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PRIME MINISTER

JAPAN: ALCOHOLIC DRINKS

I mentioned in Cabinet this morning that I had just received, from a senior official in the Japanese Ministry of Foreign Affairs, an outline of the new tax structure to be applied to Scotch whisky and other alcoholic drinks. My officials have now had the opportunity to explore the proposals in some detail.

2 These discussions have confirmed my initial reaction that the proposals, as presently conceived, would be unsatisfactory, apart from a reduction in import duty. Although it is claimed that the changes would meet our request for an abolition of the grading system, that would be achieved simply by redefining particular products - for example, reclassifying second grade whisky as "spirits". Whisky would still be subject to a substantially higher rate of tax than any comparable liquor and that, as we pointed out, effectively means a continuation of discrimination. The only imported drinks to benefit significantly from the new arrangements would be wines - a move probably designed to buy off the French.

3 I made clear my strong dissatisfaction and disappointment. From the reaction of the Japanese, my officials believe that there may just be the possibility that further concessions might be built into the final framework which is to be announced on Tuesday.

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4 Although it is a long shot, we must do everything we can to keep up the pressure. We have told the Commission of the position and at official level, they have promised to recommend a strong line. I will try to speak to De Clercq before he sees the Japanese tomorrow.

5 We have also asked Sir John Whitehead to make sure that our views are well understood by all those in Government who are in a position to influence the final decision. It would help him, I am sure, if you could send through him a personal message to Prime Minister Nakasone expressing your disappointment and concern.

6 I am sending copies of this minute to the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence, Wales and Scotland, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture Fisheries and Food and Sir Robert Armstrong.

P.C.

PAUL CHANNON

18 December 1986

DEPARTMENT OF TRADE & INDUSTRY

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215 5422
GTN 215
(Switchboard) 01-215 7877

Secretary of State for Trade and Industry

PS/

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24 December 1986

Charles Powell Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Prime Minister²

Dear Charles

mt

CDP d/r, to see

JAPAN : ALCOHOLIC DRINKS

My Secretary of State, in his minute to the Prime Minister of 18 December, outlined the likely shape of the new tax structure to be applied by the Japanese Government to Scotch whisky.

We have now had confirmation from the Japanese Ambassador that the proposals, as earlier reported, have been adopted with one change, namely that the transitional period for the reclassification of second grade whisky as spirits will be 2 years rather than 5. That does not substantially affect our view of the outcome.

We have asked the Scotch Whisky Association for their reaction. It is clear now, however, that our complaint has not been met and that imported whisky will still effectively be subject to discrimination because of the high rate of taxation applied to it. Although it is not usual to challenge internal tax regimes in the GATT, we shall wish to press the Community to pursue vigorously the Article XXIII case. The Commission have confirmed that they share our view.

We have made sure that the British press is briefed appropriately.

I am sending copies of this letter to the Private Secretaries to the Foreign Secretary, the Chancellor of the Exchequer, the Secretaries of State for Defence, Wales and Scotland, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food and Sir Robert Armstrong.

gms
T. Atkinson

TIMOTHY WALKER
Private Secretary

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Relations: JAPAN P+5.



DEPARTMENT OF TRADE AND INDUSTRY
115, VICTORIA STREET
LONDON, W.1, ENGLAND

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JAPAN: ECONOMIC RELATIONS

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