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K. S. Smith

PRIME MINISTER'S TELEPHONE CONVERSATION WITH THE MINISTER FOR  
AGRICULTURE, FISHERIES AND FOOD ON WEDNESDAY 1 APRIL 1981

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Prime Minister: Hello Peter?

Mr. Walker: Hello, how are you?

Prime Minister: How are you? Have you been going all night? All I have got is some telegrams which I think are a bit out of date and the early news this morning. Because the early telegrams that I have got in my hand say that there is still enormous negotiation to be done.

Mr. Walker: Yes well we've just finished now. And we went on all night. And the form is that nine of the countries have agreed to a sort of package and we're the ones that are standing out and resisting. The Council is going to meet again at 5.00 this afternoon. The form is that they came forward with this original package in which they took out our butter subsidy, took out about a quarter of it and various other nasty things to us and put up the prices to 8.8%. Since then they've increased three other prices by between about  $\frac{1}{2}$  and 1% so I should think the average price increase is somewhere between 9% and 9 $\frac{1}{2}$ %. We've got back the beef premium scheme in its entirety. We resisted - they put in for us to have a 3% revaluation - we resisted that and they have now taken out the British revaluation and the Germans have got a 3% revaluation. We've got none. We got on offer the same package for Northern Ireland which the Irish Republic have got and so that will be worth about £10 million finance for the Irish Republic. The total cost of the second compromise amounts to another 20 million ecus over the whole package. So the total cost according to the Commission of the package now on offer is 1,052 million ecus, which means that the 1981 budget is OK and it means no supplementary budget in 1981. And for 1982 it fits in - if you take the expected 11% growth in own resources, if you took it as being 9% growth i.e. below growth resources, it would be within that. We haven't got back our butter subsidy - 25% - but what is, in my view, if we agree to settle obviously we get that back as a condition of settling.

Prime Minister: We've not got back our butter subsidy at all?

/ Mr. Walker:

Mr. Walker: No but I'm quite certain that if, obviously at the moment I've turned it down, I've turned down the package because I want it properly costed by the Commission and I have sent my officials in to see President Tugendhat this morning just to check the figures that the Agriculture Commissioner has given us are correct. And to check all the various changes that have taken place in the night and tot up to the sort of figures they say they tot up to. So I have said I couldn't possibly agree, without knowing in detail all the costs etc of the various changes that have taken place, and I certainly couldn't agree without the butter subsidy being fully restored.

Prime Minister: What about the things in structural surplus - the milk. Because it looks to me as if unless we get something that in one way or another deals with those things that are in structural surplus the French are going to give enormous national aid and its going to . . .

Mr. Walker: On milk there is a provision in that if milk production goes up by 1% or more then it is all clawed back and what they have done is that they have put one of four methods of doing it. So the Commission will have to claw back anything above a 1% increase in production of milk.

Prime Minister: How?

Mr. Walker: Well one of them is, well one of the four methods listed available to us is the special levy technique but when it came to it, when they measured it yes you'd only get that figure by the time you'd got to next year's price fixing anyway in practice.

Prime Minister: Look I understand that the Commission's cost estimates are always based on a static output on this year's output and that they don't take into account in any way how the increased prices plus national aids might increase the surpluses. And what I am worried about is that - well a number of things - first that what actually happens on the increased output resulting from a combination that is of prices (interruption from Mr. Walker) it will go above own resources, it will go up to the 1% ceiling and in fact it will put in jeopardy our budget refund next year.

/ Mr. Walker

Mr. Walker: That is why Prime Minister I have sent in with all the detailed proposals our sort of financial chap, who is very good, Gordon he's a Treasury man and he has gone in to Chris Tugendhat's office to go through all the proposals to get them costed including the points I made during the night including any increase in production and points like that so that will be taking place. He will be sending a telegram later this morning on all that. So you will get that coming in, once we've checked it all. Because what I don't want which is what I've had in previous years is that the Agricultural Commissioner says one thing and the Budget Commissioner says another and that's why I have refused to agree a package last night because I wanted to look at all the facts and figures before coming to any decision. And so we're not committed in any way to a decision.

Prime Minister: What about national aids Peter. Do you mean the French are still going to keep on their national aids and we're going to have to pay for the surplus?

Mr. Walker: Well the Commission said that they are going to take a fierce measure against national aids but of course, as always, one has to rely on them acting. The new Commissioner says that if this is going to be meaningful, national aids possibly eliminated, must be fiercely tackled, I mean he has made all those sort of noises and I mean he's pretty anti-French so he might have a go at the French.

Prime Minister: Yes it might be possible to get that as a condition.

Mr. Walker: One thing that really was alarming last night - you'll see in some of the later telegrams - the Germans were of no help at all. I mean they agreed to every price increase. They agreed to every elimination, every levy and in the end I sent in to their delegation and said "look these are the words your Finance Minister agreed with my Chancellor of the Exchequer, are you sticking by them or aren't you?" To which the Germans replied "It still remains the policy of our Government but we have no idea how we are going to implement it".

Prime Minister: Yes the only telegram I had was the one the UK sent out about budgetary implications and <sup>Germany</sup> once again registering no concern except about the 1% ceiling.

/ Mr. Walker

Mr. Walker: Yes well you will see later on that I told them to telegram you with the facts, we actually confronted them with Geoffrey's wording and said, is this your policy or is this not your policy?

Prime Minister: Well anyway Peter we'll get all of the figures in telegrams during the morning while you have some sleep. But what I am frightened to death of is two things. One that things go into such structural surplus that it absorbs all up to the 1% ceiling and that we don't get our budgetary contributions next year.

Mr. Walker: One thing that I think we can get in is a wording passed by the Council which says that if it is approaching the 1% ceiling the Commission will take action to see that it is not breached.

Prime Minister: No it is not only not breached Peter but go up to 1% and they will then turn round and say to us I'm sorry there is no room for your budgetary refund so its not merely just not breached but that there is still room within it for our budgetary refund on the same basis as this year. Otherwise it means we are paying and the French are taking.

Mr. Walker: Yes well I think you will find that out of this in total on the basis that we get back the butter and so on and we've got this package for Ireland, out of the package I think you will find that we'll be net beneficiaries again.

Prime Minister: (unintelligible) Well anyway Peter you've sent them all in for the figures, and we'll have a look the moment they come.

Mr. Walker: The other thing I think whatever tactic you decide on you've got to think about is that the Nine have agreed and therefore whatever we disagree on, whatever issue we decide to disagree on, in my judgement its got to be one which we eventually win on because its no use disagreeing now.

Prime Minister: Well it has to be something like structural surplus doesn't it and national aids contributing to mountains and therefore they have got to have some specific formula in for dealing with the structural surplus. If they have knocked out a super levy they have got to have some specific formula in which will hold, otherwise we have no hope of budget restructuring. Anyway lets have a look at it / when

when it comes but the other thing I'm afraid of - you know I had 150 fishermen in here on Monday night and they still feel they are going to be sold down the river and I am just a little bit fearful that if everything just goes through with colossal aids to the French and with nothing for structural surplus, national aids boosting them, we paying and they being the biggest beneficiary and they then don't agree on our fish we'll get the worst combination because they'll say "you sold us down the river".

Mr. Walker: Yes but I mean if you want to do that linkage, I think you've got to get that linkage correct and one<sup>is</sup> in difficulty on that May 18<sup>th</sup> ~~18th~~ communique . . .

Prime Minister: Yes I know.

Mr. Walker: Yes well its no use you know fighting a battle on agricultural prices which we never actually win, we eventually back down.

Prime Minister: Yes but we have got good grounds on the structural surplus haven't we. And on our budget refund.

Mr. Walker: Well in terms of figures. You will have to look at the figures as they come in.

Prime Minister: We will Peter. We will get all of the figures and you're going off to get some sleep. Thank you for telephoning.