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Ref. A03548

MR. ALEXANDER

A Ceiling on Community Agricultural Expenditure

The Chancellor of the Exchequer's minute of 12th November raises the question of what would be an effective ceiling on agricultural expenditure in 1981. This is relevant to the Prime Minister's forthcoming talks with Chancellor Schmidt. The conclusion of OD on 3rd November on this issue was that there should be no increase in the proportion of the Budget spent on agriculture. But OD did not establish a point of reference for calculating this proportion.

2. The Chancellor lists three possible formulations:-

(a) No increase in the proportion of the Budget spent on agriculture

- but because the draft Budget for 1981 already shows a substantial drop as compared with 1980 (mainly because of our Budget refund) this would not be at all restrictive. Even if this formulation were applied to any supplementary Budget it would leave too much scope for price increases.

(b) Restrict the rate of growth of CAP expenditure to the growth of the Community's own resources

- This is basically what the German Government proposed in June (copy attached) and depending on how you define it (given the entry of Greece) could leave scope for price increases of about 5 per cent.

(c) Treat the provision in the draft 1981 Budget for agriculture as a cash limit beyond which no supplementary provision would be possible

- this would be in line with the recent resolution of the European Parliament but would seem to rule out any CAP price increases unless they were funded by savings or co-responsibility levies which we would not like.

3. The Chancellor favours (c), but, in his letter of 13th November, the Minister of Agriculture rejects it for the reasons given and proposes a variant of (a):-

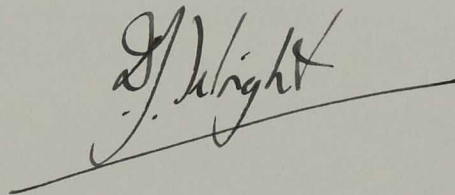
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Expenditure on the CAP could only be increased by the same proportion of what is left within the 1 per cent ceiling ("headroom") as agriculture represents in the total 1981 Budget once it is established. This would leave room to spend about 540 meua more in 1981 compared with 280 meua under formula (b).

4. It is unlikely that Chancellor Schmidt will want to get into detail and he will be conscious of the problem for Giscard if he takes too tough a line on financial constraints (or on prices). The French have been very active in ensuring that the Budget arrangements for 1981 leave the maximum room for doing what they want on prices. On the other hand, Schmidt will not be insensitive to the value of putting financial constraints on Agriculture Ministers and will see that the European Parliament's resolution gives him a useful weapon. The trouble is the Germans are prepared to square the circle by increasing the milk co-responsibility across the board and we are not.

5. The best thing would probably be for the Prime Minister to sound out Schmidt on the lines of (c) but be ready to accept something like (b) if she can get Schmidt to put his name to it, although this means going further than Mr. Walker is prepared to agree.



(D.J. Wright)

13th November 1980



EXTRACT FROM GERMAN CABINET STATEMENT OF 5 JUNE 1980

The Federal Government emphatically agrees with the necessity expressed in the EC decision to correct existing imbalances in the budget of the Community by structural changes. It underlines in this connection the necessity that the EC Commission should in the suggestions which it has to put forward by 1 June 1981 provide effective means for inter alia the elimination of agricultural surpluses: the increase in agricultural expenditure should be held below the increase in own resources of the EC. Other changes in the Community's expenditure structure must be made in good time (in the budget proposal for 1982), so that they can become effective from 1982 at the latest.

The Federal Republic believes that these measures bring about a sharing of the burdens in the Community in such a way that burdens are not put unilaterally upon a few members, while at the same time states in just as good an economic position receive net contributions from the Community. In this connection the question must be put and discussed, whether a maximum limit should be arranged for the net contribution of any individual Member State and whether a similar principle should be applied to Member States that are net beneficiaries.

The Federal Government addressed itself with these expectations to the Council, European Parliament and the Commission.