

CONFIDENTIAL

B14 Corr

CHANCELLOR OF THE EXCHEQUER

FROM: ADAM RIDLEY

DATE: 8 June 1984

cc Financial Secretary
Chief Secretary
Economic Secretary
Minister of State
Mr Lord
Mr Portillo
Mr R I G Allen
Mr Culpin
Mr Folger

PS/C&E

VAT ON FOOD: ROBIN COOK MP'S LETTER

(attached)
I have just obtained a copy of the letter sent by Robin Cook to Mr Gummer today, which, as you will see, not only asks about the Government's intentions ^{copy of letter} once again, but asks the wider question of what is meant by "extending ^{the} indirect tax base".

2. I have had a number of exchanges with Central Office during the afternoon about how this should be handled. The upshot is as follows:

(i) Mr Gummer wanted to make some kind of speech or statement tonight which both rubbished the idea of VAT on food, and provided an authoritative line on what was meant by extending the tax base. I have most strongly advised that he should restrict his remarks tonight to the first point only, repeating the rubbish and poppycock argument which he has used with some success before, and steering clear as far as possible of directly dealing with Cook's letter. It also appeared that at one time he wanted to have some kind of line to include in his statement as to how Barney Hayhoe's letter came to be published. The answer to that is clear from the papers which I have gradually managed to accumulate during the day. Sir Geoffrey Howe's letter to John Moore of April 12, ^(attached to my minute earlier today) asked explicitly for a reply which would be suitable for publication in the local press. So there should be no issue of incompetence, leaks and the rest which needs hitting on the head. I think Central Office now understand this.

(ii) As regards replying to Robin Cook's letter, after consulting private office, I have made the following points to CUCO. These will, I hope, have been conveyed directly to Hal Miller who is on tour with Mr Gummer. I stressed that there were two questions on which you would need to be consulted before Mr Gummer should take further initiatives: the first is whether it is sensible at all to give a reply to Robin Cook; and the second is, if there is to be a letter, what to say in it, on which it was essential that you should provide the material for a draft reply.

3. Just before I dictated this minute, I learned from Central Office that Mr Gummer will be seeing the lobby correspondents on Sunday - I expect during the morning - as is usual during an election campaign. He would like to provide some kind of response to the Robin Cook challenge at that point, and to be in a position, perhaps, to despatch a reply to Cook shortly afterwards. I warned that this would be very imprudent, since it was very unlikely indeed that it will be possible for you and Mr Gummer to have agreed both how best to handle the letter in principle, and to have settled the form of words. I explained at some length your many pressing obligations for the summit, something which is not adequately appreciated elsewhere, I think.

4. This means, unfortunately, that I must advise you to contact Mr Gummer as soon as you reasonably can on the telephone, and in any case by reasonably early on Sunday morning, before he sees the lobby. This will enable you to discuss both the advisability of a reply to Cook, and what form it should take and when. The likelihood that we would take our time is far from a bad thing, since it will allow the issue to get smothered in post-summit publicity, and will slow down the pace of the exchanges which Central Office seem curiously willing to accelerate. *I have not yet had actual confirmation from CUCO that Hal Miller or Mr Gummer have accepted this one*

5. Mr Gummer can be contacted very early on Saturday morning at his hotel in Berwick, his telephone no. is 0289-307-344. He returns home by plane on Saturday night, arriving at Heathrow

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at 5.30. You could catch him on 992-2271 either later on Saturday evening or early on Sunday morning.

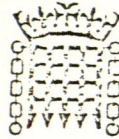
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A N RIDLEY

P.S. Miss Butler confirms, as I expected, that the PM has made an on-the-record commitment to retain or continue the de-rating of agriculture. So we need not, as my earlier minute suggests, be particularly worried if Mr Gummer tweets Labour & the Alliance about their willingness to abolish it.

From: Robin Cook MP

Michael 14/2/84



From H.O.C.

HOUSE OF COMMONS
LONDON SW1A 0AA

8 JUN 1984

6th June 1984

John Selwyn Gummer Esq MP
House of Commons

Dear John,

At a press conference last week you dismissed any suggestion that your government might expect pressure from the Common Market to harmonise VAT, particularly by extending it to cover food. I note that you claimed that Conservative MEPs have opposed such harmonisation and that Labour MEPs had failed to vote against harmonisation. It has been the clear and consistent position of the British Labour Group that they are opposed to any harmonisation of the British VAT regime with the wider sphere of VAT on the continent and we have been unable to trace any occasion in plenary session when they failed to record their opposition to such a proposal. On the contrary the last occasion when harmonisation of tax in the EEC was debated was in April 1984 on the basis of a report by a Conservative MEP, Mr Hopper, who described tax harmonisation "as one of the success stories of the European Community". His report stated "the harmonisation of direct and indirect taxes is a necessary pre-condition for the removal of fiscal frontiers". I should be grateful if you would clarify whether you support this view of your Conservative colleague in Strasbourg.

With regard to the intentions of your own government in respect of VAT I am enclosing a copy of a letter from one of your Treasury Minister's, Barney Hayhoe, to Sir Geoffrey Howe. In particular I would invite you to consider his third paragraph in which your Minister clearly states that "the indirect tax base will have to be further extended", and confirms that as the major indirect tax VAT "clearly has an important part to play" in this context. It is perfectly clear from this letter that your Ministers at the Treasury are contemplating a further widening of the VAT base.

If in the light of this letter you still deny that your government intends to impose VAT on food, I should be obliged if you would clarify what goods you are contemplating bringing within the scope of VAT in order to further extend the indirect tax base. If it is not food, will it be school clothing or newspapers or new building? If it is none of these things, what other extension of the tax base does Mr Hayhoe have in mind?

Yours sincerely,

Robin Cook

MR RIDLEY

from M M DEYES

7 June 1984

MS Sherbourne

Treasury / Pay

M. keep on file
8/12/6

YOUR CONVERSATION WITH MR KEMP REFERS

Quotations from Ministers showing armslength ~~mat~~rchfulness are hard to find. But you may like to consider whether you can make anything in the attached two speeches bear the desired nuance.

Also enclosed are the three main 'hands off declarations' being bandied about so that you can see just what was said.

M. and says

M. Sherbourne

No. 10. Any thing useful here?
I'd be grateful to you if you cd. return this
or some parts.
AR 7/6.