

PRIME MINISTERBILATERAL WITH THE CHANCELLOR

(i) Budget - Indirect tax. The Chancellor seeks clearance for the proposals in his minute attached - Flag A.

(ii) Gas Prices. You expressed reservations about a study into gas prices - Flag B. Policy Unit prefer to concentrate on privatisation on which Mr Walker is producing a paper in the next two or three weeks. The Chancellor wants to make a start on raising gas prices from early 1986 in order not to bring this too close to the election. The benefits of privatisation may take longer to come through.

(iii) MISC 111. How can the larger savings on social security be secured? (See Chief Secretary's minute at Flag C). Mr Fowler has returned wounded to his tent and MISC 111 is stalled. RTA is holding a meeting tomorrow to discuss how to get things moving again. It seems clear that Mr Fowler can deliver up to £¾ billion from the review but the difficulty will be to secure the extra £1 - 1¼ billion to achieve a target of £2 billion. With most of the first £¾ billion coming from SB and HB the net will have to be cast wider to include child benefit. The choice is between a means tested benefit or an across the board cut. David Willetts will be providing a note tomorrow on the options.

(iv) Markets. The market report - Flag D showed that the G5 agreement is alive and well. Intervention by all countries totalled around \$2 billion though the UK's contribution was less than \$100 million. The Chancellor can report on the background.

AT

Andrew Turnbull
27 February 1985

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