



*Mr. Owen*  
*TJ*

*Prime Minister*  
The Chancellor has decided that the tax on duty be raised by 10 p from the date of Burns Award, and *over the same has* should be *recouped -* at this stage by unspecified means.

NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM, HOUSE OF COMMONS AT 4.30 P.M. ON MONDAY 27 APRIL 1981

## Present:

Chancellor of the Exchequer (in the chair)  
Secretary of State for Industry  
Chancellor of the Duchy of Lancaster  
Secretary of State for Energy  
Chief Secretary  
Chief Whip  
Mr. A.H. Newton, MP  
Sir Douglas Lovelock (Customs & Excise)  
Mr. Battishill  
Mr. Cropper  
Mr. de Waal (Parliamentary Counsel)  
Mr. Guinness (Department of Energy)  
Mr. Maclean (Chief Whip's Office)  
Mr. Owen (Department of Industry)

*Do the words*  
*was like the*  
*Chief Whip*  
*to sound at*  
*the discordant*  
*back - benches*

*Content?*

ROAD FUEL DUTY AND ENERGY PRICES

Relationship with further measures on energy prices

The possible link between decisions on the level of the road fuel duties and decisions on further changes in energy prices was noted. *26/4*  
The Secretary of State for Energy was circulating on 27 April a number of papers which he thought would chart a satisfactory way forward, and which he expected to be discussed at MISC 56 on 29 or 30 April. It was accepted, however, that there was no realistic prospect of reaching firm conclusions on energy prices in time for an announcement on 30 April; it would be most undesirable for the Government to enter into any commitments on energy prices before the precise details of any further measures had been worked out. Although it was recognised that action in response to the rural and energy price lobbies was to a degree complementary, so that action aimed at the one could be presented as helping to satisfy the other, it was recognised that there was no alternative to treating the two issues separately for the purposes of early discussions on the Finance Bill.



### Timing of the Finance Bill discussion

2. The possibility of moving the Finance Bill discussion of the road fuel duties from 30 April to, say, 13 May was briefly considered. This would perhaps have enabled Ministers to reach firm decisions on energy prices, so making it possible for changes in the road fuel duties to form part of a package with energy price changes and other changes in indirect taxes to offset the increase there would otherwise be in the PSBR. It was, however, generally felt that such a delay in discussion of Clause 4 of the Finance Bill would convey an impression of Government uncertainty, and would stoke up expectations of substantial changes. Moreover it would have the effect of delaying the announcement of the reduction in the duty on derv - which could have considerable electoral appeal - until after the County Council elections on 7 May. It was agreed, therefore, that the Procedure Motion to enable Clause 4 to be taken before Clause 1 on 30 April should be put down on 27 April.

### Concessions on road fuel duties

3. The Chief Whip reported that there were 18 Conservative backbenchers who seemed unlikely in any circumstances to vote for the Budget increase of 20p a gallon on petrol. There were a further 13 who would only support the increase on petrol if there were a reduction in the duty on derv. In his judgement the reduction would have to be 10p a gallon; 5 of the 13 members who seemed likely to be "bought off" with a concession on derv had made it clear they thought 5p a gallon insufficient.

### Nature of offsetting action and timing of announcement

4. Treasury Ministers had hitherto envisaged that, while a 5p reduction in the duty on derv - particularly if delayed until August - could be accepted without any action taken to offset it, a 10p reduction should be offset by a 1p increase in the duty on a pint of beer. If such an increase were to be made, it would require a new Budget Resolution to be debated and passed before Clause 1 of the Finance Bill was taken on the Floor of the House, probably on 5 May. In further discussion the point was made that it would be better to look for the additional revenue from tobacco rather than



alcohol, the Opposition were less rigorously opposed to increases in the duty on cigarettes, while they were expected to make a great fuss about the increase in the duty on beer. Moreover since tobacco was being taken upstairs in Committee, it would be unnecessary for the Government to move the Budget Resolution imposing the increase of 3p on 20 cigarettes necessary to offset the 10p derv reduction until well after 7 May. Once the Resolution was put down, the Opposition might well seek to move the debate on tobacco on to the Floor of the House; on balance, this seemed likely to be advantageous to the Government. It was noted that the Chancellor would need to give some general indication that it would be necessary to recoup in some way the cost of the 10p derv reduction; one possible course might be to indicate that the Government were giving further thought to possible measures on energy prices, and that they would in due course propose whatever measures were necessary to offset the costs of any moves on energy prices as well as that on derv.

Operative date for duty changes

5. The Chancellor of the Duchy suggested that it would be better for the reduction on derv to take effect on 1 May, a delay until the Finance Bill received the Royal Assent in early August would be very uncomfortable. Moreover this delay would give added force to demands for a duty relief scheme, which Customs thought most undesirable. On the other hand, the disadvantages of an early announcement on the offsetting measures were noted, and it was agreed on balance that it would be better if both the reduction in the derv duty and the offsetting increase in that on tobacco took effect after Royal Assent. It was noted that this course of action would enable the Government to accept an amendment to the Finance Bill put down by Mr. Skeet without making any prior announcement of their intentions; the insertion of the effective date and one other minor consequential amendment could then be dealt with at Report Stage. No new Budget Resolution would then be needed covering the position on derv, and no question would arise of Customs failing to collect all the duty required by the PCTA (a difficulty which would



arise if there were no new Budget Resolution, but the reduction were to have immediate effect).

### Conclusions

6. The Chancellor said that the meeting had reached provisional conclusions as follows:-

- (i) The road fuel duty clause should be taken first in Committee on the Floor of the House on 30 April.
- (ii) The Government should agree to an amendment reducing the tax on derv by 10p a gallon.
- (iii) The revenue loss should be offset by an increase in the duty on cigarettes.
- (iv) Both the reduction and the increase should take effect after Royal Assent.
- (v) Treasury Ministers should indicate in general terms that the revenue loss on derv would need to be recouped. The necessary Resolutions, (The question how to meet the cost of any energy price changes would be considered separately.)
- (vi) A modest subsidy to fuel oil used in horticulture, on the lines proposed by the Minister of Agriculture, should be announced on 30 April either separately or in the course of the debate on derv. Urgent discussions would be held with the Ministry of Agriculture.
- (vii) Possible measures on energy prices would be discussed in MISC 56 on the basis of the papers provided by the Secretary of State for Energy.

A.J. WIGGINS  
28 April 1981

Distribution:  
Those present  
Minister of State (L)  
Sir Douglas Wass

Mr. T.P. Lankester  
(No.10)

Mr. Kyrle  
Mr. Middleton Mr Unwin  
Mr. Ridley Mr. Wicks

*Chancellor  
is  
mentioning -  
of - fine,  
sanctioning.*