

TAXATION OF SPIRIT DRINKS

MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD
AND MR PANDOLFI, THE ITALIAN MINISTER OF AGRICULTURE

ROME: 27 JANUARY 1984

The Minister discussed this issue in length with Signor Pandolfi at their meeting in Rome on Friday. The Minister was accompanied by Mr Andrews, Mr Evans and myself and Pandolfi by Dr Calabro, Dr Boschi and Dr Dal Sasso.

The Minister reminded Pandolfi that he had raised this matter with him twice before, and had told him that the UK would comply with the European Court's judgement; the Chancellor of the Exchequer would be taking action on this in the forthcoming budget on 13 March. He hoped that Italy would be in a position to comply with adverse judgements against her by the same date.

the Pandolfi said that they were prepared to introduce new mechanisms both for VAT and excise duties. They felt, however, that there was a certain symmetry in the Court's decisions against UK and Italy and for this reason the two countries should take action in parallel. On excise, they were ready to harmonise the rates for molasses and cereal-based spirits. On VAT, they would be introducing the necessary changes by stages, removing the extra tax on whisky and gin as compared to grappa in two steps. The Minister commented that these proposals seemed to be inadequate in two respects; the Court had made no provision for staged compliance and there would still be a higher rate of excise on cereal-based than on wine-based spirits. Pandolfi replied that previous Court judgements had been implemented gradually in the past. So far as excise duties were concerned, the Italian Government was under strong pressure to abolish them completely and they intended to do this. This would, of course, eliminate all discrimination.

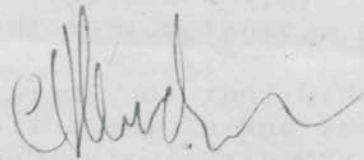
Um The Minister made it clear that he was still concerned about the timing of the changes proposed by Italy. In further discussion on this point, it emerged that the changes made by Italy would not come into effect until the next financial year, ie 1 January 1985. The Minister said that this was acceptable. The UK would be taking action at the first opportunity, while it seemed that it would take some four years for Italy to comply fully with the Court's adverse judgements.

Pandolfi then asked what action the UK would be taking in the budget. He was particularly concerned that what was done to comply with the Court's judgement should not be restricted to wines under 10% alcohol by volume. If action was confined to these wines, Italy would be worse off than before since most Italian wine was over 10% alcohol by volume, while German and French wines tended to be below this figure. This was, therefore, a crucial point for Italy. Pandolfi returned a number of times to this point, making it clear that Italy was unlikely to make any changes to their present tax structure until they were reassured on this issue. The Minister explained that this was entirely a matter for the Chancellor, but promised to convey Italy's concern to him.

Pandolfi concluded the discussion on this matter by suggesting further discussions at official level to clarify the two country's plans. These discussions would seek to resolve what he described as technical ambiguities. The Minister replied that in our view compliance

with the Court's judgements was not a matter for negotiation and that he saw no need for technical discussions; in any case, this was, as he had said, a matter for the Chancellor.

Later in the day the Minister had a further word with Pandolfi on this. He said that he had spoken to the Chancellor, who had told him that he had not yet taken any decisions on what might be included in the budget with regard to taxation on beer and wine. Pandolfi did not comment.



C I LLEWELYN
30 January 1984

Mr Myers + 1

cc Private Offices
Mr Mason
Mr Hollis
PS/Foreign Secretary
PS/Chancellor of the Exchequer
Mr Coles/No.10
Mr Andrews