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CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on

THURSDAY 14 FEBRUARY 1980

at 10.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Sir Keith Joseph MP
Secretary of State for Industry

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon James Prior MP
Secretary of State for Employment

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Michael Heseltine MP
Secretary of State for the Environment

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales

The Rt Hon Humphrey Atkins MP
Secretary of State for Northern Ireland

The Rt Hon Patrick Jenkin MP
Secretary of State for Social Services

The Rt Hon Norman St John-Stevas MP
Chancellor of the Duchy of Lancaster

The Rt Hon John Nott MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Energy

The Rt Hon Mark Carlisle QC MP
Secretary of State for Education and Science

Rt Hon John Biffen MP Secretary, Treasury	The Rt Hon Angus Maude MP Paymaster General

THE FOLLOWING WERE ALSO PRESENT

Rt Hon Norman Fowler MP ister of Transport	The Rt Hon Michael Jopling MP Parliamentary Secretary, Treasury
Ferrers ister of State, Ministry of Agriculture, eries and Food	Mr Paul Channon MP Minister of State, Civil Service Department (Item 5)

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin (Items 2 and 3)
Mr P Le Cheminant (Items 4 and 5)
Mr P J Harrop (Item 1)
Mr R L Wade-Gery (Items 2-4)
Mr P Mountfield (Items 4 and 5)
Mr W N Hyde (Item 1)

CONTENTS

Subject	Page

AMENTARY
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1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

Members'

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that it was likely that, if proceedings on the Abortion (Amendment) Bill were restricted to the time allotted to Private Members' Bills, even those parts of the Bill which commanded a wide measure of agreement in the House were unlikely to reach the Statute Book. It was likely that he would come under pressure to make Government time available.

THE HOME SECRETARY suggested that the Cabinet should reaffirm the consistent practice of Conservative Administrations not to make Government time available for Private Members' Bills. Otherwise there would be continuing difficulties in resisting pressure to provide time for individual Bills. In his own field he had in mind the Hare Coursing (Abolition) Bill, which raised contentious issues between the animal lobby and country Members.

In discussion it was suggested that it would be better to defer an announcement affecting the Government's attitude to the provision of time for the Abortion (Amendment) Bill. There would be public criticism of Parliament if no decision were reached on those matters on which there was a wide measure of agreement. The possibility had been canvassed of suspending the rule to allow debate on the Bill to continue after 2.30 pm on a Friday. On the other hand, it was pointed out that the promoters of the Bill had not been willing to drop the controversial provisions of the Bill in order to secure the passage of generally agreed provisions. Two or three Fridays remained for debating the Bill. If action were taken to suspend the rule for one Bill, there would be no defence to pleas for similar action on other Private Members' Bills. Action to extend the debate on the Abortion (Amendment) Bill would certainly bring demands for similar treatment from the supporters of the Road Traffic (Seat Belts) Bill.

THE PRIME MINISTER, summing up the discussion, said that it was the clear view of the Cabinet that Government time should not be made available, nor should the rule be suspended, to facilitate the progress of a Private Member's Bill.

The Cabinet -

1. Agreed that no Government time should be made available for any Private Member's Bill, nor should the Government move to suspend the rule, to facilitate the progress of such a Bill.

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THE SECRETARY OF STATE FOR EMPLOYMENT said that he believed that it might be possible to reach agreement with the Opposition that new clauses restricting trade union immunities should be tabled for discussion at the Report Stage of the Employment Bill and that it would not prove necessary for the Committee Stage of the Bill to be prolonged. He hoped that nothing would be said in Ministerial speeches on the subject which would preclude this possibility.

THE PRIME MINISTER, summing up a brief discussion, said that, if such an arrangement could be made through the usual channels, it would facilitate the passage of the Bill, while meeting her undertaking that the House as a whole would be able to discuss the changes that the Government proposed to make in the Bill.

The Cabinet -

2. Took note.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that President Tito's death appeared imminent but seemed unlikely to be accompanied by political trouble. Arrangements were in hand for United Kingdom representation at the funeral.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Governor, Lord Soames, was doing a magnificent job. But the situation remained critical and had not been helped by developments such as the arrest and temporary detention of Mr Garfield Todd or the attempted assassination of Mr Mugabe. President Nyerere of Tanzania's unjustified criticisms of British policy might make it necessary for the United Nations to be further involved. The Governor's new powers might do something to curb electoral intimidation, which was being practised both by Mr Mugabe's and by Bishop Muzorewa's followers. Mr Mugabe clearly enjoyed considerable electoral support. Mr Nkomo was campaigning well, but his main strength lay with the minority Matabele tribe. Bishop Muzorewa was proving less impressive, although his party was well organised and not short of money. The elections remained the essential goal of the Government's policy, and it had been most helpful that the Home Secretary had been able to agree to several hundred more British policemen being sent out to assist with electoral arrangements. After the elections it would be for the Governor to decide whom to invite to form a Government. He would not necessarily have to choose the leader of the largest party, if another leader seemed more likely to command a parliamentary majority. The only constitutional limitation was that the holders of the white community's 20 seats could not form an alliance except with the largest black African party or combination of such parties.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the United States guarantee of Pakistan had been reinforced following Dr Brzezinski's visit, although it remained less strong than the Pakistanis wanted. Pakistan seemed likely to seek Saudi Arabian money for arms purchases and United States money for economic development. This would have political and presentational advantages, and might also be commercially helpful to the United Kingdom as a potential arms supplier. Meanwhile it was to be hoped that the Foreign Ministers of the European Community would shortly endorse a British proposal for Afghanistan to be neutralised by international treaty, on the model of Austria. The Russians might well not agree (although they had withdrawn from Austria in 1955 in return for such a treaty); but the unreasonableness of their refusal would help to maintain international hostility to their policy.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the International Olympic Committee's refusal to move the Games away from Moscow was regrettable. The United States Government had meanwhile held a meeting in Washington of certain Governments opposed to Moscow as the site (including the United Kingdom and the Federal Republic of Germany but not France), and a further meeting was likely to be held later in February. The British Olympic Association was to meet on 4 March, and the Government would need to formulate their policy before then. The Secretary of the Cabinet had in hand the preparation of a paper for Ministerial consideration.

In the course of a brief discussion general support was expressed for the view that the Government should not do less in relation to the Moscow Olympics than they had done in relation to the British Lions' rugby football tour of South Africa: ie British athletes should be advised not to take part. The Government would also need to consider their policy on the financial issues involved in British participation in the Moscow Games or in any rival games of an international character which the Americans might decide to organise; and on the involvement of members of the Royal Family.

The Cabinet -

Took note.

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3. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Commission's proposals for agriculture prices for 1980-81 were heavily biased against the United Kingdom. It was unacceptable that the country which bore the heaviest economic burden from the Common Agricultural Policy should be discriminated against in this way. He would therefore take a tough attitude in the preliminary discussions at the meeting of the Council of Ministers (Agriculture) on 18 February on lines which he had explained in a letter dated 13 February to the Foreign and Commonwealth Secretary and other members of the Defence and Oversea Policy Committee Sub-Committee on European Questions. On sheepmeat, the French were due to respond that day to the latest Commission approach. If, as was likely, the reply was unsatisfactory he would press the Commission to ask the European Court for interim measures designed to bring speedy French compliance with the law.

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THE CHANCELLOR OF THE EXCHEQUER reported that at the Council of Ministers (Finance) on 11 February there had been a first discussion of the latest Commission paper dealing with ways of increasing Community expenditure for the benefit of the United Kingdom. He had welcomed the document as providing a framework within which a satisfactory settlement was possible. The only other intervention had been an unhelpful one by the French Minister of Finance who had argued that the economic situation of the United Kingdom had improved through higher North Sea oil prices so that even what had been on offer at the Dublin European Council was no longer justified.

In a brief discussion the following points were made -

a. There was no progress on the budget issue. The Germans were now saying that, because of Afghanistan, they would have new financial commitments eg to aid Turkey which would reduce their ability to help us. Not much could be expected from the current round of consultations being carried out by the Italian Foreign Minister and our Ambassador in Rome had been instructed to remind the Italian Prime Minister, Signor Cossiga, of his assurance to the Prime Minister that he would personally work for a settlement.

b. It was clear that the French and the Germans were continuing to work closely together. At the recent Finance Council they had previously agreed on a draft statement about agricultural expenditure designed to guide the Agriculture

Council. Although the Chancellor of the Exchequer had succeeded in securing a reference to the need for a prudent price policy and the deletion of an endorsement of the Commission's proposals, the resulting text was of very little value.

c. The heavy burden of the British net contribution to the Community Budget came on top of stationing costs of British troops in Germany and the disproportionate British contribution to the North Atlantic Treaty Organisation (NATO) Budget, which was geared to relative gross national product in 1948. The country could not support all three at present levels, and it might become necessary to consider giving our Community partners a clearer understanding of the consequences of a failure to settle the budget issue.

THE PRIME MINISTER, summing up a brief discussion, said that the Defence and Oversea Policy Committee would shortly need to consider the next steps in budget negotiations. There would then be an opportunity for further discussion in Cabinet.

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THE SECRETARY OF STATE FOR TRADE said that he hoped to hear that day that the Commission would be willing to impose quotas on imports of two of the three synthetic textile products for which the United Kingdom had sought safeguard action and to commit themselves to similar action on the third product (carpets) if imports continued to rise. Although this would not satisfy the industry, it gave most of what he had asked for and he would propose to announce his acceptance of such an arrangement in the House of Commons, if possible by way of an oral statement on 18 February. If as a result of pressure, notably from the Germans, the Commission were unwilling to go this far, the Defence and Oversea Policy Committee's Sub-Committee on European Questions would decide on further action next week.

The Cabinet -

Took note.

4. THE SECRETARY OF STATE FOR INDUSTRY said that the main steel pay talks were still deadlocked, although it was possible that the craftsmen and other smaller unions might agree terms that day. There seemed to be no prospect of an early solution.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the room for manoeuvre was very limited. The Iron and Steel Trades Confederation had rejected arbitration. There was nothing the Government could do at this stage.

THE HOME SECRETARY said that mass picketing, in which a contingent of South Yorkshire miners led by Mr Arthur Scargill had taken part, had presented serious problems that morning at the Hadfield plant at Sheffield; there were also problems on a smaller scale at Sheerness. But the police had the situation well under control so far, and at Hadfields the morning shift had all got in to work.

THE SECRETARY OF STATE FOR INDUSTRY said that British Shipbuilders had reached a settlement with their workforce which would cost on average about 11.5 per cent annually, largely self-financed. This was a satisfactory outcome.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that a Delegate Conference of the General and Municipal Workers Union had unexpectedly rejected the pay offer of 19.2 per cent which had been made to the four unions in the industry. The Conference had instructed its officers formally to call a strike on 25 February. The leaders were reluctant to do this, sensing that public opinion would be against them, and were looking for a way through. The position of the other unions was not yet known. Formal negotiations had not broken down, and informal contacts were already taking place. It might be necessary to implement the previously agreed contingency plans at short notice, though it would be untimely to do so before next week, in view of the possible effects of doing so on the climate for negotiations. If it became necessary to do so, he would seek the specific authority of the Prime Minister and the Home Secretary.

THE HOME SECRETARY said that the Civil Contingencies Unit was ready to meet at any time at either Ministerial or official level. Because it would take seven days to recall troops, and two days for training, troops could not be in place on 25 February if a strike began that day, but they could be available on 27 February. This would probably be time enough: the water authorities were unlikely to need to call on the help of the troops during the first day or two of a strike. A State of Emergency would not be necessary for the deployment of troops, but might be required later in order to mobilise public opinion and to protect the legal position of the water authorities. The success of the contingency plans would depend crucially on the willingness of the supervisors to co-operate, and their attitude was not yet known.

THE SECRETARY OF STATE FOR ENERGY said that the union negotiators had accepted an offer of 14.2 per cent, subject to Delegate Conferences. The unions concerned were the same as those in the water industry, and it was possible that a revised offer to the water workers would have repercussions for the gas industry. This should be borne in mind in considering the timing of any fresh offer.

THE SECRETARY OF STATE FOR INDUSTRY said that British Leyland faced a number of separate crises arising from its own cash flow and market share problems, the sacking of the union convener, Mr Derek Robinson, the effects of the steel strike, and its current pay negotiations. The company had decided to introduce short-time working for 20-30,000 workers from 25 February to conserve cash. The Board would face crucial decisions on 12 March, when it would meet to consider whether it was obliged to modify or even to withdraw the present plan.

THE MINISTER OF TRANSPORT said that the London Upper Docks and the conventional berths at Tilbury were completely stopped by a strike, which might last for three or four weeks. There was no sign of the strike spreading to other ports, and reasonable pay settlements had already been reached in some other ports, notably at Southampton.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Liverpool hospital dispute had now been settled. A separate problem had arisen over the allowances paid to medical laboratory scientific officers. He had decided to bypass the union, the Association of Scientific, Technical and Managerial Staff, whose conduct had been disgraceful, by putting the management's pay offer into immediate payment without waiting for conclusion of a settlement. He was now awaiting the reaction on the ground; in many cases the payment might lead to resumption of normal working but it was possible that some staff would walk out, and this could create a very serious situation in some hospitals. There were no comparable difficulties in Scotland.

The Cabinet -

Took note.

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5. The Cabinet considered a memorandum (C(80)13) by the Chancellor of the Duchy of Lancaster, reporting on his consultations with the House authorities and others about the decisions on Parliamentary pay and allowances provisionally reached by the Cabinet at its previous meeting.

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that he had met the Executive of the 1922 Committee, who were satisfied that their views had been taken fully into account on the main issue. They had urged him not to turn down definitely the recommendation of the Top Salaries Review Body (TSRB) on travel allowances. The Opposition had taken a less helpful line, but could be expected to co-operate. He had also consulted Parliamentary Counsel, and through him the House authorities, and he was now satisfied that there was (as things stood) no way in which an annual debate on Parliamentary pay could be avoided. But he hoped that, as a result of the new review procedure to which Cabinet had agreed, and if it was accepted that Parliamentary pay and allowances would as a matter of course be reviewed annually, those debates would eventually come to take place in a lower key than in the past. On the question of allowances, he had consulted the Accountant of the House of Commons. There was some scope for flexibility as between secretarial and research assistance allowances, and it was proposed to exploit this. On the question of accountability, he had been reassured to learn that the Fees Office had its own informal ways of dealing with apparent discrepancies in claims. He proposed, with the co-operation of officials from the Civil Service Department and Inland Revenue, and of the Fees Office, to introduce a new claims form which would help to avoid abuse. Generally, he proposed to publish the Report of the TSRB and to make a statement about the Government decisions that afternoon.

In discussion a number of points were made -

a. It was generally accepted that it was impossible to avoid an annual debate on the salaries and allowances of Members of Parliament (MPs).

b. It was important that MPs should be seen to be accountable for the various secretarial, research assistance, and travel allowances which they claimed. There was some reason to suspect abuse of the system by certain MPs. This gave rise to a grave risk of serious public scandal. Ministers had a responsibility to give a lead in tightening up the present system. The informal methods already used by the Fees Office were to be welcomed, even if they were necessarily incomplete. Any help which could be given by the Inland Revenue would also be useful; but because many travel allowances were not taxable, this must necessarily be limited in scope. The initiatives taken by the Chancellor of the Duchy of Lancaster would be the appropriate response at this stage. If a serious abuse were uncovered, it might be necessary to consider prosecuting the MP concerned.

c. The TSRB had recommended that MPs be encouraged to make more use of payment through the Fees Office, rather than direct payment of secretaries and research assistants. Since this was a specific recommendation, it could not be ignored, and the Government should commend it to the House, while not seeking to make this method mandatory.

d. Preliminary talks were in hand on a possible inquiry into the costs of Parliament as agreed at Cabinet's last discussion. One way of reducing those costs would be to increase the size and limit the number of constituencies. But there was no chance of doing this within the lifetime of the present Parliament, and the present was not a suitable time to raise this subject for discussion.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that their decisions on MPs' pay and allowances should be announced in the House of Commons that day. They noted the outcome of the Chancellor of the Duchy of Lancaster's discussions with the House authorities and others. They agreed that he should take steps to tighten up the administration of MPs' expense allowances in the way he suggested. They would resume their discussion of a possible inquiry into the costs of Parliament at a later stage.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion

2. Invited the Chancellor of the Duchy of Lancaster to announce their decisions to the House of Commons that afternoon.

Cabinet Office

14 February 1980

CONFIDENTIAL

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

From the Minister

Lord Carrington
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Whitehall
LONDON
SW1

Dear Peter

CAP PRICE PROPOSALS

Next Monday there is to be a one-day meeting of the Council of Ministers (Agriculture) to allow Gundelach to present the Commission's CAP price proposals. There will of course be no time for detailed discussion, but all the Agriculture Ministers can be expected to give their first reactions, both in the Council and to the Press. The line I take will be important, both for the future CAP negotiations and for the budget negotiation with which in my view they will inevitably become linked.

In order to set up the strongest possible negotiating position on the budget we have obviously got to take a very tough line on the CAP proposals. But it has also to be a credible line; it must not be one which will embarrass us too much when we eventually settle; and it should not be overtly linked by us with the budget negotiation, though the link will be made by others and will be obvious enough.

I would propose to state the principle that I am not prepared to agree to proposals which would increase the financial or economic burden on the UK or which discriminate against the UK in any way. I should then review each of the main proposals against this criterion. I should however take care not to say specifically that I could not agree to any single proposal that did not meet the test: the time will come when we reach a CAP settlement which offers us a net benefit overall (just as last year's did, to the tune of over £30m), but in which there are elements that impose a cost on us.

On the basis of this principle, the Commission's proposals measure up very badly. They are heavily biased against our interests and would increase the net resource cost which the policy imposes on our economy. The Commission claim that they represent a total saving to Community funds of 823 million EUAs by comparison with the draft 1980 budget presented last October. But over half this alleged saving is represented by the co-responsibility levies on milk, which are not a reduction in cost but a new source of revenue. The real saving is only about 370 million EUAs, and this net figure conceals an additional cost as a result of the price increases proposed. My officials are preparing a detailed analysis of all the proposals for discussion with other Departments. But the general picture is clear.

On the basis of the general principle I have suggested, my line on the main proposals would be as follows:-

Prices Virtually all increases in common prices impose an additional cost on us, either through the budget or in trade. I should say therefore that, while recognising the difficulty that a total freeze would produce in a time of rapid cost inflation, we start with an initial bias against any price increases. In particular we are totally opposed to price increases for the commodities in structural surplus, milk and sugar.

Milk Levies I should oppose the Commission's new proposal exempting the first 60,000kg of milk production by producers in less favoured areas from the proposed general co-responsibility levy of 1.5%, pointing out that while this would exempt 40% of Irish milk production, 30% of Italian and over 20% of French and German, it would exempt only 4% of ours. I would however support the principle of a non-discriminatory general levy, provided it were linked with an unchanged common price. I would oppose the revised proposal for a super-levy of 84% of the price on milk purchases by dairies above 99% of 1979 levels, on the grounds that it would freeze the existing pattern of production, discriminate against new low-cost production, and enshrine and discriminate in favour of existing surplus production.

Butter subsidy I would point out that the proposed abolition of the UK butter subsidy would deprive us of a net benefit of £75m. It discriminates unacceptably against a method of surplus disposal which affords a benefit to the UK while other methods of surplus disposal such as export restitution are left untouched.

Sugar Quotas I would oppose the Commission's proposals on sugar quotas since they still discriminate heavily against us (the new proposals give us a small B quota of about 74,000 tonnes but would still cut our A quota from 1,040,000 to 936,000 tonnes. This year's UK production is 1,150,000 tonnes. No other country is being asked to take a comparable cut in current production levels.) Marcora will propose that the existing quotas should be extended for one year, since there is no time to negotiate new ones before planting takes place and since the rise in the world price should in any case greatly cut the cost of surplus disposal in 1980/81. At this stage I should argue against giving up the struggle for quota reduction on a fair basis. In March however I think we should agree to his proposal. It is in my view realistic, and it would have the great advantage for us of removing a booby-trap which otherwise lies in wait on 1 July. (If next year's sugar regime, which begins then, had no quotas because none had been agreed, the full price guarantee would apply to all sugar produced, at much greater cost to Community funds and to the UK.)

Beef On beef, the Commission have proposed a new beef suckler cow subsidy, and as expected, have made no proposal to continue the UK beef slaughter premium. Since we have 27 per cent of all beef cows in the Community, and since the subsidy would be financed entirely by Community funds (instead of the 25 per cent contribution they make to the existing premiums) a beef cow subsidy should in principle be financially advantageous to us, as well as helping us with our difficulties over producers on marginal land. But the Commission have greatly reduced its potential benefit to us by restricting it to the first 15 cows on a holding which does not produce milk (which would mean that we received only 19 per cent of the expenditure instead of 27 per cent). I would oppose this limit as discriminating against us.

Cereals The Commission have proposed for cereals a 2 per cent increase in intervention prices and a 3.75 per cent increase in target and therefore threshold prices. This differential is intended to discourage imports, particularly of maize. It would bear disproportionately on us by increasing the price of maize imports and of hard wheat from North America which we need for our bread. I would argue against both the price increases and the discrimination against our interests, and would press for changes in the cereals regime so as to discourage intervention buying of breadmaking wheat, as we have discussed in OD(E). On the related question of phasing out the starch subsidies, on which I have corresponded with others interested, I would accept no commitment to any reduction so long as the proposal to increase the price of maize, the raw material of our maize starch industry, is still on the table.

Wine On wine I shall argue that there are no grounds for any price increase, let alone ones which range as high as nearly 4%, for a commodity where there is arguably an underlying structural surplus and not a mere seasonal surplus, as the Commission imply.

This would of course be a mainly negative line and I should doubtless be challenged to say what I would myself propose for reducing the cost of the CAP. At this stage I would confine myself to saying that there must above all be a policy of firm restraint over a course of years on prices for commodities in structural surplus. I would go on to recognise that this would not in the short term meet the problem of rising cost and that other measures must be found to limit the cost to Community funds. I should point out that the Commission's super-levy proposal for milk has the effect of passing on to member countries themselves (in the shape of their producers) the cost of disposing of new surplus production; and that I can see no reason in principle why the cost of disposing of existing surplus production should not also be transferred in part, perhaps on a progressive basis, from Community funds to member states through their national exchequers. I would however decline at this stage to be drawn into the detail of how this might be done. I do not think we need be at all hesitant about taking this fairly aggressive line. The French have just come out with a package of counter-proposals on milk which carefully eliminates every measure which is of little or no benefit to them and retains every one from which they profit.

Before negotiation begins in earnest in March I propose to circulate a paper to OD(E) setting out my proposals for CAP reform, basically on these lines, ie the progressive transference of cost from Community to national funds. My purpose would be to formulate an intellectually respectable policy which would actually cut the cost to the Community budget and to us. It would not of course be readily negotiable, but the retention of the VAT limit will in my view inevitably push the Community in time towards some switch to national financing. Our task must be to ensure that such a switch benefits us to the maximum possible extent, and this will require very careful attention to the details.

This however need not be decided now. At present we need only to decide the line to take next week, and I should be grateful to know if you are content with what I have proposed.

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

Yours

Peter

PETER WALKER