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~~Prime Minister~~

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

h.a.

 Rmt
 21.11.79
PRIME MINISTER

We have already had a brief word about John Nott's minute of 14 November in which he proposes that if we fail to secure an adequate reduction in our net contribution in Dublin we should press for a debudgetization of the CAP and should use a refusal to increase support prices as a lever to achieve this.

2. Given the proximity of the VAT ceiling we are all agreed that we should oppose increases in agricultural support prices, at least for the products in surplus. Indeed we are pledged to do so in the Manifesto. But our aim in doing this should be to reduce or at least contain total expenditure on the CAP, not to find new means of financing extra expenditure. There are, as John Nott says, various possible mechanisms for debudgetising the CAP and if it does prove impossible to confine expenditure within the 1 per cent VAT ceiling the Community may be forced to adopt one of them. Such a mechanism might involve the UK in paying less at the margin than we would pay by agreeing to an increase in the VAT ceiling, but our total expenditure would be greater than it would be if we can bring the CAP under proper control, and it is total expenditure which should be our main concern.



3. This objection could be met if we could persuade our partners both to contain the cost of CAP policies and to shoulder a greater share of it than they do at present. Of course, the most direct means of shifting the burden of the cost of the CAP from the UK would be to obtain a form of budgetary correcting mechanism. Clearly there is no case for suggesting any disposition on our part to abandon that objective; and obviously we must take care not to confuse it with our long term strategy towards the CAP. Even so, I can see that there may be some wisdom in John Nott's system, at least as a means - at a critical time - of clothing our main objective in more European dress; but the detailed tactics will need to be very carefully considered.

4. I am copying this minute to the other members of OD, to Peter Walker and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.'.

(G.H.)

21 November 1979



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