

# PARLIAMENTARY DEBATES

HOUSE OF COMMONS  
OFFICIAL REPORT  
GENERAL COMMITTEES

Public Bill Committee

## FINANCE (NO. 3) BILL

**(Except clauses 4, 7, 10, 19, 35 and 72)**

*Fifth Sitting*

*Tuesday 17 May 2011*

*(Morning)*

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CLAUSE 15 agreed to.  
SCHEDULE 1 agreed to.  
CLAUSES 16 to 18 agreed to.  
CLAUSE 20 under consideration when the Committee adjourned till this day at half-past Four o'clock.

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**The Committee consisted of the following Members:**

*Chairs:* MR ROGER GALE, †MR JIM HOOD

- |   |   |
|---|---|
| † Aldous, Peter ( <i>Waveney</i> ) (Con)                                  | † Lewis, Brandon ( <i>Great Yarmouth</i> ) (Con)                                |
| Barclay, Stephen ( <i>North East Cambridgeshire</i> ) (Con)               | † McCarthy, Kerry ( <i>Bristol East</i> ) (Lab)                                 |
| † Blenkinsop, Tom ( <i>Middlesbrough South and East Cleveland</i> ) (Lab) | McCartney, Karl ( <i>Lincoln</i> ) (Con)  |
| † Blomfield, Paul ( <i>Sheffield Central</i> ) (Lab)                      | † McClymont, Gregg ( <i>Cumbernauld, Kilsyth and Kirkintilloch East</i> ) (Lab) |
| † Bradley, Karen ( <i>Staffordshire Moorlands</i> ) (Con)                 | † McGovern, Alison ( <i>Wirral South</i> ) (Lab)                                |
| † Creasy, Stella ( <i>Walthamstow</i> ) (Lab/Co-op)                       | † Mearns, Ian ( <i>Gateshead</i> ) (Lab)  |
| Crockart, Mike ( <i>Edinburgh West</i> ) (LD)                             | Murray, Ian ( <i>Edinburgh South</i> ) (Lab)                                    |
| † Crouch, Tracey ( <i>Chatham and Aylesford</i> ) (Con)                   | † Nash, Pamela ( <i>Airdrie and Shotts</i> ) (Lab)                              |
| † Dakin, Nic ( <i>Scunthorpe</i> ) (Lab)                                  | † Parish, Neil ( <i>Tiverton and Honiton</i> ) (Con)                            |
| † Esterson, Bill ( <i>Sefton Central</i> ) (Lab)                          | † Phillipson, Bridget ( <i>Houghton and Sunderland South</i> ) (Lab)            |
| † Gauke, Mr David ( <i>Exchequer Secretary to the Treasury</i> )          | † Sharma, Alok ( <i>Reading West</i> ) (Con)                                    |
| † Glindon, Mrs Mary ( <i>North Tyneside</i> ) (Lab)                       | † Shelbrooke, Alec ( <i>Elmet and Rothwell</i> ) (Con)                          |
| † Goodwill, Mr Robert ( <i>Scarborough and Whitby</i> ) (Con)             | Smith, Julian ( <i>Skipton and Ripon</i> ) (Con)                                |
| † Greening, Justine ( <i>Economic Secretary to the Treasury</i> )         | † Wharton, James ( <i>Stockton South</i> ) (Con)                                |
| † Hanson, Mr David ( <i>Delyn</i> ) (Lab)                                 | † Williams, Roger ( <i>Brecon and Radnorshire</i> ) (LD)                        |
| † Harrington, Richard ( <i>Watford</i> ) (Con)                            | † Williams, Stephen ( <i>Bristol West</i> ) (LD)                                |
| Hoban, Mr Mark ( <i>Financial Secretary to the Treasury</i> )             | Wilson, Sammy ( <i>East Antrim</i> ) (DUP)                                      |
| † Lee, Jessica ( <i>Erewash</i> ) (Con)                                   |   |
|   | Simon Patrick, <i>Committee Clerk</i>   |
|   | † <b>attended the Committee</b>   |

## Public Bill Committee

Tuesday 17 May 2011

(Morning)

[MR JIM HOOD *in the Chair*]

### Finance (No. 3) Bill

(Except clauses 4, 7, 10, 19, 35 and 72)

#### Clause 15

##### NEW HIGH STRENGTH BEER DUTY

*Question proposed*, That the clause stand part of the Bill.

10.30 am

**Kerry McCarthy** (Bristol East) (Lab): It is a pleasure to see you in the Chair this morning, Mr Hood.

Under clause 14, we had a lengthy debate on using taxation on alcohol to modify behaviour as well as to raise revenue, and on having a differential rate for low-strength beer. Clause 15 is about a new high-strength beer duty, and schedule 1 details that the duty for beers exceeding 7.5% of volume will be £4.64 on top of the general beer duty. It will be introduced on 1 October 2011 along with the lower-strength duty, and will amount to an additional 25p on a 500 ml can of beer at 9% ABV.

The clause confirms that Her Majesty's Revenue and Customs will be responsible for the collection and management of the duty. I am interested to know how much additional administration will be required to monitor not just that but the differential rate on low-strength beer, and to what extent it could add to the workload of HMRC staff, especially when MPs are receiving reports of long backlogs at HMRC, and the Public and Commercial Services Union is raising serious concerns about the impact of 14,000 job losses there. Will additional resources be available, if necessary, to ensure that the appropriate duty is paid?

A reduced duty rate for low-strength beers has generally been welcomed by the industry, although there are doubts about its impact given the current market share of such beers, but the higher rate has, predictably, met with more opposition. As we discussed last week, there are doubts about whether such measures alone will achieve the Government's stated objective of tackling problem drinking without penalising responsible drinkers who occasionally enjoy higher-strength beer. We have already covered many of the arguments on each side of the debate, but the OECD makes the important point that the rise in alcohol consumption in the UK has gone against the general downward trend internationally, despite often higher duty rates. Similarly, the evidence, which I referred to last Thursday, that problem drinkers tend more towards spirits, remains relevant, because it questions whether the duty will have the effect that the Government desire. The market share of high-strength beer is small: according to the British Beer and Pub

Association, high-strength beer sales account for less than 0.5% of total alcohol sales, and less than 1% of beer sales.

I would appreciate clarification from the Minister on the projected impact on sales of beer that is above 7.5% by volume. Do the Government intend to decrease the consumption of higher-strength beers by introducing the higher rate of duty, and if so, will the measure raise revenue well? How much revenue does the Minister expect to raise for the Treasury, and to what extent is the measure intended to balance the reduced rate for the lower-strength beers? On Thursday, the Minister talked about balancing off the increased revenue from the higher-strength rate against the reduced revenue from the lower-strength one. What calculations have been done? Will the result of the two measures be revenue neutral? Have the Government factored in that consumption might be reduced at the higher-strength level?

What representations has the Minister received from manufacturers of higher-strength beer about whether the new duty will have an impact on the market and, if so, about whether that is seen as good or bad? As was mentioned last week by people who are far more expert in this matter than I am, it is not simply that people want to drink higher-strength beers to get drunk quicker; the issue is about taste, in that real ale manufacturers are connoisseurs of such beers, and there are niche markets for such products. Does the Minister think it would be a shame or a good thing if such markets were affected negatively by the measure?

On changing attitudes and drinking behaviour, there are different categories of people who drink to excess and, generally speaking, spirits are the predominant drink of choice for 18 to 25-year-olds. High-strength beer accounts for only 0.4% of the alcohol market, and spirits represent more than 20%, almost a third of which is vodka. It is also worth remembering the conclusion of the Government's alcohol review, which stated:

"The evidence about the effect of price on young drinkers was very mixed, with some groups suggesting that price would not be an effective deterrent to drinking for this group."

That suggests that we should be very cautious in thinking that any of the alcohol duty measures in the Bill, and particularly clause 15, will significantly address the trends for binge drinking among young people.

**Ian Mearns** (Gateshead) (Lab): It is a pleasure to serve under your chairmanship, Mr Hood.

On the collaboration between the Treasury and the Department of Health about tackling the issue of youngsters and binge drinking, I am not convinced that the best way to do so is to have an additional duty on high-strength alcohols. From a health perspective, or the perspective of trying to stop youngsters drinking to excess, additional taxation on alcopops would be much more adventurous by the Treasury.

**Kerry McCarthy**: My hon. Friend is right in that several complex issues have to be addressed. The market in alcopops is not as significant now as it was about 10 years ago, when they were introduced. The evidence is that young people are turning more to straight spirits such as vodka, but they are still a significant factor. There has been a growth in such areas as the new cider drinks that are attractive to young people.

Homelessness groups have raised with me their concerns about the availability of cheap, high-strength alcohol, particularly super-strength lagers. A higher duty may well have a role in tackling that issue, but I am not convinced. I hope that the Minister will elaborate on whether an increased duty on some drinks will provide a solution. What impact does she imagine it will have on homeless people who have become addicted to super-strength lagers?

There is some doubt about the extent to which the duty increase will be passed on, particularly to off-trade sales as compared with on-trade sales. The Government's efforts to address the problem of supermarkets and off-licences selling alcohol at what some people have described as "pocket-money prices", by banning sales at prices below VAT and duty, have been met with a great deal of scepticism. Professor Ian Gilmore, speaking for the Alcohol Health Alliance UK, said that it

"will have no impact whatsoever on the vast majority of cheap drinks sold"

and

"will have no effect at all on the health of this nation".

Does the Minister think that increasing the duty on high-strength beers would make a ban on below-cost sales more effective in influencing not only purchasing choices, but health?

The duty will affect not only super-strength lagers, but premium high-strength beers that are already relatively expensive, but tend to be consumed responsibly, as I have said. The question, therefore, is whether the clause is the best way to tackle super-strength lagers being consumed to excess, without penalising the premium beer market. The executive chairman of Fuller's Brewery has described it as

"a sledgehammer to crack a nut",

and he has said that it will

"do a lot of damage to the specialist beer category".

I would appreciate clarification from the Minister of the projected impact of the new duty on super-strength off-trade sales and premium or specialist beers. In the course of introducing the duty, has the Treasury attempted to look at the two separate markets—they are very much two separate markets—or have they been lumped together? Do the Government intend to work with specialist domestic brewers to monitor the impact of the change?

Some people have argued that there are damaging inconsistencies in the Government's approach, because imported wines with an ABV of 13% will be liable to significantly less tax than UK-produced vintage ales of above 7.5%. Does the Minister agree that that represents an inconsistency, and do the Government believe that it will have a detrimental effect on the premium beer market?

**The Economic Secretary to the Treasury (Justine Greening):** I will respond to the hon. Lady's points when I wrap up, but will she tell me whether her party believes that spirits, including vodka, and wine should be taxed more because it sees them as problem drinks? I am listening to her comments, but I wonder what she is proposing instead.

**Kerry McCarthy:** I do not think wine is particularly seen as a problem drink. The issue is more with high-strength lagers, and perhaps high-strength ciders and

spirits. Most people who consume wine do so fairly responsibly, although that is an issue for our health team, which is looking at it from the public health point of view. That is a difficulty, and the Treasury team should not come up with solutions without working closely with the health team. We are obviously looking at the matter in terms of the overall picture of whether alcohol duties are just revenue-raising measures, in which case they would take us down one path, or whether they can control behaviour. We are looking at all the issues in the round.

**Paul Blomfield (Sheffield Central) (Lab):** Is not the critical issue the fact that the Government seem not to have considered all aspects of the matter in the way described by my hon. Friend, but have concentrated on high-strength beers? They seem to have treated the issue randomly, whereas a wider range of issues is involved, particularly in relation to young people and their consumption of spirits. That seems to have been ignored.

**Justine Greening:** So you do want to tax spirits.

**Kerry McCarthy:** It is not very constructive in a debate such as this if every time someone raises a point and suggests that there is an issue to be looked at concerning higher taxes on one form of alcohol consumption rather than another, it is immediately interpreted as everyone calling for higher taxes on that. That is a knee-jerk reaction, and it is only right, as my hon. Friend the Member for Sheffield Central said, that we look at those issues in the round.

My concluding point was going to be that it seems slightly strange that beer is being looked at in the Budget with a differential duty on low-strength and high-strength beer. I would appreciate an explanation from the Minister of why the beer market is being looked at particularly. Is it because it has been identified as a particular problem area, or is it nothing to do with binge drinking and excess alcohol consumption?

**Stella Creasy (Walthamstow) (Lab/Co-op):** Does my hon. Friend the shadow Minister agree that the meaning of "problem" in the context of the Bill needs further explanation? As we have discussed, some different drinking behaviours are not good for health reasons, but there are also problems with antisocial behaviour. The two are not necessarily the same, but the Bill does not clearly identify what "problem drinking" is or the problem that the Government are trying to target with this rise. Clarification might be useful.

**Kerry McCarthy:** I thank my hon. Friend for that intervention. The matter is obviously Treasury-led, and goes back to whether it is about revenue raising, and whether it will be revenue neutral when the lower rate on lower-strength beers is introduced and offset against the higher rate of duty on high-strength beers, or whether it is intended to have an impact on behaviour. I would be interested to know what other measures the Minister has considered, and what representations she has received about higher duties on other forms of alcohol, and why they were not included in the Budget. There may be a good reason for rejecting them. I have had meetings, as I am sure has she, with people from all the various

[Kerry McCarthy]

industry groups: cider makers, wine producers, the Scotch Whisky Association, spirits manufacturers and the British Beer and Pub Association. There are valid points to be made for keeping duty at a lower rate to support those industries, and particularly pubs in this country, as many are closing down or struggling to make a living. What is the background to the introduction of these measures and not others?

10.45 am

**Ian Mearns:** On the proposals, the British Beer and Pub Association was critical of the decision to introduce a higher rate on beer only. Alcohol Concern welcomed them, but thought they would have a small impact on alcohol-related health problems. I must admit that I am struggling to see where the thrust of the Government policy is. Can we tease that out from the Minister later?

**Kerry McCarthy:** That is entirely right. On the one hand, the industry producing premium beers is concerned that the measures would have a negative impact on it. On the other hand, people concerned about binge drinking and the consumption of high-strength beers say that they will not have an impact on behaviour, so why is the high-strength beer market being singled out?

I have come to the end of my comments on clause 15 and schedule 1, but I would be keen to hear from the Minister exactly what the rationale is for introducing the measures.

**Justine Greening:** It is a pleasure, Mr Hood, to serve under your chairmanship for the first time on this Committee. Clause 15 and schedule 1 introduce a new duty on beers over 7.5% ABV in strength. I will answer some of the questions asked by the Committee. They are important.

Broadly, this Government's approach has been to consider whether we can take a more targeted approach than in the past to tackling aspects of problem drinking. Committee members will be aware that during the last two years of the last Government, duties were raised across the board. That might have been the last Government's approach to tackling drink: raising duties on everything by 26% in just over two years. On top of that rise in alcohol duty, introduced during the comparatively short period of just over two years, we are debating further duty rises planned by the last Government, including the escalator that they introduced to raise beer duty and duties across alcohol above inflation over the course of this Parliament.

With those figures as part of our public finances, it is extremely difficult for this Government to deviate from the proposals introduced by the last Government; nevertheless, we wanted to see whether we could take a more targeted approach to tackling problem drinking.

**Paul Blomfield:** Will the Minister give way?

**Justine Greening:** I will just make a bit more progress. As many Members have said, the impact on pubs in recent years has been substantial. We want to ensure that we strike a better balance by not penalising the overwhelming majority of drinkers, who are ultimately

responsible and drink without any problem in many of the pubs that we know and love, while—as part of a broader package of measures, and working with the Home Office and the Department of Health—seeing whether the Treasury, using fiscal instruments, can also support those measures.

As we heard during a previous sitting, the Department of Health is considering the responsibility agenda, a piece of work done with stakeholders from the industry and health groups, to see how we can encourage more responsible drinking. I know that hon. Members will be aware that the Home Office has also introduced measures to ban below-cost sales in the off-trade that will be driven by duty-plus-VAT. That is a direct link to our Treasury approach.

The Treasury wanted to see what we could do to play our part in tackling the broader agenda of problem drinking. Together with clause 14, which introduced a reduced rate of duty for lower-strength beers, this new duty will encourage producers to make, and individuals to consume, lower-strength beers. Ultimately, it will help to reduce the harms associated with alcohol consumption.

The impact on homelessness was raised. Speaking of the proposals, Jeremy Swain, the chief executive of the homelessness charity Thames Reach, said:

“This will lead to improvements in the health of some of the most disadvantaged and socially excluded in society, including the homeless.”

We have tried to strike a balance between making sure that the industry and the niche beers made by so many brewers, including small brewers, are left untouched, while setting the rate at a level that gives us a chance to target some of the super-strength lagers that people have talked about.

**Kerry McCarthy:** The Minister just said that the premium beers—the high-strength beers—would be left untouched, but they will not be, given the introduction of the higher rate for the high-strength beers. There is a difference between the high-strength lagers and the premium beer market. I appreciate that it would be quite difficult to distinguish between them in terms of imposing different duties, but the Minister is wrong to say that the premium beer market is being left untouched, because it will obviously be affected by the higher rate.

**Justine Greening:** It will in fact be minimally affected. We were very clear in making sure that we set the rate at the right level; nevertheless, it must be at a level where the problem of super-strength lagers is tackled. We cannot have it all ways: we cannot say on the one hand that the Treasury should set a rate that does not touch much of the market and make much of a difference, but on the other hand that we should ensure that none of the niche beer market is tackled. We have made sure that we have struck a sensible balance.

**Karen Bradley (Staffordshire Moorlands) (Con):** It is a pleasure to serve under your chairmanship, Mr Hood. On that point, can the Minister give some comfort to my constituent, Mr Geoff Turner, who runs the Den Engel Belgian beer bar in Leek? He has contacted me to say that higher-strength and premium beer is drunk very responsibly in his bar, and he would like reassurance that the Government are not attacking that market.

**Justine Greening:** We are not. The point is that the measure is designed to make sure that the overwhelming majority of people, who drink responsibly, do not face the enormous beer duty rises that they faced under the previous Government. The intervention from my hon. Friend points to the impact that tax clearly has on business, and we are introducing a whole range of things to support business across the board, including the corporation tax reductions we debated last week.

On getting the starting level for the high-strength duty right, I should point out that we looked at the issues in the round. Over last summer, we held an informal consultation and workshops that were attended by industry, health and homelessness groups. In fact, about 70 bodies made written submissions providing evidence to the Treasury.

**Stella Creasy:** Can the Minister therefore confirm that the problem drinking that the measure is designed to deal with relates to homelessness? If that is the case, does she have plans to extend the thinking behind it to deal with other areas of problem drinking that we might identify, such as under-age drinking or heavy binge drinking of wine by middle-class people on a Saturday evening?

**Justine Greening:** We had this debate last week. There are different segments of problem drinkers. In having a thoughtful plan genuinely to tackle each segment, we will have a different weight of policy measures at the Home Office and the Treasury, or around health and possibly education, depending on which category of problem drinkers we are talking about. However, there is no doubt that the homelessness charities that were involved with this measure, such as Thames Reach, felt that it would help them to get some of the people they work with off the streets.

We would be wrong to say that the measure will tackle all problem drinking—I do not think any measure can. As members of the Committee have said, we will always have a package of measures that are thoughtful. We want to make sure that we reflect the views of the workshops that were held last summer. A common theme, especially among people who were concerned about health and homelessness, was the consumption of high-strength beers. Such beers, often as strong as 9% or 10% ABV, represent cheap sources of alcohol. They are often not consumed responsibly and contribute to long-term health problems. In fact, a single can contains 4.5 units, which is more than the chief medical officer's recommended daily level of alcohol consumption.

I made a statement to the House on 30 November last year outlining the Government's intention to address our justifiable concerns. From 1 October 2011, the new duty will be applied at a rate of 25% of standard beer duty, which will add 25p to the price of a can of 9% ABV super-strength lager. That is a 16% increase based upon current prices. Some members of the Committee implied that that is an attack, as it were, on beer. I do not think it is. It is a measured approach to tackling problem drinking. We have already taken action in relation to cider. The hon. Member for Bristol East talked about super-strength lagers and ciders, and she will be aware that we have already made changes to the definition of cider, so that cheap, strong ciders similarly pay more tax. This measure very much aligns with that.

**Bridget Phillipson** (Houghton and Sunderland South) (Lab): I appreciate the difficult nature of taxation when it comes to alcohol and the effect on behaviour. The Minister commented earlier on roofless men who consume high-strength beers. Perhaps it is particularly men who fall into that category. Has any assessment been made of women's drinking and whether it is different? When we talk about problem drinking in the case of women, for example, are we talking about wine? My previous professional experience inclines me to think that problems sometimes begin with wine, which can often be bought cheaply—two bottles for £5. The issue is not always apparent, but it can cause serious long-term health problems.

**Justine Greening:** This is a helpful discussion about the breadth of the challenge in tackling problem drinking in our country. The whole point of the Department of Health's carrying out its responsibility to deal with the industry and health groups is to look at a broader sweep of policies and approaches that we could take with the industry to try to tackle such problems.

The changes will not unfairly impact on responsible drinkers. The vast majority of beers are between 3.5% and 5% ABV in strength. This duty will impact on less than 1% of the beer market—so that will reassure the shadow Minister, who talked about niche beers—and more than three quarters of the beers affected are the so-called super-strength lagers. We can see that such a measure will have a disproportionate impact on tackling problem drinking, because the change in taxation will make it less attractive for producers to make such strong products. Some may choose to reduce the strength of their products or even choose to withdraw from this part of the market.

Increases in prices will also make the products less affordable for consumers. Health and homelessness groups continually argue that affordability is one of the key drivers of demand for alcohol, particularly for those drinking at harmful levels.

**Pamela Nash** (Airdrie and Shotts) (Lab): The high-strength beers that we are talking about, and the high-strength ciders that the Minister referred to earlier, are often consumed by chronic alcoholics. The cost may have some impact, but it might not be that considerable. Has any research been done by the Treasury on that? My fear is that an individual who cannot afford to drink those drinks anymore will not be deterred from drinking at all, but might want to drink something a tad more dangerous than high-strength beers and cider.

11 am

**Justine Greening:** Clearly, price does impact on demand. One of the important features of the workshop was to reach out beyond the Treasury to ask charities, such as Thames Reach, that are involved with such people what they think would make a difference. Thames Reach is telling us that it thinks the proposed approach will make a difference. Its chief executive has said:

"This will lead to improvements in the health of some of the most disadvantaged and socially excluded in society, including the homeless."

We can debate the matter in this room, but it is important that we talk to charities, such as Thames Reach, which work with such people daily, to see what they think. We have responded to their views and the

[*Justine Greening*]

views of the industry. We have also taken care to ensure that we set the new high-strength beer duty rate at a sensible level that strikes a balance between tackling problem drinking and leaving the overwhelming majority of beers and responsible drinkers unaffected.

**Nic Dakin** (Scunthorpe) (Lab): It is a pleasure to serve under your chairmanship, Mr Hood. I accept that the intention of the measure is to improve health and tackle health problems. Will any monitoring be done to determine whether that is indeed the effect? If so, when will we have feedback and the evaluation from it?

**Justine Greening:** That is a fair question to raise. I made the point in the previous sitting that, in introducing a low-strength and high-strength beer duty, we are doing something that many countries are thinking about doing but have not yet done. It will be interesting to see the evidence base that builds up. From speaking to producers, it seemed clear that they might respond to these duty rates, which was one of the reasons why there was no point introducing the measure instantly; instead, we could bring it in in October and give producers the chance to start reformulating. Some of the super-strength lagers may be reformulated at a lower strength to avoid the beer duty. That will be of some benefit to efforts to reduce problem drinking.

I have taken a number of interventions, so perhaps I can now finish my comments. Taken as a whole and alongside the previous clause on low-strength beer duty, the clause will introduce measures that drive real changes in behaviour and will reduce the amount of alcohol consumed by individuals who are already drinking well over recommended amounts—at a level of harmful drinking where any additional consumption increases health risk. The new tax will have a direct impact on reducing health harms.

**Kerry McCarthy:** The Minister seems to be emphasising that the measure is about having an impact on behaviour rather than raising revenue for the Treasury. Will the measure be revenue-neutral in terms of the lower and higher rate offsetting each other, or is it also seen as a revenue-raising provision?

**Justine Greening:** Clauses 14 and 15 broadly even out as revenue-neutral. That is one of the points I wanted to make as I wrapped up. The new duty will raise a small amount of tax revenue for the Treasury. That will be used and is being used to fund the reduced rate of duty for lower-strength beers.

In conclusion, the clause introduces a new additional tax on high-strength beers. It is targeted at super-strength lagers that are consumed in a dangerous fashion and will help to address the harms associated with problem drinking.

*Question put and agreed to.*

*Clause 15 accordingly ordered to stand part of the Bill.  
Schedule 1 ordered to stand part of the Bill.*

#### Clause 16

##### RATES OF TOBACCO PRODUCTS DUTY

*Question proposed,* That the clause stand part of the Bill.

**Kerry McCarthy:** The clause increases tobacco duties by 2% above inflation and rebalances cigarette duty. Obviously, tobacco duty is an important source of revenue for the Exchequer. In 2009-10, it raised some £9 billion in taxation—2% of all taxation—which was similar to that raised by alcohol duties. The Government have rebalanced cigarette duty towards the specific duty and away from the proportional or ad valorem duty, as permitted by last year's European directive on tobacco duty. The cigarette industry estimates that the specific duty now accounts for 63% of the weighted average price of a packet of cigarettes. That means that the increase in duty on a packet of 20 economy cigarettes is around 50p, while the increase on a packet of premium cigarettes is around 33p.

In the tax information and impact note for this change, the Government state that their objectives are “to maintain high tobacco duty rates to support health objectives...and to ensure that tobacco duties continue to contribute to fiscal consolidation.”

In some ways, this echoes the debate that we have already had on alcohol duties. Taxes on alcohol and tobacco are partly to do with changing behaviour and partly to do with revenue-raising. The aim is probably clearer-cut in this particular instance. With alcohol, there are plenty of people who drink responsibly and enjoy a drink. It is a niche market, which is important and which we should be encouraging. Most people would accept that the equivalent is not true of the tobacco industry and smoking. We want to discourage smoking across the board and we do not accept the concept of responsible smoking.

**Alec Shelbrooke** (Elmet and Rothwell) (Con): Let me add to the hon. Lady's point. Both tobacco and alcohol are exceptionally addictive drugs, especially in the long run. There is, however, a difference between the two. Smoking does not affect a person's everyday life and their ability to drive a car or operate heavy machinery. As someone who has given up smoking and who finds every day a struggle, I can say that it is an exceptionally addictive drug. However, it never stopped me from carrying out my day-to-day activities. If I was drinking 10 pints a day, it would.

**Kerry McCarthy:** The hon. Gentleman makes a valid point. However, I know some people who smoke only socially; it is something that they do when they go to the pub. However, they may do that less now because they have to go outside to have a cigarette. None the less, smoking is linked to certain habits, so they may crave a cigarette far more when they have a pint in their hand than when they are working during the day. For others, smoking is something they do habitually throughout the day. Even when people smoke only a few a day or when they go out, it is still harmful and may have a longer-term impact on their health. The same may not be true if someone has a few pints once a week. However, the stories vary. If we read the *Daily Mail*, one day we will be told that red wine every now and then is really good for our health, but another day it will say that red wine causes cancer and that we should stay away from it. If we followed all of its advice we would be very muddled indeed.

**Bill Esterson** (Sefton Central) (Lab): My hon. Friend makes an important point about the difference between smoking and drinking alcohol. However, there are issues

around drinking alcohol for some groups. I refer in particular to pregnant women. I am interested to hear whether she agrees with me on that point and whether we should address that point in our debate now.

**Kerry McCarthy:** I do not want to test Mr Hood's patience by straying back to the alcohol debate. Certainly, both smoking and drinking are health risks for pregnant women and should be discouraged.

**Ian Mearns:** Every time there is a large football match and Wembley stadium is full of 80,000 or 90,000 people, I think of how that is roughly the number of people who die prematurely every year from the effects of smoking. I may be a bit of a prude about smoking, but I believe it cannot be taxed enough. At the same time, we must do more to tackle the issue of contraband and illegally imported or manufactured cigarettes. That is an important issue in communities such as my constituency of Gateshead.

**Kerry McCarthy:** I thank my hon. Friend for that intervention. I was coming to the tobacco industry and the issue of revenue-raising, rather than the public health debate. The Government are protecting revenue from tobacco duty, which continues in the direction of travel taken by the previous Government. The tobacco industry believes that raising the price of cheaper cigarettes, rather than more expensive ones, will encourage fewer smokers to cross into the non-UK duty-paid sector.

Of the £9 billion raised in tobacco duty, over £8 billion comes from cigarettes, so it is an important revenue source. Last year, however, about 16% of cigarettes consumed in the UK came from the so-called non-UK duty-paid sector, comprising 11% from illegally imported or manufactured cigarettes, and 5% from legal cross-border shopping. Given that, why have the Government chosen this specific level for the rebalancing of cigarette duty? The previous Government intended to make the specific duty the primary means of taxing cigarettes. With this change, the specific duty will account for 63% of the tax burden of the average cigarette packet. The Government could have gone further, as the latest EU directive would allow that tax to reach 76.5%, but they appear to have taken a more cautious approach. Do the Government intend to go further and work towards achieving the 76.5% allowed by the EU directive, or do they intend to stick with the 63% introduced by the legislation? It is not clear in the Budget whether there will be a gradual rebalancing in the future. Could that be on the cards?

**Alec Shelbrooke:** I want to draw on the comments made by the hon. Member for Gateshead. Raising tobacco duty has obvious health benefits but could lead to a further increase in smuggling and contraband tobacco. We must find a balance between raising duty and creating a black market.

**Kerry McCarthy:** That is a valid point. Most people accept that smoking should be discouraged, but simply saying that we should not use taxation on cigarettes to deter people from smoking because they will go to the black market is the wrong path to take. Measures to increase duty on tobacco should go hand in hand with those that crack down on the illegal market, which may require investment in staff to be properly enforced.

The Government have

“committed to providing clarity and certainty on the future direction of tax policy”.

That is supposed to underpin their approach to tax policy, but the issue of rebalancing in future Budgets is not clear. Will the Minister clarify why the clause on tobacco duty was not included in the draft Finance Bill earlier this year? Do the Government have a set of principles that guides when they publish clauses in draft form and when they choose not to? The Exchequer Secretary to the Treasury said in the Government's consultation response last year that he wanted consultation and scrutiny of draft legislation to be the “cornerstones” of the Government's approach to tax policy.

Building on the point made by the hon. Member for Elmet and Rothwell, what assessment has been made of any increase in consumption of non-UK duty-paid tobacco as a result of the rises? The measure affects some other tobacco products more than cigarettes. For example, Her Majesty's Revenue and Customs estimates that between 55% and 61% of hand-rolling tobacco consumption in the UK is non-UK duty-paid. Cigarette smuggling costs the Exchequer £1.4 billion a year; hand-rolling tobacco smuggling is not too far behind, costing £0.8 billion a year.

11.15 am

I recall debating a statutory instrument recently with the Minister. We were discussing the grading of the size of hand-rolling tobacco and whether it fell into a particular taxation category. It is a complicated area. We debated people avoiding taxation by creating extra long cigarettes and then chopping them up. I appreciate that the Government are trying to tackle a difficult issue.

Data from HMRC have shown that as cigarette duty has risen over the years and consumption has fallen, since around 1999, many smokers have shifted from cigarettes to hand-rolling tobacco. That might mean that many smokers are avoiding or evading tax and it may account for the significant cost to the Exchequer of hand-rolling tobacco smuggling. Last month, the Government produced a strategy for combating tobacco tax smuggling, which used some of the £917 million allocated to HMRC over the spending review period to tackle tax evasion and fraud. Over the same period, however, there will be cuts of around £2 billion to HMRC's budget. HMRC staff unions have estimated that the reduction in resources might mean a loss of some 10,000 staff over the spending review period.

**Alison McGovern** (Wirral South) (Lab): It is a pleasure to serve under your chairmanship, Mr Hood. I thank my hon. Friend for giving way. Currently, we are losing staff from the civil service, especially in HMRC. Does she agree that the manner of that and speed with which it is happening is disturbing, and that by using voluntary redundancy we risk losing some of our most experienced and knowledgeable staff?

**Kerry McCarthy:** I agree. The matter comes down to one issue, which is perhaps slightly out of the scope of our current discussion. The short-sighted view is that the Government can cut costs by laying off HMRC staff. However, compelling representations have been made to me by people who work at HMRC. They argue

[*Kerry McCarthy*]

that they bring revenue into the Treasury—that they are money makers, because they tackle tax avoidance. If staff are not there to crack down on tax avoidance, we may save on the short-term costs of employing tax inspectors and staff who chase people who are trying to avoid duties, but there will be a medium to long-term cost to the Exchequer of doing that.

**Ian Mearns:** We have carried out some interesting work in my area on tackling contraband and smuggled tobacco. There have been raids on what are known locally and colloquially as tab houses, where sometimes stolen, sometimes smuggled, sometimes contraband tobacco is sold out of people's houses. Much of that work had to be co-ordinated by HMRC, without which it would not have been as successful as it has been in our locality. It is vital that such work continues to tackle that real scourge of local communities in places such as Gateshead.

**Kerry McCarthy:** My hon. Friend the Member for Gateshead is right. Occasionally, high profile cases are reported of HMRC's success in cracking down on tab houses. I must admit I have not heard that phrase before—it must be a northern thing, or a north-eastern thing in particular. I am not sure what the equivalent colloquial term is in Bristol, if such a term exists.

The problem is similar in some ways to the battle against illegal drugs. Every now and then police have a successful raid on, say, a cannabis farm or a crack den, but to some extent that is the tip of the iceberg and the police do not have the resources to combat the huge underlying problem. It is similar to the evasion of duties. The Chartered Institute of Taxation, in evidence to the Treasury Committee, recently said,

“taxpayers have a growing perception that HMRC do not have adequate resources to tackle evasion”.

Has there been any assessment of HMRC's overall ability to tackle tax evasion and fraud, including on cigarettes and tobacco products, given that it faces a net reduction in resources over the spending review period?

**Bill Esterson:** HMRC in Sefton employs a large number of my constituents, some of whom work on this issue. My hon. Friend made the point about the reduction in resources and HMRC's ability to carry out its duties and pursue evasion, but it is important that we also recognise the wider impact on the local community and the loss of revenue from the inability to support the local economy. They are related points.

**Kerry McCarthy:** Whenever the Government cut public sector jobs, the impact is obviously much wider than just to the people who lose their jobs; it also impacts on jobs in the supply chain and on the wider economy in terms of money spent in shops. Although I have great sympathy for people in my hon. Friend's constituency who feel that their jobs are under threat, my main issues with the clause are, does it affect the Government's ability to enforce tobacco duties and is it short-termist in its effect on future revenue streams?

One concern is about discouraging illegal behaviour by ensuring that those who indulge in such behaviour have a genuine fear of being caught, because if people

think they can do something with impunity, they are very likely to carry on doing it. In addition, there is a correlation between the number of staff employed to look at tax evasion and crack down on those flouting the duties and the Government's revenue stream. I am interested to hear what projections the Minister has done on protecting the revenue that will come from these duties.

Finally, the strategy published last month also announces that this autumn the Government will reduce the indicative levels for personal imports of tobacco products to 800 cigarettes and 1 kg of hand-rolling tobacco, which were the limits before October 2002. The current indicative limits are 3,200 cigarettes and 3 kg of hand-rolling tobacco. What measures are in place to enforce the new limits? The Minister will recall that the policy was previously deemed unworkable, which was largely due to opposition from smokers in the UK who wanted to shop for cigarettes cross-border, as is their right under European law. I recently dealt with a couple of cases in my constituency of people who were upset and offended that customs apprehended them under suspicion of buying cigarettes to sell on the black market when they had taken advantage of an annual or bi-annual trip across the channel to stock up on such products.

**Bridget Phillipson:** That point brings us back to enforcement, which we discussed in terms of HMRC. Given the budget losses and cuts to front-line staff faced by the UK Border Agency and others who patrol airports, I am unsure how enforceable some of the proposals will be.

**Kerry McCarthy:** That is a valid point, in that if the law is to be tightened up by reducing the levels of personal imports, how will it be enforced? Will there be enforcement issues at the border?

The reason why the indicative levels for personal imports were increased was not just due to opposition from smokers in the UK, but to a High Court ruling on seizures by HM Customs and Excise. The then Economic Secretary to the Treasury, my right hon. Friend the Member for Wentworth and Dearne (John Healey), raised the indicative limit to 3,200 cigarettes and 3 kg of hand-rolling tobacco in October 2002. The European Commissioner responsible at that time also reminded the UK that cross-border shopping is a fundamental right under EU law and should not be regarded as a form of tax evasion, even if it gives rise to revenue losses for the UK Exchequer.

The Minister is now re-attempting the policy, this time in the context of the above-inflation rises in tobacco duty set out in the clause. While we on the Opposition Benches do not oppose those rises, will the Minister explain what new measures she is taking to enforce the new limits? What opposition does she expect from smokers who wish to continue to exercise their right under European law to buy tobacco for personal use? What steps has she taken to ensure that the new policy of reducing the limit for personal imports will not result in legal action at UK or European level?

**Justine Greening:** I will do my best to cover the issues raised by the Committee today. Clause 16 makes changes to ensure that tobacco duty contributes to wider efforts to tackle the deficit and support the Government's

health objectives. It reduces the affordability of smoking by targeting the duty increase on cheaper tobacco products, as we have heard. It also helps to tackle down-trading from more expensive to cheaper tobacco products.

As we have heard other hon. Members point out, smoking kills half of all long-term users, and is the single biggest cause of inequalities in death rates between the rich and poor in the UK. It is a dramatic driver of health inequalities. Treating smoking-related illnesses has been estimated to cost the NHS £2.7 billion a year. Action on Smoking and Health has said that it recognises that the duty changes that we are introducing this year “should help more smokers to quit”.

Maintaining high levels of tobacco duty, alongside continuing action to clamp down on tobacco smuggling—I will come on to that in more detail—is a key part of the Government’s strategy to reduce smoking prevalence.

**Stephen Williams** (Bristol West) (LD): As the chair of the all-party group on smoking and health—which works across the House; the hon. Member for Gateshead is an active member of the group—I welcome what the Government are doing. It is important that taxation measures are seen in the context of an overall Government strategy. We have just seen the publication of the Government’s tobacco control strategy, which confirms the prohibition of display of cigarettes in shops from next year for large shops and 2015 for smaller shops, and consultation on plain packaging too. There are many things that we can do, in the taxation of cigarettes, to drive down consumption, but they have to be seen as a joined-up strategy for controlling tobacco use.

**Justine Greening:** My hon. Friend is absolutely right. We have tried to work across Government to have a more joined-up strategy. As we have heard—for example, in the point made by the hon. Member for Gateshead—taxation has an important role to play. The clause increases the duty paid on all tobacco products by 2% above the RPI, as pre-announced in the March Budget of 2010. It also restructures the duty on cigarettes. Ad valorem duty on cigarettes decreases to 16.5%, and specific duty increases by 25% above inflation. Targeting the duty increase on cheaper cigarettes, the clause adds 50p to a packet of 20 economy cigarettes and 33p to a packet of 20 premium cigarettes. As a result, the duty differential between premium and economy cigarettes is decreased by 14p, which should help combat down-trading.

Finally, the clause also increases the duty on hand-rolling tobacco by an initial 10% beyond the pre-announced increase. That increases the price of a 25 gram packet of hand-rolling tobacco by 67p, and reduces the duty differential between hand-rolling tobacco and economy cigarettes from 50% to 47% per gram of tobacco. The clause will raise an additional £355 million in the next five years, contributing to fiscal consolidation.

Research has consistently shown that the price of tobacco products affects demand. By increasing the duty on tobacco, particularly on cheaper tobacco products, the affordability of smoking is reduced. The proposed duty increases can therefore be expected to decrease smoking prevalence, with positive health impacts. As I said, that will see a further reduction in health inequalities.

As we have heard, the changes being made by the clause have also been made possible by a revision of EU directive 95/59/EC, which came into force on 1 January

2011. The directive now allows for the specific duty element to make up to 76.5% of the total taxation on cigarettes, revised up from 55%. The clause will raise the UK-specific component from approximately 50% to 60% of total taxation.

11.30 am

The shadow Minister asked why the Government had not gone for the absolute top rate. In consultation with the industry and other stakeholders, and in looking to combat illicit trading, we felt that this was broadly the right balance to be struck.

**Kerry McCarthy:** I thank the Minister for her response. She mentioned consultation with the industry. The issues at stake here are quite different from those connected with the alcohol industry. That takes us back to the concept of people enjoying drinking but doing so responsibly, and everyone wanting to protect our pubs, breweries and industries such as the Scotch whisky industry. With smoking, however, it is not so much a question of wanting to protect the profits of tobacco manufacturers. Do discussions with the tobacco companies hinge on the balance between legal and illegal tobacco sales, or has the Minister been involved in discussions with the industry that are more about protecting jobs and livelihoods?

**Justine Greening:** There are a couple of points to make in answer to that intervention. First, we should remember that tobacco and cigarette production takes place in the UK, including in Northern Ireland; that, of course, provides employment.

The other aspect that has become more important in recent years is the change in the illicit market. I shall say what we are doing about that in a moment. Rather than there being a dominance of bootlegging, the market has shifted in recent years with an increase in counterfeit and so-called cheap whites—cheap non-duty paid cigarettes manufactured in far-away countries such as China. That is big business. The tobacco companies are as keen as we are to ensure that we strike the right balance. They do not want to see duty rates rise, but they obviously want it done in a way that gives us a good chance of tackling the illicit market.

**Ian Mearns:** I am listening intently to the Minister, as I am interested in the subject. Is there not evidence that tobacco and cigarettes manufactured here are being exported to other European countries and deliberately re-imported in order to escape duty? We are having discussions with the Tobacco Manufacturers’ Association and representative companies who are engaged in this illegal trade.

**Justine Greening:** Those concerns have been put to us by health groups concerned about tackling smoking. We want to tackle illicit trading of all kinds in this arena, and we obviously work with the industry on that.

I direct the Committee’s attention to the recent publication by HMRC and the UK Border Agency called “Tackling tobacco smuggling—building on our success.” I recommend it; it is an unusually good read for a Government document. Having worked on its development, I know that it is about the right length and that it contains an awful lot of useful information on what we are doing but does not waffle too much.

**Neil Parish** (Tiverton and Honiton) (Con): It is not necessarily illegal for tobacco companies to sell tobacco abroad. One problem is low taxation on tobacco in many member states. The companies sell it legally to those member states, and people buy it abroad and bring it back here. We need to get Europe to up its tobacco taxes, so that we do not have so much smuggling.

**Justine Greening:** My hon. Friend makes an interesting point. The changes in the directive that we have seen have already led to some countries making changes to their structure of tobacco taxation that are similar to those we are making in the Committee today. We recognise that we face a constant challenge in tackling illicit trading and that is precisely why we have just published a renewed strategy, to build on the successes that have already been achieved in tackling tobacco fraud. I hope that I can reassure the Committee that we are putting more money into this sector. There will be more fiscal crime liaison officers and there will be 100 extra enforcement posts from April to enable HMRC, in conjunction with the UK Border Agency, to apply a harder-hitting range of sanctions.

I want to go into a little detail about some of the steps that we are taking, because they are important. It is also important for this Committee to send out a very clear message that at both Government level and local level we will not tolerate illicit tobacco smuggling. The hon. Member for Sefton Central talked about his local community and he is absolutely right that the overwhelming majority of law-abiding shopkeepers are on the receiving end of tobacco smuggling and are losing out as a result of illicit trading. That is one of the reasons why it is so important for local economies that we take steps to tackle tobacco smuggling.

Broadly, our strategy is to expand HMRC's reach overseas through its fiscal crime liaison network. As I have said, increasingly we face the challenge of these cheap white goods that are mass-manufactured in countries far away from the UK. We are increasing the number of officers that we have overseas working with other tax authorities to develop our national intelligence, so that we can stop smuggling at source more effectively. As the members of the Committee can imagine, it is far more effective for us to intercept an entire shipment before it leaves a country than to try and track the increasingly smaller components of that shipment as it gets broken up and is gradually fed into our illicit smuggling market. That is a key part of our strategy.

We are increasing capability, as I have said, and we are increasing capability and capacity within the intelligence and criminal investigation functions. That work will go alongside a much harder-hitting set of enforcement actions and sanctions against offenders. Those measures will include: seizure of goods; seizure of vehicles, vessels and possible non-restoration; criminal prosecution, with a custodial sentence of up to seven years; confiscation of assets as part of the proceeds of crime work; assessment for the loss of duty that must be paid and, on top of that, financial wrongdoing penalties of up to 100% of the duty that is due; civil action, including winding-up orders and bankruptcy fines of up to £5,000 for selling illicit tobacco that does not bear the "UK Duty Paid" fiscal markings; and for those people selling the illicit tobacco there will of course be prohibition on the sale of tobacco products for up to six months, with travel

restrictions imposed on repeat tobacco smugglers. So we are absolutely focused on ensuring that we tackle illicit trading.

The final question was about minimum indicative limits. The use of those limits is one of the changes that we have made and it is an important change. Just to provide some reassurance for the Committee, the MILs that we have introduced now align with effectively every other European country. It was the previous limits that were completely out of whack and it seemed sensible to bring our limits into line with those of other European countries. That change will help border officials to identify cases where there is a risk of smuggling and therefore to reduce the revenue loss, particularly at this time of reduced finances. People using tobacco products for their own personal use will be unaffected. So this change will hopefully enable us to identify more effectively cases where there is a risk of smuggling while allowing people to continue bringing back tobacco products for their own personal consumption, as the hon. Member for Bristol East pointed out.

**Kerry McCarthy:** The Minister has said that people importing tobacco products for their own personal use will be unaffected. However, obviously, if they have up to now been importing them up to the current levels, they will be affected because the limits are being reduced. The amount that can be brought into the country will therefore have an impact on those people. Although I do not necessarily oppose the reduction, what steps are being taken to publicise the measure, because we are talking about a regular event in some people's lives? Such people will make the trip abroad once or twice a year specifically with the aim of saving themselves money by stocking up on goods in the hypermarkets in Calais or wherever. What steps are being taken to tell them that they will have to alter their behaviour and bring in lower levels?

**Justine Greening:** I think the hon. Lady will find that one of the challenges in terms of tackling the prevalence of smoking is that many of the duty-free shops will make it very clear to customers just how much they are able to bring back without there being a risk that they will be accused of bringing back something that is not for personal use. The rules are not changing. People can bring back the amount that they want if it is for personal use. However, one of the dangers of having the minimum indicative limits at the previous level was that there was always a massive risk that they would be abused and that people would bring back huge amounts regularly and say it was for personal use. It was much harder for UK Border Agency officials to manage those risks. We are now striking a much better balance. People will continue to be able to bring tobacco products back for their personal use. We will be aligned with other European countries and I hope that strikes a sensible balance.

In conclusion, the clause will raise an additional £355 million over five years and will contribute to fiscal consolidation. It will further support the Government's health objectives by reducing the affordability of smoking and helping to tackle down-trading to cheaper tobacco products.

*Question put and agreed to.*

*Clause 16 accordingly ordered to stand part of the Bill.*

### Clause 17

#### RATES OF GAMING DUTY

*Question proposed,* That the clause stand part of the Bill.

**Kerry McCarthy:** I think we can deal with clause 17 fairly briefly. As with the previous clause on tobacco, the principal problem here is tax avoidance. Although we do not oppose the increases in gaming duty, has the Minister made any assessment of the impact of those rises on likely avoidance? One clear example of avoidance is online gaming companies moving offshore. It is right that all gambling companies that operate in the UK markets, including those based offshore, make a fair contribution that could, for example, go towards the cost of education programmes and treatment for problem gambling. It is also clearly important that revenues are protected.

The previous Government were consulting on making offshore gaming companies pay for a licence to market gambling products to the UK. Many online gaming companies operating in the UK are based offshore, which means that they are outside UK regulation and taxation. Currently, a remote gambling operator is required to hold a Gambling Commission licence only if it has certain key equipment located in the UK. The Department for Culture, Media and Sport said in 2010 that the majority of remote casinos accessed by British consumers are regulated overseas. Many online betting operators that were previously licensed in the UK have also moved overseas.

At the same time, the online gambling market is growing very quickly. Total global revenues increased from \$600 million in 1998 to \$16.6 billion just 10 years later in 2008. Therefore, in April 2009, the then Minister responsible for sport, my hon. Friend the Member for Bradford South (Mr Sutcliffe), working with the Gambling Commission, asked his Department to look into the system of remote gambling regulation in Britain. In particular, he asked them to consider the regulation of overseas operators and the mechanisms required to ensure that those companies made a fair contribution.

Following that, in January 2010, the then Minister announced plans for new licence requirements for overseas online gambling firms. Under the plans, all online gambling firms active in the British market would be obliged to comply with a number of social goals, including sharing information about suspicious betting patterns with the Gambling Commission and UK sports governing bodies, and in relation to the protection of children and vulnerable people. They would also be required to contribute to the research, education and treatment of problem gambling in Britain. The Department for Culture, Media and Sport was also of the opinion that, following those rulings, the introduction of national licensing systems would be permissible under European law. Other European countries were also moving towards national licensing systems.

The Department then launched a consultation on the policy in March 2010. The consultation did not explore the tax issue in detail, as that was a matter for the Treasury. However, the Department was clear that introducing the licensing system for overseas operators would help bring in revenue and that close liaison with

the Treasury was needed. The Minister said that it would mean that overseas firms contributed their fair share in tax towards all the social costs of gambling.

11.45 am

What has happened to that policy? It appears that the Government have either dropped or delayed it. The consultation ended in June 2010. Does the Minister consider it an important issue in terms of gambling taxation? What discussions has she had on the issue with the Department for Culture, Media and Sport? In the context of protecting and maximising revenues from gambling operators, what assessment has she made of the likelihood that further operators will move abroad, and what steps has she taken to protect the Exchequer?

**Justine Greening:** Clause 17 increases the thresholds for the gross gaming yield bands for gaming duty in line with the retail prices index. The change will take effect for accounting periods starting on or after 1 April 2011. The gaming duty rates remain unchanged.

As I am sure the Committee is aware, gaming duty is a banded tax, with marginal rates varying between 15% and 50%. Revalorising the duty bandings will prevent fiscal drag: that is, it will prevent businesses from being dragged into a higher tax band by inflation. An increase in the bands in line with inflation is already assumed in the public finances.

The hon. Member for Bristol East asked about remote, offshore and online gambling. She is right to point out that the industry has shifted significantly in recent years. She is also right to point out that under her Government and this one, DCMS has considered what that means for gambling regulation. I reassure her that I have met a Minister in DCMS to understand what those considerations are and the potential tax implications for any DCMS proposals as they develop. We are now discussing the implications with DCMS, and we are also holding informal discussions with the industry. I assure her that we are absolutely working with DCMS. It is a critical part of the regulatory system, and any tax measures would need to fit into it. That work continues apace. She will also be aware that DCMS is interested in considering problem gambling. The prevalence study came out earlier this year. I am sure that Ministers wanted some time to consider what that study—it is not annual; it happens every few years—said about problem and remote gambling.

With that reassurance, I commend the clause to the Committee.

*Question put and agreed to.*

*Clause 17 accordingly ordered to stand part of the Bill.*

### Clause 18

#### AMUSEMENT MACHINE LICENCE DUTY

*Question proposed,* That the clause stand part of the Bill.

**Kerry McCarthy:** Again, we can deal with the clause fairly briefly; I want to make just a few comments. Gaming machines are another important source of revenue for the Treasury. In 2009, approximately 190,000 machines in the UK were subject to amusement machine

[Kerry McCarthy]

licence duty, including machines not only in dedicated gambling establishments but in pubs, clubs and other venues. There has been a debate about the accessibility of such machines, particularly to younger people, who are theoretically prohibited from using them. If the machines are based in premises accessible to young people, it is difficult to police that.

The previous Government announced in 2009 that they would move to a gross profits tax for gaming machines to replace the current amusement machine licence duty. We began a consultation in 2009. The benefits of introducing a gross profits tax were as follows. Five of the seven gambling tax regimes—general betting duty, pools betting duty, gaming duty, remote gaming duty and bingo duty—are now charged on gross profits. Lottery duty is still charged on stakes. However, amusement machines face a more complex regime, as they are subject to amusement machine licence duty, a licence fee for each new gaming machine and VAT on net takings. Compared with the other regimes, it is relatively inconvenient to pay, and the category-based system is not able to deal with technological changes or changes to social regulations with the same flexibility. Currently, the Department for Culture, Media and Sport must regularly review them and machines can switch between categories. Machines making equal amounts of profits can also pay different levels of duty if they are in different categories. Under a flat-rate gross profit tax system, technological innovations and changes to social regulations may not require changes to the gaming machines tax law.

Rather than being based on takings, the licence fee represents a fixed overhead cost to machine operators, so it could be considered to be a barrier preventing some potential operators from entering the gaming machine market, which means that it would be acting in favour of the current operators. A gross profits tax would remove the fixed-cost element of the current regime.

From a tax revenue perspective, a gross profits tax could be easier and cheaper to administer than the current system, and could maximise revenues, which is important at the current time. Making the system simpler could also make it easier for companies to comply with the legislation, thus reducing tax evasion.

The new Government have delayed that change. In December 2010, they responded to the consultation and said that they would introduce legislation in the Finance Bill 2011. The name for the new tax would be the machine games duty, which would replace the amusement machine licence duty and VAT on machine games. The Government argued that a gross profits tax would

“improve the future predictability and sustainability of the tax regime by making it more resilient to technological progress, regulatory changes and to inflation.”

It would also bring gaming machines in line with other gambling duties and make the tax system fairer.

The Government have not done that. Budget 2011 now says that there will be a further consultation in May on the design of the tax, and then legislation in the 2012 Finance Bill. What is the reason for the delay? Given the urgent need to protect revenues now and to maximise revenues that will not impact families directly, such as gambling duties—as opposed to some of the

other revenue-raising measures, such as the increase in VAT to which the Government have resorted—why has the matter not been given higher priority?

It is important to have a period of adjustment for businesses, but the Government said originally that the change would be announced in this year’s Finance Bill in order for it to come into effect in 2012. If the change will not be introduced until Finance Bill 2012, does that mean that it will not come into effect until 2013?

The Government recognised that there would be winners and losers from the change, as is usually the case, but they decided in December to press ahead anyway, which was right, because the new system would be fairer. If the Minister has received representations from businesses that have caused her to delay the change, why were those views not represented in the consultation? Why did the Government decide in December that they were going to press ahead, before deciding in the run-up to the Budget not to go ahead with it and delay it for a year?

**Justine Greening:** Clause 18 increases amusement machine licence duty rates in line with inflation to ensure that the duties continue to make a fair contribution to overall gambling duty receipts. This change took effect from 4 pm on 25 March 2011. The background to the clause is that, as we have heard, the amusement machine licence duty taxes the duty of all gaming machines and is charged at different rates, based on machine type and the duration of the licence. The changes made by clause 18 are already assumed in the public finances. Increasing the rates of the amusement machine licence duty in line with inflation therefore ensures that the tax on gaming machines stays the same in real terms, and that machine operators continue to contribute their fair share of tax revenues.

The hon. Member for Bristol East mentioned the proposal to introduce a machine games duty. I welcome her recognition of many of the reasons why we as a Government also want to pursue it. I will not go into them in the same detail as she did, but we think that a machine games duty would improve the future predictability and sustainability of the tax regime and make it more resilient to technological progress, regulatory changes and inflation. She pointed out that a machine games duty would be significantly fairer than the system under the amusement machine licence duty, because the tax liability would be linked directly to machine profits.

The hon. Lady asked why we had put in place extra time before the change was introduced. After the consultation, we listened to the industry, and the extra time gives us longer to consult on the detail of the proposal. The proposal affects many different businesses—some very small and some much larger, some in parts of the country that we particularly want to support, such as seaside areas that have struggled over recent years—and it therefore seemed sensible, given the relatively short consultation, to implement any changes on a time scale that gave the industry time to adjust, and enabled the Treasury to work with the industry and ensure that we got the key decisions about the structure and working of the new tax right. We are about to launch another consultation on the next layer of detail of how machine games duty will work.

The hon. Lady is right that we have pushed back the date for the introduction of the new duty, but it will then hopefully work better with the industry and will

produce all the benefits—which the hon. Lady has set out—of moving to machine games duty, while mitigating some of the inevitable risks of a change in the duty structure.

*Question put and agreed to.*

*Clause 18 accordingly ordered to stand part of the Bill.*

### Clause 20

#### FUEL DUTIES: RATES OF DUTY AND REBATES FROM 1 JANUARY 2012

**Kerry McCarthy:** I beg to move amendment 9, in clause 20, page 13, line 19, at end add—

‘(8) Subsections (2)(a) and (d) of this section shall not come into force should the average retail price per litre of unleaded petrol and diesel for the month of December 2011 in the UK be higher than the price for the week of 21 March 2011.

(9) The price used in subsection (8) is to be as published by the Department for Energy and Climate Change.’

**The Chair:** With this it will be convenient to discuss clause stand part.

**Kerry McCarthy:** We had a detailed debate on fuel duty when we dealt with clause 19 in the Committee of the whole House. Amendment 9 considers the inflation-linked rise that was due to come into force at the beginning of the financial year but was delayed by the Budget until next year, because of the high fuel prices.

I am sure that everyone on the Committee will have received representations, not just from constituents who are concerned about the cost of filling up their car tanks at the petrol pump but from people concerned about the knock-on effects, on food prices for example, and the substantial impact on businesses, particularly those that need to transport goods around the country or compensate their employees for the cost of using their cars.

The Minister knows that this is a significant issue, and I appreciate that the Government are trying to strike a balance by having an impact on the cost of fuel to the motorist and to businesses. As we argued on the Floor of the House, the Government’s decision to increase the rate of VAT this year from 17.5% to 20% has had a significant impact on the cost of fuel at the pumps, and we regret that decision, but the amendment is about the other rise that is due to come in.

The amendment proposes an automatic mechanism that would ensure that if by January fuel prices had continued to rise, the planned fuel duty increase would be cancelled. If, as announced in the Budget, the reason for postponing the increase in fuel duty this year was the high price of fuel, and its impact on motorists and businesses, surely it is common sense to have similar postponement in January. Indeed, by then the price could be even higher because there is no sign of any significant price reduction in the coming year, especially when we take into account various geopolitical events. I accept that things have calmed down slightly in some parts of the middle east, although that cannot be said of the situation in Libya and in other countries.

**Justine Greening:** The motoring package that we introduced in the Budget was funded by £1.9 billion, but it was also funded by a tax rise on North sea oil. What the hon. Lady is proposing would obviously have a similarly large cost at more than £1 billion, and members of the Committee would be interested to know how it would be funded.

12 noon

**Kerry McCarthy:** The Minister’s question is slightly simplistic because the revenues raised from fuel are dependent on the price. If the fuel price rises significantly during the year, the revenue from VAT and duty will rise significantly, but those increases will not be proportionate because people may simply choose to use public transport or to cut fuel consumption. We have already debated the fact that there is no such clear correlation in terms of predicting revenues, and it is difficult to factor that in now.

**Nic Dakin:** Can my hon. Friend confirm that her proposal would protect businesses and individuals from the pressures of higher fuel duties? In a sense, it would deliver the promises made by the Chancellor and the Prime Minister prior to the election to stabilise fuel duties in the future.

**Kerry McCarthy:** Rather rashly, the Chancellor and the Prime Minister promised the fuel duty stabiliser before the election. The impression given was that it was a simple mechanism that would ensure that when the price of fuel went up, the duty would go down, and vice versa, so that people would generally pay the same amount for their petrol. Once they got into power, the Government dropped that proposal—[*Interruption.*] The proposed North sea oil supplementary charge is different from what was floated before the general election. In the current climate, when we do not know the impact of global affairs on oil prices, it is difficult to make such promises.

As for the cost of our proposal, we cannot predict oil prices or the revenues generated from a rise in fuel price. Perhaps fuel prices will rise so much that the revenue raised from VAT and fuel duties will offset some of that cost. Perhaps that will not happen because people will modify their behaviour. The proposal would have to be costed, and funded, but it is a bit difficult to do that now because we do not know the likely revenue streams. Perhaps the Minister has detailed projections and calculations as to how much she expects will be raised from VAT on fuel and from fuel duties in the coming year. It is difficult to predict. We appreciate that there is a cost attached, but the underlying point is that, at the time of the Budget, the Government thought that it was wrong to impose the annual increase in fuel duty—it was on the cards—and the Chancellor thought it should be postponed because of the impact on families, the average motorist, and those who need their car for essential journeys. A car is not just a luxury, although I accept that some people can easily alter their lifestyles and opt to use public transport, walk to more places or shop locally instead of going to a supermarket. Lots of other people rely absolutely on their car, and those members who represent rural areas that are poorly served by public transport know that is a particularly important consideration.

**Justine Greening:** I just want to check whether I have properly understood the hon. Lady's argument, because she seems to be mixing up two different things. The first is the impact of the oil price as it feeds through into pump prices. The Office for Budget Responsibility made an independent assessment of that and concluded that the effect was broadly neutral in terms of overall tax revenues. Her amendment, however, is designed to cancel the inflationary increase in duty, but surely that would feed through directly into public finances, whatever the oil price. Will she tell the Committee how she believes the measure should be funded?

**Kerry McCarthy:** Obviously, as I have said, the measure would need to be funded. If the inflation-linked increase is added to the retail price of petrol at the beginning of next year, that will bring revenue to the Treasury. We do not know what the revenue will be from the increases in VAT and fuel duty, and we do not know what fuel prices will be for the rest of the year. The measure would entail a cost to the Treasury, but that must be balanced against the basic principle—recognised by the Chancellor—that revenue raising, although important, should be offset against attempts to ameliorate problems encountered by businesses and motorists who find fuel an increasing cost.

**Tom Blenkinsop** (Middlesbrough South and East Cleveland) (Lab): The Minister rightly said that the production of oil and its consumption elsewhere affects prices at the pump in this country. The Government's policy on bioethanol is also forcing up the price at the pumps. The Ensus bioethanol plant near my constituency has recently been forced to close for four months due to Government dithering on other policies. The need for extra oil has increased because the bioethanol market is being undermined domestically.

**Kerry McCarthy:** I thank my hon. Friend for that intervention. At a later point we will discuss clauses on environmental taxation. The idea of shifting towards more environmentally friendly fuels is important, and we will come on to discuss that in more detail.

**Alec Shelbrooke:** We will have a pre-Budget statement in the autumn. Surely it is better to keep the flexibility for the Chancellor to judge situations as he gets to them, rather than having automatic legislation.

**Kerry McCarthy:** That is a fair point. The rise that was to be introduced this spring was postponed because petrol prices had reached a level that the Chancellor presumably thought was unacceptable and required action. We know that the measures introduced by the Chancellor were a last-minute response to growing public uproar about the rise in petrol prices. The North sea oil supplementary charge, which is the means of paying for some of those measures, was not discussed with industry. The impression given was that there would be stability and continuity in the treatment of industry, but the sudden increase in charges from 20% to 32% came out of the blue. That suggests it was a panic measure in response to certain newspapers, and to those consumers, customers and constituents who were lobbying their MPs and saying that petrol prices had reached an unaffordable level.

**Justine Greening:** I want to be clear about the position of the hon. Lady's party. We did not receive support for our cut in duty or for the North sea oil measure that funded it. Is she saying that her party was against the package introduced to support motorists, or was it in favour of it but not of the step needed to fund it? In the latter case, is that not another unfunded spending commitment?

**Kerry McCarthy:** The Minister misunderstands the purpose of the Committee, which is to question the Government on the measures they are bringing forward. Perhaps you take a more lenient view, Mr Hood.

**The Chair:** Order. Of all the things that have been said to me over the years, being lenient is not one of them.

**Kerry McCarthy:** I am sure that you regard it as an immense compliment, Mr Hood, that nobody has accused you of being lenient. None the less, we are not here today to discuss Labour party policy on this issue.

**Justine Greening:** We are. It is your amendment.

**The Chair:** Order. I have reminded the Committee that I am certainly not lenient. I invite the Minister not to get excited by the shadow Minister.

**Kerry McCarthy:** Thank you, Mr Hood. It was quite wise of you to refrain from using the phrase, "Calm down, dear," even though it was perhaps implied in your contribution.

We made it fairly clear during the debate on the Floor of the House that the VAT rise in fuel had had a damaging impact.

**Richard Harrington** (Watford) (Con) *rose*—

**Kerry McCarthy:** I will give way in a moment.

Today, we are here to discuss our amendment, which is a clear exposition of our stance on this issue. If the Government took the view in the Budget that petrol prices had reached a level that was impacting on motorists, essential car users and businesses and that it was wrong to introduce this rise, I cannot see why, if fuel prices are at the same level or higher later this year, it is right to introduce the measure then. Surely the reason the measure was postponed was to relax the burden on motorists, essential car users and businesses. What is different about the end of this year and the impact on them then? By then, the full effects of Government spending cuts and negative growth will be felt.

We have flatlining growth at the moment. Inflation rose to 4.5% in April. The consumer prices index rose from 4% in March to 4.5% in April, which was primarily due to a jump in transport costs, especially air and sea fares. That rise, which will impact on people who are importing and exporting goods and on alcohol and tobacco prices, was bigger than analysts had forecast and followed a surprise fall in the index last month.

All those factors will be impacting on people who are trying to do business in this country and on people who are trying to make the household finances stretch. They

will be impacting on people at the end of this year, probably to an even greater extent that they were at the time of the Budget this year. If petrol prices have not fallen by the end of this year, why would it be right to introduce the rise when it was not right to introduce it in March this year?

**Richard Harrington:** Good morning, Mr Hood—I hope it is the lenient Mr Hood for the purpose of my intervention. I hope that the hon. Lady realises that some of us are still quite new to the ways of this House. I have been practising my best bemused and perplexed expression in the time between my asking to intervene and the hon. Lady gracefully giving way. Will she clarify a matter for me, and perhaps some of my more naïve colleagues? My understanding of these Bill Committees and of the scrutiny process is that an amendment is there to criticise what the Government are saying—I understand that. To help us to decide which way to vote, though, surely there must be some alternative, or am I completely wrong?

**Kerry McCarthy:** I thank the hon. Gentleman for his intervention. I remember serving with him on the Committee that considered the Finance (No. 2) Bill and we got on to the subject of the film industry, which is important in his constituency. He suggested then that there might be a role for me and one of my hon. Friends as extras in the next “Lord of the Rings” production. I am rather glad that he did not repeat that suggestion today. I have not seen any of the “Lord of the Rings” films, but I am sure that it was not a compliment.

**The Chair:** Order. The lenient Chairman is going to call a halt to this conversation and invite the hon. Lady to carry on with her amendments.

**Kerry McCarthy:** It was just an aside, Mr Hood. I am sure that the hon. Member for Watford would not dare to suggest that there could be a role for you in the next “Lord of the Rings” film.

As I said, I think I have made the case clearly for why we tabled the amendment. If the Government thought at the time of the Budget that petrol prices at the pump and for businesses had reached such a level as to be an unfair burden, the same would apply later this year.

12.15 pm

**Brandon Lewis** (Great Yarmouth) (Con): Will the hon. Lady give way?

**Kerry McCarthy:** Let me reply to this point, and then I will. Obviously, that could have a cost for the Treasury, but it is difficult to predict what that would be. I do not know whether the Minister has figures, but the overall cost to the Treasury would be affected by the increase in fuel prices across the board. As duty and VAT are charged as percentage rates, the cost to the Treasury could be offset as fuel prices go up. If petrol prices are much higher at the end of the year, the rise in the amount accruing as a result of those percentage duties and the VAT on fuel could compensate the Treasury, but the duty and the VAT could have such a negative impact on business and motorists that they reduce

consumption. It is difficult to judge, but I accept that if the measure were introduced, we would have to consider whether it was necessary to raise revenue elsewhere.

**Brandon Lewis:** I thank the hon. Lady for giving way. I want to probe her a little further on the comment that she just made. If she is asking us to consider an amendment, it seems logical, in order for that amendment to have credibility, for it to be costed and worked out. If it is not—in her own words, things could change and so many fluctuations are possible—surely that is exactly why the Treasury would not and should not commit to something like that now. It should continue to monitor the economy and make Budget decisions based on what is right for the economy, according to its best predictions, given that even she is unable to predict what might happen under her uncosted amendment.

**Kerry McCarthy:** I have explained several times why it is not possible to do the costings straight away. The reason why we tabled the amendment is that the Government established a principle; in the Budget, they felt that they had to act. We support the fact that the Government have realised that the impact of rising petrol prices on our constituents, and particularly on businesses in our constituencies, must be addressed, but I repeat that if it was seen as needing to be addressed in the Budget this year, why would it not need to be addressed if petrol prices were at the same level or even higher later this year?

I imagine that our constituents and businesses in our constituencies will not be impressed at all if petrol prices are even higher at the end of the year and the rise is introduced. I suspect that if that happens, the Government will see a quick backlash from their constituents, businesses and the organisations representing business interests, and will probably make a humiliating, last-minute U-turn. Rather than allowing themselves to be forced into yet another panic-stricken, humiliating U-turn that they must scabble around imposing charges on people to fund, the Government should establish the principle now that when petrol prices are at a certain level, there should be no increase.

**Pamela Nash:** My constituency has a considerable area of rural land as well as towns. Families and businesses throughout both those areas are affected not just by the extraordinarily high cost of fuel but by the inability to plan ahead. Does my hon. Friend agree that the amendment would at least allow them to plan ahead for the high costs that are coming?

**Kerry McCarthy:** Yes. It is difficult to create complete stability. That goes back to the issue about the Prime Minister promising before the election that the mechanism would be introduced; he announced that to everybody at a Coca-Cola plant, I think, or it might have been Pepsi. The fact that the fuel duty stabiliser was dropped shows how difficult it is to implement such a measure, but at least it would give a degree of certainty. People would not have to worry when looking ahead, because they would at least know that there was some mechanism to reduce the burden on them.

**Bill Esterson:** On that point, the Prime Minister actually said:

“Our plan is to say when the petrol price goes up the tax should come down.”

[Bill Esterson]

Is the problem not that, under the Government's plans, fuel duty never comes down? It always rises. That, of course, is a broken promise. The amendment seeks to address that. On the other point about the impact of the amendment, there is a danger that the rises will have a negative impact on growth. That will reduce the income stream to the Exchequer.

**Kerry McCarthy:** My hon. Friend makes a very good point. The Government sought to act by cutting the duty by 1p in the Budget. We made the point on the Floor of the House, however, that the rise in VAT, which adds nearly 3p to the price of a litre of petrol, is far more significant than that. There seems to be muddled thinking on the part of the Government.

**Nic Dakin:** The points that are being made demonstrate that my hon. Friend is trying to be helpful to the Government, and is trying to find ways to help them deliver their commitments. For example, when the right hon. Member for Tunbridge Wells (Greg Clark) was interviewed on "Daily Politics", he said:

"We think it should be a stabiliser...we have no plans to increase fuel duty."

Obviously that has happened, but my hon. Friend the Member for Bristol East is stating a clear way forward that is very helpful to the Government in delivering their objectives.

**Kerry McCarthy:** I thank my hon. Friend for that intervention. It is quite easy for the Government to say that they have stuck to their pledge not to increase fuel duty—they have cut it by 1p—but the cost of petrol has to be looked at in the round. There has been an increase in VAT from 17.5% to 20%, which adds nearly 3p to the price of a litre of petrol. There are inflation-linked prices and potential rises in inflation in the coming year, though the RPI fell slightly to 5.2% from 5.3% in March. Boasting about cutting fuel duty by 1p is slightly meaningless when other measures that have been introduced add to the price. As far as motorists at the pump are concerned, it is irrelevant that they are paying less fuel duty when they are paying more VAT. Overall, they are paying more for their petrol; that is what matters to them, rather than the semantics of whether there is a fuel duty cut or a VAT rise.

**Bridget Phillipson:** I want to discuss further the effect on buses. In my constituency, many people are reliant on bus services. Many do not have access to cars—the north-east is among the areas with the lowest levels of car ownership—and we do not have the benefit of rail services. The difficulty constituents face is that, unfortunately, prices on buses are continuing to rise. That is in part due to the rise in fuel prices, but it is also due to cuts to local government. Councils can no longer continue to subsidise bus routes. Will my hon. Friend touch on that, as it is of concern to constituents?

**Kerry McCarthy:** That is a very important point. So far, the Government have been let off the hook when it comes to cuts in the grants for subsidising bus services. Those cuts will have a real impact, particularly on people who live in remote areas where bus services may not be commercially profitable, but are essential for the

people who use them. As an MP for Bristol—the hon. Member for Bristol West will probably agree with me—I know that First Bus has very high bus fares, and we have the worst congestion in the UK. Until the issue of bus fares is resolved, people will be very reluctant to make the transition to buses, even if petrol prices go up and the cost of motoring is very high, because the bus services are expensive and unreliable, and there are other problems. That is something that has to be looked at in the round.

Ideally, people would use public transport a lot more than their cars. I think that we will see a switch towards public transport as petrol prices rise, but for some people, making that switch is easier said than done. I do not understand why people in central London use cars; they have a tube and bus network, and taxis if necessary, and those are far more efficient ways of moving around. However, there are plenty of places in the country where that is not an option, and that should be addressed.

Rising fuel prices are having a significant impact on the incomes of working people, which are already being severely squeezed. Last month's figures from the Office for National Statistics show that wage growth is falling, and we know that many people in the public and private sectors have taken pay cuts or have become unemployed. In addition, we have had tax hikes. The Government, particularly Liberal Democrat members of the Government, have made great play of the rise in the personal allowance, which gives families an average of £48 a year, but that was dwarfed by the VAT rise in January, which cost families with children £450 a year.

Let us not forget that the Prime Minister told voters before the election that he had no plans to increase VAT. It took the Government just a month or so after gaining office to break that promise. We all remember the Deputy Prime Minister unveiling billboards about VAT bombshells. What happened to that concern about VAT rises when he became part of the Government?

**Alison McGovern:** My hon. Friend makes an important point. The amendment would, as my hon. Friend the Member for Airdrie and Shotts rightly pointed out, give people expectation about price rises. It is difficult for the average person to accept what the Government are saying—"Sorry, your pay can't go up because that would be inflationary"—when the Governor of the Bank of England has said that the Government's VAT rise was inflationary. People are expected to deal with pay cuts or freezes, but there is no realisation of the impact of the Government's action on prices.

**Kerry McCarthy:** My hon. Friend makes a valid point. The consumer prices index jumped significantly to 4.5% in April from 4% in March. That will obviously have a real impact on people's incomes and their ability to balance their decreasing wages and their budgets, which are being stretched in all sorts of other ways, at the end of the month. Families are also being squeezed by the Government's cuts to tax credits and benefits.

**Justine Greening:** I think I may have been in this very Committee Room when Labour Members abstained on a measure opposing changes to tax credits. If the hon. Lady is so upset about that, how come she did not vote against it?

**Kerry McCarthy:** The Minister is again falling into the trap of not wanting to answer questions about her own Government's policy. The overall impact of what they are doing with the cut in child care, which we will come to—

**Justine Greening:** Will the hon. Lady give way?

**Kerry McCarthy:** I am answering the point that the Minister made. Families had potentially lost thousands of pounds a year, and we voted against the Budget package as a whole. Instead of nit-picking, we fundamentally opposed the trajectory of what the Government are trying to do. They are making families and people on the lowest incomes bear the brunt of the cuts, instead of reintroducing the banker's bonus tax, which would help to ameliorate things.

**Justine Greening:** On that point, the hon. Lady spent a fair amount of time talking about VAT. Does she think that her constituents and those of many Labour Members will be surprised to find out that Labour Members abstained in the vote on that? They talk about how upset they are about a measure, but nod it through when it comes to the crunch.

**Kerry McCarthy:** The Minister knows full well that we voted against the Budget as a whole, and we certainly did not support the VAT increase to 20%, which flies in the face of all the promises made before the election by Conservative and Liberal Democrat members of the Government.

**Alec Shelbrooke:** I want to put an end to the myth that the Conservative party said that there would not be a rise in VAT. It said that it had no plans at the time to raise VAT. That is very different. When the books were opened up, and the mess was seen, there was no choice. In the argument about VAT, where does the hon. Lady propose that the extra £13.5 billion would come from?

**The Chair:** Before I invite the hon. Lady to respond, I ask members of the Committee for a little more order. They should listen to the debate and resist the temptation to comment after they have asked questions or intervened.

12.30 pm

**Kerry McCarthy:** Thank you, Mr Hood. The hon. Member for Elmet and Rothwell is, of course, quite new to the House, and although I suspect that he was fairly politically experienced before he was elected to Parliament, he may still have a certain innocence about him that I am sure will be rubbed off before long. However, I think that it is generally accepted now that a Minister saying, "We have no plans to do something," is not quite the same as saying, "We are not going to do it." In fact, it probably means that they have every intention of doing it; they just do not want to tell people that.

**Bill Esterson:** If the hon. Member for Elmet and Rothwell wants to talk about VAT and having no plans to raise it, he should think back to before the 1992 general election, when John Major made exactly that comment and then VAT went up.

**Kerry McCarthy:** I thank my hon. Friend for that reminder.

**Alec Shelbrooke:** Will the hon. Lady give way?

**Ian Mearns:** Will my hon. Friend give way?

**Kerry McCarthy:** I will let the hon. Gentleman come back in and then let my hon. Friend intervene.

**Alec Shelbrooke:** I address my comments to the hon. Lady, as I would not want to intervene on an intervention. Surely the promise made in 1997—and 2001 and 2005—not to raise income tax, after which the Government doubled the 10p rate of tax and increased national insurance, which was a tax on income, was indeed a broken promise.

**Kerry McCarthy:** I think that we are straying—

**The Chair:** Order. This is an opportunity for the lenient Chairman to remind the Committee to address the amendment. Hon. Members have been tempted away from the amendment that is before the Committee and I invite them to come back to it. I also invite the hon. Lady to speak to her amendment.

**Kerry McCarthy:** Okay, Mr Hood. Could I allow my hon. Friend the Member for Gateshead to intervene?

**Ian Mearns:** I am grateful to my hon. Friend for allowing me to intervene, but I will resist the urge.

**Kerry McCarthy:** I have mentioned a few examples of the impact that the Government's actions are having on families. As the Institute for Fiscal Studies said, in his Budget the Chancellor was giving with one hand and taking away with lots and lots of other hands. That broad comment was about everything that the Government are doing, but it could apply specifically to what the Government are doing in respect of fuel duty.

With real incomes hit, unemployment up and the economy flatlining, families are increasingly vulnerable to rising prices of basic goods, such as food, fuel and energy. The prices of those goods are rising steeply, in part because of the rising costs of distribution caused by rising fuel prices. Food is nearly 6% more expensive than it was last year. According to the OECD, food inflation at 4.6% is significantly higher than other consumer prices, which are rising at 4% on the CPI—that figure is slightly out of date now. The ONS increased the weighting of food in this year's CPI basket by more than any other category. Energy and fuel prices are of more concern still: the OECD calculates energy inflation, which includes fuel prices, to be 10.2% in the UK, according to recent figures, and the ONS says that fuel prices are one of the most significant contributors to consumer price inflation.

**Stella Creasy:** I wonder whether the shadow Minister also wants to reflect on the evidence that nearly half of households in the UK now find that their pay cheques do not stretch to the end of the month. The result of the freeze on wages and rising prices is that people simply

[Stella Creasy]

do not have enough money to make ends meet, so any increase in the price of any basic good, such as fuel, will have disastrous consequences for family finances.

**Kerry McCarthy:** My hon. Friend makes a good point. For those of us in this room, who are on relatively generous salaries, it sometimes might be difficult to understand the difficulties that some families have. That is why it is so important that MPs keep in close contact with their constituents and to hear about some of the issues that they are facing. If people, particularly those on fixed incomes, are trying to live on limited budgets, it does not take much to knock their expenses off kilter. If they are used to being able just about to make ends meet and struggle a bit towards the end of the month, little things matter—a cut in their income of a few pounds here and there, services that had been free suddenly attracting a charge, or the price of food going up.

I am aware of many people in my constituency and elsewhere having conversations about shopping around to find things that are just a little cheaper in one supermarket than another. To some of us, who probably care more about the impact on our time than on our pocket, it may seem slightly strange that people go out of their way to walk to a supermarket because something is slightly cheaper, but that is the reality of life for the many people who have to try to make their income stretch. It is a case of looking after the pennies as well as the pounds, so my hon. Friend has made a very valid point.

When we debated clause 19 in Committee of the whole House, the average UK pump price was £1.36 for a litre of petrol and £1.42 for a litre of diesel, according to the Department of Energy and Climate Change. As I have said, our amendment uses the prices agreed by DECC as a reference point. Today, petrol is already nearly 1p a litre more expensive than it was then, and diesel is also up by more than half a penny, which means that petrol is now nearly 16p a litre more expensive than it was this time last year and that diesel is now more than 20p a litre more expensive than a year ago.

The context of the amendment is the faltering economy. In March, the Chancellor said that his Budget was about “rescuing the nation’s finances”, but he announced that we will borrow over £46 billion more than was estimated at the time of the spending review. Far from the public finances being rescued, they appear to be on the wrong track. According to the Office for National Statistics, in the past two quarters we have had zero economic growth. That is no coincidence. We cannot put the public finances on a sustainable footing without economic growth.

Some 2.5 million people in this country are unemployed, and we have heard that 50,000 job cuts are planned for this year in the NHS alone. Unemployment is disastrous not only for those people, and particularly for young people, for whom a prolonged spell of unemployment can have a real impact on their earning power for decades—nearly one in five young people in this country are unemployed—but for the public finances. The Treasury is receiving less income tax and national insurance, and is paying out more benefits to those people.

**Justine Greening** *rose*—

**Kerry McCarthy:** If I may, I will allow an intervention in a moment, but I want to pin down this point.

The Treasury clearly receives less tax when businesses downsize or go bankrupt. The public finances cannot be made sustainable when businesses and jobs are at risk. Many of those businesses, especially small and medium-sized enterprises, are vulnerable to rises in fuel taxation. The Federation of Small Businesses has said that small and medium-sized businesses would be “severely affected” by the Government’s hikes in fuel tax. In January, more than a third of those responding to its member survey said that that was the single biggest threat to their business, and nearly four in five thought that the Government’s measures would add £2,000 pounds to their costs over six months.

**Justine Greening:** The hon. Lady has set out how she thinks that unemployment is “disastrous” for the economy. Does she accept that that is a real indictment of her Government, who left unemployment 400,000 higher?

**Kerry McCarthy:** I am not sure that that is entirely relevant to what we are discussing, which is the impact of the Government’s Budget on increasing unemployment. My argument is that not addressing the issue of the impact of rising fuel prices on businesses might have a knock-on effect on unemployment. The figure cited by the Economic Secretary is a—I am not allowed to use the word that I was about to use—selective choice of statistics. As we know, in the majority of the 13 years that Labour was in government we made significant inroads on tackling the problem of unemployment. When we left office, the global recession had started and inevitably unemployment rose.

**Alison McGovern:** My hon. Friend makes a vital point about the rising cost of fuel duty and its impact on employment. Does she agree that economists normally compare employment at similar points in the economic cycle? Comparing 1997 with 2010 does not stand up, but at the time of the last recession—[*Interruption.*]

**The Chair:** Order. Members must have order.

**Alison McGovern:** I shall complete my intervention so that everyone can hear it. At the time of the worst global recession in living memory, unemployment and other important measures such as house repossessions were half of what they were in 1992.

**Kerry McCarthy:** My hon. Friend puts it well. It is a selective use of statistics to talk only about the unemployment figures.

**Richard Harrington:** Will the hon. Lady give way?

**Kerry McCarthy:** I think that three other Members are waiting to intervene, but I want to reply first to my hon. Friend the Member for Wirral South.

When Labour left office in 2010, serious steps were being taken to ensure that the recession did not turn into a depression. The fiscal stimulus that we introduced was having a real impact. We were tackling some of the problems. I would argue—I am sure that my colleagues

will agree—that the steps being taken by the present Government mean that we run the risk of not reaping the benefits of the measures taken by the Labour Government; this Government are turning back the clock.

I shall give way first to my hon. Friend the Member for Sefton Central, then to my hon. Friend the Member for Gateshead and the hon. Member for Elmet and Rothwell.

**Bill Esterson:** My hon. Friend makes a good analysis of the difference between the recessions in the 1980s and early 1990s, and the recession from which I hope we are just emerging. It is important to remember that the measures taken by the Labour Government meant that people were much better protected in a much deeper recession.

I want to comment on what my hon. Friend said about business. In my constituency, something like 40% of people earn their living from small business or self-employment. The increase in VAT and the potential rise in fuel duty is crippling for them. Such people are crucial to driving the recovery; those measures will damage the recovery in Sefton and beyond.

**Kerry McCarthy:** My hon. Friend makes a good point. It is hard to believe that his concern is not shared by Government Members.

Many in the Government's ranks have raised the question of support for small businesses in debates, and spoken about what they see as the burden of red tape and regulation. Some of us believe that such measures are important in protecting workers and people's incomes. I think, for instance, of the minimum wage and health and safety legislation. I remember that when fuel prices rose under the Labour Government, Conservative and Liberal Democrat Members—particularly those representing rural constituencies—were quick to call for Government action to tackle the problem and to ameliorate the impact of rising fuel prices on people and businesses in their constituencies. I suspect that those Members will not remain silent if, at the end of the year, fuel prices have risen and the Government are still contemplating this increase.

**Ian Mearns:** In these debates and exchanges, we often hear accusations of deficit denial from the Government Benches. The Minister speaks of the rise in unemployment at the back end of the Labour Government, but we had just been through the biggest post-war international financing and banking crisis. That was not the product of Labour Government policy in Britain but of the international banking crisis.

**Kerry McCarthy:** Exactly; the Government choose to ignore the fact that it was caused by a global crisis that started in the US financial markets. History will prove that the Labour Government took exactly the right steps under the stewardship of my right hon. Friends the Members for Kirkcaldy and Cowdenbeath (Mr Brown) and for Edinburgh South West (Mr Darling). Although we were faced with external factors that were having a real impact on the UK, we took the necessary steps to limit the damage. Where possible, people's jobs and livelihoods, and our businesses, were protected.

12.45 pm

The car scrappage scheme was met with some cynicism from the then Opposition, but it was significant in propping up the car industry in what might have been a very difficult time for UK manufacturing. History will prove that we took the right steps, so it is entirely wrong of the Economic Secretary to quote selectively employment figures from 1997 and 2010 to try to make a point. We know that during our time in government, with measures such as the new deal, more people were in employment than ever before. All sorts of measures encouraged people to move from welfare to work, such as the tax credits regime and the minimum wage, so it is wrong to single out those figures to say that the track record of the Labour Government over those 13 years was a picture of rising unemployment.

**Alec Shelbrooke:** I do not agree with a word the hon. Lady has said, but she is very generous in giving way. I am almost incredulous at some of the points I am hearing. We are almost getting away from the Bill and into dogmatic politics. The Opposition argument seems to be, "Let's just print the money and not worry about inflation." With great respect, the hon. Member for Walthamstow discussed the pay freeze in the public sector—I shall move on from there—but in the 1970s we were basically giving in to pay demands and rising wages, and the inflationary effect of that was enormous. Inflation is rising and it is high.

**The Chair:** Order. Interventions should be a bit shorter than that.

**Kerry McCarthy:** Thank you, Mr Hood. I know that the hon. Member for Elmet and Rothwell is not here to answer my questions; he is here to ask them. However, I pose a rhetorical question: he has expressed concern about inflation rising, but what impact does he think the rise in fuel prices will have on inflation in future? As I have said, it is having an impact on food prices, energy costs and everything else that contributes to the inflation index.

**Stella Creasy:** Will my hon. Friend give way?

**Kerry McCarthy:** I think that the hon. Member for Watford wants to make an intervention first, or has he lost the will to do so, having listened to the other interventions?

**Richard Harrington:** In the interests of Mr Hood's policy of leniency, I shall withdraw my intervention in favour of the hon. Lady's.

**Stella Creasy:** I thank my hon. Friend the Member for Bristol East for giving way. I know that the Office for Budget Responsibility points out that there will be growth in the economy only if private debt further rises. Does she agree, therefore, that it is incredibly troubling that moneysupermarket.com has recently carried out a survey that shows that one in four families in Britain is struggling financially, and that the main cause of that is the cost of fuel?

**Kerry McCarthy:** My hon. Friend makes a valid point. I know that she has campaigned on private debt and that at some point during our debates she will make other points about it. Certainly, we are happy to support her important campaign on loan sharks.

The cost of fuel has had a significant impact on household finances and many people are not in a position to change their lifestyles. To take a hypothetical example, people might live in an area that is not well served by transport. Many of my constituents are in that position and the issue comes up when people bring housing cases to me. They might live in social housing and be allocated a house that is very far from where their children go to school. They might have to get their children to two or three different schools, because one child might be in nursery, one in primary school and another in secondary school. If they work somewhere else in the city, it is impossible for them to do the daily round of dropping a child off here, there, and somewhere else by using public transport. The buses simply do not run to the right places and the timing does not work out to enable them to get to work on time.

That is a particular problem for lone parents who have part-time jobs. I have discussed with Jobcentre Plus how it tries to make single parents whose child has reached the appropriate age take a job, which may look suitable on paper because it is from half-past 9 to 3 o'clock, but simply does not work when dropping children at school and transport are factored in, even if the parent has access to a car, which many do not. People go into jobs temporarily—they are sacked or have to step down because they simply cannot make the equations add up.

**Alec Shelbrooke:** There is no doubt on either side of the Committee that fuel price inflation is causing big problems. The amendment is about future fuel rises rather than the position today. Is it the Opposition's policy to cut fuel prices by 20p a litre? That is the only way we will tackle the problems of high fuel prices. With the greatest respect to the hon. Member for Walthamstow, because I agree with everything she said—

**Stella Creasy:** Come off it!

**The Chair:** Order. Interventions must be short and without the conversation.

**Kerry McCarthy:** The hon. Gentleman has conjured up out of thin air a suggestion that we might cut the price of petrol by 20p per litre. Everybody recognises that fuel prices have risen to such an extent that there is a genuine impact on people and businesses, which must be absorbed by businesses and motorists because there is no funding available to do what we would perhaps like to do to make transport costs more affordable.

There is a separate debate to be had on green taxation. One reason why the fuel duty escalator was introduced was to shift people's behaviour towards using public transport and away from using their cars for unnecessary journeys. In previous debates on the escalator, there have been attempts to square the circle of a policy that applies to everyone equally across the board but has more impact on those who do not have the alternative of using public transport. It is a difficult issue. People in

rural constituencies, some of my hon. Friends from Scotland and Wales, and Members from the Conservative and Liberal Democrat ranks have pointed out that if the fuel duty escalator was introduced to shift behaviour so that people would use their cars less, it was not entirely fair on those who do not have a choice of mode of transport. A balance has to be struck between what is affordable and how to change patterns of behaviour and reduce congestion on the roads and the genuine concerns and grievances of people who cannot make ends meet or go about their daily lives.

When petrol prices reach a certain point, it does not just have an impact in terms of people being unable use their cars to go on trips to the seaside, but means that being in work is unaffordable. Jobcentre Plus does all sorts of calculations that show that people are better off in work. I have sometimes argued that those calculations do not necessarily take into account all the factors that they should—for example, if someone's child has free school meals, which they would lose if they got into work, along with free prescriptions and dental services. Such factors have an impact on that "better off in work" calculation, and transport costs are a major element. As we have heard, bus prices are going up, in part as a consequence of rising fuel prices. When people are only slightly better off in work than on benefits, it does not take much to stop the sums adding up, and they find that they are worse off in work.

**Pamela Nash:** Does my hon. Friend agree that it is sometimes difficult for politicians who spend most of their time in London to remember the state of public transport in the rest of the country? We are very lucky in London, but that network is not replicated across the UK.

**Kerry McCarthy:** My hon. Friend makes a good point. Although I represent Bristol, it is often brought home to me just how difficult the situation is for people who live in places that are not so well served by public transport. While I have frequently referred to the difficulties that people in rural areas face, it is also a factor for people who live in the outlying areas of cities, where bus services do not run to some of the more remote estates. In south Bristol, there are estates with very high unemployment and the problem partly relates to remoteness from employment centres and the difficulty and cost of getting to them.

**Alison McGovern:** In addition to the point made by my hon. Friend the Member for Airdrie and Shotts about the differential availability of public transport and, therefore, the lack of alternatives to buying fuel and going by car, does my hon. Friend agree that in parts of London and in cities outside London, the congestion makes this a non-choice? In my part of the world, we have a pretty decent metro rail service, but it is highly congested and getting worse. Things will only get worse in the future, so it is important that people understand what will happen to fuel prices.

**Kerry McCarthy:** That is significant because congestion problems affect those who use cars as well as those who use public transport. The last Government gave Bristol £43 million to build showcase bus routes with bus lanes to try to encourage people to use buses and move faster

through the traffic. However, the incentive for people to do so is rather offset by the fact that bus prices are so high and the bus service is still unreliable. If fuel prices rise, that will affect bus fares too. First Bus, the bus company in my constituency, complains that congestion increases its costs so it has to raise fares. I always argue that if it reduced fares, more people would use the buses and not get in their cars, so congestion would be reduced. It should at least try running pilot schemes with reduced fares to see what impact that would have, perhaps on the most congested routes. It might find that it can run its service far better by charging less.

**Ian Mearns:** Until deregulation in 1986, my area had a good, efficient, integrated transport system where the metro and the buses used to work together. Now they are in competition, which is wasteful, particularly when diesel duty at 81 p a litre is higher than anywhere else in Europe.

**Kerry McCarthy:** That is a significant factor, although I think that my hon. Friend's area has a passenger transport executive or authority or something like that. It is one of those things where the title is "strategic" one minute, and the next it is "integrated". However, it would make a real difference if one was introduced in Bristol. As hon. Members have suggested, we should

not forget that public transport is as affected by the cost of fuel as people are in their private cars. It is not just a question of the impact on the motorist. Green and environmental groups have sometimes challenged, for example when we opposed the rise in VAT to 20% and challenged the impact it was having—

**Justine Greening:** You didn't oppose it. Be really careful. It is misleading. [*Interruption.*]

**The Chair:** Order. I must ask the Minister not to hold conversations across the chamber. She is the senior representative of the Government in the Committee and she should know better.

**Kerry McCarthy:** I point out to the Minister that opposition is about what happens outside the House as well as what happens inside and we did vote against the Budget as a whole.

With the impact of VAT on petrol prices, some green groups—

1 pm

*The Chairman adjourned the Committee without Question put (Standing Order No. 88).*

*Adjourned till this day at Four o'clock.*

