

B14 Corr

FROM: ADAM RIDLEY
DATE: 12 June 1984

MISS SIMPSON

cc Financial Secretary
Chief Secretary
Economic Secretary
Mr Lord
Mr Portillo
Mr Unwin
Mr R I G Allen
Mr Monger
Mr Culpin
Mr Folger

Mr Gummer)
Mr Bainbridge) CUCO
Mr Tyrie)

PS/C&E
Mr Houston, FCO
Mr Flesher)
Mr Sherbourne) No. 10

VAT: ROBIN COOK MP'S LETTER TO MR GUMMER
OF JUNE 6TH; AND MR KINNOCK'S LETTER TO THE PM

The PM is due to have replied to Mr Kinnock's letter briefly during this afternoon on the lines of the draft proposed by the Chancellor this morning. I attach a copy of the latest known version of this letter for the information of others. In the meantime the question of whether Mr Gummer should also reply to Robin Cook has not yet been resolved. Accordingly I have continued to work up a draft for him on the lines of the instructions given to me yesterday by the Chancellor, so that Mr Gummer can decide overnight (or at the pre -Press Conference briefing early tomorrow) whether it is worth writing. The material in the draft is clearly of value as briefing for those at the Press Conference tomorrow whether or not it is in the event despatched to Mr Cook.

2. The draft I now attach has been amended significantly in the light of comments from the Chancellor, the MST and Tim Bainbridge at CUCO. It transpires that if anything Mr Kinnock and Mr Cook ought to be advising the electors to vote Conservative if the record of Labour MEPs is anything to go by, and this could be a good political line to take, as well as being true!

AR

A N RIDLEY

DRAFT LETTER FOR MR GUMMER TO SEND TO ROBIN COOK MP

Thank you for your open letter of June 6th, which I received last Friday. I am glad you acknowledge that you and Mrs Castle were wrong to claim that the Government are planning to end the "zero-rating" of food and subject it to VAT. [As the PM and I have made clear in public statements on several occasions, this rumour is poppycock and nonsense.]

2. Your allegations about the line taken on this issue by Labour and Conservative MEPs are badly informed, misleading [not borne out by the facts.] It is striking that you only focussed on Labour MEPs' record in the plenary session of the European Parliament. Anyone who knows about the way the Parliament works would tell you that what matters are the Committee sessions. Your deliberate omission of any reference to them reflects, no doubt, the failure of Labour MEPs to mount any effective defence of our present arrangements during key Committee proceedings.

3. More important, it is frankly disingenuous of you to ignore the policies of the Socialist group in the Parliament, to which Labour MEPs belong. Only last November, the report introduced in the Parliament by Rogalla - a member of the Socialist group - advocated greater harmonisation of VAT; and at the same time tried to force through the end of zero-rating, which would have required the imposition of VAT on food.

4. So electors who will be concerned about the effectiveness of Labour MEPs should be asking you, Mrs Castle and Mr Kinnock two [three] questions. First, why should they support a party which is so pathetically ineffective in opposing in Strasbourg the policies it so strongly criticises at home? And second, is it not the activities of Socialists in the European Parliament and any increase in their strength which are most likely to lead to EC pressure for us to put VAT on food. [And third, should you not be advising British voters to support Conservative MEPs if you are concerned about preserving our system of zero-rates?]

5. Your comments on the question of the Conservative Group in the European Parliament are grossly misleading, and I must call on you to acknowledge what the record actually shows. The Conservative group of MEPs have consistently made clear their view that the harmonisation of VAT should not involve the abandonment of zero-rating. Indeed it was a Conservative Amendment voted in Committee in June 1983 which kept open the option of zero-rating; and a further clause along the same lines was moved unsuccessfully in Plenary Session. On both occasions Labour members were conspicuously absent. You will find a clear statement of Conservative MEPs attitudes to zero-rating in Will Hopper's speech of November 11 1983.

6. The Government's own position on this is clear and honest, and remains as set out in Barney Hayhoe's letter of May 17th to which you refer. We are not under pressure from the Common

Market to extend VAT to cover household spending on food; we would ^{resist} / such pressures if they arise; and that resistance would be effective, since the Community cannot impose such changes without our consent. But it is no secret that we believe that the indirect tax base should be extended in the long run, so that income tax can be further reduced.

This is a view which we have stated in public repeatedly, in opposition before 1979, in the 1979 Manifesto and in the Chancellor's Budget this year. We have no set views about how this should be done. But we are well aware of the importance of many of the zero-rated items such as food for families and the less well off.

7. This frank acknowledgement of the implications of our policies could not contrast more sharply than it does with the position of the Labour Party. I must therefore ask you as a Treasury spokesman what Labour's policies would mean in higher taxes:

- do you still stand by the spending proposals of your 1983 Election Manifesto, which have never been disowned and which would have added anywhere between £36bn and £43bn a year to public spending by the end of a Parliament? A sum roughly equivalent to the figure of some £2,000 or so more tax on every household in the country. Do you not agree that Labour's policies make it the Party of sky-high taxation?

- do you still stand by the specific tax commitments of your 1983 Manifesto, for example to end the de-rating of agricultural land; to extend VAT to higher education; and to end charitable tax reliefs to private Health and Education?

8. Would you not agree that the Labour Party has always been the party of high and rising taxation; but that while it used to be prepared to admit that fact and argue for it, today it dares not admit to the truth?