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RECORD OF A DISCUSSION BETWEEN THE CHANCELLOR AND THE ITALIAN
TREASURY MINISTER AT 9.30 AM ON FRIDAY 27 JANUARY 1984 IN THE
VILLA MADAMA IN ROME

Present:-

Chancellor	Signor Goria
Mr Unwin	Dr Sarcinelli
Mr Kerr	
Mr Richardson (British Embassy)	

International Economic/Monetary Meetings

Signor Goria referred to the current work programme in the Group of Ten, which he chaired. Given the mandate from the September Ministerial meeting, he had felt obliged to offer a meeting in January, but agreed that it would be best for G10 Deputies to make further progress before the next meeting. It could be either in April, if an Interim Committee meeting was summoned, or in May, at the time of the OECD Ministerial meeting. One way or another, it would be essential to have met before the London Economic Summit, in order to be able to report back then on work done since Williamsburg, and so to demonstrate to world opinion that G10 was making progress on international monetary issues. He was less sure of the need for an Interim Committee meeting, and had told M. de Clercq that an April meeting would be both unnecessary and unsatisfactory, but that he would attend if de Clercq were to insist on summoning one. His impression was that de Clercq would so insist.

2. The Chancellor agreed that little would be achieved at Interim and Development Committee meetings in early April. At the former there would be criticism of the continuing US deficit, at the latter criticism of the US stand on IDA: but on neither would the US Administration move before the Election. Nevertheless, the meetings were likely to happen. As for G10, we much appreciated the Italian role in handling current work on international monetary



issues, and a meeting in May would indeed be important in the run up to the Economic Summit, which would wish to consider follow-up to Williamsburg, as well as the international debt situation, and how best to roll back protectionism. Signor Gorla said that G10 Deputies should be urged to make faster progress. He realised that they had been held up so far by the absence of the papers promised by the IMF and BIS. But they must drive the work ahead now.

EC Issues

3. Signor Gorla said that the outlook for the Community was worrying. Its public image was one of continual sparring over accounting and budgetary issues: "relance" was urgently required. The Italian Government recognised that the problem of the UK's excessive budgetary contribution must be solved, and would like to see a solution on the expenditure side, with minimum changes on the revenue side. CAP reform was obviously required, but discrimination against Mediterranean products would be unacceptable. But the point of most concern to him was that it would be quite wrong to handle the UK and FRG budgetary problems in the same way: Italy could never accept the principle of budgetary transfers to the Federal Republic, or that the Federal Republic should be exempt from measures taken to rectify the UK injustice.

4. The Chancellor thanked Signor Gorla for his acknowledgement of the justice of the UK case on budgetary contributions. It was however unsatisfactory to look for a solution on the expenditure side, for expenditure proposals should be considered on their merits. A satisfactory solution must entail action on the revenue side: hence our "safety net" proposal. The Community also required a new system for the overall control of spending, as well as changes in the regimes for particular products. Both problems required solutions which would be permanent; and until such solutions had been adopted there could be no question of an increase in "own resources". HMG, Parliament, and the UK people would simply not



be prepared to contemplate an increase in "own resources" until the problem of our budgetary contribution had been settled, and Community expenditure had been brought under effective control.

5. Signor Gorla said that the Italian preference for solving the UK contributions problem by action on the expenditure side was only a preference: he was certainly prepared to contemplate measures on the revenue side as well. The UK problem was he thought now fairly widely recognised, and it was helpful when UK spokesmen set it in a wider economic framework, as the Chancellor was doing, rather than simply quoting budget shares. The safety net proposal, on the other hand, had little support, for it would lead to the progressive re-nationalisation of Community policies. The VAT key was the best mechanism for apportioning the burden of redressing the UK budgetary imbalance. As to timing, Italy would find it very difficult to agree to a solution to the UK problem without prior agreement on an increase in "own resources". Enlargement made such an increase essential. Signor Gorla added that he agreed with the Chancellor that Finance Ministers should be involved in discussions preparatory to the forthcoming European Councils in Paris. He was however doubtful about the desirability of involving Agriculture Ministers; and he suspected that the French might best prepare the ground by a series of bilateral and trilateral restricted meetings, avoiding large formal conference sessions, at which compromises were difficult. What bothered him most was that there was little evidence so far of the French doing anything at all.

6. The Chancellor thought that M. Delors would be questioned at ECOFIN on 6 February about how the French were proposing to proceed. As for the link between solutions to the budgetary and spending control problems and an increase in "own resources", he could only reiterate that without just and satisfactory solutions to the two problems, HMG could not agree that the "own resources" ceiling should be raised. But it was in any case essential to solve both problems soon, for he entirely agreed that they unnecessarily poisoned the atmosphere of Community discussion, and gave



the EC quite the wrong image.

7. The Chancellor then raised the issue of the UK's 1983 refunds, the monies for which, agreed by the Council, had been put into Chapter 100 by the Parliament. A very serious situation would arise, obliging HMG to take serious steps, if the bulk of the money did not raise London by the end of our financial year. It was crucial that the will of the Council should prevail, and it would be very helpful if Italian Deputies in the Parliament could be urged to agree. Signor Gorla said that he entirely agreed. The European election created a complication: the Parliament had to be handled carefully at present. But clearly the Council's decision must be confirmed, and he was confident that the Parliament would decide that the UK must receive its money on time.

8. The Chancellor then referred to discriminatory Italian duties on Scotch whisky, and the European Court's ruling that the discrimination must be removed. He asked how soon the Italian Government would implement the Court's decision. Signor Gorla said that the decision would be implemented. He believed that the Finance Minister was working on legislative proposals which would involve phasing out the additional 18 per cent VAT over 18 months, to avoid too much market disturbance. The phasing under consideration was an immediate 6 per cent reduction in the VAT rate, to be followed by another 6 per cent after 12 months and a third 6 per cent after 18 months. There would be some domestic opposition from the brandy interests, and it would be helpful if the UK could make a substantial reduction in duty on wine, in response to a similar European Court decision. He had heard rumours that the reduction being contemplated would be only some 25p per bottle: this would be provocatively small, given the very high current duties. A more imaginative approach in London would help settle the whisky issue satisfactorily and quickly in Rome. The Chancellor said that the sequence must surely be rather different, given that the Court ruling on whisky had

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preceded the UK wine/beer ruling by a considerable period. A very early announcement from Rome of the action to be taken on whisky was very important, for the UK budget was due on 13 March, and decisions on duty changes to be announced then would have to be made some time in advance, and the UK interests involved were watching the Italian handling of the unfair discrimination against whisky. Signor Gorla said that some mutual help was clearly required.

A handwritten signature in dark ink, appearing to read 'J O Kerr'.

J O KERR

30 January 1984

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