



FCS/83/137

CHANCELLOR OF THE EXCHEQUER

A Strict Financial Guideline for Agriculture

*with ASC*  
1. Your minute of 19 July enclosed a paper for tabling in the negotiations on a strict financial guideline for controlling agricultural expenditure. I think it is a very valuable piece of work and that the paper will be an important element in our position on the budget negotiations. I agree with you that it would be tactically better to table the paper soon after the Commission have tabled their paper on the CAP.

2. As you say, there is no doubt that our paper will meet with strong opposition. We should not be put off by this. Some Member States are likely to oppose any measures which they think may seriously threaten their benefits under the CAP. At the same time we must avoid making proposals which will be regarded by the majority as provocative and not meriting serious consideration. I think your paper toes this tricky path successfully. I am sure it is right, for example, to put forward in this paper the idea that a supplementary budget could, exceptionally and subject to safeguards and penalties, override the given fraction. Without such an element in our scheme, there is a real danger that Member States will regard our ideas as too rigid to be workable. I also think it is tactically right as in paragraph 10, to propose that the European Parliament can override the "given fraction" by a 3/5 majority. This may seem at first sight a rather daring proposal for us to put forward. But the fact is that the Parliament currently have the power to propose unlimited increases in agricultural expenditure. So to include a provision in our scheme which gives them no power to increase this "given

/fraction"





"fraction" would amount to seeking a reduction in their powers. Under our proposal any increase they propose would be subject to subsequent agreement by the Council and would be deductible in the following year. I believe we shall gain credit from the Parliament for making this proposal. There is of course quite a good chance that others will knock it out in Council discussion.

3. Finally, while I agree with you that we need to entrench the "given fraction" in such a way that it cannot be changed by the Agriculture Council itself, it is clear that we shall have the greatest difficulty in securing a Treaty amendment. We shall no doubt be faced with the need to consider something less far-reaching in the course of the negotiation.

4. I am copying this minute to the Prime Minister, members of OD(E), the Secretaries of State for Scotland, Northern Ireland and Wales and to Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

21 July 1983



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bc: Michael Scholar

10 DOWNING STREET

*From the Private Secretary*

25 July 1983

Post-Stuttgart Negotiations:  
A "Strict Financial Guideline" for Agriculture

The Prime Minister has seen the Chancellor of the Exchequer's minute of 19 July on this subject.

She has minuted that she is content that this paper should be tabled in the first week of August but has added the comment that she is not enamoured of supplementary budgets for the CAP. The Chancellor may wish to discuss this point at his meeting with the Prime Minister on Wednesday, 27 July.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office), the Secretaries of State for Scotland, Northern Ireland and Wales, the Private Secretaries to members of OD(E) and Sir Robert Armstrong.

A. J. COLES

John Kerr, Esq.,  
HM Treasury

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

PRIME MINISTER

21 July 1983

*For Prime Minister*

POST-STUTTGART NEGOTIATIONS: A "STRICT FINANCIAL GUIDELINE"  
FOR AGRICULTURE

*will ASZ*  
The Chancellor of the Exchequer has sent you with his minute of 19 July the text of a paper to be tabled on the post-Stuttgart negotiations, dealing with a strict financial guideline for controlling agricultural expenditure. As the Chancellor says, the text has been agreed between officials. I have kept in close touch with officials' work on this and I can agree to the text, as it has emerged, for the purposes for which it is intended. But I do have some anxiety on a number of points, which I feel that I should put to you and other colleagues involved before the paper is finally tabled.

First, in general I believe that we should be under no illusions about the prospects for this aspect of the negotiations. As the Chancellor points out, the thinking in this paper will be even more difficult for our partners, than the proposal for limits on net contributions (and you know how difficult that will be). Others will not be slow to point out that the Heads of Government at Stuttgart endorsed the basic principles of the CAP, one of which has always been understood to be the principle of financial solidarity. They will argue that to impose binding limits on the Community's liability to fund its agricultural guarantees would be an infringement of the principle of financial solidarity. We will of course be able to challenge such an argument and to emphasise that without effective control of the rate of increase of CAP expenditure any increase in own resources could not be considered. Moreover I can see the tactical reasons for setting out in our paper at this stage a clear and fully-worked-out procedure providing the maximum discipline on expenditure. But we must clear in our own minds that if the negotiations are to end in agreement we shall have to be prepared to move towards something less rigorous.

/I am particularly ...



I am particularly concerned about the combined impact of the "year-on-year" approach set out in paragraph 5 of the paper and the "penalty clause" in paragraph 14, under which any "overspend" in one year is to be deducted from the amount available in the following year. The combined effect of these provisions is to convert the concept of an effective guideline into what would in practice be a rigid two-year rolling cash limit. I believe that this aspect of the paper will draw particular fire from our Community partners and may significantly affect the overall reception which the paper gets.

I am prepared to accept that the tactical judgement whether or not to include both provisions as part of our initial negotiating position should be with the Foreign and Commonwealth Secretary. But I must make clear that I do not consider that strict cash limits are a suitable technique for controlling a class of expenditure which is demand-led and liable to fluctuate sharply as a result of external factors. We have reached this conclusion ourselves in our own public expenditure arrangements and it seems difficult to defend attempting to impose a more rigid system on our Community partners.

The paper as drafted leaves the figure for the "given fraction" of the own resources growth rate by which agricultural expenditure should be allowed to grow as a matter to be taken up later in the negotiations. I am sure that this is right. I would not dissent from the Chancellor's suggestion in his covering minute that when this comes to be discussed our opening bid should be two-thirds and that we should aim to go no higher than three-quarters. But I would warn against coming out with a figure at too early a stage in the negotiations or in such a way that we become publicly committed to an aim which may subsequently prove to be unattainable. We should if possible concert our line with the Germans and the Dutch on this question of the figure rather than take up a unilateral UK position in the negotiations. We have to bear in mind the potential impact on the domestic presentation of our position as well as the Community negotiating context.

Finally, I must comment on paragraph 6 of the Chancellor's minute which refers to issues currently under interdepartmental discussion at official level and likely to need reference to Ministers collectively. I of course recognise that the difficulty under the present support arrangements of making economies in spending in the course of a year will be one of the major problems in ensuring that a strict guideline is adhered to. But this difficulty is to some extent a feature of any arrangements consistent with the objectives and basic principles of the CAP, as endorsed at Stuttgart. I am content that all options should be examined at official level but I must warn colleagues that there are limits in terms of general political acceptability to the sort of changes in support levels and mechanisms which can be contemplated in the course of a given marketing year. Some of the ideas mentioned by the Chancellor risk going beyond these limits.



Copies of this minute go to the Foreign Secretary, the Chancellor of the Exchequer and other members of OD(E), the Secretaries of State for Scotland, Northern Ireland and Wales, and Sir Robert Armstrong.

*Ernest  
M. Jopling*

MICHAEL JOPLING

21 JUL 1983

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SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

Prime Minister

A.S.C. 26/7

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
LONDON SW1

26 July 1983

*Nigel*

*MS*

POST-STUTTGART NEGOTIATION: A "STRICT FINANCIAL GUIDELINE" FOR AGRICULTURE

Thank you for copying to me your minute to the Prime Minister of 19 July and the text of a paper on a strict financial guideline for agriculture spending by the EC. Given the overriding importance of the Community coming to terms with its budgetary problems, I agree with the text and I am content that it should be tabled at the time when you feel it would secure us the maximum tactical benefit.

In this post-Stuttgart exercise we must be very careful that we do not make suggestions which would result in policy changes which would put the United Kingdom agricultural and food industries at more of a disadvantage than those in other Member States. I do not believe that we should suggest anything which would apparently make it easier for the Agriculture Council to isolate the United Kingdom on those particular areas of agricultural expenditure of greatest relevance to us. This is of course particularly important to Northern Ireland because of the greater dependence of our economy on these sectors and the ability of the Irish Republic to gain special concessions in the past irrespective of the development of the common agricultural policy.

Most of the issues involved in the Stuttgart Declaration are very relevant to Northern Ireland and I would be grateful to be associated with the appropriate OD(E) deliberations. It would also be helpful if Departments could copy draft papers to my officials.

I am copying this letter to the Prime Minister and to the others who received your minute.

*Yours*

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