cc Mr Ingham

Weekend Box

Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15 July 1980

M O'D B Alexander Esq
Private Secretary
Prime Minister's Office

When Parliament has risen would the F.S. come & give me a tutorial on the detailed arrangements for Community finance. The more I read, the more appalled I become.
MT.

Dear Michael,

PRIME MINISTER'S MEETING WITH CHANCELLOR SCHMIDT: 1% CEILING

In your letter to Paul Lever of 7 July you recorded the Prime Minister's question about the authority under which we made funds available to CAP claimants from national sources when the European Parliament delayed approval of a Supplementary Budget in November 1979. I am replying on this point as it falls more within the province of the Treasury than the FCO.

The Financial Secretary agreed to the provision of Exchequer interest-free loans for this purpose in a letter to the Minister of Agriculture of 30 November which was copied to other members of OD(E). The arrangements were announced to the House by the Minister in a written answer on 4 December (O.R. Vol.975 No.81 Col.139). The announcement indicated that Parliamentary approval for the service would be sought in a Supplementary Estimate and that, pending that approval, a repayable advance would be made from the Contingencies Fund. Parliament subsequently approved the service in a Spring Supplementary Estimate for the appropriate MAFF Vote.

The decision to make temporary Exchequer funds available followed a precedent set in 1975 when a similar problem of temporary unavailability of Community advances arose.

There were two main reasons for taking action:

(a) If payment of export rebates which had been taken into account by traders in their contracts were disrupted this would reduce

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confidence in the system leading to increased sales into intervention. Intervention buying is not pre-funded by the Community and has to be initially financed from national funds, with member states only being reimbursed in arrears in respect of storage and financing costs and losses when products are subsequently sold out of intervention. Hence any substantial move towards traders selling into intervention, eg because of difficulties in securing financing for exports, would have led to an increase in public expenditure.

(b) For certain schemes even a temporary interruption of funds could have caused widespread difficulties. For example, the butter subsidy is paid as supplies enter the distribution chain and holding up payments could have held up supplies to the shops.

The action was also only taken given the near certainty that a renewed flow of Community finance would shortly be available which could be used to replace the temporary Exchequer finance. This was because, even if the European Parliament failed to approve the Supplementary Budget before then, the Commission had powers to make advances before the end of 1979 in respect of the 1980 Budget. These funds did indeed become available in mid-December, so the loans were repaid very quickly and the exercise probably produced a saving in expenditure by avoiding additional intervention costs. As the Foreign Office paper pointed out, there was no doubt in the 1979 case about the availability of Community funds within the 1 per cent ceiling, so that the case cited by Chancellor Schmidt is scarcely analogous.

I am copying this letter to the recipients of yours.

yours ever

John Wiggins

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16 JUL 1980