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FM ROME
TO IMMEDIATE FCO
TELNO 478
OF 061605Z SEPTEMBER 88
INFO PRIORITY UKREP BRUSSELS, EUROPEAN COMMUNITY POSTS

FRAME ECONOMIC
YOUR TELNOS 219 AND 244 TO ATHENS: INDIRECT TAX APPROXIMATION

SUMMARY:

1. ACTION TAKEN. ITALY IN FAVOUR OF TAX APPROXIMATION IN PRINCIPLE. HAS DIFFICULTIES WITH SOME DETAILS OF COMMISSION PROPOSALS, PARTICULARLY ON EXCISE DUTIES. OPEN TO CONSIDERATION OF BRITISH IDEAS BUT PREDISPOSED IN COMMISSION'S FAVOUR.

DETAIL:

2. WE DELIVERED YESTERDAY (5 SEPTEMBER) AFTERNOON ON RECEIPT THE CANCELLOR'S LETTER AND PAPER ON TAXATION IN THE SINGLE MARKET TO THE HEAD OF AMATO'S PRIVATE OFFICE. HOWEVER AS COLOMBO, MINISTER OF FINANCE, IS RESPONSIBLE FOR ALL TAX QUESTIONS WE ALSO SENT A COPY TO COLOMBO'S PRIVATE OFFICE. AMATO WILL DEFINITELY ATTEND THE INFORMAL ECOFIN ON 17-18 SEPTEMBER: IT IS NOT YET KNOWN WHETHER COLOMBO WILL BID TO BE PRESENT FOR DISCUSSION OF FISCAL ITEMS.
3. EARLIER IN THE DAY WE HAD DISCUSSED THE COMMISSION PROPOSALS WITH OFFICIALS IN THE MINISTRY OF FINANCE - FORTE AND MORREALE. THIS DISCUSSION CONFIRMED THAT ITALIAN VIEWS REMAIN LARGELY AS DESCRIBED IN YOUR TELNO 186 TO UKREP BRUSSELS AND AS EMERGED IN THE PARLIAMENTARY DEBATE WITH COLOMBO REPORTED IN ELMES' LETTER OF 1 AUGUST TO DUFFIELD, ECD(I).
4. ITALY FINDS THE COMMISSION'S DETAILED PROPOSALS ON VAT EASIER TO ACCEPT THAN THOSE ON EXCISE. FORTE SAID THE IDEA OF TWO VAT RATE BANDS AND THE LEVEL AND SPREAD OF THOSE PROPOSED BY THE COMMISSION WERE BROADLY ACCEPTABLE TO ITALY. ITALY UNDERSTOOD THE DIFFICULTY FOR THE UK IF THERE WERE TO BE NO ZERO RATE. ITALY BASICALLY SUPPORTED THE COMMISSION POSITION BUT ACCEPTED THIS WOULD HAVE TO BE HANDLED AS A POLITICAL NOT A TECHNICAL ISSUE. FORTE INDICATED THAT THEY WERE THINKING IN TERMS OF A LONG BUT NEVERTHELESS LIMITED DEROGATION. FORTE AGREED THAT THE

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CLEARING HOUSE SYSTEM COULD BE DIFFICULT TO ADMINISTER BUT HE INDICATED, IN ACCORDANCE WITH THE GENERAL APPROACH OUTLINED ABOVE, THAT ITALY ACCEPTED IT IN PRINCIPLE AS A NECESSARY PART OF THE COMMISSION'S PROPOSED MOVE TO TAXATION IN COUNTRY OR ORIGIN.

5. MORREALE SAID THE COMMISSION'S PROPOSALS ON STANDARDISED EXCISE RATES GAVE ITALY MUCH MORE DIFFICULTY. THE CHIEF PROBLEM WAS WINE. AT PRESENT VAT IS CHARGED AT 9 PER CENT ON WINE IN ITALY AND THERE IS NO EXCISE DUTY. ITALY WOULD THEREFORE LIKE TO SEE WINE INCLUDED IN THE VAT REDUCED RATE BAND AS A FOOD ITEM AND EXCLUDED FROM EXCISE ALTOGETHER. ON EXCISE DUTIES GENERALLY ITALY WAS THINKING IN TERMS OF TARGET RATES TO BE SET BY THE COMMISSION WITH UPPER AND LOWER LIMITS. THIS WOULD GIVE A RANGE WITHIN WHICH ITALIAN CONCERNS COULD BE ACCOMMODATED. AN ITALIAN GOVERNMENT WOULD BE LIKELY TO SET EXCISE DUTIES AT THE LOWER END OF THE RANGE ON TOBACCO AND ALCOHOLIC DRINKS AND AT THE TOP END OF THE RANGE ON MINERAL OILS. MORREALE SAID ITALY UNDERSTOOD THE IMPORTANCE THE UK ATTACHED TO SPECIAL MEASURES ON ALCOHOL AND TOBACCO BUT HE WONDERED IF OUR CONCERNS COULD ALSO BE MET BY THIS APPROACH.

COMMENT:

6. ITALIAN THINKING IS GROUNDED IN THE BELIEF THAT ANYTHING WHICH CONTRIBUTES TO EUROPEAN UNION IS IN ITSELF DESIRABLE AND THAT ANYTHING PROPOSED BY THE COMMISSION, AS THE KEEPERS OF THE EUROPEAN IDEA, MUST BE ASSUMED TO BE IN EUROPE'S BEST INTERESTS UNLESS PROVED OTHERWISE. THIS ACCOUNTS FOR THEIR PRESENTING THEIR SUBSTANTIAL DIFFICULTIES WITH THE EXCISE PROPOSALS AS AMENDMENTS TO AN OTHERWISE SOUND INITIATIVE. IT ALSO MEANS THAT OUR BEST CHANCE OF CARRYING ITALY WITH US IS IF WE CAN SELL OUR THINKING TO THE COMMISSION AS WE DID ON AGRICULTURAL STABILISERS. ITALIAN ATTITUDES TO TAX APPROXIMATION ARE, HOWEVER, ALSO AFFECTED BY A VERY REAL CONCERN THAT ITALY'S DEFICIENT ADMINISTRATIVE AND FISCAL STRUCTURES WILL PUT IT AT A DISADVANTAGE IN THE SINGLE MARKET UNLESS THERE ARE SAFEGUARDS. THE COMMISSION'S REGULATED APPROACH IS SEEN AS SUCH A SAFEGUARD AND THE ITALIANS WILL NEED A LOT OF CONVINCING THAT THEY WOULD NOT SUFFER DISPROPORTIONATELY FROM A MORE MARKET BASED APPROACH.

7. THE ITALIANS DO NOT SEEM TO HAVE GIVEN ANY THOUGHTS AT PRESENT TO INTERIM OR PARTIAL MEASURES.

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