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10 DOWNING STREET

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THE PRIME MINISTER

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 17/82**

Dear Chancellor Schmidt

Thank you very much for your message of 22 January about the meeting of Foreign Ministers on the Mandate which took place on 25 January. I fully share your view that it would have been highly desirable for the Foreign Ministers to reach agreement on the four questions remitted to them by the European Council and it is very disappointing that they have failed to do so.

It is particularly regrettable that the main issue on which it was impossible to reach agreement was degressivity. On milk, we recognised that some solution needed to be found to the problem of small producers in the context of controlling the surplus and we were prepared to make a real effort to meet our partners, despite the very weak text on controlling the surplus which was proposed. But on degressivity I frankly do not see how we could accept any text which implied an automatic and arbitrary reduction in our budget refunds regardless of the development of the underlying situation. I can see no justification for a provision of this kind. It is quite unreasonable to identify a problem and then to decide in advance to solve less and less of it. We all hope that the measures which we are proposing to adopt under chapters one and two of the Mandate will lead to a shift in the balance of Community spending which will result in a reduction in our budget problem, and I fully accept that, to the extent that this happens and the problem is reduced, our refunds should also be reduced. This is entirely fair and reasonable. What is not reasonable is that our refunds should decline regardless of the scale of the problem.

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It has been agreed that the President of the Council and the President of the Commission should now seek a solution to this problem. It is important that the impetus of the work on this subject should not be lost, and I hope that you can agree with me in urging them to make rapid progress with their work. I am sure it is in the Community's best interests that there should be the minimum delay in settling these difficult problems.

Yours sincerely,

MARGARET THATCHER

His Excellency Herr Helmut Schmidt