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THE PROPOSAL TO ABOLISH VEHICLE EXCISE DUTY

(A short paper by Mr. Fowler)

The Government is about to publish its plans to abolish vehicle excise duty and to raise the revenue lost by increasing the price of petrol. The proposals will be contained in a consultation document and we will be required to state a preliminary view. Inside the party there are conflicting views. Many colleagues representing rural areas are against such a change; others support change on grounds of administrative simplicity or energy saving. The main arguments can be summarized as follows:

Arguments in favour of change

1. Administrative savings. The Government estimate that they will make a saving of £20 million a year in staff and general administrative costs. This figure should be treated with caution. The Government estimate that about 2,000 jobs will be saved but of these only 800 will come from the Swansea Vehicle Licensing Centre. Rodgers has made it clear that 'the great majority' of the 5,000 jobs at Swansea will stay. It should be remembered that Swansea will still be required to keep vehicle records.
2. Prevention of evasion. This is probably the strongest argument in favour of change. The Government estimate that losses from evasion amount to at least £50 million a year. This figure can be challenged and the Government concede a margin of error in their estimate. Nevertheless it is clear that evasion will be prevented and there will be consequent savings of both police and court time.
3. Energy saving. The theory is that an increase in the cost of fuel will lead to a fall in consumption. It could also make the small car more popular. The Government estimate that there will be a saving of 5 per cent of petrol consumption 'in the short term'. Whether this saving would continue is open to question.

Arguments against Change

1. Effect on rural areas. The change will add about 20p to the price of a gallon of petrol. In many rural areas bus services are very limited and the car is an essential for many people. Car ownership is significantly higher in rural areas. The fear is that people here will end up paying more. A motorist with a car averaging 30 m.p.g. would face increased costs after 7,500 miles a year. There is also the fear that business costs will also increase particularly in rural areas.
2. Doubts whether the economies will be achieved. See above.
3. Effect on motorists, trade and industry. Both the A.A. and R.A.C. oppose change. Garage owners complain that they will face extra costs and also say that only a fifth of Britain's petrol pumps can cope with petrol priced at more than £1 a gallon. The choice here would be either to change the pumps or sell in litres. One fear from the industry is that if there is a trend to smaller cars then this will mean even more imports.

There is one further argument of substance. The proposal was considered by the last Conservative Government. This was opposed by Tony Barber. Commenting on this Lord Cockfield says: "We both took the view that our basic objective was to 'switch' taxation from direct to indirect and this had been made clear by Iain Macleod in his speeches at party conferences. It was hardly consistent with such a policy to start by getting rid of an old and trusty indirect tax ... True it was proposed to compensate by putting up another indirect tax viz that on petrol; but if you put up the petrol tax for that reason you wouldn't be able to put it up for some other reason - for example as part of the 'switching' policy".

The consultation document may contain further information. For example the cost of renewing computers at Swansea. However, it seems to me that at present the case for change has not been made out. We should make it clear that we are prepared to examine any arguments that the Government put forward but we should certainly not commit ourselves to the proposal.

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