

ea.  
Part B

**CONFIDENTIAL**  
(to be kept under cover and  
MINISTRY of movement)

Begins : 30/4/81  
Ends : 30/4/81.

  
PO -CH /GH/0085  
  
PART B

Chancellor's (Howe) ~~1981~~ Budget

**THE 1981 BUDGET AND THE  
INCREASE IN ROAD FUEL  
DUTY**

PO -CH /GH/0085  
PART B

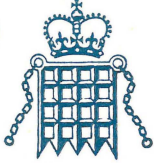
Disposal Directions : 25 Years

*J. Arnold*  
26/7/95

*M*



30/4/81



Board Room  
H M Customs and Excise  
King's Beam House  
Mark Lane London EC3R 7HE

MPA 7569

PRIVATE SECRETARY TO THE CHANCELLOR OF THE EXCHEQUER

MR ALBERT MCQUARRIE MP

Our officials have suggested that some or all of the following might be included in the reply to Mr McQuarrie.

"May I first clear up one misunderstanding; the Budget increases have brought the tax burden on, not the price of petrol, up to the level, in real terms, of 1970. Even allowing for the extra VAT incurred on the higher price of rural petrol, this is still true.

You claim that the major petrol companies are providing a subsidy to city and urban operators to the detriment of rural operators. I doubt if this is in fact so. The typical zonal extra transportation and small-load premium on deliveries to rural areas amounts to only 3-4 pence on the wholesale price of a gallon of petrol. The zonal premium has remained unchanged for many years, and the oil companies have confirmed to the Department of Energy that it by no means recovers the extra costs of deliveries to rural areas.

The higher retail prices typically seen at rural garages, and exemplified by the prices you quote, primarily reflect the higher retail margins secured in rural areas. Rural garages generally have a very much smaller volume of sales than large urban self-service sites, while their costs may in some respects be higher (eg because they are not self-service). Because of these factors, rural sites typically require a gross retail



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margin of two or three times the level required by a large urban site able to secure economies of scale. Prices at urban sites also reflect the more intense competition in these areas. (Incidentally, although oil companies do have the power to control retail petrol prices at some sites, they have this power at no more than about 10% of all sites and the sites in question tend to be concentrated in urban areas.)

You suggested that retail price maintenance for petrol should be reintroduced. You may recall that there were maximum permitted prices for petrol for about a year after the 1973 Middle East war. They proved impossible to maintain, and when they were removed in December 1974, petrol prices immediately increased by 10 pence a gallon, or 16%, despite the fact that only one month previously Mr Healey had increased the rate of VAT on petrol from 8% to 25%. I do not therefore feel that retail price maintenance would provide any solution to the problem.

As far as rural motorists are concerned, I would point out that on average they drive about 10% more miles per annum than their urban counterparts, but they should normally get a higher mileage per gallon owing to less congested conditions.

I do assure you that we at the Treasury are keenly aware of the important part played by road transport in maintaining the quality of life in rural communities, and my proposals were made only after the most careful consideration of all the factors, including the impact of the increase on those in rural areas, and others to whom a motor car is essential."

  
Miss J A BERESFORD  
Parliamentary Unit

30 April 1981



(B)

# AVGAS - WORKING

## Line to take

1. Recognise the contribution made by light aviation industry: crop spraying, air ambulances, small scheduled services — as well as leisure, pleasure and private business flying.
2. But <sup>virtually</sup> all non-road users of light oils (boats, lawnmowers etc) <sup>as well as aircraft</sup> have to pay the full rate of duty. Why should a businessman be let off duty when he goes by air, but pay when he goes by road? Different position with heavy oil where non-road users (including users of aviation turbine fuel) generally pay only rebated rate of duty or no duty at all.
3. Some risk that avgas could leak into road use, although present price relativities should minimise this. (But position could change if there were an increase in demand which induced oil companies to reduce pre-tax price.)
4. Accepting the amendment would cost £6 million a year — more than the cost of the aid to horticulture. [~~Regrettably cannot feel that a concession here has a very high priority as compared with other improvements in tax system (e.g. in capital tax field) or public expenditure claims.~~]
5. But ~~major~~ <sup>major</sup> ~~fact~~ <sup>fact</sup> ~~it~~ <sup>it</sup> ~~can~~ <sup>can</sup> ~~make~~ <sup>make</sup> — ~~nothing~~ — will ~~likely~~ <sup>likely</sup> ~~examine~~ <sup>examine</sup> ~~it~~ <sup>it</sup> ~~at~~ <sup>at</sup> ~~some~~ <sup>some</sup>



TAX

ALL ROAD

TRANSPORT OFF

THE ROADS



# Strong Intervention E Fyft

A. 47. to reduce further petrol & Revv by 5p.

Avrod v. Urban grivance  
Difference between prices in rural & urban areas  
Oil Companies' pricing policies.

## Jo Grimond

— INCONSISTENT with 3708 AGO

Reduction in Govt not as large as Liberals  
had hoped for.

Chancellor has not  
decline in farming  
subsidies of 20%

Explained change grants since 1977  
& (writing) reports in Evening &

Refer not a luxury

Commissioner looks into rural & maintain petrol prices



HOUSE OF COMMONS  
LONDON SW1A 0AA

Geoffrey

THE WHOLE tone OF YOUR  
 SPEECH IS OF THE GREATEST IMPORTANCE.  
 YOUR UNDERSTANDING OF THE ANXIETIES OF  
 OUR TROOPS IS VITAL.  
 THE POINT THAT VIRTUALLY EVERY GALLON  
 OF PETROL ARRIVES IN THE PETROL STATION  
 IN A TANKER DRIVEN BY DEER, AND  
 THAT THE REDUCTION IN THE DEER DUTY  
 SHOULD LEAD TO A REDUCTION IN  
 THE PRICE OF PETROL IS OF GREAT  
 IMPORTANCE TO OUR DOUBTERS.

PLEASE DEAL VERY GENTLY WITH  
 ELDON GRIFFITHS AND HARROD ALL OF  
 THEM! GOOD LUCK!  
 L.G.



SIR WILLIAM CLARK

5

WANTS 25% EXTRA ON  
"PINTABLES, ONE ARMED  
BANDITS AND CASINOS".  
TO PAY FOR DERV DECREASE

Duty on these PRODUCES  
ABOUT £25 MILLION AT  
PRESENT RATES

AN ADDITIONAL 25%  
WOULD PRODUCE MUCH  
LESS THAN £10 million  
pa.

Crawley Order - Working

Argus - average price £250 per gallon  
 quotes taken from G.H.'s print office

Argus - principal uses	Airfax is - 63%
flyng tank 25%	agricultural ! 12%
private flyng 2%	

Disadvantage against foreign competitors

Training cost worth £11m. +

Hope that in response G.H. can show that

he takes problem seriously

Jim Ashton - Bassetlaw

Need for services ('services')  
 importance of cars for jobs  
 County Council Elections

## RSG $\cup$ higher road fuel duty

There is a cash limit on RSG, which already incorporates provision for an average increase in non-pay costs of 11% between 80/81 & 81/82. So provision is already there.

The same applies to the main public exp. programmes, including defence. [Police are in a somewhat case, so don't mention?]





Y NO GOVT AMB?

COS AND? NO.1 WAS 2nd

(A) LEAD FREE.

(B) AV. GAS (WORKING)

WORKING: DUTY ON FUEL IN TANKS IN TANKERS - WITH EXTENSIVE.

MAIN ISSUE: (DERV/PETROL)

STRATEGY:

LFS of working supports: E. FIFE / H.F. | CEN. FIFE / H.M.

BRIDGTON (W): DEMANDS OVER PRIMARY INT. RATES  
BURY ST EDMUNDS  
LANCASHIRE  
TORBAY  
S. CROSDON  
N. SOMERSET.  
E. ABERDEENSHIRE  
BRIDGTON

MU. CONSD MOST CAPABLE:

1987 CONCESSIONS: APPROXIMATE RESPNS.

+ HAVE BEEN CONTRIBUTION ADVISOR WITH ACUM NO.1 - BEDFORD

£5.5m INVESTMENTS  
£85m DERV

VALUE ADDITION  
SUBSTITUTION & FUEL

1/2 PETROL for 2 1/2 PETROL fuel 2137R

PRESSED GO FURTHER:

COST - even for 1. AVG - £300

10h. PETROL  
12h. PETROL  
15h. PETROL

LEAD FREE @ HIGH RATE SOUTH WEST, 2000

(Y) BEER: BUT BRIDGTON L YIELD/JOB

CIGS: SIMILAR FACTORS MAY BE PLANT

(X) ALTERNATIVE:

1/2h a BASIC RATE: NOT EASY TO RAISE INC. TAX

S. CROSDON - GAMING  
TORBAY

(3) BETTING: GEN. BETTING DUTY (BDDFM)

E. ABERDEENSHIRE

(E)

(4)

GAMING TAXES - DBL TAX

- ABOLISH DIST. BETWEEN CLUBS + PUBS

(1) DOB LICENSING

(2) SPARE INCOME

Genuine + serious

NO SENSIBLE WAY TO WAY IN WHICH SUMS OF ORDER CAN RESPONSIBLY BE RAISED.

CONFIDENTIAL

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Minister of State (C)  
Minister of State (L)  
Sir Douglas Wass  
Sir Anthony Rawlinson  
Mr Ryrie  
Rest of PEX  
Mr Battishill  
Mr Unwin  
Mr Ridley  
Mr Cropper  
Mr Cardona

DEBATE ON PETROL/DERV  
OFFSETS

Mr Tolkien told me that you had asked for short speaking notes on:

- (a) an offset by a cut in capital expenditure - designed to reassure Conservative backbenchers, because of the rumour that the offset would take this form;
- (b) more generally a public expenditure offset;
- (c) the need for an offset to hold to the PSBR provided for in the Budget.

2. I attach notes on the first two. Mr Unwin is providing a note on the third.

J. M. B.

J M BRIDGEMAN  
30 April 1981

CONFIDENTIAL



CAPITAL EXPENDITURE OFFSET

I can assure the House that I have no intention to offset this loss of revenue by cutting public sector investment this year. I am well aware of the concern of many about the levels of capital investment. [I have some sympathy with them - although as my Rt Hon friend the Chief Secretary explained with some care in the Public Expenditure White Paper debate, the position is often mis-understood. For example we are providing for increased investment by the nationalised industries, not less.] The balance between capital and current expenditure is one of the things which we will be looking at later this year in the annual review of public expenditure. [We will then be able to do so in relation to the needs of each programme, which is the only sensible basis.]

(C)

PUBLIC EXPENDITURE OFFSET

*NO HOLDING TOWARD PROBLEM OF FUND SAVING IN PVS EXTEND. BUT BRIDLINGTON*

~~My presumption is against finding the~~ offset from public expenditure within this financial year. It is generally bad management to cut public expenditure once the year has started: such cuts tend to fall on the expenditure which it is easiest to cut quickly, rather than that which should have the lowest priority. [I would not want to defer capital projects on this account.]

*GRAN DIFALING IN FINANCY*

(B)

2. Like my Hon Friends, I would prefer public expenditure to be lower. [I said so in the Budget Speech, and in the White Paper.] That is one of the things we will be looking hard at in the annual review of public expenditure the for/next and later years in a few months time.

(A)

*BUT (B)*

30/4/81 12

CSI: RWRM  
RWRM  
CONST. IS, FOR SEPARATE  
HELPFUL DISCUSS<sup>5</sup>.

A tax on caravans? They already pay 15 per cent VAT, and the further revenue potential is limited. I estimate that the extension of car tax to touring caravans would raise only some £5 million to £10 million a year. I have also had to bear in mind the industrial implications. The domestic UK-based manufacturing industry which traditionally accounts for over 90 per cent of home sales is already <sup>FEBRUARY EFFORTS</sup> ~~suffering~~ because of the recession. Now would not be the time to impose additional taxation in this area.

NOT WITH TO REPSM  
MEMO - 25% VAT

/My Postbag

Hence my conclusion to look for the extra £1,200 million that was needed to the duty on petrol and derv. 20p on petrol raised £910 million, 20p on derv a further £270 million. The increase on petrol, although bound to be unpopular, was both necessary and justified. The tax on petrol is now less in real terms than it was in 1950, in 1960 and in 1970. As a proportion of the total price of petrol, the tax is now lower than it was during the whole of the decade up to the oil crisis of 1973. It was legitimate to restore the proportion of tax, as an incentive to energy conservation. F.T. LDR 70/AM

- Opposin  
Cul by  
£750m  
- Lib by  
£400m  
- Ann's No. 2  
£600m  
Quint UNACIMBE

Before the Budget, the price of petrol in the UK was the lowest in the European Community, except for Germany. After the Budget, the price came broadly into line with the rest of the Community - and in real terms the same as it was here after the 1980 Budget.

/It is true



Suona

It is true that the higher petrol duty will increase business costs, but must point out that businesses get relief on the VAT element of the increase. The effect on business costs must, in any case, be set alongside the Budget's benefits for industry: a £450 million concession on stock relief, help with energy prices, fresh tax incentives for new and small businesses and, above all, 2 per cent off interest rates.

50% since 2m Jan 11  
£1750 m  
CBI  
L Suona wd  
CBI trust

/Also took into

Also took into account that many kinds of business are unaffected by the increase in derv, which applies only to vehicles used on roads. Thus farm machinery not driven on public roads, fishing vessels, ~~[glasshouses,]~~ and ~~foresters'~~ equipment are all unaffected. Ordinary buses making regular stops have the duty refunded. Oil used for production of petrochemicals is generally free of duty and I have proposed a limited degree of further duty relief in Clause 5 of the [Finance] Bill.

/Nevertheless,

To go in after page 9

NO of CON COMS  
to RICH MBMS

GUIDELINE COMMISSION  
to RICH MBMS

MANAGEMENT  
ALICE

There is, however, a unique problem facing glasshouse growers in the horticulture industry as a result of distortions of competition arising from a preferential gas tariff for Dutch horticulturalists. The European Commission has accordingly sanctioned special measures of assistance to growers in a number of other Member States. As hon. members know, my rt.hon. Friend has today announced a scheme, which will fully conform to the Commission's guidelines, under which a special adaptation aid worth £5.5m will be provided for UK glasshouse growers for the period of 1 year.

Derv: - not - In 0/10  
- then 10/10 10/10  
- 1 A 10/20 10/10

SUEET

Nevertheless, on further consideration good industrial case for reducing duty on derv. Unlike petrol, where as already explained UK is in the middle of the international league table after the Budget, our derv price is the highest in the EC. Care has to be taken in these comparisons: retail prices are by no means a complete guide in a situation where, in the UK, over 80 per cent of derv is sold under contract at a negotiated discount from the standard price (a somewhat smaller proportion in other EC States); moreover, some taxes are rebatable in some countries, not in others. In addition, some countries discriminate against diesel-engined vehicles through their vehicle excise duties. But, even taking account of all these factors, little doubt that we are clear leader. Also, we have received many representations from road haulage industry and others about the extent to which the Budget

FREIGN 207  
ALICE  
ROAD 116 M101

/increase



increase affected their costs. The duty on derv now accounts for about 8 per cent of road freight transport costs and this in turn feeds through into all business costs and eventually final prices. A duty reduction will be of particular benefit to rural areas and to the Scottish economy and will meet concern regularly expressed about distribution costs of many commodities, ranging from food for livestock to petrol and beer.

ku 2 p.m.  
spe. a/c  
de 20/11

de  
Scot  
man

(Inquiry)

/Therefore decided

view no option but to ask people to pay the costs in some other way.

- RANK & POSSIBILITIES TO BE EXPL.
  - PROPOSALS FOR WORK IN DJS CMS
- 70% ALLOC  
A  
MAY  
DEBATE

SOME CONCERN ABOUT  
RECOGNITION FROM  
PUB. EXP. CURS

TAKING IN

ONE SIDE OF ALC: for all sections of  
~~OTHER IS~~ community-  
wide countryside

GRAND ID REVENUE

THIS MAKES RISKY BUSINESS

- ACCEPT AND (1)

Budget 12.

(1)

Therefore decided to accept amendment standing in name of Mr. Skeet and others and the 10p per gallon reduction in duty on derv which it proposes. Must make clear amendment has no legal effect until Royal Assent; position until then governed by the Budget Resolution (under the provisions of the Provisional Collection of Taxes Act 1968). Thus the 20p per gallon increase remains in force until the Bill becomes law. This is broadly similar to the procedure followed in 1977 for the petrol duty reduction. Some consequential technical amendments <sup>MAY</sup> will be required and <sup>IF NECESSARY</sup> I will propose these at Report Stage.

Amendment will cost some £85 million for August implementation. Perhaps modest in comparison with total of £1,180 million from Budget increases on road fuel. Nevertheless, it would be most unwise to allow this to be reflected in the size of the PSBR and in my

747 13  
 W 77  
 POSSIBLE - 4  
 CLM - 70  
 AC 127

/view

- INDICATE POSN A Govt

21

- RESERVE WHOSE A RUCI ECONOMY  
1.  
ANALYSIS

SPEAKING NOTES

Important to consider road fuel duty increases in context of whole Budget strategy. All too easy to single out some part of the Budget for criticism, while treating the more popular parts as a quite unconnected bonus from providence. But the whole package hangs together.

I would not have been able to reduce interest rates if had not taken action to limit public borrowing to £10½ billion. Higher borrowing with lower interest rates would have meant risking higher inflation. This is why it was vital to cut public borrowing. And that meant higher taxes.

SHORE W/ MEAN THROWING AWAY  
FLY IN FACE  
ALL IN REVENUE  
EXPLC

There is no painless way of raising taxes. For income taxpayers this meant no increase in personal allowances (saving £1,900 million in

/1981-82).



2.

1981-82). And I had to raise over £2,400 million from taxes on spending. Main components, other than petrol and derv:-

14p on cigarettes	-	£500 million
£10 on VED	-	£225 million
4p on beer	-	£370 million
Wines (12p table, 25p sherry)	-	£ 70 million
60p on spirits	-	£ 60 million

These large increases on drinks, tobacco and VED raised only just over £1,200 million. This left another £1,200 million to be found. I decided it had to come from petrol and derv. I can assure the House that I have examined all the "easy" alternatives that have been suggested.

/Higher taxes

3.

Higher taxes on gambling? But the total revenue from all gambling taxes is only about £500 million a year. And that is after the increases in the gaming taxes I introduced in the 1980 Budget, which became effective from last autumn. Of course I want to obtain the maximum amount of revenue from gamblers rather than from motorists but any further large increase in gambling taxes would fail to raise anything like the £1,200 million needed. Anything beyond a very modest increase would risk driving gambling underground, into the hands of the criminal world.

B60 FORD;  
 Genl. B. 22nd Div  
 L77R

/A tax on

RPI EFFECT

9. The RPI impact effect of the duty increase is 0.6% (this is solely due to the petrol increase; DERV is not represented in the RPI). The indirect effect is difficult to quantify, and will depend on assumptions about the extent to which, and how rapidly, businesses are able to pass on the increased fuel costs to their customers.

POSSIBLE CRITICISMS

THE AMOUNT OF THE INCREASES

10. There is no easy alternative means of raising the same amount of revenue (see also paragraph 21 of this brief). The real value of the tax burden on petrol is no greater than it was in 1970, while even after the increase the duty on DERV in real terms is 25% lower than in 1970. In percentage terms the increase in duty is about 38%, broadly similar to the increases in the other main excise duties.

EFFECT ON MOTORISTS

11. The duty increase on petrol and consequential VAT will raise the price to the private motorist by about 20p a gallon. The effective increase for business users, who can deduct VAT will be 17.37p a gallon, and about one-third of petrol and virtually all DERV is used by businesses. The annual petrol bill of a private motorist doing 7,500 miles per annum in a typical car will increase by about £50.

EFFECT ON RURAL MOTORISTS

12. Rural motorists on average cover about 10 per cent more miles per year than their urban counterparts, but they can normally expect to get a higher mileage per gallon because of the less congested driving conditions. Any system of regional rates of duty designed to help rural motorists would be complicated and expensive to administer, open to diversion and would pose difficulties of equity, especially near regional boundaries. (In the Second Reading debate, the Chief Secretary said that "rural motorists travel on average about 8 per cent further per year than urban motorists"; but the latest figures suggest that the "excess" is now about 10 per cent.)

EC PRICE COMPARISONS AS AT 13 APRIL 1981. (in pence per gallon)  
 A.C. Save: Dept. of Energy report-back telex.

£ = \$2.1631.

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PETROL	Factor cost	Duty	VAT (a)	Total.
Belgium	76.56	49.59	30.29	156.44
Denmark	75	59.14 (b)	29.51	163.65
France	71.72	59.72	23.13 (c)	154.57
Germany	72.09	49.35	15.78	137.22
Ireland	76.32	58.41	13.47	148.2
Italy	66.1	77.23	25.8	169.13
Luxembourg				
Netherlands	71.84	47.79	21.53	141.16
UK	70.64	62.82	19.54	153.5
DERV (d)	Factor cost	Duty	VAT (a)	Total.
Belgium	67.52	20.37	21.97 42	109.86
Denmark	70.53	11.09 (b)	17.95 29	99.57
France	64.55	31.32	16.87 (c) 48	112.74
Germany	66.28	43.25	14.24 57	123.77
Ireland	77.44	38.44	11.59 50	127.47
Italy	59.34	3.17	9.37 13	71.88
Luxembourg				
Netherlands	64.88	16.69	14.69 32	96.26
UK	77.19	62.83	20.99 83[73]	161.01 [151]

(a) refunded to VAT registered traders

(b) duty refunded to VAT registered traders

(c) VAT on petroleum products is non-refundable in France.

(d) Retail derv prices; many consumers buy under ICC terms allowing substantial discounts. Prop. of ICC users highest in UK.



## Clause 4

Amendment	Page	Line
48	3	1-2

Mr Peter Shore	(Stepney & Poplar, - Lab)
Mr Robert Sheldon	(Ashton-under-Lyne, - Lab)
Mr Robin F Cook	(Edinburgh Central, - Lab)
Mr Jack Straw	(Blackburn, - Lab)

Clause 4, page 3, leave out lines 1 and 2 and insert -  
'4 -(1) In section 6(1) of the Hydrocarbon Oil Duties Act 1979 leave out 'a duty of excise at the rate of £0.10 a litre" and insert "£0.1382 a litre in the case of light oil and £0.115 a litre in the case of heavy oil".'

## EXPLANATION

## Resist

1. The amendment would reduce the increase in derv duty proposed in the Budget, making the (VAT-inclusive) price increase 7.8p per gallon instead of the 20p proposed by the Chancellor. For derv (used almost entirely by businesses), the VAT-exclusive figures are more appropriate; and these are Budget increase 17.4p per gallon and 6.8p under the amendment. The increase proposed in the amendment is equivalent to 15% of the pre-Budget rate of duty and is presumably designed to restore the duty to the same real level as at the time of the Budget last year.
2. The cost of the amendment would be £160 million in a full year.
3. Without a new Resolution, the amendment cannot over-ride the Budget Resolution until Royal Assent. In strict law, even if the amendment were to be carried, the higher rate of duty should continue to be collected until Royal Assent. Duty which has been paid since Budget Day at the rate proposed in the Budget would have to be repaid to the oil companies after Royal Assent to the extent that the amount of the duty exceeded the rate determined by this amendment if it were to be carried. There would be no way of ensuring that this repayment was passed on to the consumers who had in fact borne

CUSTOMS AND EXCISE

the higher rate of duty in the intervening period; this would represent "windfall" profits to the oil companies.

POINTS FOR USE IN DEBATE

Revenue

4. It is crucially important this year to cut public borrowing, and to do this revenue must be raised. Substantial increases have been proposed in all the major revenue duties, and it is fair that users of derv should also bear their share of the increased taxation burden. Those who propose lower rates of duty should suggest how the revenue might be made up from elsewhere. To raise £160 million we would have to add 2p to the price of a pint of beer or 5p to a packet of cigarettes.

Inflation

5. We recognise that in the short term the derv duty increase may add to the RPI. (The impact effect is nil, but there will be an indirect effect as the increase in business costs feeds through into prices.) But, as part of the overall Budget strategy of keeping down public borrowing, the duty increase is helping to lay the foundation for a long term reduction in inflation and, in due course, a reversal of the upward trend in the burden of taxation.

Real burden of duty

6. The duty on derv, even after the Budget increase, is still in real terms 25% lower than in 1970.

EC comparisons

7. The duty on derv is higher in the UK than in other EC Member States, but several other countries compensate for low rates of derv duty by higher VED on diesel vehicles. UK vehicles operating on the Continent will of course pay Continental prices for fuel they take on, and Continental vehicles in this country will pay UK prices.

Energy conservation

8. Business as well as private users should be encouraged to economise in their use of fuel. The immediate impact on consumption may be small, but over the longer term, as users invest in more

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CUSTOMS AND EXCISE

fuel-efficient vehicles or otherwise change their mode of operation, the effect should be significant.

Business costs

9. Virtually all of the derv duty is borne by businesses. The Budget increase in derv duty will add about  $2\frac{1}{2}\%$  to road transport costs, but the effects will be thinly spread over a wide range of commercial and industrial activities.

Lower rate of duty on derv than on petrol

10. Traditionally petrol and derv have been dutied at the same rate. We recognise the advantages to energy conservation of encouraging the use of derv: indeed, the present Chancellor only last year removed the 5p additional duty which had applied to derv since the Labour and Liberal parties failed to join us in our opposition to the Budget increase in 1977.



ABERDARE

- CONVENIENT IMPROVISE @ THIS STAGE

- AMARI SELF PRIMARILY IN  
3 <sup>MAN</sup> [AMARI] NOW BFR USE

OPPOSITE 49- 12h AT ALL

48- 12h AT DEN.

L1B 5- 15h AT ~~the~~ <sup>the</sup> ~~den~~ <sup>den</sup>  
TRURO  
~~102~~  
20h AT DEN

SUET 112 2 10L AT DEN

BEDFORD 1 1.0h AT DEN

includes ground other with

ARSON + 3 5h AT DEN  
ARSON

(Others take no deal with others

- + other parts in detail



30/4/81

30



Finance Bill

Rural Petrol Prices

Speaking note if raised

→ Not been subject examined.  
by MMC (79)  
DGM (80)  
→ discuss

C)

1) Appreciate concern over higher petrol prices in rural areas. Petrol is not alone in this respect - other commodities are more expensive reflecting general differences in the economics of supply and competitive pressures compared to urban markets. My R H F the Secretary of State for Energy has pointed out to the oil companies the need to meet their social obligations within the free market economy.

work of union review

+ work of CM

A)

2) However retail petrol prices are generally set by the retailer and not the supplying oil companies. High pump prices in rural areas mainly reflect higher retail margins. These in turn reflect higher unit costs and less intense competition than in urban areas.

B)

3) Higher wholesale prices are charged in rural areas to help meet higher delivery and other supply costs. Selective price support is given to selected urban dealers when it is needed to help them meet competition. This benefits the great majority of motorists through lower retail prices. There is no evidence that wholesale prices to rural sites are excessive and are being used to cross-subsidise urban sites. To prevent selective price support would reduce the benefit of competition to the consumer. And it would not close the gap in retail prices.





3

Background

1) The differences in urban and rural petrol retail prices are as follows:

	4 star, p/gallon	
	Urban Self service	Rural attendant assisted
Typical retail price	152	160 - 170
Net wholesale price (duty inclusive)	125.5	129
Retailers margin	6.5	10 - 19
VAT	20	21 - 22

These D/Energy estimates are broadly compatible with the figures in the recent MP's report. Higher rural wholesale prices are made up of higher zonal and small load surcharges, lower standing rebates and little or no selective price support.

2) The recent report by Peter Fraser MP, Ian *Lang* MP, John Mackay MP and Alan Pollock MP is being studied and Ministers will comment in due course where appropriate. We are also encouraging the oil companies to explain their pricing policies as fully as possible.

3) The MMC concluded in the 1979 Report that selective price support did not operate against the public interest. In October 1980 the DGFT concluded that there was insufficient evidence of change in the level of oil company control of retail sales to justify a rereference to the MMC.

## Clause 4

Amendment	Page	Line
49	3	1-2

Mr Peter Shore	(Stepney & Poplar, - Lab)
Mr Robert Sheldon	(Ashton-under-Lyne, - Lab)
Mr Robin F Cook	(Edinburgh Central, - Lab)
Mr Jack Straw	(Blackburn, - Lab)

Clause 4, page 3, leave out lines 1 and 2 and insert -  
4.-(1) In section 6(1) of the Hydrocarbon Oil  
Duties Act 1979 for £0.10 there shall be  
substituted "£0.115".'

## EXPLANATION

## Resist

1. The amendment would reduce the Budget increase in petrol and derv duty by more than one-half, involving a VAT-inclusive price increase of 7.8p per gallon, rather than the 20p proposed by the Chancellor. The 15% duty increase proposed in the amendment seems to be designed to restore the duty to the same real level as at the time of the last Budget.
2. The revenue cost would be about £700 million in a full year, including consequential VAT.
3. Without a new Resolution, the amendment cannot over-ride the Budget Resolution until Royal Assent. In strict law, even if the amendment were to be carried the higher rate of duty should continue to be collected until that date, and the duty collected in excess of the amended rates since Budget Day should then be repaid to the oil companies. There would be no way of ensuring that this repayment was passed on to the consumers who had in fact borne the higher rate of duty in the intervening period.

## POINTS FOR USE IN DEBATE

Revenue

4. A prime objective of the Budget strategy is to cut public borrowing. To do this, revenue must be

CUSTOMS AND EXCISE

raised, and substantial increases have been proposed in all the major revenue duties. The percentage increase proposed for petrol and derv is broadly similar to that for tobacco and alcoholic drinks (the increase in vehicle excise duty was rather lower). Those who propose lower increases in the road fuel duties have an obligation to suggest from what other source the same revenue may be found. Gambling duties do not have the necessary revenue potential - still less do Space Invaders to dog licences. Even hon Members opposite would surely hesitate to propose an increase of just under 1% in income tax or National Insurance Surcharge, or a further 1% rise in VAT. To raise the revenue required it would be necessary to double the Budget increases on beer and cigarettes.

Inflation

5. We recognise that in the short term the road fuel duty increases will have the effect of increasing the RPI. (The impact effect is 0.6% and there will be further indirect effects as the increase in business costs feeds through into prices.) But, as part of the overall Budget strategy of keeping down public borrowing, the duty increases are helping to lay the foundations for a long term reduction in inflation and, in due course, a reversal of the upward trend in the burden of taxation.

Real burden of duties

6. It is true that the Budget duty increase is more than is necessary to compensate for inflation over the last year. But the tax burden (duty and VAT together) on petrol is still, even after the Budget increase, at the same level in real terms as it was in 1970, and the real duty on derv is 25% lower than in 1970.

EC comparisons

7. Even after the Budget increase, pump prices of petrol in this country are broadly comparable with those in the majority of other EC countries. The UK duty on derv is higher than in other Member States, but several other countries compensate for low rates of derv duty by higher VED on diesel vehicles.

Energy conservation

8. The increase in duty will encourage users, business as well as private, to economise in their use of road fuel. The immediate impact on

CUSTOMS AND EXCISE

consumption may be small, but over the longer term, as users invest in more fuel-efficient vehicles or otherwise change their driving habits, the effect should be significant.

Business costs

9. All the derv duty, and about one-third of the petrol duty, is paid by business users. Most business users are able to deduct VAT and for them the effective price increase under the Budget proposal is 17.4p per gallon. The duty increase will be thinly spread over a wide range of industrial and commercial activities.

Rural motorists

10. Rural motorists on average cover about 10% more miles than their urban counterparts, but they are normally able to get a higher mileage per gallon because of the less congested motoring conditions. Any scheme of duty rebates or subsidies to compensate for higher rural petrol prices would pose serious difficulties, both of equity and administration.

Disabled motorists

11. Certain allowances and reliefs are already available to help disabled motorists with their transport costs, most notably, mobility allowance, which carries with it exemption from VED. Mobility allowance is to be increased from £14.50 to £16.50 next November: since the present Government took office it has been increased by 65%. I am afraid that any scheme to provide petrol duty relief for disabled car users who are not in receipt of a statutory allowance would be complicated and expensive to administer and could be easily abused by the able-bodied.



CONFIDENTIAL

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CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary  
Financial Secretary  
Sir Douglas Wass  
Mr Ryrie  
Mr Battishill  
Mr Bridgeman  
Mr Allen  
Mrs Gilmore  
Mr Folger  
Mr Ridley

CONCESSION ON DERV: IMPLICATIONS FOR 1981-82 PSBR

I understand you want a brief form of words on the implications of the derv concession for this year's PSBR.

2. I attach a short piece. This re-asserts your broad Budget judgement and carries heavy overtones of future re-couping action. But it designedly does not commit you in specific terms so that your options remain open in the light of future developments.



J B UNWIN

30 April 1981

CONFIDENTIAL

1981-82 PSBR

I made it clear in my Budget speech - and when I discussed these matters with the Treasury Committee - that in my judgement to plan for a higher PSBR this year would be prejudicial to the Government's monetary objectives - which are vital for the reduction and defeat of inflation - and to the prospects for interest rates. Now it would be absurd to pretend that absolute precision in these matters is desirable or possible or that the arithmetic can be refined to the last £. But I have no reason to revise my broad Budget judgement and I must warn the House that I shall be obliged to give the most serious consideration to the implications [of this concession] for the Government's borrowing needs in this coming year.

To go in after page 9 37

30/4/91.

There is, however, a unique problem facing glasshouse growers in the horticulture industry as a result of distortions of competition arising from a preferential gas tariff for Dutch horticulturalists. The European Commission has accordingly sanctioned special measures of assistance to growers in a number of other Member States. As hon. members know, my rt.hon. Friend has today announced a scheme, which will fully conform to the Commission's guidelines, under which a special adaptation aid worth £5.5m will be provided for UK glasshouse growers for the period of 1 year.

1.

## SPEAKING NOTES

Important to consider road fuel duty increases in context of whole Budget strategy. All too easy to single out some part of the Budget for criticism, while treating the more popular parts as a quite unconnected bonus from providence. But the whole package hangs together.

I would not have been able to reduce interest rates if had not taken action to limit public borrowing to £10½ billion. Higher borrowing with lower interest rates would have meant risking higher inflation. This is why it was vital to cut public borrowing. And that meant higher taxes.

There is no painless way of raising taxes. For income taxpayers this meant no increase in personal allowances (saving £1,900 million in

/1981-82).

39

2.

1981-82). And I had to raise over £2,400 million from taxes on spending. Main components, other than petrol and derv:-

14p on cigarettes	-	£500 million
£10 on VED	-	£225 million
4p on beer	-	£370 million
Wines (12p table, 25p sherry)	-	£ 70 million
60p on spirits	-	£ 60 million

These large increases on drinks, tobacco and VED raised only just over £1,200 million. This left another £1,200 million to be found. I decided it had to come from petrol and derv. I can assure the House that I have examined all the "easy" alternatives that have been suggested.

/Higher taxes



3.

Higher taxes on gambling? But the total revenue from all gambling taxes is only about £500 million a year. And that is after the increases in the gaming taxes I introduced in the 1980 Budget, which became effective from last autumn. Of course I want to obtain the maximum amount of revenue from gamblers rather than from motorists but any further large increase in gambling taxes would fail to raise anything like the £1,200 million needed. Anything beyond a very modest increase would risk driving gambling underground, into the hands of the criminal world.

/A tax on

4.

A tax on overseas holidays? It would not work. It would be all too easy to avoid. The package holiday business would move out of Britain. In any case holidaymakers already pay indirect taxes abroad, just as foreign tourists pay indirect taxes here. A tax on foreign package holidays booked in Britain would amount to double taxation. It would contravene our international obligations.

/A tax on caravans?

5.

A tax on caravans? They already pay 15 per cent VAT, and the further revenue potential is limited. I estimate that the extension of car tax to touring caravans would raise only some £5 million to £10 million a year. I have also had to bear in mind the industrial implications. The domestic UK-based manufacturing industry which traditionally accounts for over 90 per cent of home sales is already suffering because of the recession. Now would not be the time to impose additional taxation in this area.

/My Postbag

6.

My Postbag has produced two other very popular suggestions.

A tax on Space Invader games? Preliminary estimates suggest the revenue would be less than £5 million. So it hardly measures up to the problem. More expensive dog licences is the other favourite. Well-known that rate has been 37½p (7s 6d) since 1878. But even if Government put it up to £5 - 14 times the present level - that would only produce at the very most an extra £14 million or so. Another drop in the ocean, I'm afraid.

/Hence my

7.

Hence my conclusion to look for the extra £1,200 million that was needed to the duty on petrol and derv. 20p on petrol raised £910 million, 20p on derv a further £270 million. The increase on petrol, although bound to be unpopular, was both necessary and justified. The tax on petrol is now less in real terms than it was in 1950, in 1960 and in 1970. As a proportion of the total price of petrol, the tax is now lower than it was during the whole of the decade up to the oil crisis of 1973. It was legitimate to restore the proportion of tax, as an incentive to energy conservation.

Before the Budget, the price of petrol in the UK was the lowest in the European Community, except for Germany. After the Budget, the price came broadly into line with the rest of the Community - and in real terms the same as it was here after the 1980 Budget.

/It is true



45

8.

It is true that the higher petrol duty will increase business costs, but must point out that businesses get relief on the VAT element of the increase. The effect on business costs must, in any case, be set alongside the Budget's benefits for industry: a £450 million concession on stock relief, help with energy prices, fresh tax incentives for new and small businesses and, above all, 2 per cent off interest rates.

/Also took into

9.

Also took into account that many kinds of business are unaffected by the increase in derv, which applies only to vehicles used on roads. Thus farm machinery not driven on public roads, fishing vessels, [glasshouses,] and foresters' equipment are all unaffected. Ordinary buses making regular stops have the duty refunded. Oil used for production of petrochemicals is generally free of duty and I have proposed a limited degree of further duty relief in Clause 5 of the [Finance] Bill.

/Nevertheless,

47

10.

Nevertheless, on further consideration good industrial case for reducing duty on derv. Unlike petrol, where as already explained UK is in the middle of the international league table after the Budget, our derv price is the highest in the EC. Care has to be taken in these comparisons: retail prices are by no means a complete guide in a situation where, in the UK, over 80 per cent of derv is sold under contract at a negotiated discount from the standard price (a somewhat smaller proportion in other EC States); moreover, some taxes are rebatable in some countries, not in others. In addition, some countries discriminate against diesel-engined vehicles through their vehicle excise duties. But, even taking account of all these factors, little doubt that we are clear leader. Also, we have received many representations from road haulage industry and others about the extent to which the Budget

/increase

11.

increase affected their costs. The duty on  
derv now accounts for about 8 per cent of road  
freight transport costs and this in turn feeds  
through into all business costs and eventually  
final prices. A duty reduction will be of  
particular benefit to rural areas and to the  
Scottish economy and will meet concern  
regularly expressed about distribution costs  
of many commodities, ranging from food for  
livestock to petrol and beer.

/Therefore decided

Therefore decided to accept amendment standing in name of Mr. Skeet and others and the 10p per gallon reduction in duty on derv which it proposes. Must make clear amendment has no legal effect until Royal Assent; position until then governed by the Budget Resolution (under the provisions of the Provisional Collection of Taxes Act 1968). Thus the 20p per gallon increase remains in force until the Bill becomes law. This is broadly similar to the procedure followed in 1977 for the petrol duty reduction. Some consequential technical amendments will be required and I will propose these at Report Stage.

Amendment will cost some £85 million for August implementation. Perhaps modest in comparison with total of £1,180 million from Budget increases on road fuel. Nevertheless, it would be most unwise to allow this to be reflected in the size of the PSBR and in my



13.

view no option but to ask people to pay the costs in some other way.



5

*Mr Tolson  
Amendment 42 is  
now for the Chancellor  
AW*

MR WARDEN

cc PS/Chief Secretary  
Mr Gordon  
Mrs Woods

FINANCE BILL: PROPOSED AMENDMENTS ON LEVEL OF DUTY FOR LEAD-FREE PETROL

I attach a short defensive brief on lead-free petrol for use in the debate. As I explained over the telephone, it is necessarily a bit thin because the Minister cannot reveal the contents of the policy statement on permitted lead levels due in ten days time. If I can get DOE permission, however, he may be able to intimate that there will be a policy statement on this matter in the near future and thus draw the Opposition fire.

2. I have also attached a short background note setting out the new policy on lead in petrol for the Minister's information. However, I regret that the contents must not be used in the debate.

3. I shall be out of the office all morning but if you wish further briefing or my attendance at the debate, please let me know during the afternoon.

*Baroness*

for

BARRY H POTTER  
30 April 1981



The present UK vehicle fleet could not run on lead-free petrol. Engines would have to be modified in order to do so. Neither the UK nor other European producers make vehicles for the European market which can run on lead-free petrol; and it would take some time (and require amendment of an EC Directive) before they could do so. Thus in the short term, a lower level of duty on lead-free petrol could not be expected to encourage the oil companies to provide lead-free petrol, for which there would be little or no demand. No CANCEL

2. The case for a reduction in the permitted lead levels in petrol (including the lead-free option) rests on the consequent benefits to the environment and reduction in health risks. The Government is well aware of the importance of these environmental and health considerations; they are indeed prominent factors to be taken into account in setting future policy on permitted lead levels in petrol. But the costs of any change from present policy - higher oil usage and hence higher petrol prices - must also be borne in mind. [A statement on our policy as regards permitted lead levels in petrol will be made shortly.]

BACKGROUND NOTE (NOT TO BE USED IN DEBATE)

1. Following the discussion in E(EA) earlier this month, the Prime Minister has agreed that a statement should be made announcing a reduction in the permitted lead levels in petrol from 0.40 grammes per litre (g/l) to 0.15 g/l with effect from end 1985. That statement, to be made by a Minister from DOE, is tentatively scheduled for the week beginning 11 May.

2. Because reduced lead petrol is more expensive to produce and uses more crude oil per gallon, the cost of a gallon of petrol will, ceteris paribus, rise. The increase in production costs is expected to mean a rise of 5p per gallon at most and the full effect will not be felt by the consumer before 1986. Higher costs to the petrol consumer are the price to be paid for improving the environment and reducing health risks.

3. It is intended that petrol lead levels will be reduced without changing octane levels. The significance of this is that no changes in engine design will be necessary in order to run on the modified petrol.

4. If one wished to go for lead-free petrol, however, car engines would have to be modified: this in turn would require retooling of the UK and European car industries, It would take time to implement (and require amendment of an EC Directive which could be difficult to achieve), and it would only reduce lead levels in the atmosphere gradually as the vehicle fleet was renewed over time. The option chosen by the Government will bring about a rapid reduction in existing lead levels in the atmosphere.



cc Chief Secretary  
Financial Secretary  
Minister of State (Commons)  
Minister of State (Lords)  
Sir D Wass  
Mr Ryrie  
Mr Middleton  
Mr Battishill  
Mr Kemp  
Mr Cropper  
Mr Freedman } C&E  
Mr Howard }

CHANCELLOR OF THE EXCHEQUER

DERV DUTY REDUCTION

I attach an additional supplementary to deal with any suggestion that the duty reduction will leave heavy lorries undertaxed.

This has been agreed with Department of Transport officials.

H M GRIFFITHS  
30 April 1981

Will the reduced DERV duty increase mean that heavy lorries will fail to pay their way in road cost terms?


Even with the lower rate of duty lorries as a whole will be paying slightly more than their attributed road costs in fuel duty and VED in 1981/82. The heaviest lorries will be paying a higher proportion of their costs than in 1980/81.



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