



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

14 June 1979

I have seen your letter of 8 June to Peter Carrington and his reply of 12 June.

I agree that, so far as possible, we should put all our emphasis on our net contribution to the budget and ask our partners to accept that those with below average GNP per head should not be net contributors. But the problem, as I see it, is that our partners are prone to argue that our net contribution is only one of the effects of Community membership and that we should set against it various benefits which we derive. When they do this, I suggest it would be sensible to point out that one clear and measurable result of membership is the extra we have to pay across the exchanges through buying food from other member states at CAP prices instead of world prices. We ought not to accept, by implication, that the non-budgetary effects of membership are all beneficial. Moreover, as you point out, this argument has to be used even to establish what our net contribution should be regarded as being, because of the line our partners take on the attribution of MCAs. In this connection, I suggest it would help if, rather than basing our case on 1978 figures, when our MCAs happened to be particularly high, we should get the Commission to produce forecasts for our net contribution in 1979 and 1980 based on the current level of our MCAs. These have been cut by the strengthening of sterling and will fall still more when I have secured the further devaluation of the green pound agreed in Cabinet this morning.

I very much agree that we should not seek a solution through a big increase in Community spending designed to give us extra receipts, even if this causes difficulties with the Italians. Apart from the points you make, we have to remember that the Italians will look to higher CAP expenditure to secure financial benefits for themselves. They have pursued this tactic in the past, and have had considerable success partly because they grow different products (so other member states know the expenditure will not have to be spread across the whole Community) and partly because their farm structure is

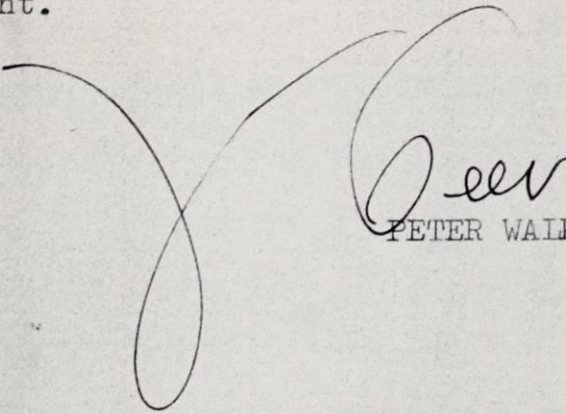
undeniably poor. But, ..

undeniably poor. But, apart from the fact that further spending on Italian agriculture is bound to be at our expense, all these arrangements will inevitably get extended to the new member states after enlargement, since they grow the same products, are poorer, and have even worse farm structure. The result would be very expensive for us.

I do not think we can rely on France and Germany to prevent further expenditure for the benefit of the Italians. They could well see it as a way of buying the Italians off. The resolutions at both the last two European Councils called for increased agricultural benefits for Italy. I suggest that it is important to brief the Prime Minister clearly against accepting any further such commitments; unless there is an equally specific commitment to something which will go an equivalent way to solving our budgetary problem.

I have also just seen the minute you sent to the Prime Minister today. I share your dislike of the implication that insofar as our problems arise from the CAP, they are on course for an eventual solution. The surpluses are, at present, getting worse, and even if prices for surplus products are frozen on a continuing basis, it will be a long time before production is affected and the financial benefits work through.

I am copying this letter to the Prime Minister, other members of OD(E) and to Sir John Hunt.



PETER WALKER

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14 JUN 1978

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