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TO IMMEDIATE UKREP BRUSSELS

TELEGRAM NUMBER 218 OF 22 APRIL

PLEASE PASS FOLLOWING PERSONAL MESSAGE (DATED 22 APRIL) URGENTLY
TO TUGENDHAT FROM CHANCELLOR OF EXCHEQUER: -

QUOTE

I TOLD YOU LAST MONDAY OF MY WORRIES ABOUT AGRICULTURAL SPENDING
AND THE PROVISION IN THE 1984 BUDGET OF OUR REFUNDS FOR 1983.

2. I AM NOW EVEN MORE ALARMED BY THE COMMISSION'S STATEMENT ON
WEDNESDAY TO THE AGRICULTURE COUNCIL ABOUT THE FINANCIAL CON-
SEQUENCES OF THE PRICE FIXING. I RECOGNISE AND AM GRATEFUL FOR THE
DETERMINATION AND FIRMNESS WHICH YOU AND OTHER MEMBERS OF THE
COMMISSION HAVE SHOWN IN REFUSING TO INCREASE THE AGRICULTURE
PRICE PROPOSALS FOR THE MAIN SURPLUS PRODUCTS. I WAS PLEASED THAT
POUL DALSAGER CONFIRMED AT THE AGRICULTURE COUNCIL THAT IT WAS
THE COMMISSION'S UNANIMOUS VIEW THAT UNDER NO CIRCUMSTANCES WOULD
THEY PROPOSE FURTHER PRICE INCREASES. IT WOULD BE DISASTROUS TO
RETREAT FROM THIS.

3. BUT ANY PRICE RISES THIS YEAR MEAN YET FURTHER INCREASES IN
AGRICULTURAL SPENDING, WHICH IS CLEARLY OUT OF CONTROL. IF PROV-
ISION FOR FEOGA GUARANTEE EXPENDITURE IN 1984 IS AS LARGE AS THE
16 BILLION - 17 BILLION ECU PREDICTED IN THE COMMISSION'S STATE-
MENT, THEN I CANNOT SEE HOW ANY HEADROOM COULD BE LEFT FOR THE
FINANCING OF UK REFUNDS, LET ALONE NEW EXPENDITURE POLICIES FROM
WHICH THE UK MIGHT HOPE TO BENEFIT AND WHICH THE COMMISSION ITSELF
PRESUMABLY WANTS TO PROMOTE. DESPITE THIS PROSPECT THERE WAS NO
SIGN IN THE COMMISSION'S STATEMENT TO THE AGRICULTURE COUNCIL ON
WEDNESDAY OF ANY INTENTION TO BRING FORWARD THE FURTHER MEASURES
WHICH ARE NEEDED IF AGRICULTURAL SPENDING IS TO BE BROUGHT UNDER
CONTROL. ON THE CONTRARY THE COMMISSION APPEARED TO INVITE THE
COUNCIL TO ACQUIESCE IN PROVISION FOR REOGA IN THE 1984 BUDGET OF UP
TO 17 BILLION ECU.

1

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4. THIS IS NOT AN ACCEPTABLE POSITION TO US. IN VIEW OF THE RISK TO OUR REFUNDS IT IS IMPERATIVE THAT YOU SHOULD NOW REDUCE THE PROVISION FOR AGRICULTURAL EXPENDITURE IN THE 1984 PRELIMINARY DRAFT BUDGET TO THE EXTENT REQUIRED TO PRESERVE THE NECESSARY HEADROOM. I RECOGNISE THAT, IN ORDER TO DO SO, THE COMMISSION WILL ALSO HAVE TO COMMIT ITSELF TO BRINGING FORWARD NEW MEASURES TO REDUCE AGRICULTURAL SURPLUSES AND THE COSTS THEY ENTAIL, SO THAT FEOGA EXPENDITURE IS MADE TO CONFORM WITH THE GUIDELINE. BUT, AS I HAVE ALREADY SAID, I REGARD SUCH MEASURES AS ESSENTIAL: I HAVE NO DOUBT THAT THE COMMISSION MUST TACKLE THE PROBLEM OF CAP SURPLUSES AND THEIR COSTS AT ROOT - RATHER THAN BE CONSIDERING AT THIS STAGE WAYS AND MEANS OF GETTING ROUND CASH FLOW PROBLEMS AND THE CONSTRAINTS OF THE OWN RESOURCES CEILING. FRANKLY, ALTHOUGH THERE ARE A NUMBER OF VARIANTS WHICH MUST BE CONSIDERED, MY OWN EXPERIENCE ON PUBLIC SPENDING IS THAT THE ONLY WAY TO ASSERT CONTROL IS TO IMPOSE AN EFFECTIVE AND BINDING CASH LIMIT AND TO HAVE THE POLITICAL WILL TO MAKE IT STICK.

5. ON THE QUESTION OF PROVISION IN NEXT YEAR'S BUDGET FOR THE FINANCING OF UK REFUNDS THERE IS, HOWEVER, ONE DEVICE WHICH I BELIEVE YOUR PEOPLE ARE LOOKING AT AND WHICH SEEMS TO ME TO HAVE SOME ATTRACTION. THAT IS TO INCLUDE IN THE PROVISIONAL DRAFT BUDGET A SUBSTANTIAL RESERVE - I THINK GROSS PROVISION OF SOME 2 BILLION ECU WOULD BE LIKELY TO BE NEEDED - WHICH MIGHT, FOR EXAMPLE, BE LINKED TO THE NEW PROGRAMMES THAT COMMISSIONER DAVIGNON SEEMED TO HAVE IN MIND. THIS WOULD NOT BE IDENTIFIED DIRECTLY WITH THE UK'S NEEDS AT THE OUTSET, BUT IT WOULD NEED TO BE LARGE ENOUGH TO ACCOMMODATE THEM. I SHOULD BE GLAD TO KNOW THAT YOU ARE GIVING THIS PROPOSAL URGENT CONSIDERATION. WE ARE LOOKING TO YOU FOR EARLY AND PRACTICAL HELP.

UNQUOTE

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