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PRIME MINISTER

MS

I owe you a report on the changes in the excise duties which I envisage for the Budget.

2. I am sure that it is right to aim at broad revalorisation: this is what people have come to expect, and the RPI impact effect is small, given low inflation. But I propose a number of minor exceptions.

3. The most politically sensitive items are of course petrol and derv. For petrol, I have in mind an increase of 4.5p a gallon, exactly what is required by revalorisation, but on derv I propose an increase of only 3.5p a gallon, which is a slight rounding down of the strict revalorisation increase (3.8p). I have consulted Nick Ridley, Peter Walker, George Younger, Nick Edwards, and John Wakeham: all are content, with my plans. (But I might of course still have to review them again if our forecast, or the outlook for crude oil prices, were to change significantly before the Budget.)

4. As to tobacco, I have in mind an increase of 4p for 20 cigarettes. This is a rounding up of the straight revalorisation increase of 3.5p. As a minor concession, sought by Jim Prior, because of the industrial implications in Northern Ireland, there would be no increase in the duty on pipe tobacco.

5. On the Vehicle Excise duty, straight revalorisation of the £85 rate for cars and light vans would produce £89.50, but



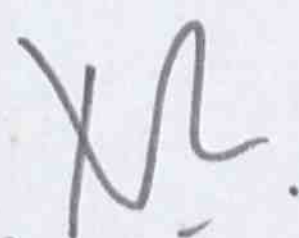
Nick Ridley and I have agreed that this should be rounded up to £90. We have also agreed changes in VED on goods vehicles which will produce very slightly (£3m) more than revalorisation. The duty for most goods vehicles will in fact rise broadly in line with revalorisation but there will be reductions for the lightest lorries offset by higher increases for some heavier lorries, to recognise their differing contribution to road costs.

6. Finally, drinks. After consultation with Geoffrey Howe about the recent European Court judgement, I propose an increase in the duty on beer of 2p a pint, and a reduction in the duty on wine of about 18p a bottle. Following the unsatisfactory talks which Michael Jopling and I had in Rome with our Italian counterparts over the Italian foot-dragging on the implementation of the analogous European Court judgement against their discrimination against Scotch whisky, I am in touch with Geoffrey Howe about the possibility of a temporary surcharge on vermouth, to put pressure on them. On other drinks, I have in mind an increase of 10p a bottle for spirits - well below revalorisation - 10p a bottle for fortified wines, and 3p a pint for cider.

7. I have in mind one other small concession: abolition, at a cost of only £5m, of the 1p a gallon duty on kerosene, which applies to paraffin used, mainly by the elderly, for home heating.

8. Altogether these increases will yield about £660m in a full year, compared to £640m from strict revalorisation. The RPI impact effect will be only 0.4 per cent, and this has of course already been allowed for in our forecast.

9. I see no serious problems here, but I would be grateful to know whether you too would be content with the proposed changes. I would of course consult you again if I had to consider larger increases for petrol and derv; and I shall let you know in due course what conclusions Geoffrey and I reach about vermouth.

N.L. 
16 February 1984