



10 DOWNING STREET

THE PRIME MINISTER

12 June 1980

Thank you for your letter of 30 May about the Community budget settlement.

I hope that the details of the agreement and the statements by Ian Gilmour and Peter Walker in the House on 2 June, as well as my own replies to Questions in Parliament on 3 June, have convinced you that we secured a fair and advantageous deal, much better I think than either our friends or opponents believed possible.

On the budget itself, the rebates we have obtained for 1980 and 1981 (at least £710 million and £860 million respectively) are indeed substantial. For 1982 we have a clear commitment on a similar limitation on the level of our net contribution, unless the Community has by then modified its financial arrangements in such a way as to avoid an inequitable burden falling on us. Also of the greatest importance for the long-term is the Community's commitment to structural change through a review of the development of Community policies in 1981. Such a review gives us an unparalleled opportunity to correct the obvious absurdities associated with the CAP and reduce the proportion of the budget absorbed by it.

On the agricultural prices settlement, the Government argued for, and would certainly have preferred, lower increases than the 5 per cent agreed and none at all on products in surplus. But the increases must be seen in perspective, particularly against the 10 per cent average level of inflation in the Community. In real terms they are reductions.

/ Increases for products

Increases for products in surplus are also rather lower than the general average. For the product in largest surplus, milk, which absorbs some 30 per cent of total Community budget expenditure, there was a 4 per cent increase. But this was partially offset by an increase in the basic co-responsibility levy on farmers' deliveries to dairies which also increased from 0.5 per cent to 2 per cent of the price with a further commitment that a supplementary levy will also be introduced in 1981 if deliveries of milk this year increase by more than 1.5 per cent on 1979. Limitations have also been placed on Community support for dairy investment. The two prices settlements for which we have been responsible give only a nominal 1.25 per cent per annum increase in the common price, net of the co-responsibility levy. In real terms, this is a substantial squeeze on dairy farmers' incomes. I accept that continued restraint will be essential if we are to solve the problem of the surplus in milk products permanently.

As far as sugar is concerned, world prices are currently about £80 per tonne higher than those in the Community. Our agreement to an increase in the price for sugar should be seen against this background. While this situation lasts, disposal of surplus sugar on world markets will in fact produce additional income through levies on exports.

On lamb, we successfully headed off the Luxembourg proposals which would certainly have led to the creation of a lamb mountain. The agreement we have reached will bring substantial benefits to our farmers while keeping the price of lamb at reasonable levels and thereby maintaining consumption. There will be no intervention in the UK and the arrangements will prevent UK lamb from being sucked into intervention elsewhere in the Community. The agreement should also ensure that the quantities of lamb from other Member states going into intervention will not be excessive. Our supplies from New Zealand should also be safe. In the longer run, we could obtain up to £100 million per annum from this regime and there will be a public expenditure saving when the Fat Sheep Guarantee scheme lapses.

The Government continue to oppose sales of agricultural products at subsidised rates to Russia. Unfortunately some of our partners are not prepared to go as far as we want. We shall continue to press for restrictions and, if possible, the elimination of export rebates on this trade. Whether export rebates to third countries will increase generally as a result of this package will depend very much on trends in world prices.

Our continued ability to refuse to agree to future price settlements which are unacceptable to us remains unimpaired. The agreement reached simply requires all Member states to do their best to take decisions on prices before the subsequent marketing season begins. We intend to play our full part in next year's and subsequent negotiations.

I do not accept that the settlement will have a marked effect on the sterling exchange rate. The initial reaction has of course been contrary to that you feared. As I said in the House, I hope that the refund will help to reduce the PSBR and, in due course, take some of the pressure off interest rates.

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