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From the Private Secretary

15 April 1980

Dear Sir,

The CAP and the European Summit

The Prime Minister held a meeting yesterday with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Minister of Agriculture and the Secretary of State for Trade to consider your Minister's minute of 10 April on this subject and the Chancellor of the Exchequer's related minute of 14 April.

After some preliminary discussion of the current position on Britain's positive MCAs, which is the subject of separate correspondence, the Minister of Agriculture reported on his discussions with Signor Marcora last night about the CAP prices and economy package. Signor Marcora's minimum requirement for a settlement was an increase in the milk price of 3½ per cent, with a 2 per cent co-responsibility levy; a reduction of 2 per cent in German positive MCAs; and a price increase of 1½ per cent on sugar coupled with the retention of last year's quotas but with an improvement for Italy. Signor Marcora had stressed that the Italian Presidency were determined to work for a solution to our budget problem, which in his view would be facilitated if next week's Agriculture Council could agree a package ad referendum to the 27/28 European Council.

The Minister of Agriculture said that he had made clear to Signor Marcora that we could not accept price increases for surplus products. Apart from maintaining our opposition to any price increases for surplus products (which included wine and olive oil) we should oppose any increase in the threshold price of maize; and seek a refund on cereals used in the production of whisky, on which we could hope for a gain of £20 million per annum; the continuance of the present Northern Ireland milk aid; a reduction in hard wheat import levies; the maintenance of the 100 per cent UK Community financed butter subsidy; and the retention of last year's sugar quotas, with no price increase.

There was general agreement that we should give nothing away on CAP prices until we were sure of securing a satisfactory settlement on the budget issue. This would make discussions at the 21/22 April Agriculture Council difficult, since we were likely to end up in an 8-1 position on all the major CAP price issues. It was therefore urged that, to avoid an irretrievable souring of the atmosphere in which the discussion of our budget problem would take place in Luxembourg, the Minister of Agriculture

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should be empowered to indicate the prospect of some movement on our part on CAP prices at the European Council if a satisfactory settlement on the budget were achieved. Unless the Agriculture Council registered some progress towards an eventual overall settlement there was a risk that the ground would be inadequately prepared for a further advance by our partners on the budget. Against this it was strongly argued that any such move would seriously weaken our negotiating position at the European Council, at which the need of our partners for a settlement on CAP prices would be our strongest bargaining card apart from the unpalatable threat of withholding our contribution. As the Cabinet had already agreed, we might well have to make concessions on CAP prices in the end to get what we wanted on the budget, but it would be wrong to do so in advance of the European Council. It would be helpful if at the end of the Agriculture Council the Presidency or the Commission could come forward with a compromise proposal, which we would not accept but which would enable the question to be discussed at the European Council along with the budget issue. On sheepmeat the Minister of Agriculture should listen sympathetically to the French requirements at his meeting with M. Mehaignerie, provided that we gave nothing away at this stage.

Summing up the discussion, the Prime Minister said that, while the Minister of Agriculture should do his best within his remit in his talks in Paris on 15 April and in the 21/22 April Agriculture Council to avoid clouding the atmosphere for the European Council discussions on the budget, we could not agree to any concessions on sheepmeat or CAP prices until we had secured a satisfactory solution to the problem of our net contribution to the Community budget. If a Presidency compromise on the CAP prices and economy proposals emerged at the Agriculture Council the Minister of Agriculture need not oppose its presentation to the European Council provided he maintained a clear United Kingdom reserve on any price increase going beyond his present mandate.

I am copying this letter to the Private Secretaries of the other members of OD(E) and to David Wright (Cabinet Office).

Yours sincerely

Michael Alexander

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Ministry of Agriculture, Fisheries and Food.

SP.