G.R. 30/10

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NOTE FOR THE RECORD

VISIT OF PRESIDENT-ELECT THORN

M. Thorn, accompanied by the Luxembourg permanent representative to the EC (M. Dondelinger), the Luxembourg Ambassador (M. Hastert) and M. Kasel called on the Chancellor at 10.15 a.m. on Monday, 27 October. The Chancellor was supported by Sir Michael Butler, H.M. Ambassador to Luxembourg (Mr Jeremy Thomas) and Mr Hancock. The Chancellor welcomed Mr Thorn and the other Luxembourg visitors. Mr Thorn commented that there now seemed to be a better prospect that the German Government would agree to the EC arrangements to limit steel production, including special steels.

2. The Chancellor emphasised the importance the UK Government attached to the achievement of a permanent solution to the problem of this country's net contribution to the Community Budget. There was very great difficulty in getting Parliament and the British public to accept any net contribution, given the fact that income per head in Britain was now well below that of most other Community countries. These difficulties were increased by the fact that he was now obliged to seek further reductions in previously planned UK public expenditure programmes. Mr Thorn acknowledged the importance of the problem and the need to reach a permanent solution to it. He noted that there was a close relationship between this issue, the maintenance of the present 1 per cent VAT limit on "own resources", the costs of the Common Agricultural Policy (CAP), and the enlargement of the Community. He noted that there remained a side issue outstanding on the question of the refunds to the UK under the 30 May agreement: in principle the Greeks would have to be asked to pay a contribution towards the UK refunds in 1982, in respect of the 1981 Budget, and they were likely to refuse to accept this. (It was, of course, accepted that no contribution could be sought from Greece in 1981, in respect of the 1980 Budget).

3. The Chancellor and Mr Thorn agreed that changes in the CAP were the key to the solution of the present series of inter-related problems. Mr Thorn said he had been taken aback to discover the Commission were thinking of increases of 17 per cent in agricultural prices; the Chancellor remarked that increases of even 8-10 per cent would be too large - he thought it essential to move towards market clearing prices so as to mop up the surpluses. M. Dondelinger suggested that a 17 per cent increase in prices would require an increase in co-responsibility levies. The UK representatives pointed out that this course of action would be a device for evading the 1 per cent VAT ceiling. If the levy was used to finance the consequences of a price increase going beyond what would otherwise have been agreed, then it constituted a tax on consumers. There were serious objections of constitutional propriety to a system of decision-taking which permitted a Council, composed of Agricultural Ministers alone, to impose a general consumption tax for the benefit of only one section of the Community electorate, namely the agricultural industry.

4. Mr Thorn suggested that consumers on the continent of Europe were less inclined to challenge the principles of the CAP than their UK counterparts. Sir Michael Butler questioned whether the CAP had in fact developed in accordance with those principles; discussions in the mid-1960s had never suggested that prices had to be set so as to achieve a given level of farm incomes - the objectives of the CAP were community preference, a greater degree of European self-sufficiency, and the assurance of adequate food supplies at reasonable prices. The Chancellor noted that these objectives were not very different from those of the deficiency payment

system operated by the UK before accession to the Community. Mr Thorn noted the importance which Governments had attached to providing farmers with incomes comparable with those of the rest of society, an objective which the Chancellor thought had proved difficult to reconcile with the need for consumers to be offered food at reasonable prices. Despite the very heavy Luxembourg dependence on milk production, Mr Thorn recognised that change in the CAP was essential; as things were the requirements of the CAP left no money for the Community to develop other policies, and if this situation were not changed the Community would be unlikely to survive.

5. M. Dondelinger pointed out that serious negotiations on re-structuring the Community Budget would begin under the UK presidency. Sir Michael Butler emphasised the need for bilateral exchanges, and informal discussions in Coreper, in advance of the formal presentation of the Commission's proposals next spring. A variety of policies would be needed to deal with the problem of agricultural surpluses; but price restraint would be fundamental. It was noted that the Commission could not legally budget to exceed the 1 per cent ceiling, while the French Government's insistence on fixing agricultural prices before their presidential election added a new dimension to the problems. The point was also made that if the Community ran out of money, a variety of undesirable practices - for example sending agricultural products into intervention in other countries - would come into operation.

6. The discussion ended at 10.45 a.m.

JW

A J WIGGINS
29 October 1980

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