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CABINET

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REVIEW OF THE OPERATION OF VEHICLE EXCISE DUTY

Memorandum by the Secretary of State for Energy

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1. Petrol accounts for nearly a quarter of our oil consumption and higher taxes on petrol will be essential if we are to restrain oil consumption and give an incentive for high miles per gallon motoring, as other nations are doing and as is anyway required by our Tokyo and other commitments on oil demand restraint. We are also committed to securing staff savings, wherever possible, in public administration.
2. The report from officials brings out the clear advantages of Vehicle Excise Duty (VED) abolition in terms of energy conservation and of staff savings. The Chancellor of the Exchequer's main concern is that one tax may prove a less reliable revenue raising option than two. I am not persuaded. First, VED is already subject to a substantial level of evasion. This can at best only be contained, or marginally reduced, by employing more staff and committing more resources. Secondly, if the Chancellor of the Exchequer seeks greater indirect tax revenues than would flow from the specific abolition proposals before us, there is ample scope for increasing the petrol duty as necessary. Both tax on petrol and pump prices in the United Kingdom are still the lowest in the European Economic Community (EEC). Moreover, within the EEC Germany has already decided to abolish vehicle excise and others are considering doing so.
3. I, therefore, urge colleagues to agree that we should now abolish VED, in the interests of energy conservation, of more efficient administration and of incentive to our motor and related industries to maintain technological advance.

D H

Department of Energy

29 October 1979