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SUBJECT

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From the Private Secretary

12 November 1987

VALUE ADDED TAX ON NEWSPAPERS

Mr. Rupert Murdoch, Lord Stevens and Mr. Conrad Black came to see the Prime Minister this evening to put the case against imposing VAT on newspapers. The Economic Secretary was also present.

Lord Stevens said that the Prime Minister was no doubt well aware of the arguments against imposing VAT on newspapers. But he would like to put them to her formally on behalf of his fellow proprietors. The imposition of VAT on newspapers, magazines or published material would greatly increase the costs for newspapers which had to operate in a very competitive market and had made great efforts to modernise and become more efficient in recent years. VAT on newspapers would put them at an unfair disadvantage compared to free newspapers and also to other parts of the media such as the BBC. There was no valid argument in relation to the internal market in the European Community since newspapers were sold abroad only in very limited quantities. In the case of his own group, a fifteen percent VAT rate would add £45 million a year to costs and would inevitably affect modernisation plans. Mr. Black added that the newspaper industry was facing a constant squeeze on costs for instance from the rising price of newsprint. He understood that six out of twelve Member States of the European Community did not apply VAT to newspapers. Mr. Murdoch said that price rises for books, magazines and newspapers always led to reduced circulation and therefore reduced profits.

The Prime Minister said that she did not believe that harmonisation of VAT was necessary to the completion of a real common market. Nor did she want to see our tax system determined by the European Community. She had already made clear publicly that the United Kingdom would not accept proposals which restricted our right to apply zero rating. Since any such proposal would require unanimity, we had the ability to veto it. The Economic Secretary added that the Commission had instituted infraction proceedings relating to

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zero rating for a number of products, including news services. The Prime Minister continued that, in regard to our own practice, she could say no more than that she had heard and registered the points which had been made. Her visitors would understand why she could not go beyond this.

I am copying this letter to Lyn Parker (Foreign and Commonwealth Office).

(CHARLES POWELL)

Alex Allan, Esq.,
HM Treasury