



From the Minister's
Private Office

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

Prime Minister: The difficulty,
in a phrase, is that we have accepted the
system and on present form seem unlikely
to get any support in trying to change this
manifestation of its operation.

Am 4/9

Michael Alexander Esq
Private Secretary
10 Downing Street
London SW1

3 September 1979

Dear Michael,

SALES OF BUTTER TO RUSSIA

As you requested this morning, I attach a note for the
Prime Minister about the report in the Telegraph this
morning of a possible sale of EEC butter to Russia.
My Minister has approved the note.

Would like to
push me this further
no

Yours sincerely
Garth Waters

Garth Waters
Principal Private Secretary

NOTE FOR THE PRIME MINISTER

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SALES OF BUTTER TO RUSSIA

BACKGROUND

1. Butter is exported from the EEC with the help of export refunds, which are intended to bridge the gap between prices in international trade and those in the Community. The UK accepted the principle of these refunds when we joined the Community and applied the different types of market organisation to the various agricultural commodities.
2. The level of refund for a particular product is fixed each month by the EEC Commission, following the advice of the relevant Management Committee: and the Commission proposal stand even if a majority of member states fail to vote in favour of it. Once refund levels have been fixed, traders can contract sales with third country clients without further reference to governments (except when they claim the refund). Alternatively, they may "pre-fix" the refund up to 6 months in advance of the sale if they want to be certain that they will not be caught out by a subsequent reduction in the refund. These "pre-fixings" are notified daily to the Commission.
3. A substantial quantity of butter - ie about 200,000 tonnes - is exported from the EEC each year, and have included sales to Russia of the sort referred to in today's "Daily Telegraph" article under one or other of the above arrangements. The most recent occasion to attract widespread public attention was in November 1978, when the Commission learned that about 20,000 tonnes of fresh butter was to be exported with the aid of pre-fixed refunds. On that occasion, the Commission suspended the advance fixing facility for 9 days to give time for consultation with the European Assembly

10-17
and Member States. However, following discussion in the Council - where we received no support for the introduction of measures to prevent such sales - the deal went ahead.

MEASURES TO PREVENT EXPORT SALES

4. The sales now in prospect have not had the refunds pre-fixed. They would not therefore be picked up under the monitoring procedures which apply only to pre-fixed refunds, but they could be prevented if the Commission were to suspend export refunds now, or at the time the sales were thought to be approaching. However, this would require either a decision by the Commission in the light of advice from the Management Committee, or direct action in the Council. For either of these options, we should have to persuade the Commission to put forward a proposal and a majority of the other member states to accept it: indeed, a decision in the Council would require unanimity.

5. All the indications are that this would not be forthcoming: indeed, on previous occasions when we have objected to such sales, we have received little or no support from other member states. They tend in any event to regard subsidised exports as part of the normal commercial business of the Community; and with increasing quantities of butter being produced (and going into intervention), and the scope for increased sales on the internal market largely taken up by the recent extension of the consumer subsidy, they would argue that subsidised exports provide the only short term alternative to increased intervention stocks. Finally, although we have always pointed out that subsidised exports represent a resource loss to the EEC, they are in budgetary terms the cheapest means of surplus disposal - a point which other member states would be quick to make.

SAME TERMS FOR EEC CONSUMERS

6. If butter were offered for sale to consumers in the Community at the same cheap price, it would simply displace normal sales. Very little extra butter would be disposed of. To achieve additional sales equal to those made by export, all butter sold in the Community would have to be subsidised at a higher rate. This is because consumers buy very little more butter for a given reduction in price. To subsidise all butter sales in the Community would add considerably to the cost of the EEC budget which we are trying to contain.

SALES OF FRESH BUTTER

7. The Russians appear to want fresh butter rather than old. However, in view of the large stocks of old butter in intervention stores the Minister of Agriculture is asking the Commission to give priority to the disposal of these before fresh butter is offered for sale.

MINISTRY OF AGRICULTURE, FISHERIES
AND FOOD

Milk and Milk Products Division
3 September 1979

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THATCHER TO SEEK CUT IN EEC BUDGET SHARE

By ALAN OSBORN, Common Market Correspondent

MRS THATCHER is to press her claim for a sharp reduction in Britain's net contribution to the Common Market when she meets the Belgian Prime Minister, Mr Martens, in London next Wednesday.

Lord Carrington, Foreign Secretary, and the Belgian Foreign Minister, M. Simonet, will also attend the meeting. The budget question is now at the very

EEC BUTTER FOR RUSSIA

'CRAZY'

By GODFREY BROWN, Agriculture Correspondent
COMMON MARKET butter to sell off surplus butter at highly subsidised prices to Russia were attacked yesterday by Mr Peter Walker, Agriculture Minister.

He said it was crazy that taxpayers in Britain and elsewhere should be subsidising the butter Russian consumers bought.

"We have asked the European Commission what information they have about this, and I have also sent a telegram to the Commissioner for Agriculture (Mr Finn Gundlach).

"For *W*, as is rumoured, they are going to take fresh butter and not from older stocks, this surely would be bad and deplorable," the Minister said.

Butter plus guns

"It is a bad policy, I think, when there is so much to be done, that one pours money into seeing that the Russians can have guns and butter," he added.

Mr Walker said it was a disaster to have "this massive dairy surplus" in Europe. "It shows how right we were at the last EEC farm price-fixing to stand firm on having no increase on the price of milk," he added.

Europe faced the problem that if it tried to get rid of the surplus by subsidising the sale throughout the Community, the cost to the EEC taxpayer was vast. Therefore the EEC exported the surplus at subsidised rates.

French seek arms orders from Arabs

By MICHAEL FIELD
in Paris

FRANCE, seeking much-needed compensation for the loss of European markets, is pushing her arms sales to the Arab Gulf states.

Prospects of military co-operation between France and the Emirate of Bahrain have been at the heart of talks in Paris between French leaders and Sheikh Hamad ben Aissa Al-Khalifa, Crown Prince of the Emirate.

Sheikh Hamad, who is also Bahrain's Defence Minister, told reporters in Paris after seeing M. Yvon Bourges, French Defence Minister, that existing relations between the Emirate's armed forces and those of France had been "consolidated." Co-operation was being orientated towards giving Bahrain access to the "latest techniques" available from France's military experience.

President's guest

Sheikh Hamad, who was entertained at the Elysee Palace by President Giscard d'Estaing, went by helicopter from Paris to the French tanks training school at Saumur.

He had made it clear he wanted to see what France had to offer in the way of conventional weapons, and there was no reluctance by the French to lay their wares before him.

The French armaments industry, a vital factor in the country's foreign trade, suffered a serious setback this summer with the loss of a £400 million order from Belgium to replace ageing AMX 13 French tanks and M75 American tanks. The order went to the Americans.

Inflation for W

By

THE main economic highest level a key political election.

The latest figures show that of living increases per cent in August compared with last year.

Additionally, G officials expect it six per cent autumn.

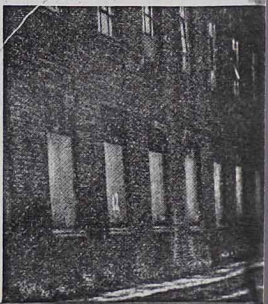
Although this is of what can be Britain, the increase considerable concern Government and politicians who could reawaken the fear of inflation, the runaway index 1920s.

Prediction

The Government's the average inflation the year will be of 4.5 per cent. We official prediction cent. Last year Deutschermark, what the price of bread good harvest, an annual inflation to only 2.6 per cent.

This gave an impetus for recent year cost of living coming six per cent. In 1976, per cent. In the following time when other countries were in the Officials admit it

Daily TELEGRAM
8.9.79



EEC Budget

It was not something over which the Council of Ministers had direct control. They were not geared to take day-to-day decisions on managing stocks.

"I don't complain about that, but as a basic policy to keep productive surpluses to subsidise Eastern Europe must be wrong," Mr Walker said.

As disclosed in *The Daily Telegraph* on Monday European dairy industry sources say Russia is to buy 75,000 tons of EEC butter from France this winter at one-third the Community price, at a cost of £85,500,000 to Community taxpayers.

The subsidy, equal to nearly 52p a lb, would mean Russia setting the butter at a basic price of 23p a lb against the 75p that the Commission pays European dairies to buy up and store surplus butter to maintain high support prices for its dairy farmers.

RUSSIA'S REPLY TO KISSINGER

By Richard Beeston
in Moscow

The Soviet Union accused Dr Henry Kissinger yesterday of "pretending" to be afraid that Soviet tanks might invade Western Europe. It said he was spurring on an American arms race to further what it claimed was his ambition to become a senator in the 1980 American elections.

The Communist party newspaper *Pravda* also claimed that Pentagon and "monopolist" support was necessary for the former American Secretary of State to get a Senate seat.

A RHINE SALMON

By Our Staff Correspondent
in Bonn

For the first time in 30 years a salmon has been caught in the Rhine, one of Europe's most polluted rivers which kills thousands of fish every year. The salmon, landed at Lamerthem in Hesse, weighed 6lb 6oz.

Fully agreed to

The budget machinery, however perverse in practice, was fully agreed to by Britain on joining the EEC in 1973 and was implicitly confirmed by the Labour Government's "renegotiation" entry terms.

Against this there is a real possibility that unless the burden is reduced British opinion will turn over more strongly against the EEC.

The EEC gets its money from a share of each member's VAT revenue plus customs duties and levies on food imported from outside. Britain is penalised by a large consumption sector, higher-than-average VAT revenue, and much bigger purchases of non-EEC food than by any other member.

In this the real distortion is that three-quarters of all EEC spending is for agriculture, on which Britain, with a small, highly productive farm sector, has negligible claims.

The impact has been masked by entry concessions, but with expiry of these this year Britain will become the largest single net contributor and so still further ahead next year.

Slow movement

Mrs Thatcher's talks with the Belgians will enable her to assess how opinion has developed and to try out any specific ideas.

But it is likely that detailed schemes will evolve only slowly between now and the November "summit."

Mrs Thatcher has insisted a detailed plan be agreed at Dublin, but there is little doubt she would accept some slowness if there were no bad faith.

The most-discussed remedies involve a limit on EEC agriculture-spending and a separate but simultaneous increase in EEC programmes from which Britain does benefit such as the regional and social funds.

But ideally, Mrs Thatcher would probably prefer a direct linking of a country's net EEC payments to its economic strength. Probably that would be rather daring at the moment.

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Georgia call Delta in London
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