minimum tax rate for spirits. I know that you support the industry on both points and I hope you will press our case strongly at ECOFIN.

dti

the department for Enterprise



Recycled Paper



I see merit too in the industry's proposal for capping in order to maintain the differential between taxes on spirits and other alcoholic beverages. I recognise that capping would limit your discretion to a certain extent in fixing domestic rates on spirits. However, I agree with the point made by John that this limitation would be more than offset by the benefits capping will bring in reducing the potential for other Member States to discriminate against our spirits industry, which, as you know, makes a valuable contribution to our balance of trade with the rest of the Community.

I am copying this letter to Cabinet colleagues and to Sir Robin Butler.

Yours ever

Selden

JW12114

Euro Pol: Exercise Dulles

Oct 80

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PRIVY COUNCIL OFFICE

71 WHITEHALL, LONDON SW1A 2AT

28 November 1991

*Dec JH,**Dep.***ALCOHOL TAXATION IN THE SINGLE MARKET**

I was grateful to you for copying to me and other colleagues your letter of 27 November to the Chancellor about harmonisation of duties in relation to spirit drinks, and in particular for alerting me to the issue of capping.

I recognise of course that these are important points at issue for the Treasury, but as you say these need to be balanced carefully against the UK trade interests. In one sense I am encouraged by the success of the recent negotiations on duty free, which demonstrated that a tough defence of UK interests can achieve a surprisingly favourable outcome even when the odds seem to be stacked against us.

My own view is that it is very important not to accept any permanent discrimination against UK trade interests unless this is wholly unavoidable. I gather that capping would not prevent Chancellors from having any specific revenue aims in their annual budgets from alcohol duties as a whole. In that case, in my view, we should therefore espouse capping, or some other mechanism, which would prevent or at any rate minimise such discrimination. The consequences for the UK economy of damaging the prospects of this major export earner would be grave; and politically the timing of a refusal by the Government to support the industry's case could be extremely awkward in Scotland.

I am copying this letter to Cabinet colleagues and to Sir Robin Butler.

*Yes evr,**JH*

JOHN MACGREGOR

The Rt Hon John Gummer MP
Minister of Agriculture, Fisheries
and Food
Whitehall Place
London SW1H 2HH

EURO POL: Alcohol Taxation Oct 80

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Prime Minister
CCPCU
To note - a difficult issue
with particular significance to
SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU
Scotland

JHP
27/11

The Rt Hon Norman Lamont MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

27 November 1991

Dear Norman,

ALCOHOL TAXATION IN THE SINGLE MARKET

Thank you for copying to me your letter of 7 November to John Gummer. I have also seen his reply of 15 November.

May I first of all add my applause for your success in the negotiations over the duty free issue. I know that the Scotch Whisky industry were pleased that it was possible for you to achieve a reasonable transition period. I was also happy to note your agreement with the industry's views on minimum rates for spirits and the need for a positive rate for duty on wine.

However, like John Gummer I hope very much that you will be able to reconsider your approach to the issue of differentials. I firmly believe that it is in our interests to take a wholly pragmatic approach to this issue. All moves towards harmonisation inevitably mean the sacrifice of individual Member States' freedom of action. In the case of capping, it is manifestly in our best interests to press the case for action to ensure that the existing discrimination against our single largest food and drink export product is not exacerbated. The alternative is progressively to give up freedom of action without gaining the potential benefits.

As far as domestic taxation policy is concerned, I accept what you say about the impact on past budgets had capping been in force. But I cannot see the relevance of the point. There have been many EC policy initiatives which would have precluded actions which Governments have taken in the past had they been in force at the time. Nor is it germane to cite the potential political difficulty of increasing taxation on beer while freezing it on spirits. That would only be a problem if there was a requirement to end the discrimination against spirits rather than simply to prevent it from worsening. While that may well be desirable in the long run it is not what is currently under consideration.

I fully accept that it will be exceptionally difficult to persuade other Member States to accept the capping of differentials. But I believe strongly that it is worth the attempt and I hope very much that you will reconsider.

I am copying this letter to the Prime Minister, John Gummer, Peter Lilley
and Sir Robin Butler.

Yours ever,
Ian

IAN LANG



Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

RESTRICTED

The Rt Hon Norman Lamont MP
Chancellor of the Exchequer
Treasury
Parliament Street
London
SW1P 3AG

27 November 1991

Dear Chancellor,

ALCOHOL TAXATION IN THE SINGLE MARKET

1. I received today further representations on this issue in the course of which it became clear that the Scotch Whisky Association and Guinness hope to lobby widely among colleagues at the reception they are hosting on 28 November at the House of Commons. It seems highly likely in particular that they will refer to their request for "capping" of the duty differential between spirits and other alcoholic drinks. I thought, therefore, that it might be useful for colleagues if I outline the current state of play as I see it.

2. The background is that at present duty regimes in all EC member states discriminate against spirits. And the UK is much the largest producer of spirits in the EC, most of it consisting of Scotch whisky. Minimum duty rates for alcoholic drinks were discussed at ECOFIN of 24 June. At that time it was agreed that the minimum rate for wine would be set at zero ecu, and that there should be at a specific rate for beer (187 ecu per hectolitre of pure alcohol (hlpa)) and the Presidency proposed a much higher rate for spirits (1118.5 ecu/hlpa); Following your strong objections because of the damage that would be done to UK industry, especially Scotch a major export earner, this rate was not agreed. Instead it was decided that the Commission would conduct a study into the Community's alcoholic drinks sector and the possible distortions caused by differing tax rates, before any decision was taken on the minimum rate for spirits drinks.

3. The Commission study has yet to be completed. In the meantime the UK spirits drinks industry commissioned its own study from three respected independent consultants who undertook

an analysis of competition between different categories of alcoholic drinks in the market place. This study was completed recently and copies have been sent to the Commission and circulated widely in the UK and other Member States. We have both received copies. Briefly, the study suggests that beers, wines and spirits are, at least to an extent, competitors in the same market. This confirms commonsense. The study also claims to show that spirits are more price sensitive than either beer or wine. If true, a tax on spirits will have a greater impact on consumption than would a comparable increase on beer or wine.

4. Since July the industry has been holding discussions with us in an attempt to reach an agreed UK Government position on minimum duty rates for spirits drinks. During these discussions the industry has identified what it considers to be its three key objectives. These are: 1) a "capping" mechanism to prevent any worsening in the existing duty differential between spirits and other alcoholic drinks; (ideally the industry would like to see taxation in direct proportion to alcoholic strength for all drinks, but they recognise that this is unlikely to be feasible in the short term); 2) the lowest possible minimum EC rate for spirits, which preferably should be as close as possible to the rate for beer, but which at the very least should result in no increase in the rate in any Member States; (current rates in some Mediterranean countries are very low); and 3) the inclusion of wine as an excisable product, preferably with a positive minimum tax rate.

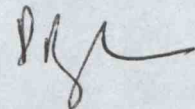
5. In our recent correspondence you have agreed that it would be unfair if the post-1992 tax regime required any Member State to raise its rate of duty on spirits. You can also support the industry line in insisting that wine is an excisable product. However you have indicated that there are difficulties in supporting the industry position on "capping", because we should not be seen to be undermining our general stance that the Community should impose the minimum constraints on Member States. There is also the concern that it would limit your freedom in setting domestic tax rates, and that there may be political difficulties in raising duties on, say, beer while freezing them on spirits. On the other hand, when faced with proposals which would institutionalise existing discrimination against UK products and provide scope for it to get worse, there is a strong case for examining all possible avenues to avoid such a major setback to UK interests. Capping is one such way of reducing this discrimination. It is true that it would lead to some limitations on our freedom in setting domestic taxation policy, but a degree of duty harmonisation is already necessary for beer and wine following judgements of the ECJ. As I see it the real question is whether the benefits to UK trade interests from capping would justify the increased restrictions on our ability to set duty rates. I am sure it would. There are various possibilities for capping, some more rigorous than others. All, however, would to some extent reduce the scope for other Member States to discriminate against UK products and hence UK interests.

6. Colleagues will wish to know that you are still reflecting as to the stance you will adopt when this issue is next raised at ECOFIN. I very much hope that you will ultimately see your way clear to support the capping option. Naturally we cannot comment in detail on the issue of capping if it is raised tomorrow evening, but I thought it right to alert colleagues to the likely approaches to which they may be subjected.

7. Finally, though nothing specific has been said, the Scotch whisky industry have hinted enough to make it clear to me and I expect to you that if HMG does not adopt what they regard as a reasonable line on the harmonisation issue, they will make life very difficult for us politically. We should not underestimate their ability to do so especially in Scotland.

8. I am copying this letter to Cabinet colleagues and to Sir Robin Butler.

Yours sincerely



JOHN GUMMER

*(Approved by the Minister
and sent in his absence)*



CCP

Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

7 November 1991

Rt Hon John Selwyn Gummer MP
Minister of Agriculture, Fisheries
and Food
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1A 2HH

A handwritten signature in dark ink, appearing to read 'JSG'.

ALCOHOL TAXATION IN THE SINGLE MARKET

Thank you for your letter of 20 September. I have also seen Ian Lang's letter of 30 September. *will request if required*

As you know, I have now seen the Scotch Whisky Association and have been studying the implications of their proposals.

I agree entirely with the industry that it would be grossly unfair if the post-1992 tax regime required any Member State to raise its rate of duty on spirits, when the agreement for a nil zero rate on wine will allow wine to remain untaxed in 5 Member States. When the issue next comes back to ECOFIN, I will stick with the line I took on 24 June, namely that I cannot accept a minimum rates agreement that leads to enforced additional discrimination against spirits producers. It is too early to predict the course of the negotiation, but I will make it clear that the UK regards this as a matter of considerable national importance, and expects to get a deal which does not disadvantage its domestic drinks industry.

So far I think we are at one. I will also take the same line as the industry in insisting that wine is an excisable product.

However I do have very real difficulties in supporting the industry's line on capping the cash differentials in duties. Not only does it run counter to our general line on the proper role of



the Community, which is that it should impose the minimum constraints on Member States' ability to take their own decisions, but it would also cause considerable difficulty in terms of domestic tax policy.

The industry's proposal would have ruled out the duty increases included in the 1990 Budget, when John Major decided to seek a relatively high increase from spirits. It would have ruled out the 1991 Budget which revalorised the duties across the board. In fact, it would also have ruled out the Budgets of the early 1980s, even though the duty on spirits was increased by a lower percentage than the other alcoholic drinks. In short, it is a move that we could only accept if we were committed to the goal of unitary taxation of alcohol.

I know that you support that objective - and we have already corresponded on the subject. I agree that in principle it looks logical - and if we were starting from scratch it might be the option we would choose. However in practice what it would mean is that until we achieved a unitary tax, we would always be putting the burden of extra taxation on wine, beer and cider drinkers, and reducing the burden on drinkers of spirits and champagne. That is not a very attractive political option, however attractive it might be in terms of tax policy.

Furthermore, I do not think that there is any realistic prospect of getting what the industry wants on this, even if we ourselves were prepared to accept it. We would be arguing for a new constraint on Member States' freedom. I think if we devote effort to lobbying for that cause, which would probably be in vain, we could reduce our ability to get our way on the minimum rate where we do have, in principle, a very good case.

Although I have reached this conclusion, I see advantage in telling the industry that I will not make a final decision until I have seen the outcome of the Commission's report. Meanwhile I believe we should encourage the Scotch Whisky Association to lobby hard in Brussels against any proposals which would worsen current discrimination against spirits, in order to prepare the ground for the next round of discussions.

I am copying this letter to the Prime Minister, Peter Lilley, Ian Lang and Sir Robin Butler.

A handwritten signature in dark ink, appearing to read 'Norman Lamont', written in a cursive style.

NORMAN LAMONT





be: PU

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 October 1990

Dear John,

STRUCTURE OF THE BEER DUTY IN THE 1990s AND BEYOND

The Prime Minister was grateful for the Chancellor's minute of 19 October proposing changes in the way duty is charged on beer.

The Prime Minister has noted that the change is envisaged for 1993 and is content for the Chancellor to proceed as proposed in the minute.

I am copying this letter to Robert Canniff (Chancellor of the Duchy of Lancaster's Office).

Yours ever,

Barry

(BARRY H. POTTER)

John Gieve, Esq.,
H.M. Treasury.

065

cc PU.



Prime Minister
Content for Chancellor
to change the way duty is
charged on beer?

①

Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

BHP
19/10

Yes

PRIME MINISTER

STRUCTURE OF THE BEER DUTY IN THE 1990s AND BEYOND

You will want to know that I intend to change the way duty is charged on beer. The background is that the present system for charging duty which has not changed significantly for more than 100 years, has become increasingly inadequate as technology and products have changed. Details of the present system are set out in the attached note.

2. It has been criticised in a recent report by the National Audit Office and we are likely to face criticism from the PAC as well, focusing particularly on the "wastage" allowance which benefits larger brewers at the expense of smaller brewers.

3. I therefore propose to move to a new system which will replace the existing charge at an early stage in the production process with a charge on the finished product related directly to alcoholic strength. I envisage making this change in 1993. This system will be fairer to small brewers because a wastage allowance will no longer be needed and will be less costly for Customs and the trade to work. It will also mean that duty bears a closer relation to the alcoholic strength of the beer.

4. Our proposals are consistent with European Commission proposals. Five Member States, including Germany and France, already raise duty on a finished beer duty system, and others are expected to change over in the near future.



5. The trade have been consulted about the change. The small brewers are enthusiastic. Large brewers are understandably rather less keen but realize there has to be some change. I believe they will not object if we keep the scheme simple and give them sufficient time to implement (they have asked for 2 years). The brewers have asked for an assurance that we do not use the change in system as a cover for increasing duties. Such an assurance was given in the consultation document. That does not in any way constrain my discretion over the level of duties.

6. The effect on beer prices from the change itself should be neutral overall - the price of some should go down, and of others eg strong lagers should go up. This is a point we must hammer home publicly as in all likelihood the brewers will be swift to pass on the increases and blame the government, and simply absorb the reductions in higher profit margins.

7. I have asked Customs to set up a joint working party with the brewers to discuss enabling powers for inclusion in the 1991 Finance Bill. This will allow us to make the necessary changes by Statutory Instruments in time to introduce the new system in 1993.

8. I thought that both you and Kenneth Baker, to whom I am copying this minute, would wish to be aware of what is proposed.

James Tasker

pp [j.m.]

[Approved by the Chancellor of the Exchequer
and signed on his behalf]

19 October 1990

Background Note

1. The present beer duty structure dates from the 1880s. Duty is charged at a very early stage in the brewing process. It is based on the volume and original gravity (OG) of a sugary solution (the worts) before alcohol is produced by fermentation through the addition of yeast. Although the amount of duty charged increases with the OG of the worts there is no direct correlation with the alcoholic strength of the finished beer. This favours beers with a low OG but a relatively high alcoholic strength such as premium lagers.

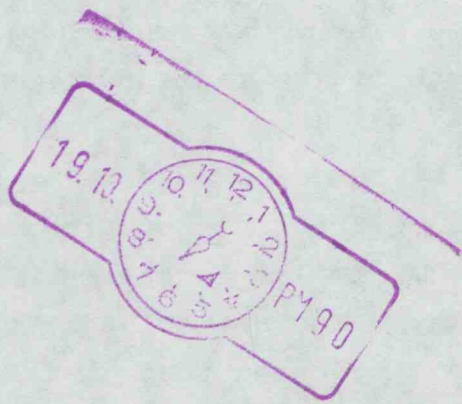
2. As duty is calculated so early in the brewing process a standard 6% deduction is allowable on the volume of worts collected. This deduction, known as the wastage allowance, is meant to compensate brewers for routine spoilage and losses occurring during processing and packaging of the duty paid product. This means that a brewer whose losses are less than 6% is actually selling some beer duty free. The wastage allowance particularly favours large brewers as their losses are significantly less than 6%. The losses of smaller brewers, however, often exceed this figure.

3. It is becoming increasingly difficult to administer the duty efficiently, effectively and equitably. The essential problem is that beer produced by modern and ever evolving brewing methods is being taxed by an OG system designed for the circumstances prevailing in the late 19th century. Many brewers, for example, now add yeast to the worts as early as possible thereby advancing fermentation. This early fermentation and the difficulty of obtaining a representative sample from a very large modern brewing vessel - which can contain up to 300,000 litres - makes it difficult to determine OG with any precision.

4. The current legal provisions are ill-suited to accommodating the introduction of new products and new technology. Furthermore, the fact that duty is levied at such an early stage in the production process means that downstream operations have to be closely monitored by Departmental officials. This is a regulatory role which can put a brake on progress. It also adds to brewers' compliance burdens and Customs and Excise costs.

5. The alternative to levying duty at the worts stage is to raise duty on the finished beer, ie the end product. This would mean that brewers would pay duty only on what they actually sell in the can, bottle or keg and there would be no need to compensate them for processing and packaging losses occurring after the duty point. Furthermore, the duty can then be charged on the actual alcoholic strength of the finished beer.

6. Within the EC several Member States raise their duty at a much later stage on the finished product whereas others use a worts based system similar to the UK. The former include Denmark, France and Germany. The Netherlands, currently on the same basis as ourselves, has indicated that it intends to move to an end product system in 1994 and Belgium and Luxembourg are likely to follow suit. For their part the Commission favour applying duty to the actual quantity of beer being released for consumption as they believe this offers the only satisfactory means for the taxation of beer in international trade. They regard our flat rate wastage allowance as a hidden export subsidy because brewers can claim back duty on the full volume of beer exported, which if their losses were below 6%, exceeds the amount of duty actually paid. The Commission has also expressed concern that the wastage allowance gives an unfair advantage to UK beers produced for the home market. Infraction proceedings were formally started against the UK in December 1983 but are on ice at present. The Commission is currently taking proceedings against Italy whose wastage allowance is higher.



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



From the Minister

M Francois Guillaume
Minister of Agriculture
78 Rue de Varenne
75700 Paris
FRANCE

18 February 1988

De, Francois

DOM RUM DEROGATION: SPIRIT DRINKS REGULATION

Since we discussed this matter in the margins of the last Agriculture Council, our officials have worked hard to reach a better understanding of our respective positions. They have produced a statement of the intentions of both Governments for our joint agreement.

I will not disguise from you that I face difficulties in defending to my industry interests and to Parliament my willingness to support your proposal unless I am able to show that the UK industry is getting something in return. This will not be at all easy, particularly given the past commitments of my predecessor to Parliament.

That is why I have always linked my agreement to the DOM rum derogation to simultaneous adoption of the Spirit Drinks regulation. I recognise, however, the political importance to you of securing agreement to the DOM rum derogation before the French elections. I also recognise that your officials have made efforts to reassure mine on their commitment to work hard to secure early adoption of the Spirit Drinks regulations under the German Presidency. This is reflected in the joint statement which I understand you are ready to endorse.

--- On this understanding, I, too, am ready to confirm the understanding which is set out in the joint statement, enclosed. Steps have already been taken to inform the Commission that, subject only to the necessities of our Parliamentary Scrutiny procedures, the UK is ready to accept a proposal on DOM rum. While those procedures are outside my control, I can assure you that on our side, we will do our best to meet the timetable for Council approval that you envisage.

But if I am to do this I must ask for your confirmation at the same time, that you will do all in your power to ensure that the

/Spirit Drinks

Spirit Drinks regulation obtains Council endorsement as soon as possible under the German Presidency. It will greatly help my position in the UK if there is early evidence of accelerated progress in the discussions.

Handwritten scribble

Handwritten scribble

JOHN MacGREGOR

BRITISH EMBASSY
PARIS

17 February 1988

Colin Bodrell Esq
AD Division
MAFF
Whitehall Place West
London

Clear copy to be
provided to Paris

Letter Colin

DOM RUM/SPIRIT DRINKS

1. As agreed this morning by telephone, I have gone over the English and French texts of the Agreement this afternoon with Bruno Vindel. He has accepted most of the points which you raised with me, and these have been incorporated as appropriate in the English and French texts. I attach a re-type of the English text as it stands after my discussion with Vindel; this should as far as possible be an exact equivalent of the French text (which Vindel will send to me as soon as it is re-typed).

2. The points which I should bring to your attention are these:

- ✓ a) The text, including headings and sequential numbering, will be the same in the English and French versions.
- OK b) I could not persuade Vindel to accept 'for example' in paragraph 5 of the Timetable section. He wishes to retain, and I have reflected in the English text, the reference to end February/early March, in brackets.
- ✓ c) In the spirit of aligning texts, Vindel has proposed amendments to Annex 1 (Permitted Flavours) so that the texts read the same in both languages. This is reflected in the re-type.
- OK d) Vindel suggests that the French text of the draft Council decision on DOM Rum should stand as Annex 2 to the Agreement. Is this acceptable to you?

3. Please let me know if there are any further points on the English text which I need to negotiate. It seems to me that the two are now as closely aligned as we can expect. I mentioned to Vindel that the next stage in our view would be a letter from Mr MacGregor covering the English text of the Agreement; followed by a reply from Guillaume committing himself to it. Vindel agreed this course of action, suggesting that the letter from Mr MacGregor be delivered here if possible by the end of this week (Guillaume returns from the DOMs early next week and should then reply).

Yours ever, KATE

KATE TIMMS

Prohisis

TEXT OF THE AD REFERENDUM AGREEMENT BETWEEN FRANCE AND THE UNITED KINGDOM DRAWN UP IN LONDON ON 15 FEBRUARY 1988 ON THE FISCAL DEROGATION FOR TRADITIONAL DOM RUM AND THE PROPOSED EC SPIRIT DRINKS REGULATION

1. TEXTS

A. COMMITMENTS BY FRANCE ON THE SPIRIT DRINKS REGULATION

- 1. Article 1(2)(a) - Scope - Acceptance of an additional Annex 111 permitting named exceptions below 15% alcohol.
- 2. Article 1(3)(c), 4f) and (m) - Exclusive use of names - 'korn', 'grappa', 'ouzo'. Removal of existing French reserve on 'grappa' (Article 3(f)) and acceptance of final compromise position authorising exclusive use of these names.
- 3. Article 1(3)(b) and Article 3(1)(a) - Whisky - Removal of French reserve on minimum period of maturation and support for UK position on minimum strength. (UK will support French position on minimum strength for pastis.)
- 4. Article 1(4)(b) and Article 11 - Removal from text of definitions of third country products, but recognition under Article 11 of existing Community obligations in respect of these products.
- 5. Article 9 - 'Rumverschnitt' - Withdrawal of French reserve to permit an arrangement with Germany.
- 6. Article 1(3)(h) - 'Eau-de-vie de ...'/'... wasser' or 'Geist' - France confirms its intention to achieve a compromise solution with Germany.
- 7. Article 17 - Separation of Spirit Drinks regulation from Aromatised Wines regulation. France agrees to support UK request for implementation date for Spirit Drinks regulation within six months of approval by Council even if Aromatised Wines regulation not finalised.
- 8. Article 1(3)(a) - Rum definition. Assurance that France will, at an appropriate stage, and taking account of the fiscal derogation, accept a definition of rum that can form the basis of a Community agreement.
- 9. Article 1(3)(d) and (e) - Wine Spirit and Brandy Definitions - Assurance that France will do all that it can to ensure a Community definition for brandy that takes account of the concerns of Spain and Greece. France and Greece would also consider alternative approaches that might be found.
- 10. Article 4(6) - Permitted Flavourings - France agrees to the compromise proposal set out in the attached Annex.



- 11. Scotch Whisky. France notes that draft legislation before the UK Parliament will lead to the setting of a minimum alcoholic strength for Scotch whisky in the United Kingdom and accepts that consequential changes will be necessary to the existing bilateral agreement to ensure that such minimum strength of Scotch whisky is respected on the French market.

- 12. Negotiating Position. France commits itself to a strong negotiating effort to secure early adoption and implementation of the Spirit Drinks regulation under the German Presidency. They will work closely with the UK to achieve this.



B. COMMITMENTS BY UNITED KINGDOM ON THE FISCAL DEROGATION FOR DOM RUM

1. The UK welcomes the inclusion of a termination date of 31 December 1992.
2. France and the UK agree on the following measure of degressivity in the annual volume of DOM rum qualifying for the concessionary tax treatment:

<u>Calendar Year</u>	<u>1000 hl pure alcohol</u>
1988	99
1989	97
1990	95
1991	92
1992	90

These figures will be set out in the Decision.

3. France undertakes not to use the Decision as a precedent for seeking to continue the derogation beyond 1992 even if at that date tax harmonisation in the Community has not been achieved.

2. TIMETABLE

Week beginning 15 February 1988

1. UK agreement to lift its reserve on the fiscal derogation for DOM rum and to give its active support to the French request; to be communicated on 16 February 1988.
2. Council Working Group on Spirit Drinks of 17 and 18 February: French delegation will replace its reserves of principle (listed at points 1 to 7 above) with waiting reserves.
3. The UK will inform the Commission that it will support a Decision authorising France for a limited period to continue its special taxation arrangements for 'traditional' rum from the DOMs.

Week beginning 22 February 1988

4. Agreement in COREPER on the fiscal derogation subject to Parliamentary Scrutiny reserve on the part of the UK.

As Soon As Possible Thereafter

5. Adoption as an A point by the Council of fiscal derogation as soon as possible - (end February/early March).
6. Next Council Working Group on Spirit Drinks at the beginning of March and at SCA: France and UK will adopt a common position with both sides working actively for early adoption of the regulation.
7. Adoption of the Spirit Drinks regulation by the Agriculture Council as soon as possible under the German Presidency.



ANNEX 1

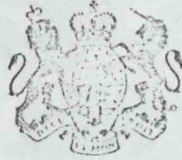
Permitted Flavourings

Article 4(6) should be amended to require use of natural flavourings for spirit drinks defined in Article 1(3), with the exception of liqueurs. For liqueurs, it would be possible to list in the regulation those liqueurs where only natural flavourings would be permitted.

It would be important that this list should be one acceptable to Belgium and the Netherlands.

Requested?
To: Charlotte

Copy to: ~~Mr. King~~
~~Mrs. King~~
Johnston
~~Mr. Hale~~
~~Mrs. Pearson~~
~~Mr. de Peyer~~
ALE 123



DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
London S W 1

10 February 1981

Dear Geoffrey,

TAXATION OF ALCOHOLIC DRINKS

In your letters to me of 21 November and 11 December last year, you agreed on the need to take into account in your preparations for the coming Budget the health implications of changes in tax on alcoholic drinks.

Since then, officials from my Department and other interested Departments have met officials from the Board of Customs and Excise (as they also did last year) to discuss in more detail the effects of possible changes in taxation on alcohol generally and in relative duty rates on beer, wines and spirits.

It may help if I summarise the arguments as I see them, for proposing that in the Budget, the overall level of taxation on alcohol is raised to match the rate of inflation over the last year. I know that these views are shared by my colleagues in the other UK Health Departments.

First, the evidence that the problems of alcohol misuse are increasing is, I believe, indisputable. I also believe that, while there is controversy about the nature of the link between growth in the levels of misuse and growth in overall consumption, present evidence alone is sufficiently strong to justify action to prevent the real value of duties on alcoholic drinks, and so their price, from falling further.

Secondly, as you know, the problems of alcohol misuse have now been discussed at length by 'H' Committee at the meeting on 13 January 1981. It was agreed then, in principle, that to focus attention on the preventive role Government and other agencies could play, a consultative document should be issued by the Health Departments. It was accepted that such a document should not be published until after the Budget, but the point was made that, in the meantime, the Government should not take any action which might appear to prejudge the outcome of discussions on alcohol misuse which we would hope to promote.

It would therefore fit in with this strategy if any changes in duties on alcoholic drinks could be expressed in a way which showed that they were intended to restore the real value of duties over whatever period seemed to be appropriate. More generally, there is a case for raising duties on alcoholic drinks more frequently and in smaller steps, rather than less frequently and in large steps.

While on health grounds we would not wish to distinguish between different kinds of alcohol, if on other grounds it seems desirable to vary the duties, I would favour a real increase in beer duty (since the OPCS Survey into drinking habits suggest that beer is most heavily implicated in heavy drinking and associated problems), preferably without a reduction in the real value of duties on wines.

I am copying this letter to Cabinet colleagues and Sir Robert Armstrong.

Your ever
Patel



01-405 7641 Extn 3407

NBPM
MORRIS 6 sec 9K

Euro PD

Shunt

MAR 21

ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

31 December 1980

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign & Commonwealth Affairs
Foreign & Commonwealth Office
Whitehall
SW1

Dear Secretary of State,

HARMONISATION OF EXCISE DUTIES ON ALCOHOLIC DRINKS

I understand that the 22 December Fiscal Council to which you referred in paragraph 2 of your minute to the Prime Minister on this subject, dated 15th December was cancelled and that it is uncertain whether another will be convened on this topic either in the near future or at all. My purpose in writing is to draw attention to the problems to which that could give rise, if correct.

As you will know the Commission had indicated a willingness not to pursue their infraction proceedings against us, so long as we abided by and implemented the terms of such a package as might be agreed - and I had advised that there was no objection to such a course, indeed that it had substantial advantages, so long as it was understood and acceptable that such a course would leave the Commission in a strong position to prod us if we should fall down, or behind, on any of our obligations under the package. (Paragraph 4 of your minute to the Prime Minister refers).

Had it been possible to implement that proposal there would have been no necessity either to continue the negotiations to settle the infraction proceedings or to go ahead with those proceedings. The effect of the cancellation of the 22 December Council has been to make that impossible and so negotiations for a settlement must be resumed and the Court has granted an extension of time until 30th April 1981. If before that date a settlement has been reached, or a package has been agreed and the Commission has applied, as proposed, to suspend the infraction proceedings for so long as we

/implement



01-405 7641 Extn

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

- 2 -

implement our obligations, well and good. The danger is that unless one or other of those things happens within that time the Court may well go ahead after 30th April and give a judgment which could be less advantageous to us than the terms which you indicated in your minute might be obtainable and acceptable.

It follows that if there is no Fiscal Council on this subject and a package is not agreed by some other means (if there is in practice any "other means") before the 30th April we could find ourselves in considerably more difficulty and worse off than looked likely at the date of your minute.

I am sending copies of this letter to the Prime Minister, members of OD and OD(E) and to Sir Robert Armstrong.

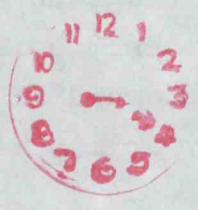
Yours faithfully,

Alan J. Preston

(approved by the Solicitor General and
signed in his absence)



F2 JAN 1984



CONFIDENTIAL

R H

OD; .HO ✓ LPS ✓ Euro Pd.
L Chan ✓ Trade ✓
FCO ✓ OD(E) ✓
Tres ✓ L. Pres ✓ DOT ✓
Def ✓ Tres ✓ L.P.S ✓ A.G. ✓
L. Pres ✓ FCO ✓ MAFF ✓

19 December, 1980

Harmonisation of Excise Duties on
Alcoholic Drinks

The Prime Minister has seen and taken note of the Foreign and Commonwealth Secretary's minute to her of 15 December on this subject.

I am sending copies of this letter to the Private Secretaries to members of OD and OD(E), Don Brereton (Department of Health and Social Security) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Paul Lever, Esq
Foreign and Commonwealth Office

CONFIDENTIAL

Ruro Rd

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1



From the Minister

NBPA
Hand

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3HE

19 December 1980

ALCOHOL POLICY

Your letter of 11 December to Patrick Jenkin suggests that your officials and his should discuss the detailed effects of possible movements in relative duty rates so that the consequences of any changes are fully understood. I would be glad if my officials could also participate in this discussion in view of my responsibility for the drinks industry.

May I add that on the general issue of the role of taxation in alcohol policy I share the views so pithily expressed in Angus Maude's letter to you of 10 December.

I am copying this letter to the Prime Minister, Cabinet colleagues and Sir Robert Armstrong.

PETER WALKER

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1998

19 DEC 1980





PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

18 December 1980

Rt Hon Patrick Jenkin MP
Secretary of State for the Department
of Health & Social Security
Alexander Fleming House
Elephant & Castle
LONDON SE1 6BY

Mr Patrick

Dear Patrick,

TPM for file

Thank you for your letter of 17 December, commenting on mine of 10 December to Geoffrey Howe on your attitude to duties on alcoholic liquors.

B.

In fact, there was no misunderstanding of your attitude at all in my letter. What has happened is that in your letter to me of 17 December you have retreated substantially from the position taken up in yours of 4 December to Geoffrey Howe.

19/12

Of course I would not deny that 'the health and social effects of alcohol are one of the factors' to be taken into account. But may I remind you that in your letter of 4 December to Geoffrey Howe you wrote, 'I must stress that Health Ministers would be seriously concerned about any option which allowed the duty on table wine to fall in real terms, whether in the short term or the long term' (my italics).

It was this phrase which prompted my letter since it went far beyond urging that health considerations should be but 'one of the factors' considered and did strongly suggest that you regarded them as 'paramount'. I am delighted that you have now abandoned this position.

There seems little doubt that high prices for alcoholic liquors do have a fairly marked effect on normal social drinking, of which you say you approve. But I have yet to see any evidence which suggests that price has much effect on the determination of the alcoholic to satisfy his craving.

I am copying this to the Prime Minister, colleagues in the Cabinet and Sir Robert Armstrong.

Yours etc. Angus

ANGUS MAUDE



19 DEC 1980



DEPARTMENT OF HEALTH & SOCIAL SECURITY
 Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

The Rt Hon Angus Maude MP
 Paymaster General
 Privy Council Offices
 Whitehall
 London
 SW1A 2AT

17 December 1980

NRPN
 Phil

Dear Angus,

There is a worrying misunderstanding in your letter of 10 December to Geoffrey Howe, arising from our consideration of harmonisation of duties on alcoholic liquors. I am in no sense trying to assume the role of 'nanny'. What I do seek to ensure is that the health and social effects of alcohol are one of the factors which he takes into account - along with the others which you mention. You will now have seen his letter to me of 11 December agreeing to this. It would be as wrong to leave health aspects out of account as it would be to regard them as paramount.

Nor do I or any Department want - as you imply - to ban alcohol or tax it out of existence. This would suit neither my Department's interests - since alcohol used properly is a pleasant and useful part of our social life - nor that of the Exchequer. My views on this are set out more fully on the attached copy of a speech I gave at Cardiff earlier in the year, which as you will see, was in general regarded as fair by the trade, who are themselves concerned with alcohol misuse. As you will know, Willie Whitelaw has suggested we discuss the whole question of misuse in H Committee.

I am copying this letter to recipients of yours; if they would like to see a copy of my speech perhaps they will let me know.

Your ever
 John

ENC

17/ DEC 09 800





PM/80/84

PRIME MINISTER

Prime Minister

②

The Fiscal Council has been postponed because of the strike by EC officials but you will wish to be aware of the line proposed.

Harmonisation of Excise Duties on Alcoholic Drinks

1. On 23 October the Defence and Overseas Policy Committee endorsed the line which the Chancellor of the Exchequer proposed to take at the 27 October Fiscal Council on proposals to harmonise excise duties. (OD(80) 21st Meeting, Minute 3). It was then agreed that we should make agreement on a uniform rate of VAT for all alcoholic drinks in each member state our sticking point, in order to stop other member states discriminating against our whisky exports.

2. It did not prove possible to secure agreement on a provision of this kind at the October Council and there seems little chance of doing so when negotiations on the harmonisation package resume at the 22 December Fiscal Council. At the same time, as noted in OD, we want other aspects of the proposals to go through before the end of the year in order to get us off the hook on the infraction proceedings initiated against us by the Commission on our wine/beer duty ratio. Otherwise there is a risk of an adverse Court ruling requiring us to move abruptly to a ratio of 3.1, instead of being able to phase the adjustment over several years.

3. The Sub-Committee on European Questions accordingly considered on 10 December a paper from the Chancellor of the Exchequer suggesting a possible compromise on the VAT issue. It emerged that, while an immediate move to a European rate of VAT was almost certainly ruled out by opposition from Italy, Belgium and the Netherlands, there might be scope for agreement at the December Fiscal Council on provisions which would:-

/(a)



- (a) commit the Council to decide by the end of 1985 whether to apply a uniform VAT rate in each member state for all alcoholic drinks; and pending any such agreement to
- (b) remove the discrimination against whisky as compared with other spirits (which is a particular problem in Italy); and
- (c) prevent any further adjustments to VAT rates which would discriminate against spirits as a whole.

4. We agree that a solution on these lines could be defended as a positive benefit for Scotch whisky exports, and that we should if necessary be ready to accept such an outcome provided the Commission would agree not to pursue their infraction proceedings against us.

5. I am sending copies of this minute to the members of OD and OD(E), the Secretary of State for Social Services and Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'C' with a horizontal line underneath.

(CARRINGTON)

Foreign and Commonwealth Office

15 December 1980



Euro Pol.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

// December 1980

The Rt. Hon. Patrick Jenkin MP
Secretary of State for Social Services

*NBPA
Rmt 11/10*

Dear Patrick

Thank you for your further letter of 4 December about the health implications of any change in the relationship between the wine and beer duties.

As I indicated in my letter of 21 November, health implications will certainly be taken into account although final decisions will have to be taken in the context of overall Budget strategy. Perhaps my officials could discuss with yours the detailed effects of possible movements in relative duty rates so that the effects of any changes on your area of interest are fully understood and reflected in my planning. I hope you can agree this is a practical way to proceed.

I am sending copies of this letter to the Prime Minister, colleagues in the Cabinet and Sir Robert Armstrong.

[Handwritten signature]

GEOFFREY HOWE

11 DEC 1980





with compliments

Office of the
PAYMASTER GENERAL
68 Whitehall London SW1A 2AT
Telephone 01-233-8632



PRIVY COUNCIL OFFICE
WHITEHALL, LONDON SW1A 2AT

10 December 1980

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
H M Treasury
Treasury Chambers
Parliament Street
LONDON SW1

NR PA
Maude 12/11

Dear Geoffrey,

I feel I must comment on Patrick Jenkin's letter to you of 4 December on the harmonisation of duties on alcoholic liquors.

I am increasingly disturbed by the way in which the Health departments are seeking to assume the role of universal 'nannies' to the British people. We are not socialists or whole-hog 'Welfare Staters', and we risk much adverse publicity, unpopularity and trouble in our party if we appear to be.

Moreover, the arguments lack common sense. We do not seek to ban, or tax out of existence, aspirins and other pain-killing drugs because some people try to commit suicide with them and have to be pumped out in hospital. And if other European countries can live with lower wine duties, why can't we? Must we treat British citizens as children or morons?

It is, in my view, ridiculous to suggest that wine duties must never come down in real terms. The decision should be for you, taking into account the EC rules, the needs of the Revenue and the effects on trade and commerce.

I am copying this to the recipients of Patrick's letter.

Yours ever,
Angus

ANGUS MAUDE

11 Dec 1964





Suro Pd.

DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY

Telephone 01-407 5522

From the Secretary of State for Social Services

NRB

Phud

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
LONDON SW1

4 December 1980

Dear Geoffrey, will request if required.

Thank you for your letter of 21 November outlining the position on harmonisation of alcoholic drink duties and the implications of an adverse decision by the European Court in the Infraction Proceedings. I recognise that it would be unrealistic to oppose harmonisation per se. From the health viewpoint we see merit in achieving a compromise on the lines being discussed, to avoid the more rapid and less predictable repercussions of an adverse court judgement.

I appreciate that there would be a number of ways of achieving the eventually agreed differential, and I do not wish to add to the complexity of the negotiations. I am glad to have your assurance that the health implications would be among those taken into account and my concern at this stage is to ensure that colleagues are aware of them in good time. Therefore I must stress that Health Ministers would be seriously concerned about any option which allowed the duty on table wine to fall in real terms, whether in the short term or the long term. We cannot ignore the cumulative evidence which suggests that an increase in consumption of any alcoholic beverage would lead to an increase in alcohol-related harm and so in the burden on services, and on public expenditure to pick up the pieces.

I hope therefore that Health Ministers will continue to be kept in touch. In particular, before any decisions are taken I ask that we be given an adequate opportunity to consider the health and social implications of calculations which suggest that any of the options being considered would lead to an increase in the consumption of one or more alcoholic beverages, together with calculations of any offsetting reductions envisaged.

I am sending copies of this letter to the Prime Minister, colleagues in the Cabinet and Sir Robert Armstrong.

Your
Patel

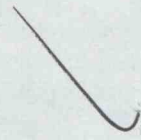
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HARMONISATION OF EXCISE DUTIES ON ALCOHOLIC DRINKS

EEC indirect taxation legislation harmonisation (Article
99 of the EEC Treaty)

It is hoped that Members will find
the following notes useful for the
debate on Wednesday, 3rd December 1980.

HARMONISATION OF EXCISE DUTIES ON ALCOHOLIC DRINKS

EEC - Indirect Taxation legislation harmonisation (Article 99 of the EEC Treaty)

1. In 1972 and 1973 the Commission had laid before the Council a number of proposals for directives concerning the harmonisation of consumption taxes other than VAT.
2. The basic proposal was a "framework" Directive which provided that when tax frontiers were eliminated only certain excise duties should be levied in the Community - beer, wine, spirits, tobacco and mineral oils.
3. The proposal for a framework Directive was supplemented by proposals for directives to establish harmonised structures for the duties on beer, wine, spirits and mineral oils.
4. Although some progress has been made in respect of tobacco duty harmonisation, major problems have blocked progress towards harmonisation of the structure of the excise duties of beer, wine and alcohol.
5. These problems have been:
 - a. whether there should be a link between the wine, beer and alcohol duties.
 - b. the arrangements for fortified wines.
 - c. whether the beer duty should be on the finished product or on the unfermented worts.
 - d. whether a wine duty should be mandatory.
 - e. whether there should be a single rate for all spirituous beverages.
 - f. whether additional taxes on wine and alcohol should be permitted.
6. In 1979 the Commission issued document 7854/79 which suggests a compromise solution to these major problems as follows:
 - a. wine and beer should be subject to the same VAT rate, and the duties on wine compared with beer should not exceed the ratio of their respective alcoholic strengths (roughly 3:1)
 - b. fortified wines should be included in the wine Directive and taxed by volume, although rates could vary according to alcoholic strength.
 - c. beer duty should be applied to the finished products.
 - d. table wine duty should be mandatory although derogations would be offered to Germany, Italy and Luxembourg until abolition of fiscal frontiers but subject to review by the Council every 5 years.
 - e. there should be a single rate for all spirits.
 - f. additional taxes on products containing alcohol, wine or beer would be allowed if they did not relate specifically to the alcohol, wine or beer content.

.../...

7. The Commission's proposals involve internal UK policy as follows:

- a. the proposed link between wine and beer duties (see below, 16) which might mean decreasing the light wine duty or increasing the beer duty or both.
- b. the treatment of made wine (e.g. British sherry) which would lose its traditional small preference over wines made from fresh grapes.
- c. an end-product duty on beer would mean legal and administrative changes.

8. However, within the EEC, there are for the UK the compensatory advantages of:

- a. satisfying our policy requirements of a single rate for spirits, which would benefit Scotch whisky exports in particular.
- b. a suitable duty structure for fortified wines not directly linked with the alcohol duty.
- c. the establishment, in principle at least, of a duty on table wines.

9. The Commission is seeking, therefore, to put excise duties on alcoholic drinks on a more consistent footing, not with the same level of duties in each country, but with a similar relationship in each country between the duties on different types of alcoholic drinks. This would ensure that similar drinks would be taxed in the same way no matter where they originated in the Community - an important consideration for major exporters of alcoholic drinks like the UK.

10. Earlier this year the Court of Justice made decisions in a number of cases brought against member states by the Commission for discriminating against imports by charging a higher rate of duty on imported drinks than on the home products. As regards Denmark, Italy and France discrimination was alleged between different types of spirits whereas the UK was said to protect its beer industry indirectly by a relatively high rate of duty on wine. The Court found in favour of the Commission against Denmark, Italy and France.

11. Since the Court decision Denmark has already adopted a new system which is now under review. Italy has announced its intention of introducing new legislation to remedy its position and France has already introduced new laws to put cognac and imported spirits such as whisky on the same tax basis. In addition distillers are to be allowed to advertise their whiskies in France.

12. In the case of the UK the Court gave an Interim Judgement only, requesting the Commission and the UK to discuss the issues further and to report back to the Court by the end of 1980. The Interim Judgement found beer and wine to be in competition and felt that the evidence supported the view that duty movements in the UK since accession showed a "protective trend" against UK imports of wine. On the other hand, before deciding the case,

the Court felt that they needed more guidance on the appropriate tax ratio between beer and wine throughout the Community.

13. The decisions of the Court support the Commission's line on harmonisation as follows:

- a. A single rate of duty on spirits - the UK has argued strongly for this.
- b. A mandatory wine duty related to beer duty in particular - the Commission's proposals, however, only suggested that the duty on wine should not exceed "roughly" three times the duty on the same volume of beer of typical strength; they did not specify a ratio as such.

14. Although the Court would seem to support the Commission's proposal for a mandatory wine duty, they throw doubt on the proposed delay in its introduction in Member States not having one at present (with the immediate implementation of a link between the beer and wine duties proposed for those Member States at present taxing both).

15. At a meeting of the Community's Fiscal Council in Luxembourg in October 1980, although detailed agreement was not reached on the problem of the relationship between beer and wine duties, some progress was made and there is some expectation that at the next Council meeting just before Christmas significant progress will be made.

16. At present the UK levies about five times more duty on imported wine than on domestically produced beer. At the October meeting, Luxembourg, which at present holds the presidency, proposed a 3:1 ratio on wine and beer duty by 1987. Mr. Peter Rees argued for an EEC rule which would limit excise duty on wine to $3\frac{1}{2}$ times the levy on beer.

17. If the $3\frac{1}{2}$:1 ratio is finally agreed it could be achieved, over the 6 year period during which it could be phased in, by:

- a. an increase of 4p on a pint of beer - present duty 9p on a pint costing 42p-(bringing an additional £400m. to the Exchequer). OR
- b. a decrease of 19p on a bottle of wine - present duty about 57p on a bottle retailing at £1.40 (cost to the Exchequer about £45m.) OR
- c. an increase of about $\frac{1}{2}$ p on a pint of beer and a decrease of 17p on a bottle of wine, giving a neutral result to the Exchequer.

18. On the other hand a finally agreed ratio of 3:1 could be achieved by:

- a. an increase of 6p on a pint of beer - not 7p or 9p as reported recently in two press reports - (additional revenue £600m.) OR
- b. a decrease of 23p on a bottle of wine (cost to the Exchequer about £54m.) OR

c. an increase of about 1/2p on a pint of beer and a decrease of 21p on a bottle of wine, giving a neutral revenue result.

19. If agreement is not reached between the Commission and the UK regarding the relationship between our beer and wine duties, both sides would re-state their arguments to the Court. This would result in the Court applying some restriction regarding movements in the levels of UK duties on beer and wines.

20. Although the issue of beer and wine duties remains to be resolved, the other Court decisions have given welcome support to the UK's objective of securing an end to discrimination against Scotch whisky. Furthermore it is clear that the likely fixed wine-beer ratio, which should be agreed in due course, will not have the sharp increase on beer prices which has been claimed in certain quarters.

APPENDIX

Customs and Excise Revenue - Extract

	<u>1973/74</u>	<u>1979/80</u>	<u>Increase</u>	<u>1980/81</u>
	<u>£m.</u>	<u>£m.</u>	<u>%</u>	<u>estimates</u>
Value added tax	1470.7	8189.3	456.8	12,450
Hydrocarbon oil	1586.7	2931.4	84.7	3,650
Tobacco	1086.5	2583.7	137.8	2,775
Spirits	494.4	1152.9	133.2	1,270
Beer	365.1	916.4	151.0	1,130
Wine	80.7	321.4	298.3	363
Made-wine	13.9	41.9	201.4	47
Cider and perry	-	12.6	-	15

Quantities Retained for Consumption (calendar years)

	<u>1973</u>	<u>1979</u>	<u>Increase</u>
			<u>%</u>
<u>Spirits ('000</u>			
<u>proof gallons)</u>			
UK	22,545	31,489	39.7
Imported	7,599	9,170	20.7
<u>Beer ('000 bulk</u>			
<u>barrels)</u>			
UK	36,215	37,625	3.9
Imported	2,185	1,563	(28.5)

Quantities Retained for Consumption (calendar years) - continued

	<u>1973</u>	<u>1979</u>	<u>Increase</u> <u>%</u>
<u>Wine and made wine</u> ('000 gallons)			
Imported	63,739	87,265	36.9
UK	14,727	12,524	(15.0)

Exports of Scotch Whisky and Northern Irish Whiskey

	<u>'000</u> <u>Proof Gallons</u>
1973/74	82,362
1975/76	90,637
1977/78	95,516
1979/80	107,081

Conservative Research Department,
32 Smith Square, London SW1

BB/SP/JV
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M. H. H. H.

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DEPARTMENT OF HEALTH & SOCIAL SECURITY
Alexander Fleming House, Elephant & Castle, London SE1 6BY
Telephone 01-407 5522

From the Secretary of State for Social Services

B.

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Parliament Street
LONDON
SW1P 3HE

17/4

14th November 1980

Dear Geoffrey,

HARMONISATION OF ALCOHOLIC DRINK DUTIES

I have seen the correspondence between Peter Walker and yourself about the implications for beer and wine prices of proposals for the harmonisation of the structure of excise duties in the EEC. I understand there are to be further discussions of the Presidency's compromise proposals in the Fiscal Council meeting on 22 December.

First let me say how I welcome the recognition in your letter of 23 October of the need to revalorise the specific rate of duty on beer so as to ensure that its real value does not fall continuously. I hope that you will be giving consideration to the case for restoring some of the value which has been lost over the last decade.

In this and in the wider EEC context it is important that the health implications of changes in alcoholic drink duty should never be overlooked. As you are aware, there is a considerable body of evidence to suggest that the level of alcohol-related harm in the family and society, with all its costs to health and social services, industry, police and so on, is related to the level of alcohol consumption which is in turn related to its price. Given the different price elasticities of the various beverages, harmonisation will of course restrict the flexibility of taxation as a regulator of the level of per capita alcohol consumption. However, I accept that it would be unrealistic to oppose harmonisation per se.

The main health and social implications arise from the method of implementation in the UK. A reduction in wine duty which could be expected to increase wine consumption would be likely to add to total alcohol consumption and would seriously undermine all other efforts to prevent the misuse of alcohol.

E. R.

I understand that the matter is to be considered in the Defence and Overseas Policy Committee. I should welcome an assurance that there will be full consultation with the Health Ministers on the harmonisation package and its implementation, to ensure that the potentially serious health and social consequences of major changes in our duty structure are not overlooked.

I am copying this letter to the Prime Minister, other colleagues in the Cabinet and Sir Robert Armstrong.

You are
Patrol



CONFIDENTIAL

Denis P. R.

PRIME MINISTER

OD: 23 OCTOBER

HARMONISATION OF EXCISE DUTIES ON ALCOHOLIC DRINKS

1. It was agreed in Cabinet this morning that the issue raised in the Minister of Agriculture's letter of 21 October to the Chancellor of the Exchequer should be discussed by OD today.

2. The background is as follows. In February this year the European Court delivered judgements on four cases the Commission had brought against member states for breaches of Article 95 of the Treaty of Rome which has direct effect and says "No member state shall impose on the products of other member states any internal taxation of such a nature as to afford indirect protection to other products." The Commission's cases against Denmark, France and Italy for discriminating against Scotch whisky were upheld. The case against the UK for discriminating against wine and in favour of beer resulted in an interim judgement, in effect requiring the UK and the Commission to reach agreement and report the results to the Court by 31 December 1980. Separately, proposals for the harmonisation of excise duty structures throughout the Community were being discussed in Brussels.

3. These two strands have now been brought together in a Presidency compromise package which will be presented to the 27 October Fiscal Council. The package safeguards a number of British interests on home produced wine and cider and on Scotch whisky, but it also provides for the duty on wine not to exceed the duty on beer by a ratio of more than 3:1 by 1987. The Commission have said that they would withdraw their Court case against the UK if this harmonisation package



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is agreed by all member states, and the UK undertakes to make a reduction in the wine/beer ratio in the next budget to 4.5:1. If these conditions are not fulfilled there is a strong possibility that the Court will rule against us definitively and require us to move to a 3:1 ratio in one step in the 1981 Budget. We would also face claims for repayments from traders in respect of earlier imports of wine on which duty had been paid at present levels.

4. The Minister of Agriculture is concerned at the presentational effects of a substantial increase in the duty on beer. In fact, as the Chancellor said this morning, the move to a 3:1 ratio can be achieved in a number of different ways and, if the harmonisation package is agreed at the Fiscal Council, can be spread over the period to 1987.

5. Officials agreed this morning the line Customs and Excise proposed for the Fiscal Council. It amounts to acceptance of the Presidency compromise, subject to three improvements

- A single rate of VAT in each member state for all drinks: this is to protect Scotch whisky against being subjected to a high VAT rate for spirits as a whole, because it is more expensive than eg Italian Grappa.
- A wine/beer ratio of 3.5:1
- A special relief designed to help British wine growers.



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Because none of these points is likely to get much support among the other member states, yet we want a package to go through to avoid having to return to the Court, officials agreed that we should if necessary stick only on the uniform VAT rate for all drinks.

6. The Minister of State, Treasury (Mr Rees), ^{is} expected to write to colleagues before the Fiscal Council setting out the line he proposes to take and the way he intends to handle it. Presentationally, if the package is agreed, it will be essential to correct the misleading Press reports of a 7p increase in the price of beer, and to stress the other elements in the package which are favourable to the UK. The same points will need to be made when the issue is debated in Parliament as a result of a Scrutiny Committee recommendation.

HANDLING

7. You might invite the Minister of Agriculture to enlarge on his presentational fears, and the Chancellor of the Exchequer to respond.

8. On substance, is it agreed that we should seek to avoid going back to the Court and need therefore to support the Presidency compromise, whilst seeking improvements in it? The Minister of Agriculture may argue that we should make a wine/beer ratio of 3.5:1 a sticking point, as well as the single rate of VAT for all drinks. A possible solution might be to accept a 3:1 ratio generally but argue for a 3.5:1 ratio for the UK and other countries where the average beer contains less than 4 per cent alcohol.



CONFIDENTIAL

9. On presentation, it should be readily agreed that the outcome of the Fiscal Council will need careful handling and that we should correct the false impression that beer prices will have to suffer a substantial and early increase as a result of action in the Community.

CONCLUSION

10. You may be able to conclude that the Minister of State, Treasury should proceed as he proposes at the Fiscal Council, giving special attention to the Press handling of its outcome. If agreement cannot be reached at the Council, he should report to OD(E) with proposals for dealing with our 31 December Court deadline.

CABINET OFFICE SW1

23 October 1980



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Treasury Chambers, Parliament Street, SW1P

01-233 3000

cc:

23 October 1980

Handwritten notes:
1. Mr Alexander
2. Mr [unclear]
/g

The Rt. Hon. Peter Walker, MBE., MP.,
Minister of State for Agriculture,
Fisheries and Food

Handwritten notes:
R
3/10

Thank you for your letter of 21 October about the possible implications for beer prices of proposals for the harmonisation of excise duties which are due to be discussed at the Fiscal Council on 27 October.

I must stress that I consider most of the press comment on this subject to have been misleading. There is a possibility that the Fiscal Council will agree that by 1987 the duty on table wine should not exceed the duty on an equal volume of beer by a ratio larger than 3 to 1 or 3½ to 1. I am prepared to contemplate such an outcome from the Council as the alternative could well be a decision by the European Court early next year that a ratio of this magnitude must be introduced by us without delay in order that we should comply with the Treaty of Rome. A 3 to 1 wine/beer duty ratio could imply an increase equivalent to 7p on a pint of beer (raising the RPI by about 0.8 per cent); but this is only valid on the quite unjustified assumption that in no circumstances would I be prepared to see a reduction in the rate of duty on table wine.

There are numerous options for implementing a 3 to 1 wine/beer duty ratio. For example, the duty on beer could be increased by the equivalent of a ½p per pint and the duty on table wine reduced by the equivalent of about 20p per bottle. This would leave unchanged the total revenue from the duties on beer and on wine and would have a negligible effect on the RPI.

It would be unrealistic to attempt to forecast exactly how we should proceed if we were to be faced with an obligation to introduce a 3 to 1 wine/beer duty ratio, particularly as we do not know whether the date for implementation would be 1981 or 1987. Certainly, I would envisage few major difficulties if implementation should be deferred for 7 years. In that period we shall certainly

/need to



need to revalorise the specific rate of duty on beer so as to ensure that its real burden does not fall continuously. The exercise of moderation on any increases in the duty on table wine should produce a relatively painless reduction in the wine/beer duty ratio. In the present context, it is fortunate that the revenue yield from the wine duties is relatively small so that I can contemplate without anxiety the prospect of refraining from maintaining their yield in real terms.

I am copying this letter to the Prime Minister and to the other recipients of your letter.

SIGNED AND DELIVERED

GEOFFREY HOWE



10 DOWNING STREET

From the Principal Private Secretary

22 October 1980

Dear Kate,

HARMONISATION OF EXCISE DUTIES

The Prime Minister has seen a copy of Mr. Walker's letter of 21 October 1980 to the Chancellor of the Exchequer about the paper on the harmonisation of excise duties (EQO(80)122).

She does not think that it would be appropriate for this matter to be raised at Cabinet tomorrow. Rather, if agreement cannot be reached at tomorrow morning's meeting of officials and, as necessary, subsequently in bilateral discussion between your Minister and the Chancellor of the Exchequer, the Prime Minister would prefer it to be discussed at the meeting of OD which has already been arranged for 1600 tomorrow, Thursday.

I am sending copies of this letter to the Private Secretaries to other members of the Cabinet and to David Wright (Cabinet Office).

Yours sincerely,

Ann Whitman.

Miss Kate Timms,
Ministry of Agriculture, Fisheries & Food.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1



From the Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1P 3HE

21 October 1980

Dear Chancellor,

I have seen a copy of paper EQ0(80)122 on harmonisation of excise duties, which is due to be discussed by officials on Thursday prior to the Fiscal Council on 27 October.

I recognise the dilemma you are in, as between accepting the Presidency Compromise now or risking an adverse judgment in the European Court early next year. I recognise also the advantage in terms of flexibility in going for the Presidency Compromise which would at least give us five years to adjust our duties.

On the other hand, the sums of money involved are very large and, particularly for beer, the implications both economically for the industry and politically in terms of the RPI and our image vis à vis Europe, are very serious indeed. You will have seen the furore that has already arisen in the Press in anticipation of the Council. We must be very carefully prepared on how to handle its outcome.

I would therefore like to have the chance to discuss the problem with you and our colleagues so that we can clarify our minds both on the policy implications and on presentation. Given the tight timetable I suggest that we should do this under "Community Affairs" at Cabinet on Thursday. Officials are due to meet that morning and, in the light of our findings, can settle any outstanding details.

I am copying this letter to the Prime Minister, our other colleagues in the Cabinet and to Sir Robert Armstrong.

Yours sincerely,
Kate Timmins

PETER WALKER
Approved by the Minister
and signed in his absence

21 OCT 1960



Grey Scale #13



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