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PART B

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PART B

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PO -CH /NL/0212 PART B

AGRICULTURAL REFORM

DD's 25 years 1/10 29/9/95

Begins: 23/2/88

Ends: 25/4/88

CONFIDENTIAL

10 DOWNING STREET

LONDON SW1A 2AA

CH/EXCHEQUER
REC. 23 FEB 1988
ACTION Mr NOLAN
COPIES TO CST, FST, PMG, EST, Sir P. MIDDLETON, Sir G. LITTLER, Mr H.P. EVANS, Mr MOUNTFIELD, Mr P.G. DAVIS, Mr WALSH, Ms SYMES, MISS PRESTON, Mr TYRIE

23/2

From the Private Secretary

23 February 1988

Dear Alison,

THE COMMON FUND

The Prime Minister has considered the Trade and Industry Secretary's minute of 19 February about his consultations with other EC Ministers on the possibility of deratification of the Common Fund. She agrees that, in the light of the reluctance of others to support deratification, we should now move to neutralise the First Account along the lines suggested by Lord Young in paragraphs 5 to 8 of his minute. We should also resist any attempts to extend Community competence in relation to the Fund. The Prime Minister notes that the option of eventual withdrawal still remains open to us (although beset with legal problems).

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, the Attorney General and to Sir Robin Butler.

Yours sincerely,

Charles

(C.D. POWELL)

Miss Alison Brimelow,
Department of Trade & Industry.

CONFIDENTIAL

23/2

CH/EXCHEQUER

REC.	23 FEB 1988
ACTION	Mr MOLAN
COPIES TO	CST, FST, PMG, EST, Sir G. Littler, Sir T. Burns, Mr Monck, Mr Mountfield, Mr H.P. Evans, Mr Burgner, Mr Walsh, Mr P.G.F. Davis, Mr S.W. Matthews.

FCS/88/035

SECRETARY OF STATE FOR TRADE AND INDUSTRY

1. Thank you for your letter of 18 February in which you recommend that we should agree to enter renegotiations for a new International Jute Agreement, subject to certain caveats. I agree with your proposed approach.

2. As you say, we agreed in the 1986 commodity policy review that international agreements without market intervention provisions should be treated on an ad hoc basis according to their merits, though we should make certain that such agreements did not take on economic provisions. The present case falls squarely in this category.

3. The current IJA cannot yet be described as effective. But the main producers, Bangladesh and India, value it. The principal beneficiary of the IJA is Bangladesh: the tenth poorest country in the world, with a per capita GNP in 1985 of just US$150. It would be inconsistent with our aid policy were we seen to be withdrawing assistance relevant to its staple export, and such a move would be bound to trigger a strong adverse reaction. India too would be bound to react angrily. The potential damage would, I think, outweigh the modest annual financial saving of some $17,000 or roughly £10,000. I note, too, your comment that the Jute Council provides a forum in which to promote the interests of the UK trade.

/4.

4. In any case, it is clear that Community competence considerations ensure that we would be unable to sustain a negative approach to the IJA in the face of opposition from our EC partners. Our interests lie rather in maintaining their opposition to any attempt to give a new IJA economic provision. Past experience suggests this should prove an achievable objective.

5. I am copying this minute to the recipients of your letter.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
23 February 1988

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

From the Minister

Not v. fruitful.

much!

24/2

RESTRICTED

The Rt Hon The Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON
SW1A 0AA

24/2

CH/EXCHEQUER
REC. 24FEB1988
ACTION CST
COPIES TO

~~24~~ February 1988

Dear David,

REVIEW OF LONG TERM BANANA POLICY

In correspondence between Michael Jopling, Alan Clark and Lynda Chalker during autumn 1986, it was agreed that officials of all interested departments should review the longer term prospects for our preferential banana import arrangements. In particular, it was felt that the options available in the renegotiation of the Lome Convention should be explored in advance and that the implications of the current GATT Round and the Community's single internal market initiative should be taken into account.

The review has taken a little longer than originally expected, but I understand that the report and its recommendations, which you and other colleagues will now have received, have after some discussion been agreed at official level. Of course, we will each have some reservations about the outcome. For example, I would myself have preferred to see a greater move towards expanding the market, reducing the cost to consumers, and increasing the competitive pressures on the three companies who handle the produce from the Windwards and Jamaica. On the other hand, I accept that the long history of the present policy, and the assurances given to our traditional suppliers, make it difficult to achieve a sudden and significant change at this stage. On balance, therefore, I am prepared to accept the report's conclusions.

/I would be ...

I would be glad to know whether you and other colleagues can agree that we should adopt the report and its recommendations and ask our officials to proceed with implementation. If this is agreed, then a carefully co-ordinated presentation of our decision will be essential. Geoffrey Howe will naturally have views on this and our two departments will need to brief domestic interests. By the same token, we will also need to take a fairly early view of the indicative tonnage figure for 1989, in order to encourage longer term planning by the banana trade in line with the report.

+ I am copying this letter to Geoffrey Howe, Nigel Lawson, Chris Patten and Sir Robin Butler.

Yours ever,

John

JOHN MacGREGOR

pnp

Restricted

Report of Interdepartmental Review

of

Long Term Banana Policy

February 1988

REPORT OF INTERDEPARTMENTAL REVIEW OF LONG TERM BANANA POLICY

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V	Scenarios for a Managed Expansion of the UK Market

RESTRICTED.

LONG TERM BANANA REVIEW.

REPORT OF REVIEW GROUP.

I. BACKGROUND

1. Introduction and Summary

1.1. A review of long term UK policy was agreed by Ministers in an exchange of correspondence in autumn 1986. This was prompted essentially by the need to identify any changes which might be desirable after the expiry of the third ACP-EEC (Lome) Convention but other factors also have implications for the existing policy. These include external developments such as the new commitment to a single internal EC market and the GATT (Uruguay) round, as well as internal considerations such as the Government's renewed stress on competition policy, the pronounced growth in ACP supplies to the UK in recent years and the cost of the policy to consumers.

1.2 To address these and other issues an interdepartmental group was set up with the mandate attached at Annex I. The review group was chaired by MAFF, with DTI, FCO, ODA, Treasury and Cabinet Office participation. Papers were commissioned from departments (Annex II), covering the factual background, policy issues and options identified by Departments.

Summary

1.3 Current UK policy regulating banana imports fulfils a long-standing commitment embodied in the Lome Convention, to provide preferential access to certain Caribbean exporting countries. As such it is an important means by which HMG seeks to achieve its political and commercial objectives in the Caribbean. However it has significantly constrained the volume and pattern of banana availability to the UK market. Supply from the ACP countries concerned is expected to continue to increase. The renegotiation of the Lome Convention which will begin in 1988 is considered unlikely to alter the terms of entry for ACP bananas or the specific commitments to traditional supplying countries. The completion of the Community's internal market by 1992 could have implications for the policy, but these cannot be predicted. In the context of the current GATT round the Community has excepted its protective tariff on bananas from its proposals for liberalising trade in tropical products. The additional import restrictions implemented by the UK, in the interests of the traditional suppliers, have had the effect of limiting competition in the banana market and imposing substantial costs on consumers, estimated at £100m in 1986. This, coupled with the monopoly structure of the banana importing and ripening sector, has resulted in excess profits to the sector which are greater than the estimated gains to the ACP suppliers.

1.4 The political objectives of the policy restrict the scope for change at this stage. In particular, going over to a purely Community regime would raise more problems than it would solve. The group concludes that national arrangements within a Community context offer the best possibility of maintaining the UK's commitment and introducing desirable changes in its interpretation. The group therefore considers that current arrangements for controlling the imports of bananas should be retained, but operated in a more planned way so that levels of supply (and therefore prices) on the UK market become more comparable with those on similar markets elsewhere in the Community. The group recommends the adoption of a rising series of indicative annual tonnages which would allow the market to expand from 360-380,000 tonnes to 410-450,000 tonnes over the next five years. The group further recommends that a rising guaranteed minimum import quota for dollar bananas should be available to small importers. Finally, the group recommends that the excess profits issue should be tackled in the first place by monitoring and publishing price/margin data, with the possibility of a more formal investigation held in reserve.

2. Origins and Basis of Policy

2.1 Current UK banana policy is designed to enable the UK to fulfil a long-standing commitment reaffirmed by successive British Governments, to provide a protected market for bananas from its traditional suppliers, that status being conferred on Jamaica and the Windward Islands (Dominica, Grenada, St Lucia and St Vincent), who have been the principal suppliers to our market over the period in question, but not other Commonwealth Caribbean countries (such as Belize) which have done so for a much shorter time. This protection has taken the form of tariff-free access - non-Commonwealth imports facing specific fixed tariffs - and quota restrictions on (and prior to 1959 exclusion of) imports from the dollar area countries in Central and South America. Control, effectively, over total supplies has thereby allowed UK banana prices to remain sufficiently firm for the successful marketing of sendings from the traditional suppliers. The policy thus began essentially as one of Commonwealth preference.

2.2 On its accession to the EC, the UK fought successfully for its trade commitments under Commonwealth preference to be subsumed into Community commitments, and in the case of bananas, those commitments have been embodied in the relevant protocols to successive Lome Conventions. The current Convention and Protocol assures ACP banana exporting countries of unrestricted access and freedom from the 20% Common External Tariff (CET) applicable to imports from other third countries. It also gives an assurance that the advantages enjoyed by the traditional suppliers on EC markets will be continued for the lifetime of the current Convention. However, accession to the EC removed the UK's right to restrict imports of bananas originating in the dollar area and put into free circulation in other EC Member States. It is necessary for the UK to control by licence the import of all dollar bananas by agreeing licensing powers at intervals (latterly annually) with the Commission. Imports of dollar bananas are licensed to the extent necessary to make good any shortfall in ACP supplies.

2.3. It should be noted that France and Italy similarly operate managed markets with commitments to certain overseas suppliers. The French system of quotas and market share allocations is designed to give preference to supplies from the Overseas Departments (Guadeloupe and Martinique) and to former colonies in the Franc zone. The Italian system designed to give preference to certain ACP states, notably Somalia, is also based upon quotas, a global import quota being allocated monthly by importing port.

2.4 Of the other Member States, the FRG under a special banana protocol to the Treaty operates effectively a free market. A tariff-free quota for dollar bananas is established but this can be extended more or less at will. Spain provides a protected (tariff-free) market for Canaries bananas which otherwise attract the full CET. The remaining EC countries depend primarily on dollar bananas subject to the same 20% tariff.

3. <u>Present Position</u>

3.1 In order to exercise our licensing controls, short and medium term assessments of the UK market requirements for bananas are carried out by MAFF. The principal source of advice is the Banana Trade Advisory Committee (BTAC), which was established in 1973 in response to traditional suppliers' concern at supply growth from other sources. The Committee meets monthly, and is chaired by MAFF, with DTI represented by an observer. It comprises representatives of the traditional suppliers and the Big Three importing companies, (Geest, Fyffes and Jamaica Producers), who dominate the UK banana trade. This domination is partly attributable to the highly perishable nature of bananas and the need for specialised and capital intensive handling, transport and ripening equipment.

3.2 Non-traditional ACP suppliers, such as Belize and Surinam, also have free access to the UK market, and similar tariff protection. However, they do not enjoy the following benefits available to Jamaica and the Windward Islands:-

(i) the guarantee (fulfilled in practice by the the Big Three importers) that their bananas of exportable quality will find a place on the UK market;

(ii) participation in the BTAC;

(iii) the assurance that importers of their bananas will be granted access to dollar licence when supplies are disrupted, particularly by serious natural disasters.

In current practice, therefore, the additional benefits for traditional suppliers are in the form of measures to facilitate the sale, marketing and distribution of their bananas in the UK.

4. Pattern of Demand and Supply

4.1 Imports to the UK market have been over 300,000 tonnes annually over the last 20 years, falling from around 380,000 tonnes in the mid 1960's to little more than 300,000 tonnes a decade later. More recently there has been some modest rise. Consumption on a per capita basis, has followed a similar pattern, and was estimated at some 6.0 kg per head in 1986. This compares with 10.5 kg per head in FRG, 9.2 in Spain, 8.2 in France and 5.9 in Italy.

4.2 As will be seen from Annex III, sendings from our traditional suppliers have followed considerably different paths over the last 20 years, and supplies from the dollar area have been adjusted in response. This was particularly marked in the 1979 to

1981 period, when both the Windward Islands and Jamaica suffered major declines in production due to hurricane damage, and dollar area supplies consequently accounted for a sizeable share of the market. Since then, Windwards' supplies have grown rapidly, whilst those from Jamaica have only shown substantial increase in the last two years. Other ACP supplies, notably from Belize and Surinam, have in the last 10 years or so averaged around 45,000 tonnes.

4.3 The following table indicates the supply shares by source in selected years over the period

Shares of banana supply to UK market

	1965	1970	1975	1980	1985
Windward Islands	45.7	44.7	29.9	21.7	50.4
Jamaica	49.0	40.2	22.3	10.8	4.0
Dollar	0.2	1.8	22.8	50.6	30.7
Other	5.1	13.3	25.0	16.9	14.9
Total	100.0	100.0	100.0	100.0	100.0

Source: Table at Annex III

5. Previous Review of Policy

5.1 Banana policy was most recently reviewed by Ministers in 1983. This followed an action in the UK Courts by Chris International Foods Ltd, a small independent importer, which challenged both the rejection of its request for an increase in licence to import dollar area bananas and Ministers' enabling powers under the Import, Export and Customs Powers (Defence) Act 1939. Although the action was not upheld, the judge ruled, inter alia, that the DTI should play a more direct role in the issuing of banana import licences.

5.2 The subsequent Ministerial review identified a number of problems with the policy, including the cost to the consumer and the limitation of consumer choice. Several options for change were considered, including a Community commitment and direct subsidy schemes, but it was concluded that radical change, requiring effectively a full renegotiation of the Lome provisions, was not politically feasible. The report recommended that more modest changes to the policy should be pursued, eg agreements on quality improvement and performance. In the interest of increased competition, it also recommended changes to the dollar licensing arrangements.

5.3 As a result, quality improvement programmes, with monitoring of performance against agreed targets, were instituted with the Windward Islands and Jamaica, and are continuing. Following a review of the dollar licensing arrangements in 1984, a change in the balance of licence allocation in favour of the smaller, independent ripeners/importers was also instituted, their share rising from 10% of total licence issue in 1983/84 to around 35% in 1986. The number of independent ripeners/importers receiving licence was also increased in 1984. However, with these relatively modest changes, the underlying policy remained unaltered.

6. Reasons for Present Review

6.1 As noted earlier, a number of new external and internal pressures are likely to come to bear over the next few years. Of the external factors, the negotiation of a successor to the third Lome Convention is the most immediate, given that the Convention expires on 28 February 1990 and that renegotiations between the Community and the ACP will commence in autumn 1988.

6.2 The Community's internal market initiative and the GATT (Uruguay) Round are two further external factors which could create pressure for change. Under the former, there may well be moves to institute a common Community regime for bananas, and/or some of the policy controls under our existing regime may be called into question, eg the control of dollar banana imports. In the GATT context, the existing tariff on non-ACP imports, as well as the control of dollar imports, which form the central planks of the existing policy, may come under fire.

6.3 Internal factors deserving consideration include the high consumer cost of the policy, a relatively small share of which goes to ACP suppliers. The pronounced growth of ACP supplies - to a level where they now virtually equal UK market requirements - and the monopoly structure of the market, where three large companies, the Big Three, control around 90% of total supplies to the market, are further factors which call for review.

6.4 These factors are considered in greater detail in Part II of this report.

II ANALYSIS OF RELEVANT FACTORS

7. Nature and Significance of Existing Commitment

7.1 The current legal basis of the commitment is reflected in Protocol 4 of the Lome Convention. The key Article (Article 1) of the Protocol is as follows:-

> "In respect of its banana exports to the Community markets, no ACP State shall be placed, as regards access to its traditional markets and its advantages on those markets, in a less favourable situation than in the past or at present."

7.2 Protocol 4 thus serves to guarantee and confirm the UK's bilateral commitment to the Caribbean states concerned. The essence of that commitment has been reiterated in Ministerial statements over the years, most recently by the Prime Minister in Jamaica in July 1987 when she said "We shall continue to fight hard in the European Community ...... to make sure that Jamaica and other Caribbean countries go on enjoying the preferential arrangements for bananas under the Lome Convention".

7.3 Current UK banana policy is an important means by which HMG seeks to achieve its political and commercial objectives in the Caribbean which are:-

(i) to help maintain stability in Commonwealth Caribbean States through support for democratic processes and economic and social development;

(ii) to improve understanding and sympathy in the region for UK policies and to encourage support for them in the UN and other fora;

(iii) to create and sustain a growing market for UK exports and investments; and

(iv) to encourage Caribbean countries to resist the radical left (supported by Cuba and the Soviet Bloc) through job creation and improved social conditions, thus serving general Western Policy in the region.

These objectives are furthered by HMG's encouragement of economic development in the region through enhanced trade and investment and by devoting a substantial and continuing aid budget to improving basic infrastructure and social development. The banana commitment plays a key part in this because of the vital contribution bananas make to GDP, export earnings and rural development. This is particularly important in the cases of St Lucia, Dominica and St Vincent where bananas contributed in 1986 respectively 67%, 58% and 28% of exports and 33%, 27% and 19% of GDP. In Grenada, even though there are plans to expand production, bananas are of lower relative importance, representing about 12% of total domestic exports. In Jamaica they seem likely to continue to account for only a small proportion of GDP and less than 1% of domestic exports.

7.4 It could of course be argued that the commitment has itself contributed to the Windward Islands' dependence on a single crop, and indeed the need to broaden agricultural production has, for some years, been recognised by the island governments as well as by UK and multilateral donors. However, the prospects for diversification in the Windwards are severely limited, and although it is possible to develop a small number of additional crops which would supplement income from bananas, there is no other staple crop which could be cultivated as readily or which would provide such steady year-round income, and quick recovery after storm damage. Thus, whilst the development of alternative crops remains an important objective, it has to be recognised that in the Windward Islands there is nothing in the foreseeable future which could replace bananas as a crop guaranteeing both income and employment on a large scale.

8. Supply and Demand Developments

8.1 Against the background of the recent trends noted in paragraphs 4.1-4.3 a simple illustrative projection exercise was undertaken for the group, reflecting a continuation of existing policies and developments. Thus, on the demand side, the projections assumed that real retail prices would remain stable, and that the recent upward trend in consumption noted in paragraph 4.1 would continue, but at a more modest rate. On the supply side, it was assumed that the growth in Windward Islands' supplies in recent years would tail off, that supplies from Jamaica, Belize and Surinam would continue to grow, and that those from other sources (mainly other ACP and French Overseas Departments) would remain broadly at the 1986 levels. These assumptions yield relatively conservative results in all cases.

8.2 In summary, on unchanged policies, the projections are as follows:-

Illustrative Supply/Demand Projections for the UK Market, 1990 and 1992

	Actual	Projected	
Supplies	1986	1990	1992
Total ACP	275,836	377,500	392,500
Dollar	59,541	0	0
Other	7,619	7,500	7,500
Total	342,996	385,000	400,000
Consumption	342,996	345,000	350,000

It will be seen that on this basis total "non-dollar" supplies would considerably exceed consumption in 1990 and 1992. In practice, of course prices are likely to fall, which would tend to reduce supplies through normal supply response: and experience has shown that supplies in any case tend to be unpredictable due to climatic factors. Some ACP suppliers may attempt to reduce their sendings by diverting supplies to other markets, although returns are generally much lower and opportunities very limited since most developed country markets have their own established channels and other sources of supply. The Windwards have developed a small export trade to Italy, though would find it difficult to divert sendings to other markets due to the relatively high shipping costs for the small volumes involved.

8.3 The implications of these figures are considered further in paragraphs 17.1 and 17.2.

9. Lome Convention

9.1 The current Lome Convention expires on 28 February 1990 and the Commission are currently preparing their orientations paper setting out a possible broad Community approach to the Lome IV negotiations. This is likely to be circulated in March, and when approved, will form the basis for discussion of the Community's mandate for negotiations with the ACP which are planned to begin in September 1988.

9.2 In this connection, it should be noted that the basic commitment in Article 1 of the Protocol 4 to continue the advantages enjoyed by traditional suppliers has been carried over unchanged from Lome I. Any change would be seen as a major departure - particularly by the ACP - and the assumption must be that there will be a disposition by all the parties concerned to build on the existing framework and to avoid a wholesale renegotiation.

9.3 Ministers have agreed that as before the broad UK objective for Lome should be to push for further improvements for the ACP in the trade field, partly so as to balance our restrictive position on aid (and in particular our efforts to contain the size of the European Development Fund). For the UK to advocate change to Protocol 4 would therefore be likely seriously to undermine this approach.

9.4 It is also likely that were we to propose a significant amendment of the Community's commitment to traditional suppliers, this would be unwelcome to many Member States especially those who have similar protected markets. Some might also see it as an attempt by us to withdraw from an arrangement which was first entered into at UK insistence, and would suspect that the underlying aim was to divert Commonwealth Caribbean supplies to the continental European market, with implications for their own national arrangements for banana imports. All these considerations are likely in practice to limit the scope for negotiating changes in the Protocol.

10. <u>Internal Market Initiative</u>

10.1 The Single European Act (SEA) commits the Community to adopt measures "with the aim of progressively establishing the internal market over a period expiring on 31 December 1992". The SEA also defines the Single Market as "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty".

10.2 In the Commission's view the new Treaty definition requires the elimination of all frontier controls of the free movement of goods between Member States by the end of 1992. They also argue that this in turn means that national quota restrictions should as far as possible be abolished by then and that, with the disappearance of internal frontier checks, Article 115 surveillance measures and protective powers cannot continue, at least in their present form. The practical effect on bananas under these circumstances would be that the annual protective powers under Article 115 to control the import of dollar area bananas would cease to be available, and more generally, in the spirit of a single market, there would be pressures for a Community banana regime.

10.3 Even within the Commission, however, there are differing views on the desirability of a common EC regime. There are marked differences between the existing national banana arrangements and it would be difficult to establish a common regime which fulfils the objective - and national commitments - of each.

10.4 Member States have not, in any case, specifically endorsed the Commission's approach, which would involve far-reaching and in some cases unpalatable changes to the present frontier control policies of the United Kingdom and other Member States. When Ministers reviewed our own single market strategy on 1 October the conclusion was that we had a range of policy objectives which were likely best served by the retention of border type controls for intra Community movements of goods, people, plants and animals.

10.5 Developments are thus uncertain, but although it seems likely that there will be some pressure to institute a freer and more Community based regime for bananas than exists at present it would be wrong at this stage to assume that this will necessarily be the outcome at least in the timescale envisaged by the Commission. In the meantime the traditional and other Commonwealth suppliers are aware of the commitment to complete a single Community market and recognise that it may well result in change.

11. GATT (Uruguay) Round

11.1 The declaration of the GATT Ministerial Conference in Uruguay in September 1986 contained provisions which have implications for existing UK banana policy. For example, the dollar licensing arrangements could be caught by the roll-back commitment to reduce/diminish the "trade restrictive or distorting measures inconsistent with the provisions of the GATT". The question of liberalising the tariff on non-ACP bananas is also likely to be raised by those countries such as Ecuador which have campaigned for improved access, and there may even be tacit support for this from some EC Member States, such as the Dutch.

11.2 All that can be said at present, however is that discussions on tropical products under the Round have already started and that the Community has tabled a proposal offering liberalisation on a range of such products, conditional upon equivalent liberalisation responses from other countries. That said, bananas are conspicuously excluded from the Community's proposal, reflecting the implications that would arise for ACP supplies under the Lome Convention.

12. Competition Effects

12.1 As indicated in paragraph 3.2, the commitment to import bananas from the traditional suppliers is currently fulfilled by the Big Three importers, who benefit in terms of the sale and marketing of bananas under the regime. While similar treatment would be given to any other company helping to fulfil the commitment, in practice only these three companies have ever been involved. They control around 90% of banana imports into the UK; and, although the expansion in dollar licence allocation to independent ripeners/importers following the 1984 review of licensing (paragraph 5.3 above) was designed to bring an element of competition to the market, the Big Three would nevertheless control approaching 100% of imports if dollar bananas were to be eliminated from the UK market over the next year or so.

Even if that were not to be the case, the fall that has already occurred in the issue of dollar licences means that the opportunities for increasing competition through this route are also declining. This in turn will strengthen the position of the importer/ripener/ retailers to earn monopoly profits on what is the second most popular fruit consumed in the UK.

13. Cost to Consumers

13.1 In view of this a sub-group of economists was set up to identify more closely the main costs and benefits of current policy compared to a liberalised market under which the dollar licensing provisions were ended but the 20% tariff preference for ACP imports was retained.

13.2 The sub-group found that a substantial cost of the order of £100m in 1986, is imposed on consumers through prices being higher than would otherwise have been the case. Some £40-45m is the estimated transfer to the UK banana industry through excess profits on restricted supplies. The net cost to the UK, taking into account forgone tariff revenue, was estimated at some £60-80m, whereas the ACP countries benefit through such higher prices by only some £34m. These estimates rely heavily on the assumptions used and the data employed (fuller details in Annex IV). Nevertheless, it is clear that the costs to the UK far exceed the gain to the ACP and that the losses in efficiency are considerable.

III BASIC ISSUE AND OPTIONS

14. Basic Issue

14.1 It is clear that there are powerful economic arguments for change in the banana regime aimed at securing a more competitive market. It is equally clear, however, that there is a conflict between the most obvious way of achieving more competition through introducing more liberal import arrangements, and the maintenance of the commitment to traditional suppliers. The key issue to be decided, therefore, is whether to seek changes to the regime and, if so, how radical they should be.

14.2 The Group assumed that, in view of the very explicit commitments that have been given by the Government to the Caribbean countries, Ministers would recognise the constraints on any sudden or fundamental change in the current arrangements at this stage and would prefer to proceed by exploring the scope for reinterpreting the existing commitment, coupled with measures aimed at reducing the monopoly profits of the importers/ripeners. It therefore concluded that the following more far-reaching options were impractical, for the reasons indicated:

a. ending the bilateral commitment to traditional suppliers and negotiating an end to preferential treatment under Lome IV: this would be extremely difficult for the reasons outlined in paragraphs 9.1-9.4;

b. gradually reducing the quantity of bananas allowed to be imported tariff-free from ACP sources, and increasing in parallel the quantity allowed in under licence from the dollar area, so as to improve competition: this would be regarded as contrary to both the bilateral commitment and the Lome Convention, and would cause a major row with the traditional suppliers and other ACP countries;

c. removing all the quantity restrictions on imports from the dollar area, thus leaving ACP producers with tariff-free access only: this would be somewhat less objectionable, but traditional suppliers would say that the advantages they enjoyed under Protocol 4 were being removed and accuse us of bad faith.

15. <u>Mechanisms</u>

15.1 In reviewing those less radical options that appeared to be more consistent with the approach indicated in paragraph 14.2, the Group was conscious that the available instruments of policy in this area are essentially limited to tariff rates, volume restrictions on dollar bananas and the allocation of import licences. The CET of 20% is however GATT-bound, and its application is in any case a matter within Community competence. Quantitative restrictions and licensing policy on the other hand,though subject to increasing Community constraints, remain within national competence. The review therefore first considered whether the internal market initiative (section 10) or other developments within the Community would make it practicable or indeed preferable to seek instead to maintain some kind of access commitment under a Community regime for bananas.

16. Community or National Approach

16.1. It was generally recognised that a Community-wide policy was likely to pose severe problems. The diversity of arrangements and interests in bananas amongst Member States would make negotiations complex. Whatever interim arrangements might be devised - for example, regional quotas - a highly regulated common policy with a price objective could be the eventual outcome. The ACP would inevitably interpret this as a reduction in the UK's commitment to the Caribbean. In short, although it should not be ruled out as an option in the longer term, especially in view of the likelihood of proposals emanating from the Commission, a Community-wide policy appeared to offer more problems than solutions in the immediate future.

16.2 Conversely the alternative course, of retaining national arrangements for the time being in the expectation that these would extend beyond 1992, would provide more immediate scope for changing the criteria and method of operation of the policy. Its feasibility would of course depend on a similar recognition within the Community generally of the difficulties involved in disrupting the whole range of special arrangements for bananas. Appropriate derogations would also continue to be needed, especially via the Commission's powers under Article 115. To an extent these considerations are interlinked. Nevertheless, with these caveats the continuation of national arrangements revised if necessary, and reconciled with Community commitments, was generally considered preferable.

17. <u>Policy Options</u>

17.1 In examining the options for continued implementation of a banana policy on a national basis, it was considered important that any reinterpretation of the UK's commitment in respect of bananas should be achieved gradually. One possibility would be simply to let projected changes in supply take their course. As indicated in paragraphs 8.1 and 8.2, supplies from ACP sources are projected to grow substantially, and, in order to accommodate these on the UK market, prices - and hence producer returns - would have to fall.

17.2 Experience has shown, however, that ACP supply growth cannot be relied on. In addition, if competition from dollar imports by smaller importers were to be eliminated, market expansion beyond current levels would be more than ever in the hands of a few large importers. It was felt therefore that positive action should be taken to provide room for the market to expand steadily over the next few years.

17.3 The Group considered that this could be achieved within the existing tariff and licensing arrangements by allowing the market to grow in line with a rising series of indicative annual tonnages. In this way the level of supplies to be made available to the market could be gradually increased towards the levels experienced in comparable European markets (set out in Annex V), thereby lowering retail prices and returns.

17.4 In deriving a possible series of ranges for this purpose, the Group took the view that it was feasible and advantageous to bring the indicative approach into effect without delay. The Group noted that within the constraints of current policy the UK market's capacity in 1988 had been estimated at 360,000 tonnes. In order to allow the orderly expansion proposed, the Group considered a 5-year period of adjustment to be appropriate and drew up the following indicative series of overlapping annual supply ranges:

	1989	1990	1991	1992	1993
'000 tonnes	360-380	370-395	385-410	400-425	410-450

17.5 Under this approach the indicative series would not be disclosed but each year, after consultation, a decision on the exact tonnage to be adopted within the range set for the year ahead, would be taken and published. If, on the best available evidence, forecast ACP supplies fell short of the indicative figure, the quota for dollar area bananas would be adjusted to take account of the difference. If, however, the expected level of ACP supplies were to exceed the figure adopted, no such adjustment would arise. In either event there could be short-term supply problems which might require a response, but the extent to which the market could be allowed to grow overall would be known in advance and would not be constrained, as in the past, by assessments of short-term market requirements.

17.6 Permitting the market to expand in this way would preserve priority of access for traditional and other ACP suppliers, in conformity with our current bilateral and Lome commitments. But by itself it could result in quotas for dollar bananas fluctuating - perhaps markedly - from year to year. The Group recognised that the dollar banana quota allows small independent importers some scope to compete with the three large importers and considered that the level of the quota should not fluctuate below a guaranteed minimum, because otherwise:

(a) the market could become further concentrated in the hands of the Big Three importers;
(b) existing difficulties with dollar area governments would be exacerbated;
(c) negotiating the necessary protective powers with the Commission would become increasingly difficult.

17.7 It was further recognised that for the same reasons there would be benefit in providing for some growth in this guaranteed minimum dollar quota, but at a rate which avoided any rapid erosion of the advantages offered to the traditional suppliers. On these grounds, and taking into account the initial dollar quota of 25,000 tonnes agreed for 1988, the Group concluded that smaller importers should be guaranteed a dollar area quota of 30,000 tonnes in the first year of the series. In subsequent years this guaranteed minimum would be increased each year by the same percentage as the percentage growth in the agreed indicative annual tonnage.

18. Importer/Ripener/Retailer Excess Profits

18.1 Sections 12 and 13 while indicating the central role of the Big Three in fulfilling the UK commitment, also pointed to the monopoly structure of the sector and to the excess profits which they are estimated to be earning. To the extent that the policy outlined above reduces market protection, it may also be appropriate to maximise the benefits of protection for traditional suppliers and to minimise the benefits going to the importers/ripeners/retailers. Any squeeze on UK retail prices, without some such corrective action, may lead to even greater reductions in the benefits to the latter compared to the former. Two possible approaches to the issue were identified in discussion namely, monitoring of prices and margins and a detailed scrutiny of pricing practices. These approaches are not mutually exclusive and could be employed in sequence if necessary. Neither of them would in principle require additional powers.

18.2 The objective of price/margin monitoring would be to collect and publish key price series which would indicate the distribution of benefits between importers/ripeners/retailers and the ACP suppliers. The developing position through time, together with comparative figures for certain selected countries, would be particularly relevant. Existing data could be employed, but would need to be supplemented. Specifically, unit value of imports data and wholesale and retail prices, with associated price spreads for a range of countries, would be envisaged.

18.3 A more formal investigation of the pricing practices of the importer/ripener/retailer sector could be undertaken if price/margin monitoring alone proved ineffective. The Office of Fair Trading (OFT) could look into the issue with a view, if excess profits were not reduced, to a possible monopoly reference to the Monopolies and Mergers Commission (MMC). [A further possibility would be to ask the National Consumer Council (NCC) to carry out a study, but they lack any formal investigatory powers unlike the OFT and MMC].

18.4 Price/margin monitoring is likely to be relatively easy to establish depending upon data availability and the ease with which new data series can be set up. It is also likely to yield relatively quick results. It will be less easy for the importers/ripeners to resist an informal system, particularly one based upon readily available data. The only real arguments they would have would be about the quality of data and about non-comparability between countries.

18.5 The more formal approach could put matters beyond Ministers' effective control - particularly if there was eventually a reference to the MMC. If this occurred, the MMC would be requested to examine one particular sector of the banana marketing chain and to eliminate or reduce excess profits earned in that sector. However, the MMC's interest and actions may go wider. For example, any steps taken to reduce importer/ripener/retailer profits are also likely to reduce the returns to the traditional suppliers. Alternatively, to the extent that the policy involves subsidising imports from the traditional suppliers there would be a risk that the MMC might criticise monopoly practices in the payments to these suppliers. But it is open to the Director General of Fair Trading (DGFT) to make a monopoly reference at any time, and his not doing so in response to complaints from independent ripeners is partly because banana policy has been under review. Moreover, to the extent that liberalisation of the market was succeeding in stimulating greater competition, the MMC would be less

[illegible]

likely to criticise the underlying policy and more likely to concentrate on the share of the benefits going to the importers/ ripeners. It would then be a matter for Ministers' judgement how far any reduction in excess profits could be implemented without losing the commitment of importers/ripeners/retailers to the policy.

18.6 On balance, it appeared to the Group to be expedient to follow the more formal approach only if other approaches were clearly found to be ineffectual.

IV CONCLUSIONS AND RECOMMENDATIONS

19. Conclusions

19.1 The Group concluded that:

(i) the present banana policy leads to the imposition of a substantial cost on consumers through higher prices, tentatively estimated at £100m in 1986, of which the greater part is a transfer to the UK banana industry, not ACP suppliers (paragraph 13.2);

(ii) guaranteed access to a valuable market has made a vital contribution to the economies of the Windward Islands and to a lesser extent, of Jamaica, and to economic and political stability in the region (paragraph 7.3);

(iii) efforts to induce ACP suppliers, and in particular the Windward Islands, to diversify their economies and reduce dependence on bananas should be kept up and so far as possible be increased (paragraph 7.4);

(iv) the Government's explicit commitments to the Caribbean suppliers, however are a very real constraint on sudden or fundamental change at this stage (paragraph 14.2);

(v) the scope for negotiating changes to the commitment incorporated in Protocol 4 to the current Lome Convention is likely to be limited, and would in any case need to be considered in the light of the UK's wider objectives in the Lome IV negotiations (paragraph 9.4);

(vi) though the negotiation of a Community arrangement to fulfill the present commitment could be a possibility in the longer term, this presents so many problems that a continuation of a national arrangement is preferable for the foreseeable future (paragraphs 16.1 - 16.2);

(vii) on that basis an orderly approach to expansion of the market within a licensing system of the kind we currently operate would have the effect of lowering retail prices and returns and encouraging increased competition (paragraphs 17.2 - 17.3);

(viii) adoption of a series of rising indicative supply tonnages would allow the market to expand gradually over the next five years (1989-1993) to 410-450,000 tonnes, precise figures and the resulting dollar quota being determined and announced each year for the year ahead (paragraphs 17.4 - 17.5);

(ix) the level of the annual dollar area quota available to small importers should be guaranteed at a minimum of 30,000 tonnes in 1989 which would be subject to the same annual percentage increases as those for the agreed indicative supply tonnages (paragraphs 17.6 - 17.7);

(x) as a corrective to the monopoly structure and the excess importer/ripener/retailer profits which currently characterise the sector, monitoring of prices and margins with the possibility of a more detailed investigation of pricing practices being kept in reserve as necessary could be undertaken (paragraph 18.6).

20. Recommendations

20.1 It is recommended that:

(i) the conclusions outlined in paragraph 19.1 be adopted as a basis for future negotiations on banana import arrangements, particularly in the context of the next Lome Convention;

(ii) the proposals for an orderly expansion of the banana market set out in paragraphs 17.3 - 17.7 be implemented;

(iii) the monitoring of prices/margins proposed in paragraphs 18.1 - 18.2 be put in hand, with the possibility of a more detailed investigaion suggested in paragraph 18.3 being kept in reserve.

Annex I

MANDATE OF THE GROUP

Objectives

To review UK policy on bananas with a view to identifying any changes which might be desirable after the expiry of Lome III.

Content

All the main issues and objectives considered relevant to banana policy, including those arising from the anticipated excess supply position in 1987 and beyond; consideration of the nature and extent of the UK's obligations to traditional suppliers, including those under Protocol 4 of the Lome III; levels of supply, price and consumption on the UK market and the impact of current policy on the trade, the consumer and the economy; the production policies operated by traditional suppliers including the effect of aid policy on production levels; competition policy considerations; the implications for external commercial policy of the development of a single Community market in the light of the Commission's White Paper; present and possible future GATT commitments; and the foreign policy context with particular reference to the future of the Lome Convention, and our relationships with our traditional suppliers, bearing in mind the effects of UK banana policy on their economies.

Participation

The review meetings will be chaired by MAFF and will include representation from DTI, FCO and ODA. They will be open to other departments such as the Treasury and Cabinet Office. As appropriate, participating departments will be invited to contribute papers to assist discussion.

Annex II

LONG TERM BANANA REVIEW - LIST OF PAPERS

PAPER NO		TITLE	DEPARTMENT RESPONSIBLE
Un-numbered		Discussion Paper	MAFF
LTBR (87) 1		UK Banana Policy: Impact on Bilateral Trade Flows	DTI
LTBR (87) 1	add 1	Ditto	DTI
LTBR (87) 2		Definition of Bananas	MAFF
LTBR (87) 3		Preferential Banana Suppliers: The UK's Commitment	MAFF
LTBR (87) 4		Post-Lome III: The Possible Shape and Content of the Succeeding Arrangements.	FCO
LTBR (87) 4	add 1	Communitisation of the UK Banana Commitment	FCO
LTBR (87) 5		Aid Policy on Bananas: Implications for the Economies of the Commonwealth Caribbean	ODA
LTBR (87) 6		Bananas and Competition Policy	DTI
LTBR (87) 7		Banana Policy and the Internal Community Market	DTI
LTBR (87) 8		UK Banana Policy: Relations with the Caribbean	FCO
LTBR (87) 8	Revised	Ditto	FCO
LTBR (87) 9		Price Formation for Bananas	MAFF
LTBR (87) 9	Revised	Price Formation for Bananas and the Cost of the Policy (changed title).	MAFF
LTBR (87) 9	Revised Add 1.	Ditto	MAFF
LTBR (87) 10		Projections of Banana Supply and Demand Trends	MAFF
LTBR (87) 10	Revised	Ditto	MAFF
LTBR (87) 11		Impact of a Change in Banana Policy on Caribbean Producers	ODA
LTBR (87) 12		Comments on the Economic Effects of a Change in UK Banana Policy.	ODA
LTBR (87) 13		Bananas: Review of Long Term Policy	MAFF
LTBR (87) 14		Policy Options	FCO
LTBR (87) 15		Future Policy Options	DTI
LTBR (87) 16		Options for Future Trade Arrangements	HMT
LTBR (87) 17		Review of Policy Options	MAFF
LTBR (87) 18		Note on Treatment of Excess Importer/Ripener Profits	MAFF

UK BANANA IMPORTS BY MAIN SOURCE

'000 tonnes

	1946	1951	1955	1960	1965	1970	1975	1980	1985
JAMAICA	50	44	138	140	185	135	69	35	13
WINDWARD ISLANDS	-	4	22	90	173	150	92	70	163
OTHER NON-DOLLAR	55	118	152	117	20	44	77	54	49
DOLLAR	-	-	-	3	≠	6	70	163	99
TOTAL	105	166	312	350	378	335	308	322	324

\- None

≠ Less than 1,000 tonnes

Source HM Customs and Excise data.

Price Formation for Bananas and the Cost of the Policy
Summary of Findings

(i) ACP bananas have cost more to import than dollar bananas, even after payment of CET: the gap had widened to about 9p/kg by 1986;

(ii) UK imports of dollar bananas have also cost more than dollar imports into other EC countries which allows them free access (subject to tariff): the gap was some 4p/kg in 1986.

(iii) UK import-retail margins are substantially higher than those in the 'freer' FRG Market. In 1986, the differential was some 13p/kg, suggesting that considerable excess profits accrue to the importer /ripeners, largely due to the control of banana supplies to the UK market.

(iv) On the assumptions identified, the cost to the UK consumer of the UK banana policy is estimated at some £100m for 1986.

(v) A large part of the consumer cost is a transfer to the banana importer/ripeners, estimated at some £45m for 1986;

(vi) ACP gains are relatively small, rising to about £35m by 1986.

(vii) The net cost to the UK is estimated at between £60m and £80m for 1986, depending upon the assumption about banana industry excess profits remitted abroad;

(viii) There is some evidence that the costs to the consumer and to the UK, and the gains to the ACP producers, have increased in real terms over the seven year period reviewed, 1980-1986;

(ix) Sensitivity analysis indicates that the estimate of costs and benefits could suffer from a large margin of error. However it is clear that the costs to the consumer and to the UK do exceed the gains to the ACP suppliers.

(x) In the future, if the projected increase in ACP sendings is realised, UK import and retail prices seem likely to fall, thereby reducing the magnitude of the costs of the UK banana policy and the gains to the ACP suppliers.

"BEST" ESTIMATE OF COSTS AND BENEFITS OF UK BANANA POLICY 1980 - 1986
(£M DEFLATED TO 1986 PRICES)

	1980	1981	1982	1983	1984	1985	1986	1980 - 1986 Average
<u>Consumer Cost</u>								
Existing Consumption	65.1	65.0	75.8	47.3	84.5	118.3	88.5	77.8
Foregone Consumption	4.4	4.6	6.0	2.4	6.7	11.8	6.2	6.0
Lower ACP quality	2.8	2.7	3.2	3.9	4.4	5.6	6.9	4.2
Total (a)	72.2	72.3	85.0	53.6	95.5	135.7	101.6	88.0
<u>Gains to UK Banana Industry</u>	50.8	51.4	56.5	30.2	65.3	84.7	43.6	54.6
<u>Tariff Losses</u>								
To EC	3.6	5.1	5.9	4.8	6.9	10.8	12.2	7.0
To UK	0.6	0.8	1.0	0.8	1.1	1.7	2.0	1.1
<u>Net Cost to UK</u>								
Lower limit (b)	22.0	21.7	29.5	24.2	31.3	52.7	60.0	34.5
Upper limit (c)	47.4	47.4	57.8	39.3	64.0	95.1	81.8	61.8
<u>ACP suppliers gains</u>	8.3	10.8	13.9	14.0	16.4	26.1	34.1	17.7
<u>Other suppliers gains</u>	8.0	3.7	5.5	5.1	4.6	5.8	6.2	5.6

NOTES (a) total may not add up due to rounding
(b) assumes no UK industry gains remitted abroad
(c) assumes 50% UK industry gains remitted abroad

Scenarios for a Managed Expansion of the UK Market

1. This annex provides some illustrative examples of the possible build-up in supplies to the UK market which might be considered under the policy option identified in paragraphs 17.2 - 17.5 of the report.

2. Basing phased increases in supplies on estimates of the supply volume under competitive market conditions is intuitively the most appealing. The problem, however, is that the estimated competitive market volume depends crucially upon assumptions on the responsiveness of demand to price change ie the elasticity of demand; reliable estimates of the elasticity are not available, particularly to cover the range of price movement under the policy change being considered. An alternative approach would be to utilise per capita consumption levels experienced elsewhere, the assumption being that these will reflect the level which could obtain on the UK market under more competitive market conditions. The problems in this case, however, is in choosing the appropriate other country, or group of countries on which to base the UK volume. Differences in per capita consumption levels amongst countries will be due to a host of factors including differences in income, tastes, lifestyle and weather, as well as to differences in prices.

3. Given these difficulties, it is not possible to produce definitive figures for UK supplies increases over time. The following table shows some illustrative calculations utilising the 1986 level of supplies (343,000 tonnes) as the starting point, and assuming a 5 year adjustment period, and different assumptions on the supply growth basis:-

'000 tonnes	Indicative Volume - estimate competitive market basis (a) (b)	(c)	Indicative Volume - closing of per capita consumption gap between UK and other European markets FRG	France	Italy	Belg/Lux Neth.Den. Ireland
Year 1	353	362	392	365	343	358
Year 2	362	381	442	387	343	374
Year 3	372	401	491	408	343	389
Year 4	381	420	541	430	343	405
Year 5	391	439	590	452	343	420

(a) Based upon 1986 estimates of free market position as defined in LTBR (87) 9 Revised ie abolition of dollar import licensing system but retention of 20% tariff preference for ACP imports.

(b) Assuming price elasticity of demand of -.55

(c) Assuming price elasticity of demand of - 1.1

4. For the purpose of the competitive market basis , it is estimated that in 1986 UK retail banana prices would have been some 25% lower than their actual level and that total supplies (and consumption) would have been the year 5 figures as shown. On the same basis, import prices for ACP supplies would have been some 28% lower. For comparative purposes at current exchange rates, 1986 retail prices in FRG were some 20% lower than in the UK; retail prices in France were about the same as in the UK and those in Italy over 35% higher. (Reliable retail price data for Belgium/Luxembourg, Netherlands, Denmark and Ireland are not readily available).

5. In the illustrative projection exercise (paragraph 8.1 and 8.2) ACP supplies are projected to grow to 400,000 tonnes by 1992, implying a retail price reduction of 30% assuming an elasticity of demand of -.55 (or 15% assuming an elasticity of -1.1). This assumes that ACP suppliers would not reduce their sendings in response to price reductions.

6. In general the estimates imply a wide range of possible UK indicative volumes. Setting aside the extremes - the FRG column and the Italy column - a range of 400-450,000 tonnes would seem appropriate. This is estimated to be consistent with a phased reduction in retail prices cumulating to a fall of some 25% compared to the level in 1986, other factors remaining constant.

4436/033

CONFIDENTIAL

FROM: R MOLAN

DATE: 24 February 1988

1. MR P G F DAVIS

2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Sir P Middleton
Sir G Littler
Mr H P Evans
Mr Mountfield
Mr Walsh
Ms Symes
Miss Preston
Mr Tyrie

Ch/ Content to write as proposed?

OK as 24/2

THE COMMON FUND

Lord Young's minute of 19 February to the Prime Minister reports that the UK's attempt to persuade other Member States to join us in deratifying the Common Fund agreement has not met with success and proposes a strategy for moving the emphasis of the Fund's activities onto the Second Account. The Prime Minister has approved Lord Young's strategy (Mr Powell's letter of 23 February) but has noted that the option of eventual withdrawal still remains open, although beset with legal problems.

BACKGROUND

2. It was agreed at the Prime Minister's meeting on 10 November 1987 that as the UK would probably be taken by the Commission to the European Court if we were to deratify the agreement in isolation, approaches should be made to selected European Community governments to persuade them to join us in such a course of action. At the time it was thought that this attempt was unlikely to succeed but it would have the benefit of preparing the ground for the second stage of seeking these countries cooperation in working to freeze the Fund's First Account. Lord Young subsequently wrote on 27 November to Ministers in seven EC countries.

LORD YOUNG'S MINUTE

3. All the recipients, except Portugal, have now replied and no country has expressed a desire to deratify. However, the exercise has made it clear that these countries share some scepticism about the continued relevance of the First Account and would prefer more emphasis to be put on the Second Account. As the level of ratifications will probably be high enough by the summer to bring the Fund into force the UK will have to concentrate its efforts on restricting the Fund's activities. Resistance to any attempt to extend Community competence will also be needed.

4. Lord Young lists a number of principles which the UK should seek agreement on with sympathetic countries. These include the formulation of stringent financial rules governing the Fund's operations and the avoidance of contingent liabilities. The process of negotiating and agreeing fully satisfactory rules for the operation of the Fund should be a drawn out affair. Lord Young goes on to describe how the UK might neutralise the First Account. He considers it is unlikely that a formal freeze could be achieved as this would require 75% of eligible votes and the developing countries could muster 60%. But an attempt could be made to defer discussion of the detailed operating rules without which the Account cannot become active. If a vote is called on the introduction of rules an attempt could be made to prevent the necessary 75% support being achieved.

5. In parallel, the UK could as a member of the Cocoa and Rubber Agreements seek to dissuade those agreements from associating with the Fund. (These are the only two agreements which could call on the First Account.) Also, other Member States could be encouraged to transfer from First to the Second Account those shares which can be so transferred, thereby reducing the First Account's borrowing capacity. Finally, every effort could be made to scrutinise the merits of all proposals for expenditure on the Second Account.

6. Lord Young adds that after the UK's ratification of the Agreement, London was offered informally as a candidate for the site of the Fund's headquarters. He proposes that we now let that offer lapse.

RECOMMENDATION

7. The outcome of the lobbying exercise, as regards the First Account, is not unexpected. The evidence that other Member States see the relevance of the Fund lying in the Second Account is helpful and Lord Young's proposed strategy is a sensible one which might be sold to many of these countries. Exploiting all the available procedural devices for delaying the coming into operation of the Fund and tightening its rules as far as possible is the least we can try to do. Discouraging the Cocoa and Rubber Agreements to call on the Fund and encouraging other countries to transfer First Account monies to the Second Account will help to back up this campaign. But if these efforts fail and the First Account started to function it may be necessary to weigh up the legal risks of withdrawal against the drawbacks of continued membership.

8. The indications are that the Commission have come round to the view that the focus of the Fund's activities should fall on the Second Account. However, there are signs that officials there are thinking of ways of extending the Account's activies well beyond those envisaged in the Agreement. In particular, they have informally proposed that funds in the Account could be used to secure lending to commodity agreements in excess of the Account's capital base, so creating the danger of contingent liabilities falling on members. We have told DTI to firmly resist this particular idea in informal discussions.

9. Lord Young's view on the siting of the Fund HQ is clearly right as it would be quite incongruous for the UK to maintain a bid for it.

10. It is recommended that you send a short letter to Lord Young endorsing his strategy but putting down a marker that the Commission's views need to be carefully watched. You may also like to echo the Prime Minister's comment about withdrawal. A draft reply is attached.

11. If your reply is unlikely to reach DTI by Thursday (25th) noon, an advance telephone call, if possible, by your Private Secretary to Lord Young's office conveying your views would be appreciated by DTI as the subject is being discussed in the OECD that afternoon.

R Molan

R MOLAN

4436/034

CONFIDENTIAL

Pse type final for the sig.

DRAFT LETTER TO:

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

THE COMMON FUND

Thank you for copying me your minute of 19 February to the Prime Minister. I have seen the reply dated 23 February from the Prime Minister's office.

It is disappointing - if somewhat predictable - ~~It is a pity~~ that none of our main Community partners are prepared to deratify but ~~it is comforting~~ I am glad to know that that they share some of our scepticism about the relevance of the First Account and see the case for placing more emphasis on the Second Account. We clearly need to build on this climate of opinion and the strategy which you propose will hopefully provide an effective means achieving our objectives. We must be ready to supplement this, as you suggest, by using our influence within the Cocoa and Rubber Agreements to discourage association with the Fund's First Account. But ultimately if we fail to carry others with us, withdrawal is an option we may need to consider further, notwithstanding the risks it carries.

I understand that there are signs that the Commission are also of the view that the focus of the Fund's activities should fall on the Second Account. This is to be welcomed but we need to be careful that the Commission do not come forward with proposals for the Second Account which carry any of the drawbacks we have been seeking to avoid, in particular the danger of contingent liabilities.

I am copying this letter to the Prime Minister, the Foreign Secretary, the Minister of Agriculture, the Attorney General and Sir Robin Butler.

NIGEL LAWSON

Mr Burgner
Mr P G F Davis
Mr Waller
Mr Walsh
Mr Mathews
Ms Symes
Mr Steven
Miss Preston o.r.
Mr Molan
Mr Tyrie

CONFIDENTIAL.

cc CST
FST
PMG
EST
Sir C Littler
Sir T Burns
Mr Monck
Mr Mountfield
Mr H P Evans

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

24 February 1988

The Hon. Alan Clark MP
Minister for Trade
Department of Trade and Industry
1 Victoria Street
LONDON
SW1

Dear Alan

INTERNATIONAL JUTE AGREEMENT

Thank you for copying to me your letter of 18 February to Geoffrey Howe. I have seen Geoffrey's reply of 23 February.

As there is no prospect of blocking a Community mandate, I am reluctantly prepared to agree to your proposal that the UK should go along with the proposal that the EC enter renegotiations on the basis that any new agreement will not contain any provisions for market intervention and that contributions for projects will remain voluntary. I also agree of course that we should use our influence to ensure that no new contingent liabilities arise from any new agreement.

I am copying this letter to the Prime Minister, Geoffrey Howe, John MacGregor and Sir Robin Butler.

Yours
Nigel

NIGEL LAWSON

PG

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary 28 February 1988

INTERNATIONAL JUTE AGREEMENT

The Prime Minister has been informed of the correspondence stemming from your Minister's letter proposing that we agree to a re-negotiation of the International Jute Agreement provided certain conditions are met.

The Prime Minister accepts this recommendation on the clear understanding that there will be no provisions in the Agreement to interfere with the operation of the market and that no new contingent liabilities arise.

I am copying this letter to the Private Secretary to the Foreign Secretary, the Chancellor of the Exchequer and to Sir Robin Butler.

CH HEQUER
REC. 29FEB1988
ACTION Mr MOLAN
COPIES TO CST, FST, PMG, EST, Sir G. Littler, Sir T. Burns, Mr Monck, Mr Mountfield, Mr H.P. Evans, Mr Burgner, Mr Walsh, Mr P.G.F. Davis, Mr S.W. Matthews.

✓29/2

C. D. Powell

Miss Marjorie Davies,
Office of the Minister for Trade.

FROM: P G F DAVIS
DATE: 29 FEBRUARY 1988

CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
Sir G Littler
Mr Anson
Mr Lankester
Mr Monck*
Mr Burgner*
Mr Mountfield
Mr Bonney
Mr MacAuslan*
Mrs Imber
Mr Molan
Ms Symes
Mr Call
Mr Tyrie*

*With copy report

Ch/
Content to write as proposed?
29/2

OK.
2. Any chance of further liberalisation via the Uruguay Round?
N.

REVIEW OF LONG-TERM BANANA POLICY

The Minister of Agriculture's letter of 24 February to Lord Young invites colleagues to agree the recommendations of an interdepartmental review of banana import policy in which we participated. The review is included in the E(CP) competition policy action programme. I attach a copy of the report.

2. Mr MacGregor, with good reason, would like to see the recommendations go further towards liberalising the market. But he recognises, as we were obliged to in the review, the difficulties that a sudden large change would cause for the position of our traditional Caribbean suppliers and our relations with them. We suggest you accept that the recommendations are a step in the right direction but call for periodic progress reports so that additional steps can if necessary be considered collectively.

Present position

3. Competition in the UK banana market is grossly distorted. The full picture is not easy to see from the rather muddily drafted report. Briefly it is this. Under the Lome Convention bananas from ACP producers are admitted tariff-free, while those from

producers in the 'dollar area' are liable to the CET of 20 per cent and are subject to quantity restriction by UK import licensing under powers agreed annually with the Commission. Quantities are determined by MAFF on the advice of the Banana Trade Advisory Council, a joint Government/trade committee which they chair. Dominating the trade side are the three big importers, Fyffes, Geest and Jamaica Producers, who between them control 90 per cent of banana imports into the UK. The BTAC attempts to estimate the size of the market in the year ahead and the quantities that will be available from ACP sources. The difference, if any, becomes the proposed dollar area quota. Most of the dollar area licences, if any, go to the big three.

4. The effect is artificially to increase prices to the UK consumer and returns to the big three importers. The review estimated that the annual cost to the UK consumer in 1986 (compared with the cost of a free market apart from the 20 per cent CET differential - ie where ACP imports were subject to the CET but not to quota restriction) was around £100 million, and the net cost to the UK was £60-£80 million, but the net gain to the ACP producers was only some £34 million. The retail market is worth some £350 million a year: bananas are the second most popular fruit in the UK. These estimates rely heavily on the assumptions etc used, but it is clear that the cost to the UK far exceeds the gain to the ACP and that the losses in efficiency are considerable.

The constraints on change

5. Liberalising the market, however, is by no means easy. The essence of the Lome Convention is to give tariff preference to ACP produce. Lome III contains a special Protocol 4 which guarantees that:-

> In respect of its banana exports to the Community markets, no ACP State shall be placed, as regards access to its traditional markets and its advantages on those markets, in a less favourable situation than in the past or at present.

Other EC Members - notably France, Italy and Spain - have their own special protective arrangements under the Convention. Lome

III runs out at the end of February 1990 but there is not likely to be much support for liberalisation in Lome IV. Bananas are conspicuously excluded from Community proposals for liberalising trade in tropical products under GATT.

6. In addition, the UK has made a bilateral commitment to its "traditional" suppliers in the Caribbean - the Windward Islands and Jamaica - to accept all the bananas of marketable quality that they can send. This has been upheld by successive Governments and has been fulfilled in practice by the big three importers who use these countries as their main source of supply. The Prime Minister said in Jamaica last July that "We shall continue to fight hard in the European Community... to make sure that Jamaica and other Caribbean countries go on enjoying the preferential arrangements for bananas under the Lome Convention". Their economies - of the Windward Islands especially, although Jamaica now less so - are heavily dependent on banana production, and diversification is difficult. On a short-term view there is a trade-off between protection and aid; on a longer-term view the combination of over-dependence and protection can lead only to disaster.

Possible solutions

7. Nevertheless we forced the review to consider radical options for change:-

i. Ending the bilateral commitment to traditional suppliers and negotiating an end to preferential treatment under Lome IV;

ii. gradually reducing the quantity of bananas allowed in tariff-free from ACP sources, and increasing in parallel the quantity allowed in under licence from the dollar area;

iii. removing all the quantity restrictions on imports from the dollar area, leaving ACP producers with the sole advantage of tariff-free access.

But, not surprisingly in view of the reasons given above, it was not possible to reach agreement even on the last of these. FCO argued particularly strongly against the practicability of any sudden or fundamental change in the current arrangements at this stage. They placed great emphasis on the political instability which might arise if traditional suppliers were exposed to greater competition and suffered a loss of income as a consequence.

8. We therefore suggested a more gradual opening up of competition by setting a minimum dollar area quota to be made available solely to importers other than the big three, and increasing this minimum annually. This proposal, strongly backed by DTI, was accepted, in combination with a MAFF proposal to encourage the overall expansion of the market.

9. The MAFF proposal would increase the opportunities for issuing additional dollar area licences above the minimum quota. At present, as noted above, dollar area quantities are limited to the amount, if any, by which the total quantity available from ACP sources falls short of the short-term estimate of what the market will take. The new proposal gets away from short-term estimates and pre-supposes that the market will grow within certain specified limits averaging around 5 per cent (simple) a year. Precise figures within the specified limits would be decided in advance each year, and minimum dollar quotas would increase in line with these. If the minimum dollar quota plus ACP supplies fell short of the figure thus arrived at, additional dollar area licences would be made available for the difference - though these would not necessarily be confined to importers other than the big three (report, paragraphs 17.1-17.7).

10. The report goes on to recommend investigation of the monopoly practices of the big three, with a view to avoiding even greater reductions - and if possible ensuring increases - in returns to producers as retail prices are squeezed. The kind of investigation it favours is an informal monitoring of prices and margins which would indicate the distribution of benefits between importers and producers. But it seems unlikely that monitoring will be sufficiently

effective, and we think it will eventually be necessary to proceed to a formal investigation by the OFT, possibly leading to a monopoly reference to the MMC (report, paragraphs 18.1-18.6).

11. Finally the report concludes also, at our insistence, that increased efforts should be made to induce ACP suppliers to diversify their economies and reduce their dependence on bananas (paragraph 19.1 (iii)).

Recommendation

12. These proposals, on which the review team just managed to agree, are weaker than we would wish. But, given the stagnant history of successive banana reviews, they are a significant step in the right direction; and although FCO Ministers are reputed to be inclined to attach more weight than their officials did to the importance of a better deal for the consumer, we doubt if it would be possible to reach agreement on stronger measures now. We suggest therefore that you do not object to the proposals but ask for their effects to be reported periodically so as to leave the door open for additional steps to be taken if there is insufficient improvement in competition. In particular, it would be sensible to leave open for the present the line that we should take on bananas in the Lome IV negotiations, which Recommendation (i) (paragraph 20.1) attempts to close off.

13. I attach a draft reply for your consideration.

Peter Davis

P G F DAVIS

013/2

RESTRICTED

Pse type final for Ch. signature

DRAFT LETTER TO THE MINISTER OF AGRICULTURE

Thank you for copying to me your letter of 24 February to David Young.

2. The current state of the UK banana market as revealed by the Review is disquieting. It sits ill with our policy on liberalising trade, our general stance in GATT and our necessary efforts to improve the supply side. It is clearly in our interests, and also in the long-term interests of the traditional banana suppliers, to move towards a free market as rapidly as we can. I am therefore disappointed that the proposals for opening up the market are not bolder, though I recognise the constraints currently imposed by Lome III and the difficulties which too rapid a change might make for Caribbean economies. I am glad to see the important recommendation in the review report that increased efforts should be made to encourage diversification.

3. Like you I think we should do more to reduce the cost to consumers by allowing greater expansion of the market and increasing the competitive pressures on the three big importers. The review proposals will start us on this road but their actual effects remain to be seen. The very least we must do now is to make sure that the measures you propose produce an adequate increase in competition. I suggest that we should look at progress collectively each year and consider whether additional steps are needed. It will be particularly interesting to see the outcome of the proposed monitoring of the big three importers and the trends in price formation and cost to consumers.

4. It would also be useful to have at least a first indication of effects before we get too far with negotiating Lome IV. While I recognise that we need to behave sensitively towards our Caribbean suppliers, I see no need to be too forward in supporting continuation of the present Lome arrangements in discussions with our EC partners.

5. I am copying this to Geoffrey Howe, David Young and Chris Patten and to Sir Robin Butler.

NIGEL LAWSON

RJ4.56 RESTRICTED

Jonathan cc PS/CST
PS/FST
Sir G Littler
Mr Anson
Mr Lankester
Mr Monck
Mr Burgner
Mr Mountfield
Mr Bonney
Mr MacAuslan
Mrs Imber
Mr Molan
Ms Symes
Mr Davis
Mr Call
Mr Tyrie

CHANCELLOR OF THE EXCHEQUER

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

1 March 1988

The Rt. Hon. John MacGregor OBE MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
SW1

Dear John

Thank you for copying to me your letter of 24 February to David Young.

The current state of the UK banana market as revealed by the Review is disquieting. It sits ill with our policy on liberalising trade, our general stance in GATT and our necessary efforts to improve the supply side. It is clearly in our interests, and also in the long-term interests of the traditional banana suppliers, to move towards a free market as rapidly as we can. I am therefore disappointed that the proposals for opening up the market are not bolder, though I recognise the constraints currently imposed by Lome III and the difficulties which too rapid a change might make for Caribbean economies. I am glad to see the important recommendation in the review report that increased efforts should be made to encourage diversification.

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I am copying this to Geoffrey Howe, David Young and Chris Patten and to Sir Robin Butler.

Yours
Nigel

NIGEL LAWSON

CI3/3 JF

RESTRICTED

bf. 11/3

FROM: J M G TAYLOR
DATE: 2 MARCH 1988

MR P G F DAVIS

cc: PS/Chief Secretary
PS/Financial Secretary
Sir Geoffrey Littler
Mr Anson
Mr Lankester
Mr Monck
Mr Burgner
Mr Mountfield
Mr Bonney
Mr MacAuslan
Mrs Imber
Mr Molan
Ms Symes
Mr Call
Mr Tyrie

REVIEW OF LONG TERM BANANA POLICY

The Chancellor has now written to Mr MacGregor, on the lines suggested in your draft. He has, however, asked whether there is any chance of further liberalisation via the Uruguay Round. I should be grateful for advice.

J M G TAYLOR

C/on x you have ECOFIN on Monday 18 April & you are dining at Christchurch Oxford on Tuesday 19 April so it seemed sensible to try & get you slipped for both days.

Julie 3/3.

From: Nigel Forman.
3rd March 1988.

PRAYERS

To: Chancellor. c.c. Mark Lennox-Boyd.

Ralph Howell and Whipping for 18/19 April.

1. A brief note on two points which will be of interest to you.

2. Ralph Howell, who failed to turn up to see you after a 10 o'clock division last week, is really quite upset about a number of things about which he would like to speak to you when it is convenient. Firstly, he is peeved about being put off the Treasury Select Committee at the beginning of this Parliament, especially when Beaumont-Dark and Budgen have been left on. Secondly, he is annoyed at not having had a chance to put his views to you about the Budget (even though as a Finance Committee Officer he concedes that he had a chance before Christmas which he was unable to take up because he was in New Zealand at the time). Perhaps you would like me to suggest to him that he might like to write to you even at this late stage? Thirdly, and most important from his point of view, he strongly disapproves of the Treasury line on the C.A.P. and the cost of agricultural support in general. He argues that the latter only accounts for 0.4% of GDP and that the cost to the Exchequer would be far greater if we went back to the old system of agricultural support. He feels that the P.M. was badly advised by the Treasury in advance of the recent Brussels Euro-Summit.

X

3. With regard to your wish to be let off the running three line whips on Monday 18th and Tuesday 19th April, I am sorry to have to tell you that Michael Neubert has now told me that all Ministers and P.P.S.s will be wanted to vote during the four days of the Report Stage on the Local Government Finance Bill because of the opposition within our own party to the Community Charge. I made out the best case I could, but without success I am afraid. Perhaps you may like to try having a word with him yourself to see if you have any better luck.

x/

FNF

~~After the Budget~~, [illegible] helpful for [illegible] to bring [illegible] John McHassell & a suitable 1st Officer (? Mr [illegible]) to explain the HMT position re X, the [illegible] re basis of our costings, ie. v. genuinely disputed, [illegible]

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

From the Minister

The Rt Hon Lord Young of Graffham
Secretary of State for Trade and Industry
1-19 Victoria Street
LONDON
SW1H OET

3 March 1988

CH/EXCHEQUER
REC. 03 MAR1988
ACTION Mr MOLAN
COPIES TO CST, FST, PMG, EST, Sir P. MIDDLETON, Sir G. LITTLER, Mr H.P. EVANS, Mr MOUNTFIELD, Mr P.E. DAVIS, Mr WALSH, Ms SYMES, MISS PRESTON, Mr TYRIE.

Dear David,

THE COMMON FUND

Thank you for sending me a copy of your minute of 19 February to the Prime Minister. I have also seen Nigel Lawson's reply dated 25 February.

On the main substance I share your views and Nigel's further comments.

If deratification - or withdrawal - appears not a practicable option at this stage, then we must pursue our interests within the Agreement by ensuring that the First Account is in no position to stimulate further market intervention initiatives. Our leadership on this appears to be bringing results, at least within the Community.

My specific concern arises from current developments within the International Cocoa Agreement. As you note, it has no current need for external funding. Cocoa buffer stock purchases have just reached a new limit of 150,000 tonnes fully funded by levy payments. Predictably, the impact on the structural surplus and falling prices in the cocoa sector have been slight, but all this could create pressure to bring forward the Agreement's provision for a possible further round of buffer stock purchasing. Within the Cocoa Agreement we would naturally resist any such suggestion, but even the hope of an operational First Account would make this more difficult. There is therefore a very practical need to pursue vigorously your proposed strategy.

Yours ever,

John

JOHN MacGREGOR

International Conference

MACRO-ECONOMIC CONSEQUENCE OF FARM-SUPPORT POLICIES

The Civils
1, Great George Street, Westminster,
London, S.W.1

3-4 May 1988

D R A F T   P R O G R A M M E

Tuesday 3 May 1988

1900-1930	Reception at the St James's Court Hotel
1930-2000	Address by (to be arranged)
2000-2100	Dinner
2100-2200	Discussion

Wednesday 4 May 1988

0930-1030	FIRST SESSION **Macro-economic Consequences of Farm-support Policies in Developed Countries** Dr A.B. STOECKEL: Director, Centre for International Economics, Canberra, Australia
1030-1100	Coffee
1100-1200	SECOND SESSION **Economic Consequences of Farm-support Policies in the United States and Australia** Professor ROBERT THOMPSON: Dean of the Agricultural School, Purdue University, West Lafayette, Indiana, United States of America
1200-1300	THIRD SESSION **Economic Consequences of Farm-support Policies in Japan and the Republic of Korea** Mr KAZUO NUKAZAWA: Director, Department of International Affairs, Keidanren, Tokyo, Japan

1300-1400 Lunch

1400-1500 FOURTH SESSION

Economic Consequences of Farm-support Policies in the European Community, especially in the Federal Republic of Germany

Professor JUERGEN B. DONGES: Vice-President, Institut für Weltwirtschaft, Kiel, Federal Republic of Germany

1500-1600 FIFTH SESSION

Economic Consequences for Developing Countries of Farm-support Policies in Developed Countries

Professor DEEPAK LAL: Department of Political Economy, University College, University of London, United Kingdom; formerly Economic Adviser, World Bank, Washington

1600-1630 Tea

1630-1730 SIXTH SESSION

What is to be Done? Action at Domestic Level and at International Level

Hon. ROBERT HORMATS: Vice President, Goldman Sachs Inc., investment bankers, New York; formerly Deputy US Trade Representative, Executive Office of the President, Washington, United States of America

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GLOBAL AGRICULTURAL TRADE STUDY

sponsored by the

Centre for International Economics, Canberra, Australia

==

1. Agricultural Policies and the United States Budget and Trade Deficits

   ANDREW FELTENSTEIN: World Bank, Washington

2. Impact of United States Policies on Employment and Manufacturing

   SHERMAN ROBINSON, University of California at Berkley, and IRMA ADELMAN, Economic Research Service, US Department of Agriculture, Washington

3. Industry and Agricultural Distortions Resulting from Agricultural Policies

   ROBERT THOMPSON and THOMAS HERTEL, Purdue University, West Lafayette, Indiana

4. Impact of OECD Agricultural Policies on Developing Countries and Their Feedback to Developed Countries

   EDWARD TOWER: Duke University, South Carolina

5. Effects of the European Community's Agricultural Policies on Employment and Manufacturing

   A.B. STOECKEL et al., Centre for International Economics, Canberra

6. Manufacturing and Employment Losses in West Germany Resulting from Agricultural Policies

   JUERGEN DONGES, HUGO DICKE and EGBERT GERTEN: Institut für Weltwirtschaft, Kiel

7. Inter-country Effects in the Economy Resulting from Agricultural Policy Liberalization

   GLENN HARRISON, THOMAS RUTHERFORD and E.E. RUTSTROM: University of Western Ontario, London

8. Japanese Agricultural Policies: Impact on Manufacturing, Employment and Housing Prices

   TOSHIAKI TACHIBANAKI and OSAMU ICHIOKA: Kyoto, Japan

9. Effects of Agricultural Protection in Japan: an Economy-wide Analysis

   DAVID VINCENT: Centre for International Economics, Canberra

10. Cost of Agricultural Trade Wars

   GLENN HARRISON, RANDALL WIGLE and E.E. RUTSTROM: University of Western Ontario, London

11. Macro-economic Effects in Australia of Reforming Agricultural Policies

   PETER HIGGS: Impact Centre, University of Melbourne

12. Effects of Agricultural Policies in the Republic of Korea

   DAVID VINCENT: Centre for International Economics, Canberra

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CH/EXCHEQUER
REC. 07 MAR 1988
ACTION CST
COPIES TO

1/3 PWP

FCS/88/043

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Review of Long Term Banana Policy

1. Thank you for copying to me your letter of 24 February to Lord Young. I have now seen the report produced by officials and can confirm that I am willing to accept the report's conclusions.

2. In view of the many and at times conflicting, policy issues involved, I think the report strikes an appropriate balance. The UK commitment to the Caribbean producers is vital to the economies of those countries and to UK political and commercial objectives in the region. Nevertheless without changing the underlying commitment, it is clear that the policy could be modified to reduce the cost it imposes on UK consumers. The main recommendations of the report - gradual expansion of overall supplies and a guaranteed (and growing) minimum quota for dollar bananas - seem sensible.

3. I note that each year we will need to decide for the year ahead the overall minimum supply requirement. This figure will be within the confidential indicative ranges set out in the report. This annual decision will become increasingly important in terms of the effect on prices as the span of the indicative ranges increases, so I am

reassured that the report confirms that the annual decision will be taken only after full consultation. FCO Diplomatic Wing and ODA Department should play a full part in this process, consulting posts in the countries concerned as necessary.

4. You rightly highlight the importance of a carefully coordinated presentation of the new policy. This will be a very sensitive matter for the Governments concerned, and for the trade, and it is clearly important that we all speak with the same voice to the different interested parties. I understand officials are currently working up a speaking note and an agreed set of supplementaries. Provided that Nigel Lawson and David Young are also content with the report, I suggest that Tim Eggar (who has responsibility for the Caribbean and Latin America) should call in the High Commissioners of the traditional suppliers to brief them. More or less simultaneously our posts in ACP and dollar area supplying countries should take similar action with their host governments. You would, I imagine, wish to brief the trade at the same time. The precise form of words would obviously need to be tailored to suit the particular audience, but the main elements of the speaking note ought to be the same.

5. The joker in the pack in all this may be the Commission. It is clearly important that we brief them, both to explain the changes that we are introducing and to reaffirm that we wish to continue with the present licensing arrangements. Moreover we should make clear that in the forthcoming negotiations for a successor Lomé Convention we would wish to see the arrangements for

bananas under Protocol 4 maintained. However we have recently been getting rather worrying indications that, in considering how to tackle bananas in the context of the Single Market, the Commission may be considering some form of CAP-type regime, with price support for DOM and Canaries producers. With the Long Term Review now behind us, it is important to take early action with the Commission to head this off.

6. I am copying this minute to David Young, Nigel Lawson and Sir Robin Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
7 March 1988

FROM: P G F DAVIS
DATE: 8 MARCH 1988

APS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
Sir Geoffrey Littler
Mr Anson
Mr Lankester
Mr Monck
Mr Burgner
Mr Mountfield
Mr Bonney
Mr MacAuslan
Mrs Imber
Mr Molan
Ms Symes
Mr Call
Mr Tyrie

REVIEW OF LONG TERM BANANA POLICY

In your minute of 2 March you asked for advice on whether there is any chance of further liberalisation of the banana regime in the Uruguay Round.

2. The chances are uncertain. There are two ways in which the market could be liberalised: the CET could be removed from, or reduced for, dollar-area (ie non-ACP) bananas, and quotas for those bananas could be increased or quota restrictions removed altogether. These restrictions could of course be included in the roll-back of GATT - inconsistent measures which the EC should initiate in line with the Punta Del Este declaration, as noted in paragraph 11.1 of the review report; and producing countries in the dollar area will want to see them rolled back. But the EC position is an obstacle. The Community has tabled proposals for liberalising trade in a number of tropical products but has excluded bananas. We have tried unsuccessfully to get this exclusion resisted.

3. Latterly however the Commission has been considering how bananas might be treated in the context of completing the internal market. We have just received early indications that their thoughts are running on a Community-wide regime. They want to give comparable advantages to banana producers in both the ACP and the Community (ie the Canaries and the French Doms) and because these producers are not

price-competitive in world markets, they are thinking of some kind of price mechanism, apparently on CAP lines. Supplies from third countries would probably be subject to quota restriction like our bananas from the dollar area.

4. Proposals of this kind would certainly cause a major row among member states - especially FRG, all or most of whose third country imports currently enjoy a special exemption from the CET. There should be plenty of opportunity for the UK to argue the case against price support and for progressive liberalisation, at least until the banana issue is settled in the Lome IV negotiations. The FCO are very timid about saying anything which would upset the traditional suppliers in the Caribbean, but we are urging them, on the lines of the Chancellor's letter to the Minister of Agriculture, not to be too forward in supporting ACP preference.

5. A new Community Regime would have to be negotiated in GATT, and this should help us to argue for a negotiable Community position, without price support and with progressive steps towards liberalisation.

6. We will let the Chancellor know of significant developments.

b

P G F DAVIS

RJ4.87

CONFIDENTIAL

~~bf.~~ 11/3

FROM: J M G TAYLOR

DATE: 9 March 1988

PWP

MR BYATT

cc Mr Bonney
Ms Symes

COSTS OF THE CAP: RALPH HOWELL MP

You will remember that, following a telephone call from Mr Howell, the Chancellor wrote to him to explain the basis of our figuring behind the recent EPR article on the cost of the CAP.

2. Mr Howell continues to dispute vigorously the basis of our costings. He strongly disapproves of the Treasury line on the CAP and the cost of agricultural support in general. He argues that the latter only accounts for 0.4 per cent of GDP, and that the cost to the Exchequer will be far greater if we went back to the old system of agricultural support.

3. The Chancellor thinks it would be helpful if a meeting could be arranged between Mr Howell and a suitable Treasury official in order to explain the Treasury's position on all this. Would you be prepared to see him?

J M G TAYLOR

ps3/22T RESTRICTED

FROM: J M G TAYLOR
DATE: 9 March 1988

MR P G F DAVIS

cc PS/Chief Secretary
PS/Financial Secretary
Sir P Middleton
Sir G Littler
Mr Anson
Mr Lankester
Mr Monck
Mr Burgner
Mr Mountfield
Mr Bonney
Mr MacAuslan
Mrs Imber
Mr Molan
Ms Symes
Mr Call
Mr Tyrie

REVIEW OF LONG TERM BANANA POLICY

The Chancellor was grateful for your minute of 8 March.

J M G TAYLOR

dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Received in HMT on 11/3. pm

PS/Chancellor of Duchy
PS/KC
PS/SBH
~~RAR~~ ROBERTS
MR HUTTON EEP
MS NEVILLE-ROLFE
MR LOUGHEAD
MR GOATE EC2
MR OWEN OT4
MR KERSE SOLS A
MR STARTUP GP4
MISS DAVIES ON FILE

The Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1A 2HH

CH/EXCHEQUER
REC. 11 MAR 1988
ACTION Mr P.G.F. DAVIS
COPIES TO PS/CST, PS/FST, Sir P. MIDDLETON, Sir G. LITTLER, Mr ANSON, Mr LANKESTER, Mr MONCK, Mr BURGNER, Mr MOUNTFIELD, Mr BONNEY, Mr MACAUSLAN, Mrs IMBER, Mr MOLAN, Ms SYMES, Mr CALL, Mr TYRIE

✓ 11/3

Direct line 215 5422
Our ref PS7AGM
Your ref
Date 7 March 1988

Dear John,

REVIEW OF LONG TERM BANANA POLICY

Thank you for your letter of 24 February.

I was extremely disturbed by a number of findings in the inter-departmental report. The cost to the UK consumer is clearly excessive in terms of the net benefit which accrues to the traditional suppliers. In part, this represents the way in which the imports have been able to exploit their privileged position to siphon off a large share of the economic rents. But there are inherent disadvantages in any system which relies upon the creation of a monopoly, not least in the lack of incentive for the producer to improve the quality of his goods and their wider marketability.

I accept that our commitments make it difficult to change the policy quickly. We must do what we can, however, to mitigate its worst effect. In this context, the proposed price and profit monitoring will provide an important indication of whether we need to take further action. And it would also be prudent, in my view, to prepare for the possibility that national regimes will have to be accommodated within a Community policy. The Commission, in the context of the creation of the single market, will apply very strong pressure to bring to an end all measures covered by Article 115, which permits controls to be applied to intra-Community trade.

the Enterprise initiative

dti

the department for Enterprise

While I am prepared to accept the proposed compromise, I would make two suggestions on the application of the policy. First, each year we should receive a report on the cost to the consumer compared with the net benefit received by the Caribbean producers. And secondly, we should give high priority to introducing a real measure of competitive pressure and market choice, so as to give the producers an incentive to improve quality and efficiency. That will also serve to place a check on the ability of the importers to exploit their monopoly position. This will mean in practice fixing the indicative size of the market as far up the range as possible each year.

As you are also aware, the Director General of Fair Trading has shown concern in the past about the dominant position of the Big 3 and the problems of the independent ripeners. He wrote to my predecessor at the end of 1986, and was told that this review was being undertaken. I think that it would be right to send him a copy of the report, when it is agreed.

I am copying this letter to Geoffrey Howe, Nigel Lawson, Chris Patten and Sir Robin Butler.

B.F. 25/3

CH/EXCHEQUER

REC. 18 MAR 1988

ACTION Mr PGF DAVIS

COPIES TO PS/CST, PS/FST, Sir P. MIDDLETON, Sir G. LITTLER, Mr ANSON, Mr LANKESTER, Mr MONCK, Mr BURGNER, Mr MOUNTFIELD, Mr BONNEY, Mr MACAUSLAN, Mrs IMBER, Mr MOLAN, Ms SYMES, Mr CALL, Mr TYRIE

✓ 18/3

(Lords) Office

RESTRICTED

The Rt Hon The Lord Young of Graffham
Secretary of State for Trade and Industry
Department of Trade and Industry
1 Victoria Street
LONDON SW1

16 March 1988

REVIEW OF LONG TERM BANANA POLICY

In John MacGregor's absence in the USA, I am writing to thank you for your letter of 7 March replying to his of 24 February on this subject. I have also seen the responses from Nigel Lawson and Geoffrey Howe. There is evidently general agreement that the situation in the UK banana market calls for corrective action, and that the conclusions of the review offer a reasonable compromise between our commitments to traditional suppliers and our responsibilities to consumers.

The way is therefore open for the co-ordinated presentation of our conclusions to the interests involved, as proposed by John MacGregor and Geoffrey Howe. I understand that plans for this are well in hand, and that Tim Eggar will brief the Caribbean High Commissioners on 23 March. I also agree that it would be right to inform the Director General of Fair Trading, given his previous interest. I would however suggest that this might stop short of handing over the entire report (which was prepared for Ministers' eyes) and be limited to its conclusions.

The next step will be to determine a minimum supply figure for 1989 within the agreed indicative range. We plan to circulate a proposal on this after we have consulted all banana interests, for which purpose we shall be further broadening the basis of our consultation. I note also that there is a general wish to approach this annual exercise in the context of a survey of current developments in the banana market. I agree that would be sensible, and our officials and those of the other Departments concerned, will no doubt collaborate to provide this.

RESTRICTED

Turning to the longer term implications, the conclusions of the review do of course have an immediate bearing on our stance in the forthcoming negotiations on a new Lomé Convention. In addition, as Geoffrey Howe has warned, we have to counter the Commission's emerging ideas for a CAP-style regime aimed at supporting production in the DOMs and Canaries. This is unlikely to benefit either our consumers or our traditional suppliers, and briefing the Commission on the conclusions of our review will offer a good opportunity to get that point across.

I am copying this letter to Geoffrey Howe, Nigel Lawson, Chris Patten and Sir Robin Butler.

THE BARONESS TRUMPINGTON

Mr Griffiths' minute of 15 March refers.

Mr Griffiths' Thank you.

cc: PS Minister
PS Perm Sec
Mr Gueterbock
Mr Mason
Mr Carden
Mr Hunter
Mr Scollen

CHANCELLOR OF THE EXCHEQUER

I agree. Timing is impossible.

C.

1. This is an invitation for a speech on agriculture, ~~but~~ on 3~~rd~~ May.

2. We've been thinking about such a speech for some time, of course. Susie Symes, who works for Huw Evans in IF, reckons this could be a very good opportunity, ~~with~~ and that there would be ~~something~~ useful to say, in line with the Conference's focus on the macro case for reform.

3. That said, 3~~rd~~ May is not a good date. You've got speeches at Western Area (23 April), Huntingdon (27 April), and Worthing (29 April) the week before, and the Monday (2 May) is a Bank Holiday.

Over

4. Under those circumstances, I don't think we could do a proper job. I suggest we save the agriculture speech for later~~; perhaps the OECD Ministerial itself.~~

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17 March 1988

Dear Chancellor,

This institute, on which brief particulars are enclosed, is preparing to hold an international conference in London on Wednesday 4 May on the 'Macro-economic Consequences of Farm-support Policies'.

On the evening before, we are holding a dinner at the St James's Court Hotel, to be attended by conference participants and members of the Centre. I am accordingly writing, on behalf of the Chairman and Council, to ask if you might be induced to speak at the dinner on the need, for macro-economic reasons, to reform farm-support policies. The dinner, on Tuesday 3 May, will be at 7 o'clock for 7.30 p.m., dress being informal.

The conference will be provided with the overview of a major international programme of studies sponsored by the Centre for International Economics, Canberra, Australia. It includes studies on the economic consequences of farm-support policies in the European Community (especially the Federal Republic of Germany), the United States and Japan, as well as a number of other countries. A list of the studies is enclosed together with a copy of the programme for the conference which is being held at the Civils in Great George Street.

As you will note, the conference is being held a fortnight before the OECD ministerial council meeting, where the crisis in agricultural trade will presumably feature prominently again. In the Uruguay Round negotiations, moreover, at attempt is being made to secure some if only little progress on agricultural trade this year, so that the United States, as well as the European Community, is committed to a particular course when there is a change in Administration next year.

It seems important, if any progress is to be made in reforming farm-support policies, to consider all aspects of present policies, including their consequences for economics

Rt. Hon. Nigel Lawson M.P.

as a whole. We believe, therefore, that the conference on 4 May will be important in drawing public attention to the economy-effects on the CAP and its counterparts in other countries.

Yours sincerely,

Hugh Corbet

Hugh Corbet
Director

Rt. Hon. Nigel Lawson M.P.,
Chancellor of the Exchequer,
12, Downing Street,
London, SW1

Enclosures

RESTRICTED

FROM: P G F DAVIS
DATE: 22 MARCH 1988

CHANCELLOR

cc PS/Chief Secretary
Sir P Middleton
Sir G Littler
Mr Lankester
Mr Monck
Mr Burgner
Mr Macauslan
Mr Molan
Mr Call
Mr Tyrie

REVIEW OF LONG TERM BANANA POLICY

Baroness Trumpington's letter of 16 March to Lord Young satisfactorily rounds off the correspondence on this Review. Both Lord Young and Sir Geoffrey Howe echoed in their different ways your call for annual reports and consultations, and Baroness Trumpington agrees to an annual interdepartmental survey of current developments in the banana market. We have been consulted about the briefing of trade and producer interests and the Commission; and Mr Eggar is planning to take a suitably robust line when he sees the Caribbean High Commissioners to-morrow.

Peter Davis

P G F DAVIS

FROM: S P JUDGE
DATE: 28 March 1988

PS/CHANCELLOR

BANANAS

The Paymaster General has noted with interest that the Chancellor is opening a Banana Ripening Warehouse at Blaby next Wednesday, 6 April.

2. He tells me that there are 250 different kinds of banana - and that may be only the Ugandan figure.

S.P.J.

S P JUDGE
Private Secretary

UNCLASSIFIED

FROM: J M G TAYLOR

DATE: 29 March 1988

PMP

MR P G F DAVIS

cc PS/Chief Secretary
Sir P Middleton
Sir G Littler
Mr Lankester
Mr Monck
Mr Burgner
Mr MacAuslan
Mr Molan
Mr Call
Mr Tyrie

REVIEW OF LONG TERM BANANA POLICY

The Chancellor was grateful for your minute of 22 March.

J M G TAYLOR

R Howell
Agriculture
219-5025

IF trying to locate
Suzie o.n.o. (eg HPEvons)

SUSIE
SYMES.
RANG
BACK

sy9

BF 22/4 BF 19/4 Pup BF 11/4

FROM: SUSIE SYMES
DATE: 29 March 1988

PS/CHANCELLOR

cc: Mr Byatt
Mr Evans
Mr Bonney

BF 14/4 BF 15/4

(Said "try for Thursday") Ms Symes has promised a draft reply. Pse. ask when we can expect this (soon, I hope!)

LETTER FROM MR RALPH HOWELL MP

Mr Howell's letter of 18 March to the Chancellor, following up earlier correspondence on the February EPR article on agriculture, has been passed to me for reply.

2. Mr Byatt has now arranged to see Mr Howell on 11 April. Mr Bonney and I will also attend. I hope therefore that a substantive reply - if one is still needed - can wait until I return to the office on 6 April. I will be in the Treasury this evening if you think we need to discuss.

BF ~~22~~ 25/4

pp. SUSIE SYMES

55.
4097

PWP

dti

the department for Enterprise

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

The Baroness Trumpington
Ministry of Agriculture Fisheries and Food
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REC. 29 MAR 1988 29/3
ACTION Mr P G F Davis
COPIES TO PS/CST, Sir P Middleton, Sir G Littler, Mr Lankester, Mr Monck, Mr Burgner, Mr MacAuslan, Mr Moran, Mr Call, Mr Tyrie.

Direct line 215 5422
Our ref PS1ANP
Your ref
Date 29 March 1988

Dear Jean,

REVIEW OF LONG TERM BANANA POLICY

Thank you for your letter of 16 March, noting the agreement of colleagues to the recommendations of the report on long term banana policy. I was concerned to read your suggestions that only the conclusions of the report be sent to the Director General of Fair Trading (DGFT).

I see a strong case for sending him the full report so that he can see the thinking behind the conclusions and appreciate the constraints under which we were working. It would also be more difficult to involve his officials in the follow-up monitoring - as we hope to do because of their experience in this area - if they are not fully aware of the background. The Director General frequently has access to sensitive information from Government as well as industry and I see no reason why we should hold back the full version of the report. Because it considers the possibility of OFT action my officials have, of course, already discussed certain aspects of the report with OFT staff.

I hope in the light of these arguments you can agree to my sending the DG the whole report.

I am copying this letter to Geoffrey Howe, Nigel Lawson, Chris Patten and Sir Robin Butler.

Yours,
David

the Enterprise initiative

PWD

From: P T Wanless
Date: 11 April, 1988

1. MR BONNEY

2. CHANCELLOR

I agree
JB 11/4

cc: Chief Secretary
Paymaster General
Mr Anson
Mr Lankester
Mr Burgner
Mr Edwards
Mr Turnbull
Mr Mortimer
Mr Mercer
Mrs Imber

MEETING WITH THE MINISTER OF AGRICULTURE, 11 APRIL 1988

We understand that you are meeting the Minister of Agriculture early this evening. This submission offers briefing on the two main subjects he may wish to discuss with you: the current CAP price fixing negotiations and the possibility of a green pound devaluation.

2. The Commission price fixing proposals issued on 28 March suggested a price-freeze for all major agriculture products and a ten point reduction in Greek MCAs by devaluing the green drachma but no other green rate changes. The package was proclaimed as being consistent with the new financial guideline established at the recent European Council in Brussels. We have seen MAFF's suggested debating line on the various agricultural commodities and are generally content, subject to minor points of detail. An EQO meeting on Wednesday afternoon will offer consolidated Whitehall advice. However, the green pound is likely to be a difficult area and agrimonetary issues look set to dominate Community negotiations.

Background

3. Mr MacGregor opened domestic discussions on the value of the

green pound with his letter to you dated 3 February. His suggestions that pigmeat MCAs should be removed, beef MCAs should be reduced by six points and all others devalued by one third led to a meeting on 1 March between Mr MacGregor, the Chief Secretary and the Foreign Secretary at which an agreed Government position was established. The approved line was that Mr MacGregor could seek a modest 3 per cent devaluation of the green pound consistent with the objective of removing all MCAs by 1992. The proposal to seek a full reduction in the pigmeat sector was accepted as it would actually save FEOGA money and Mr MacGregor made his case in a letter to Mr Andriessen at the Commission on 2 March.

4. However, the recent appreciation of sterling has caused MCAs to tumble. The financial calculations underlying the March Ministerial decisions were based on UK MCAs of between -17.5 for cereals and -8.4 for beef. But the latest Commission figures show average reductions of almost one third. The UK cereals' MCA is now -12.3 and that for beef is -3.6. Ministers will clearly need to consider the implications of these changes in due course.

Policy options

5. Briefly, the four main options appear to be:

(i) to accept the Commission position involving no change in the green pound parity;

(ii) to continue to press only for a full devaluation in the pigmeat sector;

(iii) to seek a modest across the board devaluation rebased on the present monetary gap (say, 1 -2% off all UK MCAs in addition to full devaluation for pigmeat);

(iv) to continue to press for a full 3 point devaluation.

Analysis

6. Option one looks the best choice from a Treasury perspective. Seeking no green pound devaluation would be consistent with Commission proposals and hence the financial guideline which we have consistently argued demands strict respect. Moreover, recent MCA reductions have, to a great extent, already met Mr MacGregor's

initial objectives. It would also make savings to PES of £27 million. However, the Minister may find this alternative hard to swallow given his letter to Mr Andriessen and recent pressure from UK pig farmers. The second option is extremely attractive for similar reasons. Alterations to Commission proposals would be restricted to an amendment which would actually save FEOGA money. There would be equivalent PES savings and benefits to the agricultural sector under most pressure. In practice option three will require a devaluation of between one and a half and two MCA points assuming current rates remain constant. The cost to the Exchequer would be between £35 million and £50 million a year on top of the £48 million cost of the reduction in negative MCAs since the last PES Round (ie a net cost of some £10 -20 million a year more than agreed in PES).. Mr MacGregor is likely to favour the fourth option referring to his meeting with the Foreign Secretary and Chief Secretary and to pressure from the National Farmers' Union. His arguments should be resisted not only on expenditure grounds (the additional cost would be some £48 million a year above last year's PES agreement) but also because a devaluation of this size would now be certain to involve competitive devaluations for others notably France with serious implications for the EC Budget and respect of the financial guideline.

Conclusion

7. There is likely to be another opportunity for a green pound devaluation later in the year if there is an EMS realignment. You might sugggest that this could be a more appropriate time in which to secure a modest devaluation. In the meantime a final settlement to the present price fixing negotiations is unlikely before the French elections on 8 May. Until then it would not seem sensible to reach a Ministerial decision when there is every chance of MCA values altering further and Mr MacGregor might be well advised to avoid making further public pronouncements on the green pound before then.

P. Wanless.

PETER WANLESS

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CH/EXCHEQUER

REC. 13 APR 1988

ACTION Mr P.G.F. DAVIS

COPIES TO PS/CST. Sir P. MIDDLETON, Sir G. LITTLER. Mr LANKESTER, Mr MONCK, Mr BURGNER. Mr MACAUSLAN, Mr MOLAN, Mr CALL, Mr TYRIE

13/4

FCS/88/070

PARLIAMENTARY SECRETARY (LORDS)
MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

Review of Long Term Banana Policy

1. I have seen a copy of David Young's letter to you of 16 March on whether the full text of the report on banana policy, or only the conclusions, should be sent to the Director General of Fair Trading.

2. The report was of course drawn up by officials for Ministers' use only, not for dissemination to other bodies. Section 18 deals with the underlying policy considerations on the question of excess profits by importer/ripener/retailers. Among other things, this section makes clear that an investigation by the OFT (or the Monopolies and Mergers Commission) is an option to be held in reserve, pending the outcome of the monitoring of prices and margins which is to be set in hand.

3. I am not sure that this necessarily need preclude passing the report to the OFT, at an appropriate time. But I am inclined to agree with you that there seems no particular requirement or purpose in giving them more than the conclusions at this stage.

4. I am copying this letter to David Young, Nigel Lawson and Sir Robin Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
13 April 1988

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CH/EXCHEQUER
REC. 15 APR 1988
ACTION CST
COPIES TO

15/4

The Rt Hon Sir Geoffrey Howe QC MP
Foreign and Commonwealth Office
Downing Street
SW1A 2AL

15 April 1988

Dear Secretary of State,

I referred briefly at Cabinet yesterday morning to an issue on the stabilisers package which has just arisen owing to the delay that may be caused by the European Parliament in formal adoption of it. I am writing to explain the issues and the possible lines to take at the Agriculture Council on 18 - 19 April.

The problem is this. The Agriculture Council reached agreement on legal texts giving effect to the European Council's decisions on stabilisers for all commodities by the end of March. These texts were not, however, formally adopted then because the Council had to wait for the European Parliament's opinion. It was expected that formal adoption could take place at the Council Meeting next week. It now transpires that there will be a difficulty because the European Parliament has not yet given an opinion on the wine stabiliser though it has given opinions on the rest of the package.

The Presidency explained to the Special Committee for Agriculture earlier this week that, in the face of this, they are inclined to propose that the Council should now formally adopt the stabiliser package apart from wine, leaving wine to be adopted later, possibly but not definitely in May. The Council is scheduled to have a conciliation session with the Parliament on the morning of 19 April and formal adoption could take place immediately after that.

The issue for us is whether to accept some splitting of the package or to insist, as we have done very firmly up till now, that it must be adopted as a whole. There are risks either way.

The reasons for our holding back from giving final agreement to some stabilisers while others were still subject to negotiation are clear. It would have been much too easy for others to drag out the argument and defer the unpalatable decisions for instance

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/on wine, ...

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on wine. We now have firm agreement at the level of the Agriculture Council but the European Parliament is able to exert some influence. They could and well may press for changes on the wine stabiliser. The producer Member States are very likely to use this possibility. So if wine is hived off now for later adoption, there are undoubted risks of changes for the worse.

If on the other hand we stand firm on unity of the package there are two disadvantages. First, there is a risk that one Member State or another may reopen the Council stabiliser in the light of the discussions on the Commission regulations. This danger has already surfaced over set-aside. Or links may be made with the price fixing. In this way the stabiliser package could start to unravel. Second, on set-aside again, if the Council delays formal adoption of the basic text by a month, that will delay adoption of the Commission rules which are due to be settled on 22 April. That in turn will make it impossible for us, and no doubt for other Member States, to bring schemes into effect by the due date of 1 July. But if set-aside did not start then the Germans might possibly point to the commitment of the European Council to bring stabilisers and set-aside into effect together; and make this an argument for delaying the operation of stabilisers generally. That would of course be a very bad outcome indeed.

We face a choice of two evils. One course would be to go for immediate adoption of the set-aside proposals, arguing that this needs to go ahead for practical reasons and is not itself a stabiliser; but that the stabiliser package should be kept intact and await the European Parliament's opinion on wine. I do not know what support we would have from other Member States for this proposition; possibly not much. If others all preferred the Presidency's idea of adopting all the package except wine I think it would be consistent with our previous strong stance to resist the Presidency proposal, make clear that our position on Own Resources continues to depend on completion of all stabilisers as they now stand and let ourselves be outvoted. I would make it clear both in the Council and to the press that had wine been included we would of course have voted for the package. We would not be quite alone. We know the Danes have a parliamentary mandate to keep the package together. They are reckoning with being outvoted.

There are obvious risks in this. The greatest would be if it looked as though sufficient votes would join us to make it a blocking minority. In that case perhaps we would have to vote for, but with the caveat on Own Resources as above.

For these reasons my order of preference would be:

(a) adopt set-aside; leave stabilisers for adoption in May;

/(b) adopt ...

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(b) resist, but with the caveat and explanation as above;

(c) adopt set-aside and the stabilisers apart from wine, leaving wine for adoption in May; but again with the caveat on own resources.

I would be grateful for colleagues' urgent views. The situation is complex and I shall therefore wish to take a final view at the Council itself. If developments there make me think that we should do other than suggested above, I should wish to contact you from Luxembourg to discuss the way forward.

Copies go to the Prime Minister, members of OD(E), to Peter Walker, Malcolm Rifkind and Tom King and to Sir Robin Butler.

Yours sincerely

[signature]

JOHN MacGREGOR

(Approved by the Minister and signed in his absence)

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