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10 DOWNING STREET

THE PRIME MINISTER

16 September 1982

Dear Mr Murray,

Thank you for your letter of 1 September about the EC farm price review and budget arrangements.

I note the General Council's views about the majority decision taken on the 1982/83 farm price review. The majority vote was taken despite the United Kingdom's clear objections and our invocation of the 1966 Luxembourg Compromise. As I said at the time, this raised very serious issues, and the Foreign and Commonwealth Secretary subsequently made our dissatisfaction very plain to other member states in the Foreign Affairs Council discussion on 20 June. He was supported unreservedly by two member states and by two others with some qualifications. There thus remains a divergence of views in the Council on this question, but we expect that the practice which the Community has followed, with this one exception, since 1966, will continue to operate in the future.

/The prices

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The prices package included increases for a number of products higher than those for which we argued, particularly in view of the problem of surpluses. But the overall effect on food prices is estimated to be no more than 1.25 per cent in a full year.

As to the budget, the agreement reached earlier this year fell short of the lasting solution which we have been seeking. But we have now secured agreement to refunds of no less than £2,000 million in respect of the three years 1980, 1981 and 1982. The agreement reached on 25 May also contained a pledge to take decisions by the end of November on the solution for 1983 and later. We shall be continuing to pursue with all determination our objective of a lasting and equitable settlement of this problem.

Yours sincerely

Raymond Walker

The Rt. Hon. Lionel Murray, O.B.E.



Foreign and Commonwealth Office

London SW1A 2AH

15 September, 1982

Type letter for P.N.'s  
signature.

A.S.C. 4/2.

Dear John,

EEC Farm Price Review and Budget Arrangements

Thank you for your letter of 6 September. I enclose as requested a draft reply, for the Prime Minister's signature, to the letter from the General Secretary of the TUC.

I am copying this to Robert Lawson (MAFF) and John Kerr (Treasury). Both Departments have been consulted about the draft.

Yours over,

(F N Richards)  
Private Secretary

A J Coles Esq  
Private Secretary  
10 Downing Street

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:  
Prime Minister

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

TO:  
 Rt Hon L Murray OBE  
 General Secretary  
 Trades Union Congress  
 Congress House  
 Great Russell Street  
 LONDON WC1B 3LS

Your Reference

Copies to:

PRIVACY MARKING

.....In Confidence

CAVEAT.....

SUBJECT:

Thank you for your letter of 1 September about the EC farm price review and budget arrangements.

I note [redacted] the General Council's views about the majority decision taken on the 1982/83 farm price review. The majority vote was taken despite the United Kingdom's clear objections and our invocation of the 1966 Luxembourg Compromise. As I said at the time, this raised very serious issues, and the Foreign and Commonwealth Secretary subsequently made our dissatisfaction very plain to other member states in the Foreign Affairs Council discussion on 20 June. He was supported unreservedly by two member states and by two others with some qualifications. There thus remains a divergence of views in the Council on this question, but we expect that the practice which the Community has followed, with this one exception, since 1966, will continue to operate in the future.

The prices package included increases for a number of products higher than those for which we argued, particularly in view of the problem of surpluses. But the overall effect on food prices is estimated to be no more than 1.25 per cent in a full year.

Enclosures—flag(s).....

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13/9  
Lionel Murray  
mc

10 DOWNING STREET

*From the Private Secretary*

6 September 1982

EEC Farm Price Review & Budget Agreements.

I enclose a copy of a letter which the Prime Minister has received from the General Secretary of the TUC. I should be grateful if you could let me have a draft reply, for the Prime Minister's signature, by 13 September.

I am sending a copy of Mr. Murray's letter to Robert Lawson (MAFF) and John Kerr (HM Treasury).

**E. J. COLES**

E. N. Richards, Esq.,  
Foreign and Commonwealth Office.

La.

6 September 1982

I am writing on behalf of the Prime Minister to acknowledge your letter of 1 September. This is receiving attention and a reply will be sent to you as soon as possible.

AJC

The Rt. Hon. Lionel Murray, O.B.EE.

*ls*

# TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS

Telephone 01-636 4030

Telegrams TRADUNIC LONDON WC1

Rt Hon Margaret Thatcher MP  
Prime Minister  
10 Downing Street  
London SW1

YOUR REFERENCE

OUR REFERENCE LM/BC/CK

DEPARTMENT Economic

September 1 1982

Dear Prime Minister

## EEC Farm Price Review and Budget Agreements

I am writing to you to let you know of the General Council's views on the UK's contribution to the EEC Budget in 1982, particularly in view of the outcome of the EEC Farm Price Review.

The General Council believe that the imposition by the EEC's Council of Agriculture Ministers of a settlement to the 1982/83 Farm Price Review by a majority decision against the wishes of three member states was an unacceptable abandonment of a long established principle of Community membership. In addition to the unacceptability of the Farm Price settlement on constitutional grounds, the General Council are concerned that the settlement would have a strongly inflationary effect on food prices in the UK. They were also concerned that the settlement would lead to a greater EEC spending on agriculture which underlies the UK's excessive net contribution to the EEC Budget.

The General Council take the view that the agreement reached on a partial rebate of the UK's net contribution to the EEC Budget for 1982 falls well short of the UK's Government objectives of a lasting solution to the Community's Budget problem. They underlined the support they gave to the Government during the previous negotiations on the EEC Budget in 1979 and 1980 in securing both an equitable solution to the UK's EEC Budget contribution and to the wider reform of the Community's Budget and policies.

.../.....



I am sending a copy of this letter to the Foreign Secretary  
and the Minister of Agriculture.

Yours sincerely

*Lionel Murray.*

General Secretary.

EUROPEAN COMMUNITIES

122/7

WITH THE COMPLIMENTS OF  
CHRISTOPHER TUGENDHAT  
VICE PRESIDENT OF THE COMMISSION

— MR  $\frac{23}{7}$   
h.e.

Edinburgh, 15th July 1982

CHRISTOPHER TUGENDHAT CHALLENGES LABOUR ANTI-EUROPEANS  
TO CLARIFY PLANS FOR BRITAIN'S FARMERS

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Britain's European Commissioner Christopher Tugendhat today challenges the Labour Party's spokesman on agriculture to say whether he secretly envisages a marked reduction of agricultural output from Britain's farmers under Labour's plans for withdrawal from Europe.

Speaking at the Scottish National Farmers' Union conference in Edinburgh, Mr. Tugendhat, a Vice-President of the European Commission, called on Labour spokesman Norman Buchan to admit that getting out of the Common Agricultural Policy (CAP) and returning to deficiency payments at a cost Mr. Buchan had estimated at about £1,000 M per year involved a big cut-back in British farm production. Mr. Tugendhat questioned the Labour claim of significantly lower consumer prices if Britain gets out of the CAP. This was inconsistent with Mr. Buchan's suggestion that world prices would rise if Britain left CAP.

Mr. Tugendhat stood by the statement he made earlier this year at the Oxford farming conference that the cost to the Exchequer of maintaining United Kingdom agricultural output and return at present levels and to provide support at CAP rates would in fact come to about £2,000 M per year.

Mr. Tugendhat wound up his speech to the Scottish National Farmers' Union today:

"I do not believe anyone in this room seriously believes that if their businesses were to operate under a national support system they would be better off than they are now. How much would Mr. Walker be able to obtain from the Treasury to finance the deficiency payment scheme? The estimate I made at the Oxford farming conference was that around £2,000 million per year would be needed. Taking into full account even his persuasive powers, I think he would find it difficult to obtain the necessary resources.

This figure has incidentally been criticised, notably by leading figures in the Labour Party; Mr. Norman Buchan, Member of Parliament for Renfrewshire West, and opposition spokesman on agriculture, told the Food Manufacturers' Federation a few weeks ago that my figure was based on the false assumption that the cost to the Exchequer was in some way related to the current level of consumer prices. His observations call for a few comments because I stand by my figure.

Firstly the figure I gave is, as I said in Oxford, the cost to the Exchequer and nothing else. As far as the calculation is concerned, Mr. Buchan should have no problems for it happens that my calculation uses the same methodology and gives rise to a figure very close to one of those worked out by the Labour Party's research department and referred to in the Labour document "Withdrawal from the EEC". This figure was incidentally £1,743 million.

Thus using the same assumptions we come to essentially the same figure - the £1,743 million being based on the 1979/1980 marketing year.

Secondly, Mr. Buchan, again speaking to the Food Manufacturers' Federation, said that the cost to the Exchequer would be something in the order of £1,000 million. The difference between his and my figure appears to be entirely due to different assumptions each of us has made about world market prices. I have assumed that they do not rise. I make this assumption because I do not believe it would be in the national interest for British agriculture to contract. Thus as total world food supplies would be unaffected by the policy change, world prices should be virtually unchanged.

Mr. Buchan assumed that were the United Kingdom to withdraw world prices would move up and close about half the gap between world and British prices. For prices to move so significantly, supply and demand would need to change markedly. Does Mr. Buchan envisage a marked contraction in British agricultural output? If so, he should let the industry know. He should also make his position clear to consumers who have been told by his party that food prices would be substantially lower were the CAP not applied in the United Kingdom. He simply cannot have it both ways.

Personally, I do not believe in these "substantially lower food prices" but I do fear that British agriculture could suffer enormous damage were the British public led to believe that they were attainable. This damage must be avoided in the national interest."