



From the Minister

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

PRIME MINISTER

Europe Policy

Please translate into English

2 August 1979

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PRIME MINISTER

[Handwritten signature]

At Cabinet on 5 July I undertook to circulate details of the effect of the CAP price settlement on the UK contribution to the Community budget.

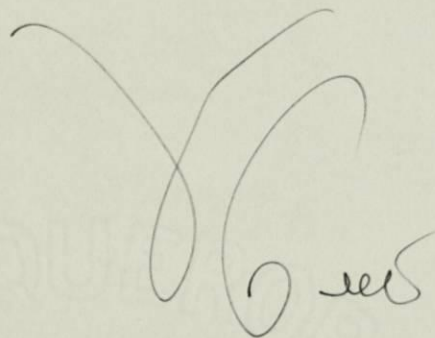
2. The revised estimate by the European Commission is that the CAP decisions this year have increased the provision needed for FEOGA expenditure in 1980 by 1311 MEUA (about £880 million) as compared with the figure in the preliminary draft Budget. But this is because of the assumptions they used in drawing up the draft Budget, in particular that a high rate of milk co-responsibility levy would apply and that their proposals on "B" quota sugar would be adopted. The Commission's estimate also includes only the difference between the cost of the butter subsidy agreed by the Council and the increase already provided for in the draft Budget. A fairer estimate would include the full cost of the increase in the butter subsidy but exclude the effect of the decisions on the milk co-responsibility levy and the "B" quota sugar. Figures on this basis are shown in the attached table for a full year together with the effect on Community revenue and on the UK net contribution to the 1980 budget.

3. The figures for UK receipts in the table assume, as do the Commission's estimates, that there is no change in the uptake of the school milk subsidy and that the UK butter subsidy continues on the present basis after the end of the current milk year on 31 March 1980. But the Council decision on 100% Community financing of our butter subsidy was in respect of the current milk year and we shall have to negotiate subsequent arrangements at the 1980 price settlement. When answering Parliamentary Questions on the financial effect of this year's price settlement I have therefore used butter subsidy figures for 9 months only, ie 1 July 1979 to 31 March 1980. We do not want to imply commitment to continue the subsidy if the 100% Community financing expires on 31 March. This is one of the reasons why the figure for the UK net gain which has been used in answer to Parliamentary Questions (£34 million) is lower than the net gain of about £102 million shown in the table. But the main reasons

for the new higher estimate are that figures are now available for our receipts arising from changes in UK MCA's stemming from the price settlement (primarily the net savings on export levies) and that figures for the effect of the devaluations in March have also been included.

4. The figure for the change in the UK net contribution allows for additional receipts arising by way of reimbursement from the Community of payments made within the UK. To assess the full effects on public expenditure as a whole it is necessary, therefore, to take account of these payments, as well as of the reduction in our net contribution to the Community, and to compare the outcome with our existing public expenditure provisions. I am satisfied that as a result of the price settlement and certain other changes arising from discussions on the 1980 Community Budget there is no need to increase the provisions we have made for 1979/80 and 1980/81.

5. I am sending copies of this minute to other Cabinet colleagues and to Sir John Hunt.

A handwritten signature in dark ink, appearing to read 'P. Walker', is written over a faint, embossed watermark of the Royal Coat of Arms and the word 'LONDON'.

PETER WALKER

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FULL YEAR EFFECT ON UK OF CAP PRICE SETTLEMENT

	<u>MEUA</u>	<u>£million</u>
<u>PEOGA EXPENDITURE CHANGES</u>		
<u>(full year effect)</u>		
Beef & Veal: Italian Calf premium	+61.6	
Suspension of Intervention	-7.4	
Milk: Butter Subsidy	+288.0	
Non-marketing	+36.5	
1½% common price increase & German and Benelux Green rate changes	+100.0	
Skimmed milk powder subsidy	+31.3	
Further changes in milk sector	+13.0	
Other decisions	+46.7	
Green rate changes:		
UK - 5% devaluation agreed March	-115.5	
- 5% devaluation agreed June	-115.0	
France - 1.4% " " March	+54.3	
- 1.5% " " June	+80.0	
Italy - 9% " " March	-76.0	
	+397.5	+266.78
(a)		
<u>EEC REVENUE CHANGES</u>		
Agricultural import levies	-171.0	
Sugar: production levies	-18.1	
storage levies	-10.9	
Isoglucose production levy	-1.3	
	-201.3	
Less 10% refund	-181.2	
(b)		
Net effect of expenditure and levy change (a) - (b)	+216.3	+145.16
<u>CHANGE IN UK GROSS CONTRIBUTION FROM:</u>		
Expenditure and revenue change (216.3 x .165)	+35.69	
UK levy revenue change (share of -201.3) less 10% (46.7 x .9)	+42.03	
	+77.72	+52.16
<u>UK RECEIPTS FROM PEOGA</u>		
	<u>£m</u>	
School milk Subsidy	-8.1	
Butter subsidy	-77.0	
Other (mainly green £)	-68.8	
	-153.9	-153.9
<u>CHANGE IN UK NET CONTRIBUTION</u>		
		-101.74

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