

SECRET

b.c. MR. WALTERS



cc Master

18A

10 DOWNING STREET

From the Private Secretary

3 June 1981

Dear Tom,

At their meeting yesterday evening, the Prime Minister and the Chancellor discussed the Chancellor's minute of 19 May on the steps he is proposing to take to recoup the £85 million of revenue lost as a result of the concession on DERV.

The Prime Minister expressed her misgivings about the proposal that there should be an extra 3p duty on a packet of cigarettes. Coming on top of the 14p increase already announced, she felt a further 3p might be difficult to sustain politically. She suggested a 2p increase, and some further increase in the duty on wines and spirits to make up the balance of lost revenue.

The Chancellor explained the difficulty of raising the duty on wine any further in terms of the problems we would be likely to run into with the European Community. He was also reluctant to increase the duty on spirits because the whisky industry was already in considerable difficulty - and more so than the cigarette industry. It was also relevant that the 14p increase on cigarettes already announced had been received in the House more or less without demur.

The Prime Minister said that she was still not altogether happy with the proposal, but she was prepared to leave it to the Chancellor to reach a final decision.

Tim

Tim Lambert

John Wiggins, Esq.,  
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