

27

Deal with

Prime Minister's

CONFIDENTIAL

You may wish to discuss at tomorrow's briefing meeting.

MR. ALEXANDER

Hand 27/11

Ceiling on Agricultural Expenditure

The brief for the European Council raises the possibility of joining with the Germans in pressing for Finance Ministers to explore the idea of a ceiling on agricultural expenditure in 1981. This builds on the stringent line taken by Chancellor Schmidt in Bonn last week which included the intention that the Federal Government "would insist on the 1 per cent [VAT] ceiling and would assume that the ceiling would be reached in 1981. Thereafter, resources would only be placed at the disposal of the CAP at half the rate of the growth in the overall revenues of the European Community".

2. Although United Kingdom Ministers have agreed that we should seek an effective ceiling to agriculture expenditure under the CAP, the Chancellor of the Exchequer and the Minister of Agriculture have not been able to agree on the appropriate figure for 1981.

3. The Chancellor's minute of 12th November suggests that the 1981 Budget should be regarded as a cash limit beyond which no supplementary estimate should be applied. That approach would be in line with the Budget resolution of the European Parliament and would require that there were no CAP price increases next year or that they be funded by savings or new funds such as co-responsibility levies.

4. The Minister of Agriculture, in his minute of 13th November, argues instead for an arrangement enabling the CAP budget to be further increased by the same proportion of what is left within the 1 per cent VAT ceiling ("headroom") as agriculture represents in the total 1981 Budget once it is established. This would provide an additional 542 meua and be consistent with a price increase of about 11 per cent.

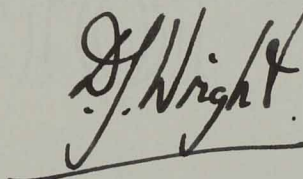
5. Since then, Chancellor Schmidt has told the Prime Minister that increases in agricultural expenditure should be held to half the increase in own resources; but he was careful not to apply it to 1981, which indeed would not be feasible since it would involve a reduction in the provision already

CONFIDENTIAL

made for agriculture in the 1981 Budget. Nevertheless it would be possible to follow the same general approach and argue that, for 1981, the increase should at least not be greater than the growth of own resources. The Prime Minister has already explained to Chancellor Schmidt that in order to make 1981 comparable to 1980 for this approach, the Greek contribution would have to be excluded. On this basis - a compromise between the Chancellor and Mr. Walker - there would be about 280 meua "available" to the Agriculture Ministers. This would be compatible with a price increase of about 5 per cent.

6. If the Prime Minister decided to raise the question of a financial ceiling at the European Council - or to try to persuade Chancellor Schmidt to do so - it would not be necessary or desirable to go into detail. All she need ask for would be that the Finance Ministers should examine the question.

7. Depending on the outcome of the European Council, the Prime Minister might wish to respond to the earlier minutes, by suggesting to the Chancellor and Mr. Walker that in any such examination our aim should be agreement on the basis of the formula which yields an increase in agricultural expenditure of only about 280 meua.



(D. J. Wright)

27th November 1980