

MESSAGE FROM THE PRIME MINISTER TO M. THORN

I am very concerned at the indications which are now emerging of the rapid rate of increase in the Community's agricultural guarantee spending. I have read Christopher Tugendhat's remarks to the European Parliament. Expenditure is now increasing at twice the rate of increase in the Community's own resources and this is likely to continue in 1984. This is clearly contrary to the guideline which the Commission put forward in their Mandate Report and which I and other Heads of State and Government endorsed at Lancaster House in November 1981.

I welcomed the prominence which the Commission gave in its Green Paper on the Future Financing of the Community to the need to observe this guideline in the years ahead. You yourself referred to this in your Programme Speech to the Parliament in February. I agree with the Commission that if any progress is to be made in the development of the Community it is essential that agriculture's share of the budget should be reduced by better control of surpluses and their cost.

I am therefore anxious to know what action the Commission now proposes to counteract the present trend of agricultural spending. It is surely crucial that at this year's annual price fixing the decisions taken should recognise the need to make a real impact on the surpluses problem so as to set the Community back on the path to keeping the rise in agricultural spending below the rise in own resources. Do you agree that the Commission should be reconsidering the level of price increases which it proposed before the current alarming prospects for expenditure had emerged? I really do not see how our policy objective of keeping the growth of agricultural expenditure below the growth in own resources could retain any credibility if we were to carry on as if nothing had happened.



me ✓

10 DOWNING STREET

From the Private Secretary

15 April 1983

CAP PRICE FIXING 1983 : FINANCIAL IMPLICATIONS

The Prime Minister saw last night Robert Lawson's letter of 14 April enclosing draft messages for her to send to the President of the European Commission and Commissioner Tugendhat.

I told you on the telephone last night that the Prime Minister had agreed to these messages, subject to certain minor changes, and asked you to arrange for their early delivery today.

I now enclose the final text of each message.

I am copying this letter and enclosures to Robert Lawson (MAFF), John Kerr (HM Treasury) and David Hancock (Cabinet Office).

A. J. COLES

R.B. Bone, Esq.,
Foreign and Commonwealth Office.

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 INFO PRIORITY OTHER EC POSTS

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19 APR 1983	
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INDEX	PA

MY 2 IPTS: PRIME MINISTER'S MESSAGE TO TUGENDHAT

1. FOLLOWING IS TEXT (TO BE MARKED PERSONAL):
 BEGINS

'FOLLOWING DISCUSSION IN CABINET OF THE STATE OF PLAY ON THE FARM PRICE NEGOTIATIONS, I HAVE SENT A PERSONAL MESSAGE TO PRESIDENT THORN EXPRESSING THE CABINET'S CONCERN AT THE LACK OF EFFECTIVE MEASURES FOR DEALING WITH THE GROWING SURPLUSES AND THE CONSEQUENT RISE IN AGRICULTURAL EXPENDITURE. THESE RISK MAKING A MOCKERY OF THE COMMISSION'S POLICY OF KEEPING THE RATE OF GROWTH OF EXPENDITURE IN AGRICULTURE BELOW THAT OF OWN RESOURCES. AS YOU KNOW WE STRONGLY SUPPORT THIS POLICY.

YOU ARE WELL AWARE THAT AN INCREASE OF THE KIND THAT YOU HAVE FORECAST WOULD CREATE EXTRA DIFFICULTIES IN THE WAY OF AN AGREEMENT ON A SOLUTION TO OUR BUDGET PROBLEM. THE SOLUTION OF THE PROBLEM AT STUTTGART IS OF VITAL POLITICAL IMPORTANCE TO ME. LOOKING FURTHER AHEAD, I SIMPLY COULD NOT STAND BY AND SEE THE COMMUNITY'S COMMITMENTS TO SOLVING THE PROBLEM VITIATED BY THE EXHAUSTION OF THE FUNDS AVAILABLE TO THE COMMUNITY.

THE COMMISSION PLAYS A CRITICAL PART IN EACH PRICE FIXING NEGOTIATION. IF THEY NOW TAKE A FIRM STAND AGAINST PRESSURES FOR FURTHER PRICE INCREASES OR FOR WEAKENING THE MEASURES TO DEAL WITH SUPPLUSES, THERE IS HOPE OF A DEFENSIBLE SETTLEMENT WHICH, COUPLED WITH EFFECTIVE MEASURES TO CONTROL COSTS IN THE MANAGEMENT OF THE BUDGET, WOULD LEAVE SUFFICIENT HEADROOM FOR THE

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2007 - 1

FINANCING OF UK REFUNDS.

YOU ARE OF COURSE IN A KEY POSITION AS THE COMMISSIONER RESPONSIBLE FOR THE BUDGET. I AM RELYING ON YOU TO ENSURE THAT THE COMMISSION DOES NOT DUCK THE PROBLEMS WHICH THE CURRENT DRIFT OF AGRICULTURAL EXPENDITURE POSES, NOT JUST FOR THE UNITED KINGDOM, BUT FOR THE WHOLE FUTURE OF THE COMMUNITY.'

ENDS

PYM

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CHRISTOPHER TUGENDHAT
VICE PRESIDENT OF THE COMMISSION
OF THE EUROPEAN COMMUNITIES

Prime Minister
Not very satisfactory - but the Chancellor
has now written to Mr. Tugendhat again
(see attached).

RUE DE LA LOI, 200
1049 BRUSSELS - TEL. 235 25 14
235 26 10

A-2-C. 15/4

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21st April, 1983

Dear Prime Minister

I am replying to your message, conveyed to my office on April 15th, about the farm price negotiations. As you can imagine, I agree very much with what you say and was already striving to achieve the objectives you set out before it arrived.

At my suggestion the Commission decided, when the Agriculture Council met, to draw its attention at the outset to the budgetary implications of the current growth in agricultural expenditure by means of a formal communication. I believe that this communication played a useful role and helped to ensure that the need for financial restraint was kept in Ministers' minds. Thereafter I urged my colleagues to maintain the essential points of our proposal and not to weaken the measures designed to deal with surpluses. Although there are of course some aspects of the Commission's compromise proposal that I would have preferred not to see, I think I can claim this objective was secured. I am glad that Peter Walker felt able to say in public that as a result of the Commission's stance it has so far proved possible to withstand those who favoured a more costly and irresponsible decision.

I understand from Peter that you also wrote to Chancellor Kohl at the same time as to Gaston Thorn and myself. At the time of writing, Bonn seems to be the principal remaining obstacle to a reasonably satisfactory settlement. I do hope the German Government can now be convinced of the need to accept our proposal.

No. AR 4/5

With best wishes

Yours ever

Rt. Hon. Margaret Thatcher, M.P.,
The Prime Minister,
10 Downing Street,
LONDON SW1.

Euro Pol
CDP, PT 11

CHRISTOPHER YOUNG
THE FACILITY OF THE
OF THE EUROPEAN COMMISSION

25 APR 1983



YOUNG BOONDO



Envoy. Pol. HU
CC HMT
MATT
CO

10 DOWNING STREET

From the Private Secretary

25 April 1983

EC Agricultural Expenditure

I enclose a copy of a letter which the Prime Minister has received from Commissioner Tugendhat in reply to her message of 14 April.

In showing this to the Prime Minister, I shall also draw her attention to the message of 22 April to Commissioner Tugendhat from the Chancellor of the Exchequer which is contained in FCO telegram No. 218 to UKREP, Brussels.

I am copying this letter and enclosure to John Kerr (H.M. Treasury), Robert Lawson (Ministry of Agriculture, Fisheries and Food) and Richard Hatfield (Cabinet Office).

A. J. COLES

Roger Bone, Esq.,
Foreign and Commonwealth Office.

NR



Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the Minister's Private Office

CONFIDENTIAL

A J Coles Esq
Private Secretary to the Prime Minister
10 Downing Street

14 April 1983

Dear John

CAP PRICE FIXING 1983 : FINANCIAL IMPLICATIONS

I understand that it was agreed in Cabinet this morning that the Prime Minister would send messages to Thorn/^{and}Tugendhat on this ... subject. I enclose drafts which I understand have been cleared at official level with the other Departments concerned.

I am sending copies of this letter and enclosures to Roger Bone (FCO), John Kerr (Treasury) and David Hancock (Cabinet Office).

Yours sincerely
Robert Lowson

Robert Lowson
Principal Private Secretary

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DRAFT MESSAGE FROM PRIME MINISTER TO M. THORN

I am very ~~much~~ concerned at the indications which are now emerging of the rapid rate of increase in the Community's agricultural guarantee spending. I have read ~~what~~ Christopher Tugendhat's ~~has~~ ^{remarks} ~~told~~ ^{to} the European Parliament. Expenditure is now increasing at twice the rate of increase in the Community's own resources and this is likely to continue in 1984. This is clearly contrary to the guideline which the Commission put forward in their Mandate Report and which I and other Heads of State and Government endorsed at Lancaster House in November 1981.

I welcomed the prominence which the Commission gave in its Green Paper on the Future Financing of the Community to the need to observe this guideline in the years ahead. You yourself referred to this in your Programme speech to the Parliament in February. I agree with the Commission that if any progress is to be made in the development of the Community it is essential that agriculture's share of the budget ~~must~~ ^{should} be reduced by better control of surpluses and their cost.

I am therefore anxious to know what action the Commission now proposes to counteract the present trend of agricultural spending. It is surely crucial that at this year's annual price fixing the decisions taken should recognise the need to make a real impact on the surpluses problem so as to set the Community back on the path to keeping the rise in agricultural spending below the rise in own resources. Do you agree that the Commission should be reconsidering the level of price increases which it proposed before the current alarming prospects for expenditure had emerged? I really do not see how our policy

objective of keeping the growth of agricultural expenditure below the growth in own resources could retain any credibility if we were to carry on as if nothing had happened.

PERSONAL AND CONFIDENTIAL

DRAFT OF MESSAGE TO MR TUGENDHAT

Following discussion in Cabinet ~~yesterday~~ of the state of play on the farm price negotiations, I have sent a personal message to President Thorn expressing the Cabinet's concern at the lack of effective measures for dealing with the growing surpluses and the consequent rise in agricultural expenditure. ~~which~~ ^{these} risk making a mockery of the Commission's policy of keeping the rate of growth of expenditure in agriculture below that of own resources. As you know we strongly support this policy.

2. You are well aware that an increase of the kind that you have forecast would create extra difficulties in the way of an agreement on a solution to our Budget problem. The solution of the problem at Stuttgart is of vital political importance to me. Looking further ahead, I simply could not stand by and see the Community's commitments to solving the problem vitiated by the exhaustion of the funds available to the Community.

3. The Commission plays a critical part in each price fixing negotiation. If they now take a firm stand against pressures for further price increases or for weakening the measures to deal with surpluses, there is hope of a defensible settlement which, coupled with effective measures to control costs in the management of the Budget, would leave sufficient headroom for the financing of UK refunds.

4. You are of course in a key position as the Commissioner responsible for the Budget. I am relying on you to ensure that the Commission does not duck the problems which the current drift of agricultural expenditure poses, not just for the United Kingdom, but for the whole future of the Community.