



Prime Minister

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This was discussed in Cabinet  
today and you are to send a message  
to R. Thom. A.J.C. 14/4.

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

Rt Hon Peter Walker MBE MP

12 April 1983

*mf*

*Dear Peter*

## CAP PRICE FIXING AND PROSPECTS FOR FEOGA EXPENDITURE

Thank you for your helpful letter of 25 <sup>attached</sup> March in reply to mine of 16 March. — *PM's Box*

I am pleased to see that we are in full agreement on the nature and seriousness of the underlying problem, and I welcome the efforts you are continuing to make in the price fixing negotiations for 1983. I also understand that you will be seeing the new German Agriculture Minister on 13 April, and I assume that you will be taking that opportunity to express our concerns to him.

The one difference of emphasis between us concerns action in relation to 1984. You suggest that the Commission will not be prepared at this stage to give any kind of commitment about observing the guideline in that year. I recognise the difficulty, but I would like to explain more fully why I think that we must press now for the kind of undertaking for 1984 suggested in my earlier letter.

The latest intelligence we are getting from Brussels serves to underline even more forcefully the likely tightness of the position in the 1984 budget; and to reinforce our anxiety as to how the Commission are likely to react to the problem. The Commission seem to be envisaging FEOGA guarantee provision of around 16.5 billion ecus and at the same time to have in mind a much lower rate of growth than hitherto on other programmes like the regional fund. With one relatively minor exception, no provision seems to be contemplated for new policies from which the UK might benefit. The prospect is thus for a draft budget which will leave our underlying net contribution even higher than it is now. More worrying still, even on optimistic assumptions about other Community expenditure, FEOGA guarantee provision of around 16.5 billion ecus will leave precious

/little headroom



little headroom within the 1% ceiling either for new policies from which the UK could expect to benefit or for our refunds in respect of 1983. The outlook is thus indeed a dark one unless some way can be found of cutting back the amounts to be spent on the CAP.

Related to this, if the guideline is to be made effective in 1984, it must be taken into account by the Commission in drawing up the Preliminary Draft Budget for 1984. This process is already underway, and so now rather than later is the time to be registering our point. There is no evidence so far that the Commission are doing anything to get to grips with the problem of agricultural spending. On the contrary, they appear to be considering whether they can find some way of getting round the 1% ceiling.

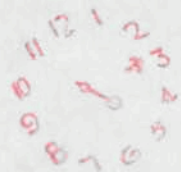
You suggested that we should be in a far stronger position to argue the case for corrective action under the CAP next year, when the need for action would be undeniable. Certainly it would then be more difficult for others to argue that there was no problem. But the fact that the Commission plan to raise the issue of longer-term CAP developments at the 18/19 April Agriculture Council should make it easier to raise the 1984 question in that context. In any event, I fear that when we were clearly well into 1984 it would be too late to bring the position for that year back into consistency with the guideline, short of extremely radical measures which others would be bound to resist fiercely. There is inevitably a time lag between policy decisions and their expenditure impact. Moreover, I imagine that in those extreme circumstances there would be an even greater temptation than now for the Commission to propose major economies in those few areas of the CAP from which the UK obtains significant budgetary benefits.

For all these reasons I hope you will feel able to place substantial emphasis on the need to contain the 1984 position in the continuing negotiations in the Agriculture Council next week and, beforehand, in your discussions with Herr Kiechle. As a minimum, I consider that we should be pressing the Commission now to report on the expenditure prospects for 1984 and on their ideas for measures which could be taken to bring the growth of guarantee spending in line with the expenditure guideline.

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

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', written in a cursive style.

13 APR 1985



CAP PRICE FIXING AND PROSPECTS FOR FEOGA EXPENDITURE

The Secretary's minute of 23 March to Mr Lawson refers.

Mrs Hamilton

cc Mr Andrews  
Mr Griffiths  
Mr Wilson

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

25 March 1983

p.a.  
A.J.C. 14/4.

CAP PRICE FIXING AND PROSPECTS FOR FEOGA EXPENDITURE

Thank you for your letter of 16 March.

I agree entirely with your assessment of the likely development of FEOGA expenditure in 1983 and 1984, given a continuation of a weak world market for the main surplus commodities and the continuing increase in Community production that, given normal weather, we can expect. I have put this overwhelming argument for price restraint as forcefully as I can to my colleagues in the Agriculture Council. Not one of them supports me in seeking price increases lower than the Commission has proposed. The general cry is for more, and we shall do well if we can hold down the final decision to the level of the Commission's proposals.

I see equally little prospect of getting support for the sort of firm constraints on FEOGA expenditure that you suggest. Only the Germans and the Dutch have joined us in pressing for an expenditure guideline that would limit the increase in FEOGA expenditure to a percentage markedly lower than the increase in own resources and, as you say, they are unreliable allies at best. You will recall how hard the Prime Minister fought for general acceptance of this guideline in the mandate discussions, but without success. I shall continue to argue from the guideline as strongly as I can. But it would be misleading ourselves to suppose that it will decide the outcome of the price-fixing.

/Other member states ...

Other member states will be just as strongly opposed to a limit on the 1983 FEOGA guarantee budget at a level that would really bite. The Commission will argue that the unpredictable nature of production levels and world market prices makes a firm limit unrealistic, and nearly every other member state will agree with them. They will put forward the same argument even more strongly in relation to 1984, which is by definition still less predictable. They will certainly not commit themselves now to take the draconian measures that look like being necessary in the 1984 price-fixing if our own guideline is to be observed. We shall be in a far stronger position to argue the case next year, when the level of expenditure will be undeniable and the need for corrective action self-evident.

As I see it, the real issue for us in the short term is to ensure that the 1983 and 1984 budgets have adequate provision to cover our budgetary refunds and that this provision does not get swallowed up by provision for increased agricultural expenditure. The Prime Minister's success in this week's European Council is clearly a very helpful factor here. Another is the fact that the Agricultural Commissioner is playing down the likely size of a supplementary budget in 1983. I shall do all I can to get him to commit himself not to seek a supplementary budget of more than a billion ecus. And I will canvass my new German and Dutch colleagues for support to this end. I will keep you informed of progress.

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

PETER WALKER

13 APR 1964

