



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

15 February, 1980

*NRPA
Mud*

Dear Minister,

CAP PRICE PROPOSALS

Thank you for copying to me your letter of 13th February to Peter Carrington.

In general I agree the line you propose, but I do feel that you should take a more stringent line on the price issue. It would be advisable to take a tough and uncompromising posture from the outset and to open with a robust statement of our view of the need to avoid any price increase for products in surplus, inflation or not. I agree that you should argue that wine as well as milk and sugar is in surplus. The Commission's report on the trends of cereals production and consumption seems to me to give good grounds for resistance to price increases in this sector also.

Milk Levies

Your line on the general co-responsibility levy for milk has of course been agreed in OD(E). But, I am not convinced that the revised proposals for a super levy should be entirely rejected at this stage. At first sight there seems to be a marked improvement on the original proposal, and you might perhaps at least indicate readiness to study them in detail. The scheme represents a form of quota and your recent OD(E) paper did not rule quotas out entirely. If you are doubtful about our ability to negotiate a sufficiently long lasting price freeze to curb expanding production it may be necessary to contemplate measures of this kind.

Butter Subsidy

I agree that the continuance of the 100 per cent financed UK butter subsidy is a desirable objective.

/Sugar Quotas

The Rt. Hon. Peter Walker, MP



Sugar Quotas

I am uneasy about your proposed line here. I recognise that if no agreement can be reached on a reduction in quotas by June it would be better to continue with the existing quotas than with none at all. But if no agreement has been reached on quotas there will also have been no agreement on prices, and we should be able to secure at a minimum that existing prices would continue only if the quota scheme continues. I would have thought, therefore, that you can continue to argue for lower total quotas well beyond March. On the UK quota, I note that the Commission has made an improvement in its original proposal, but it is not clear from your letter why you regard the offer as unfair.

Beef Cow Subsidy

I can agree provisionally to your proposed line pending a more detailed examination of the costs and benefits of the Commission's proposals. You should bear in mind though the implications of the minute I recently circulated on the use of Community funds. If additional receipts from the Community are to contribute to the reduction of public expenditure they must replace not add to existing public expenditure commitments.

National Financing

I agree that the possibility of national financing of surplus disposal is a promising one which deserves further study. But it seems to me to be premature to propose it at this stage.

It will be seen as an attack on a major principle of the CAP and there can be no prospect of it being adopted except as a measure of desperation arising from the 1 per cent VAT ceiling. I should, therefore, have thought it better to reserve this idea at least until we have studied the paper you propose to circulate on this subject. And, in a purely tactical sense, it may be difficult for you to argue simultaneously for 100 per cent Community financing of the UK butter subsidy and for the introduction of partial national financing of the main mechanisms of the CAP.

I am sending copies of this letter to the Prime Minister, other members of OD(E) and Sir Robert Armstrong.

Yours sincerely

G. Wigg
(Principal Private Secretary)

(or (GEOFFREY HOWE)

(approved by the Chancellor & signed in his absence)

18 FEB 1980

