



Important.

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Treasury Chambers, Parliament Street, SW1P 3AG

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16 March 1983

The Rt Hon Peter Walker, MBE, MP

*Mr Peter*

CAP PRICE FIXING AND PROSPECTS FOR FEOGA EXPENDITURE

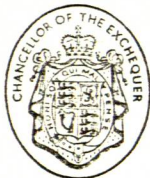
The purpose of this letter is to seek your views on the prospects for CAP expenditure in 1983-84 and how we might take account of this factor in this year's price fixing negotiations.

As you will know, the prospects for FEOGA expenditure in 1983 and 1984 now seem to be deteriorating rapidly. The original provision in the 1983 Budget for FEOGA guarantee was 14.05 billion ecu. Christopher Tugendhat has given figures to COREPER, which show that, even ignoring the cost of this year's price fixing, expenditure in 1983 is likely to be between 500 million and 2 billion ecu higher than the present Budget. In the first quarter of this year the annual expenditure has been running at an annual rate of around 16 billion ecu and I understand our officials take the view that the final outturn for 1983, when the costs of the price fixing are added on, could be in excess of that figure.

Two consequences follow from these latest estimates. First, the rate of increase in agricultural expenditure in 1983, compared with 1982 will clearly be above that of the rate of growth of own resources. Whatever precise interpretation is put on the expenditure guideline and whatever qualification is made about the need for some flexibility in its application, it is clear that the gains we have made in the last years in containing the growth of agricultural spending are now in very serious danger. There is no prospect that things will be any better in 1984. On the contrary with production continuing to rise and consumption to stagnate the amounts to be disposed of will be that much higher and there is little reason to suppose that world prices will be any firmer. Christopher Tugendhat is indeed reported to have told the European Parliament that the 1984 increase in agricultural expenditure compared with 1983 is likely to be twice the rate of increase in own resources.

/The second consequence





The second consequence is that the Community could well run up against the 1 per cent limit on VAT during 1984. Indeed, on the Commission's calculations, if agricultural spending rises to 16 billion ecu in 1983, there will be no more than 500m ecu left in the kitty this year. The imminence of the 1 per cent ceiling should certainly reinforce those in the Commission and in the member states who are conscious of the need to tackle the problem of agricultural surpluses. But - less helpfully - it may also tempt some member states to think that they can deny or reduce any budgetary refunds to the UK in 1983 or 1984 on the grounds that there is no money available. I comment separately on this aspect in paragraph 8 below.

I understand that at the Agriculture Council on 8-9 March Alick Buchanan-Smith pressed the Commission to make available its latest estimates for 1983 expenditure and that you will have done the same at this week's Council, drawing attention to the forecasts given by Tugendhat to COREPER and the European Parliament. Whether or not Dalsager confirms the figures this week, I am sure it would be right to

- re-emphasise the importance we attach to the expenditure guideline:
- draw attention to the risk that, even on the Commission's own lax interpretation of it, it is likely to be breached in 1983 and 1984;
- use these arguments to reinforce our case for the most stringent approach to both prices and guarantee thresholds in this year's negotiations.

I recognise, of course, that the immediate impact of the price settlement itself on 1983 expenditure is relatively small in comparison with the increases already in the pipeline. But, given the prospects outlined above, we must do all we can to limit the cost of the price settlement to a minimum.

Looking beyond this week's Council we will need to consider what line we should take on the expenditure issue in the final stages of the agricultural package-building and how far we should make it a sticking point. Much will depend on the attitude of the Commission and of our potential allies, the Germans and the Dutch (who, I acknowledge, have not been reliable in the past). Obviously, we will need to discuss all this along with the other key price-fixing issues after this week's Council. The main idea on which I should welcome your reactions is that we should press the Commission and the Council to set a firm upper limit

/for the FEOGA





for the FEOGA Guarantee budget for 1983 (see next paragraph) and to give a commitment to take the necessary measures to bring agricultural spending back within the guideline in 1984. This can then be linked with the proposal, which we will in any case want to put forward in the discussions on the Commission's Green Paper, that the guidelines should be developed into an effective and binding limit.

Finally, there are also the questions of the timing and content of any supplementary budget for agriculture in 1983. Our attitude to this must be determined by the need to ensure that there is adequate provision in the 1983 and 1984 budgets, taken together, to cover the 1982 risk-sharing arrangement and the budgetary refunds to us which will be necessary in respect of 1983. Since the 1984 budgetary position will also be very tight we should try to cover as much as possible of our refunds out of money in this year's budget. The conclusion I draw from this is that we should try to get the Commission to defer proposing a supplementary budget for agriculture at least until June or July when the risk-sharing calculation can be made. As regards amount, it is clear that an agriculture budget in 1983 of 16 billion ecus or over would leave virtually no room for any refunds to be paid to us this year. There is thus a strong argument (provided we can get German support) for seeking to hold down the supplementary budget for agriculture to a figure of around 1 billion ecu, so as to leave a margin out of which refunds could be paid to us later in the year. The final decisions on this would, of course, rest with the Budget Council. But, as noted above, I think we also need to consider pressing the Commission for an undertaking that they will themselves manage agricultural expenditure in 1983 within such a ceiling during the price fixing negotiations.

I am sending copies of this letter to the Prime Minister, the Foreign Secretary and to Sir Robert Armstrong.

GEOFFREY HOWE

A handwritten signature in black ink, appearing to be 'G. Howe', written over a horizontal line.

16 MAR 1983

