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AGRICULTURAL REFORM

AGRICULTURAL REFORM

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Begins: 29/4/88

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PO -CH

PART C



CH/EXCHEQUER	
REC.	29 APR 1988
ACTION	Mr SYMES
COPIES TO	Sir P. MIDDLETON Sir G. LITTLER, Sir T. BURNS, Mr BYATT, Mr LANKESTER, Mr A.S.C. EDWARDS, Mr BURGNER, Mr BOWNEY

Foreign and Commonwealth Office

London SW1A 2AH

29 April 1988

John Allan

Agriculture and the GATT

I am writing to confirm arrangements made by telephone for the Foreign Secretary's informal meeting with the Chancellor, Lord Young and Mr MacGregor on Tuesday 3 May at 2.45 pm to discuss agriculture and the GATT, in the light of recent evidence of US views (eg during visits by the Chancellor and Mr MacGregor) and the need for progress on agriculture by the time of the Montreal Mid-Term Meeting in December. It may make sense to discuss also the more immediate problem of how to handle increasing transatlantic tension on agricultural trade issues, eg at the OECD Ministerial meeting and in the run-up to the Toronto Summit.

Since the meeting will be on an informal basis, we do not intend to circulate papers beforehand. I suggest that one official from each department might also be present.

I am copying this letter to Shirley Stagg in the MAFF and Alison Brimelow in the DTT.

John Galt

Alison Brimelow

(A C Galsworthy)
Private Secretary

Alex Allan Esq
PS/Chancellor of the
Exchequer

FROM: SUSIE SYMES
DATE: 29 April 1988

CHANCELLOR

*[Spoke 22 (Vomits)
Don - spoke]*

*OK
LWS*

cc PS/Economic Secretary
Sir Peter Middleton
Sir Terence Burns
Sir Geoffrey Littler
Mr Byatt
Mr Lankester
Mr A J C Edwards
Mr H P Evans
Mr Burgner
Mr Matthews
Mr Bonney ofr

**AGRICULTURE AND GATT: FOREIGN SECRETARY'S MEETING, 2.45 PM
TUESDAY 3 MAY.**

You will be attending a meeting with Sir Geoffrey Howe, Lord Young and Mr MacGregor on Tuesday 3 May to discuss Agriculture and GATT. Mr Lankester will be accompanying you.

2. The meeting in part arises from your recent bilateral discussion with US Treasury Secretary James Baker in Washington, and also from Mr MacGregor's contacts with the Administration.

3. The main topic will be tactics for pursuing Agriculture in the Uruguay Round, with particular emphasis on the US position. This note suggests some points to make and sets out recent background.

4. Other matters that may arise are also covered briefly below. The Foreign Secretary may want to discuss fears of a US-EC clash at the OECD Ministerial on 18-19 May. Mr MacGregor may be inclined to raise his rumoured conversion - while in the US - to set aside schemes being better than working through price policy. The meeting is unlikely to stray into the general territory of the 1988 Price Fixing and Agrimonetary issues, but Mrs Imber has provided advice, at 25 below, against this contingency.

Agriculture in GATT

5. GATT negotiations are due to end in 1990. The main issue is how to make progress by the Mid Term Meeting (MTM), ^{in Montreal in December} and in

consequence how to handle the run up through the OECD Ministerial 18-19 May and Toronto Summit in June.

6. You might hope to reach agreement on:

i. Mid Term Meeting must make significant progress on agriculture, necessary as further stimulus to CAP reform and a key to the success of the Uruguay Round;

ii. Further CAP reform ought not to wait on actions by others, problems too important for that (as signposted in your 'Ten Principles of Agricultural Reform);

iii. obstacles to progress:

- US intransigence on zero-2000 approach (probably just negotiating posture - see paragraph 12 below);

- Community complacency after February Council;

- Some countries (eg France) insistent on equal progress across all Uruguay subjects or "globality" (but "globality" susceptible to variety of interpretations, ought not to be over concerned at this stage);

iv. Realistic objectives for the MTM must include agreement on "long term framework" for negotiations, to include the overall objective of market-oriented, significant, reduction in overall support and protection preferably measured by a "PSE-type measure";

v. Long term framework not enough, also need clear commitment to early action. Cairns Group "down payment" concept will be useful bridge between EC language on short term measures and US long term objectives.

vi. UK should encourage Cairns Group countries wherever possible, especially Australia and Canada, to persuade the US to be flexible on early action in the direction of long term elimination of most supports.

Particulars, not general, up to 1/2 way?

[1/2 way, 1/2 way?]

US when spec? up to Toronto?

1/2 way (1992?)

US pos. Asses a-ns



UK position on US proposal

7. The US zero-2000 proposal is tough and ambitious. In substance we ought to support it. Of course there will be differences over detail, and we might prefer some early action - not mentioned in the US proposal - as being consistent with the "rollback" commitments made at Punta del Este and reaffirmed at the OECD Ministerial last year. But the US position generally follows the line you have set out, in successive speeches and in the Ten Principles of Agriculture Reform. Foreign Office talk of the wildness of the US views is exaggerated.

8. The US proposal is unlikely to be negotiable. The rest of the community would not accept it, nor would Japan. So the Cairns group position, which shares in large part the long term objective of the US but with no specific time scale and emphasising the need for a 'downpayment' of specific measures, may be an achievable compromise.

9. Some in the UK and the Community doubt the seriousness of the US intentions, suggesting that the US do not expect any action by the end of year and would not be disappointed if there were none.

11. You will have got some impression from US Treasury Secretary Baker of how concerned the US Administration really are. Certainly our impression is that the US do want to see real progress, and are becoming increasingly strident at the lack of support from everyone apart from the Canadians.

12. It seems to us more constructive to test the American resolve than simply to act as if they do not mean what they say. We could be rather more open about our support for their general position, our doubts about negotiability, and our concern that they may not be wholeheartedly behind their own rhetoric. We might ask explicitly for a clear commitment to early action to reduce overall assistance to agriculture. Such action would have to be consistent - or move in the same direction as - their overall long term objective. This

is the line you took in your reply of 29 March to Secretary Baker's letter to you (both attached).

US views on EC proposals and action so far

13. The US say the EC are far too complacent, and are concerned ^atht the UK share this complacency. We cannot downplay the real achievements of the European Council, especially on budgetary control. But we do have to recognise that the EC action so far falls far short of what is needed to resolve the fundamental problems of world agriculture. And we ought to recognise that the US have also taken some action on support prices, eg milk prices down by 9 per cent between 1986 and 1988.

14. The US have emphasised that unless there is stronger language at the OECD Ministerial, and real progress at the Toronto Summit, progress in GATT will be jeopardised. If there is no real action at the MTM, they say Congress will greatly increase US agricultural export subsidies, and markedly reduce the substantial land set aside which will increase wheat production and so exacerbate world trade tensions. There is some danger of subsidy wars.

15. The fall in the US dollar has made US grain competitive, and US budget costs of support have fallen. At the same time, the EC proposals for highly interventionist emergency measures on cereals, sugar and dairy products are anathema to the US and Cairns Group. And to the Treasury.

OECD Ministerial

16. The United States and Australia have tabled amendments to the communique, which may provoke a strong response from the Community. The immediate concern is that the US appear prepared to be very difficult, and this may harden Community positions. The Community is already annoyed by the US action over soya beans, which is seen as deliberately provocative.

17. We would not want gratuitous violence, but low intensity conflict might well serve to persuade the rest of the Community

that they too must show flexibility. Strong language in the OECD communique would help maintain momentum, and encourage substantive progress at the MTM.

18. We should hope for wording that emphasises the need for a long term framework which will be a carrot to get the US to participate in short term measures, which in turn will facilitate the process of much needed, continuing CAP reform.

Toronto Summit

19. The Toronto Summit is another opportunity to give a clear push to the process of multilateral negotiation. The UK could give a lead to the rest of the Community, perhaps by offering some thoughts on the content of a downpayment package.

Other international fora

20. Whatever happens at the Toronto Summit, it is not clear how to take matters forward and there could be a hiatus in July-September. The Foreign Secretary might raise the possibility of a conference - perhaps under Trade Policy Research Centre auspices - to provide a neutral ground for informal contacts. This seems helpful.

21. Other opportunities include Ministerial speeches. The Economic Secretary is speaking to a conference on the wider macroeconomic consequences of agricultural policy on 4 May. Mr MacGregor is speaking to a joint Chatham House-TPRC-IFO conference on agricultural reform in Munich on 10 May. The Foreign Secretary is speaking to the Agricultural Forum on 11 May. You have indicated that you hope to make a major speech partly on agriculture some time this year.

22. All bilateral contacts - especially with the US and the Cairns countries - are an opportunity to pursue UK objectives on agricultural reform. Officials are discussing lobbying tactics.

23. You once said that agriculture was too important to be left to Agriculture Ministers. The Foreign Office riposte is that

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agriculture is too difficult for Finance Ministers to understand. Nevertheless, we might use to advantage the agreement at the G7 meeting in April, in Washington, to give greater attention to "structural reforms to increase the flexibility of their economies and to improve growth and adjustment". Deputies have been asked to report. OECD studies and Ministerial Council last year were helpful in putting agriculture firmly in a structural adjustment framework. So G7 Deputies might be able to devote some attention to broader aspects of agricultural policies and maintain momentum for fundamental reform.

Set-aside

24. (Unlikely to be raised)

I understand that Mr MacGregor was impressed by the US programme and is now persuaded set-aside is a substantial alternative to price cuts, and should be pursued more vigorously than price policy. We have seen set-aside in the same way as temporary income supports, as a means of managing transition to a more market-oriented system. Set-aside is a complement to price discipline, needed if and only if there is action on prices.

25. The attached extract from Catch 22 is a powerful reminder of the potential problems. The current US threat of bringing set-aside land back into production also shows the potential dangers of increased use of set-aside worldwide.

1988 Price fixing and agrimonetary issues

26. (Unlikely to be raised)

In the aftermath of the European Council and the introduction of agricultural stabilisers, the 1988 Price Fixing negotiations are pretty low key. The size of any green devaluation is likely to be the only point of contention between Ministers, and can only be sensibly considered just before the final settlement which still seems some way off. In the meantime, the Minister for Agriculture has taken the line that the UK's objective is a measured step towards

the elimination of MCAs by 1992 (except for pigmeat where we are going for full devaluation). A specific figure has not been mentioned and although when the general line was agreed it pointed towards an average 3% devaluation this year, appreciation of sterling since then has reduced UK MCAs by over 6%.

27. Against this background, it is not in Mr MacGregor's interests to raise the issue. We have warned his officials that 3% no longer seems appropriate and they have agreed that further ministerial discussion would not be appropriate until a settlement is on the horizon. A note of the last Ministerial meeting on this subject is attached.

Susie Symes

SUSIE SYMES

Major Major's father was a sober God-fearing man whose idea of a good joke was to lie about his age. He was a long-limbed farmer, a God-fearing, freedom-loving, law-abiding rugged individualist who held that federal aid to anyone but farmers was creeping socialism. He advocated thrift and hard work and disapproved of loose women who turned him down. His specialty was alfalfa, and he made a good thing out of not growing any. The government paid him well for every bushel of alfalfa he did not grow. The more alfalfa he did not grow, the more money the government gave him, and he spent every penny he didn't earn on new land to increase the amount of alfalfa he did not produce. Major Major's father worked without rest at not growing alfalfa. On long winter evenings he remained indoors and did not mend harness, and he sprang out of bed at the crack of noon every day just to make certain that the chores would not be done. He invested in land wisely and soon was not growing more alfalfa than any other man in the county. Neighbors sought him out for advice on all subjects, for he had made much money and was therefore wise. "As ye sow, so shall ye reap," he counseled one and all, and everyone said, "Amen."

Major Major's father was an outspoken champion of economy in government, provided it did not interfere with the sacred duty of government to pay farmers as much as they could get for all the alfalfa they produced that no one else wanted or for not producing any alfalfa at all. He was a proud and independent man who was opposed to unemployment insurance and never hesitated to whine, whimper, wheedle, and extort for as much as he could get from whomever he could. He was a devout man whose pulpit was everywhere.

"The Lord gave us good farmers two strong hands so that we could take as much as we could grab with both of them," he preached with ardor on the courthouse steps or in front of the A & P as he waited for the bad-tempered gum-chewing young cashier he was after to step outside and give him a nasty look. "If the Lord didn't want us to take as much as we could get," he preached, "He wouldn't have given us too good hands to take it with." And the others murmured, "Amen."



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

29 March 1988

Hon James A Baker III
Secretary of the Treasury
Washington DC
USA

A handwritten signature in dark ink, appearing to read "James Baker III".

Thank you for your letter of 18 March on agricultural reform. I share your analysis: interventionist agricultural policies distort trade and lead to inefficient use of resources and substantial costs to consumers and taxpayers. I am convinced that agriculture must be made much more open to market forces. We will continue to work towards significant reductions in overall agricultural support and protection world wide.

We have, of course, been in the forefront of international pressure for agricultural reform, in discussions at the 1986 Tokyo Summit, at successive IMF/IBRD Development Committees, and at the 1986 and 1987 OECD Ministerials. We have led the way in pressing for more market related policies in the Community.

Progress has been made in Europe, most recently at the February European Council. The Community has now agreed to set binding limits to the growth of agricultural spending and has agreed on stabilisers to control spending on support for the major agricultural products. In recent years support prices for most commodities have been cut in real terms. The UK will continue to work to ensure further reform of the CAP and effective budgetary discipline in the Community.

All countries still have much more to do. There is certainly no room for complacency. In the GATT, we have to build on the level of agreement already reached between the main parties. An aggregate PSE-type measure of support is still in our view the best way of focusing negotiations on the totality of aggregate support and protection. I hope that the United States will fully support the necessary technical groundwork under way in Geneva to explore how such measures could be deployed.

CHEx
→
Baker
III
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We must maintain the momentum of agricultural reform in the GATT in our discussions and communiquees over the next few months and so take fully advantage of the Mid-Term Meeting in order to make real progress. There is much common ground in the wide range of proposals tabled in Geneva. We now need to clarify where progress can be made. While agreement on a long term framework for negotiations is an essential step, it will need to be backed up by a clear multilateral commitment to early action to reduce agricultural support within that framework.

A handwritten signature in black ink, appearing to read 'Nigel Lawson', with a large, stylized initial 'N' and a horizontal line extending from the end of the signature.

NIGEL LAWSON

THE SECRETARY OF THE TREASURY
WASHINGTON

March 18, 1988

Dear Nigel:

Several developed countries have for sometime attempted to achieve better coordination of policies aimed at sustained economic growth. However, these efforts are being increasingly affected by major confrontations over trade issues. Agricultural trade is a particular source of difficulty because of all countries' interventionist policies which create distortions in world agricultural markets. The result of these distortions is an inefficient use of resources in our economies and higher costs to taxpayers, consumers, and nonfarm businesses. Recent disagreement over agricultural trade increasingly has been the source of political friction among countries. Pressure for increased protectionism in agriculture could cause severe damage to the world trade system.

Our governments have agreed at the OECD that the major causes of agricultural problems are domestic and trade policies which stimulate agricultural surpluses, restrict imports, and subsidize surpluses into the world market to the detriment of efficient producers. According to OECD studies, these policies are costing consumers and taxpayers over \$200 billion per year. Added to this cost is the drain on overall economic growth caused by the diversion of resources into agriculture that could be used more productively in other sectors of our respective economies.

Several countries or groups of countries have tabled proposals in Geneva calling for reductions in agricultural support and reform of trade-distorting policies. The United States believes that total elimination of all such policies over a limited time period is the most promising and lasting solution to the distortions in world agriculture. Market signals reflecting changing world market conditions must be permitted to filter through to producers and consumers, so they can adjust their production and consumption patterns.

It is clear to us that any agreement must cover all major agricultural commodities and must be accepted by all trading partners, importers as well as exporters. Several countries strongly support these general principles but want to go more slowly or exempt certain policies and commodities from the adjustment process. Others want to develop rules which would outlaw certain trade practices and regulate trade in surplus commodities. The United States' experience with these latter approaches indicates that they only postpone trade disruptions and do not address the overall cost and the drain on economic growth.

BAKER
III
CHB
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To prevent irreversible deterioration in agricultural trade relations, nations must reach early agreement in Geneva on a course of action that will ensure agricultural policy reform will get underway at an early date and will be completed on a definite timetable. Obviously, we believe the U.S. proposal should be the basis of negotiations, but, more important, they must get underway and be concluded quickly.

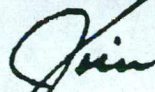
As the Uruguay Round moves toward a Mid-Term Review in late 1988, it is important to continue the negotiations on a path leading to substantial results. The task is a formidable one. It is also a task whose achievement will be in large measure sustained or thwarted by whether meaningful progress occurs in agriculture. The United States has gone on record making the elimination of all subsidies in agriculture a high priority of this Round, and success in this effort will benefit all countries.

I ask that you encourage your government and others to make a commitment to early progress on comprehensive agricultural reform. The OECD Ministerial in May and the Toronto Summit in June will provide opportunities for our governments to add momentum to the negotiating process which will greatly improve the prospects, for substantial progress at the Mid-Term Review. I believe finance ministers are in a unique position to advocate reform of costly, trade-distorting policies by virtue of their having to deal with the realities of budgetary restraint with which all industrial countries are faced today.

The United Kingdom has been a consistent supporter of market-oriented policies in agriculture, often in the face of opposition from some of its trading partners. I urge that you continue your efforts to persuade other countries of the benefits to be derived from market-oriented agricultural policies.

I am confident you agree that progress on agricultural reform will contribute significantly to our coordination efforts in reducing the economic distortions in the world economy.

Sincerely,



James A. Baker, III

The Right Honorable Nigel Lawson, MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1P 3AG
United Kingdom

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SUMMARY NOTE OF A MEETING IN THE FOREIGN SECRETARY'S
OFFICE, FRIDAY, 4 MARCH: GREEN POUND

The Foreign Secretary held a meeting with the Minister for Agriculture and the Chief Secretary to discuss the proposals in Mr MacGregor's letter of 2 March to the Foreign Secretary and his letter to Vice President Andriessen of the same date.

Pigmeat

The Minister for Agriculture argued that pigmeat should be treated separately from other green rate changes. The issues were technical and his proposals would save money. There was very strong pressure from UK industry. Andriessen had told British farmers that he agreed that action was needed. The Prime Minister was on public record to this effect. Mr MacGregor considered it essential that his letter should go across to the Commission today.

There was some discussion of whether making a bid on pigmeat in advance of stating a position on wider green rate changes might be tactically unwise. It was suggested that it was important for the technical case to be spelt out in detail. Our problems here would not be so much with the Commission, as with other Member States, especially the Dutch. Given that, as Mr MacGregor's letter made clear, he would be in touch with Andriessen shortly with his views on MCAs in other sectors, it was thought that there should be no objection to sending the letter straight away.

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On this basis it was agreed that the letter should be delivered forthwith to Andriessen's Cabinet, in advance of his return from the US.

Other Green Rates

The Minister for Agriculture said that there were very strong feelings in the farming industry about the extent to which disparities in green rates had placed them in an unfair competitive position, especially in relation to the Germans. Mr MacGregor's colleagues with responsibility for farming in Scotland, Wales and Northern Ireland all felt very strongly indeed that HMG should be seen to be going for a devaluation of significantly more than 3% on average. The UK had accepted what amounted to unilateral price reductions in the past because of the relative modesty of our green pound bids. As a result the disparity was now enormous. The position on beef in Northern Ireland was particularly acute: the disparity across the frontier encouraged fraud a large scale. The industry knew from Andriessen that Mr MacGregor had not yet put a UK case to him.

In discussion it was argued that:

- in general we should be pressing the case for price cuts;
- the PES implications of a devaluation of more than 3% were unattractive;

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- beyond that, such a bid would be judged inconsistent with our general stance on control of agricultural expenditure;
- on the other hand, it was argued that to achieve a 3% reduction we would need to be ready to contemplate a higher bid;
- a bid consistent with the elimination of MCAs by 1992 (implying an average 3% reduction this year) would be defensible. However setting our bid any higher would encourage other Member States to raise theirs. The net effect would be to more than wipe out the savings in the first year from the non-arable stabilisers we had just negotiated.
- it was most important to avoid doing anything which would risk breaking through the guideline.
- a high opening bid would have severe tactical disadvantages. Whatever we said would be exploited ruthlessly by other Member States to embarrass us through the press.

The Foreign Secretary and the Chief Secretary concluded that they were not prepared to agree to an approach to the Commission on the basis of a bid for more than a 3% devaluation on average. We should therefore take the line orally that:

- we saw a strong case for full devaluation of the UK green rate in the pigmeat sector (as set out in more detail in Mr MacGregor's letter); and
- we looked for a first step towards the elimination of other MCAs by 1992, which would point towards a reduction of about 3% on average this year, with suitable skewing for eg the beef sector.

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The Minister for Agriculture said that this position was obviously unsatisfactory from his point of view. He would have to report back to his colleagues with responsibility for agriculture in other parts of the UK. He would approach the Commission on the basis set out in the previous paragraph next week, but would reserve the right to come back and re-open his case in the light of developments in Brussels.

Foreign and Commonwealth Office

4 March 1988

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OECD MINISTERIAL: US/EC CLASH ON AGRICULTURE

SUMMARY

1. COMMISSION WORRIED THAT US/EC DISPUTES ON AGRICULTURE WILL BOIL OVER AT OECD MINISTERIAL. DENMAN BEING ASKED TO APPROACH SECRETARY BAKER. UK SUPPORT WOULD BE WELCOME.

DETAIL

2. VAN DEN PHI (COMMISSION REPRESENTATIVE TO OECD) HAS TOLD ME OF ANXIETIES EXPRESSED BY ANDRIESSSEN, WHEN PAYE VISITED BRUSSELS EARLIER THIS WEEK, ABOUT US/EC TENSION OVER AGRICULTURE. ANDRIESSSEN'S MAIN WORRIES WERE:-

(A) THE DISMISSIVE AMERICAN ATTITUDE TO THE RESULTS OF THE EUROPEAN OUTCOME WAS RUINING ANDRIESSSEN'S ABILITY TO MOVE THE COMMUNITY ANY FURTHER ON REFORM OF AGRICULTURE POLICY IN THE REST OF THIS YEAR, WHEN HIS MANDATE EXPIRES.

(B) THE AMERICANS HAD ASKED FOR A GATT PANEL AGAINST THE EC ON OIL SEEDS. THIS WAS ILL-TIMED AND INAPPROPRIATE, IN THE LIGHT OF CURRENT EC POLICY, ESPECIALLY NOW THE OILS AND FATS TAX HAD BEEN ABANDONED.

(C) THE US WOULD BE ADJUSTING THE AMOUNT OF LAND ELIGIBLE FOR SET-ASIDE ON 1 JUNE. AT PRESENT THIS COVERED 27.5 PERCENT OF ARABLE LAND. IF GRAIN STOCKS FELL BELOW A CERTAIN LEVEL, THE MAXIMUM PERMITTED WOULD BE 20 PERCENT. BUT ANDRIESSSEN BELIEVED - THOUGH THIS WAS VERY SENSITIVE - THAT LYG COULD REDUCE THE PERCENTAGE TO 15 OR EVEN 10 PERCENT. THIS WOULD INCREASE US GRAIN SUPPLIES BY 10 TO 15 MILLION TONNES AT A TIME WHEN THE EC WAS TRYING TO CHECK SUPPLIES, THROUGH STABILISERS ETC.

(D) EC AGRICULTURE COUNCIL WOULD DEBATE THE CURRENT PRICE PACKAGE ON 16/17 MAY, JUST BEFORE THE OECD MINISTERIAL ON 18/19 MAY. BUT AGREEMENT MIGHT NOT BE REACHED THEN, LEAVING NEGOTIATIONS IN A DELICATE STATE, WHICH COULD BE UPSET BY UNHELPFUL US CRITICISM OF EC

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POLICY.

3. PHAN SAID DENMAN IN WASHINGTON WAS BEING INSTRUCTED TO APPROACH SECRETARY BAKER (THE SENIOR US PARTICIPANT IN THE OECD MINISTERIAL), IN THE HOPE OF EASING CURRENT US/EC TENSION AND GETTING THE US TO TAKE A MORE CONSTRUCTIVE LINE. THE COMMISSION WOULD GREATLY WELCOME SUPPORT FROM THE UK AND OTHER MEMBER STATES. THE REFERENCE TO SET-ASIDE (PARA 2(C) ABOVE) SHOULD BE HANDLED WITH GREAT DISCRETION. PHAN HAD APPROACHED THE UK FIRST, AS HE KNEW THAT YOU HAD ALREADY SPOKEN TO SHULTZ ABOUT OILSEEDS ON THE MARGINS OF THE NATO COUNCIL.

4. UKREP BRUSSELS WILL HAVE VIEWS ON WHETHER WE SHOULD SUPPORT DENMAN AND IN WHAT TERMS.

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SUMMARY

1. WALLIS LISTENS COURTEOUSLY TO UK VIEWS BUT SHOWS LITTLE
INCLINATION TO FALL IN WITH THEM.

DETAIL

2. MINISTER (COMMERCIAL) AND MINISTER (ECONOMIC) CALLED ON
WALLIS THIS AFTERNOON AND WENT OVER THE GROUND IN TUR IN DETAIL
WITH HIM, MAKING ALL THE POINTS AND ELABORATING ON THEM. IT WOULD
BE NICE TO BE ABLE TO CLAIM THAT WALLIS WAS IMPRESSED BY THE FORCE
OF OUR ARGUMENTS AND INDICATED SOME MOVE IN AMERICAN VIEWS, BUT THE
TRUTH IS THAT, ALTHOUGH HE LISTENED COURTEOUSLY AND ATTENTIVELY,
HE SHOWED LITTLE GIVE. ON SPECIFIC ISSUES, THE FOLLOWING POINTS
EMERGED:

(A) AGRICULTURE: WALLIS EXPRESSED GREAT CONCERN AT SIGNS THAT
THE EC WAS BACKING AWAY FROM LAST YEAR'S SUMMIT AND OECD
COMMITMENTS. IN HIS VIEW, UNLESS THE OECD AND SUMMIT MEETINGS
THIS YEAR ADVANCED THE CAUSE, THERE WOULD BE SERIOUS SLIP-
PAGE AND NOTHING WOULD EMERGE FROM THE MTM. THE CONGRESS
WOULD GREATLY INCREASE US AGRICULTURAL EXPORT SUBSIDIES,
THE AGRICULTURAL NEGOTIATIONS IN THE GATT WOULD BE
THREATENED AND SO WOULD GATT ITSELF. BUT HE REFUSED
TO ADMIT THAT THE AMBITIOUS AMERICAN REQUIREMENTS FOR THE
OECD COMMUNIQUE AND SUBSEQUENT INTERNATIONAL MEETINGS RISKED
SETTING THE CAUSE BACK RATHER THAN ADVANCING IT. HE COM-
PLAINED ABOUT THE LACK OF SUPPORT HE HAD RECEIVED FROM
EVERYONE EXCEPT THE CANADIANS AT THE LAST SHERPA MEETING.
THE ONE OPENING HE GAVE WAS TO EXPRESS THE HOPE THAT IN
THE END HEADS OF GOVERNMENT AT TORONTO WOULD REPEAT
WHAT THEY DID IN
TOKYO, NAMELY LARGELY IGNORE WHAT THE SHERPAS HAD PREPARED
AND DRAFT THEIR OWN LANGUAGE. AT TORONTO HE HOPED THAT
HEADS OF GOVERNMENT WOULD INSTRUCT MINISTERS TO PURSUE
NEGOTIATIONS IN THE URUGUAY ROUND WITH A VIEW TO ESTABLISHING
A FRAMEWORK FOR AGRICULTURE BASED ON THE
MARKET. ON PSES, HE SAID THAT THE US RELUCTANCE

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TO PRESS FOR THEM IN THE OECD COMMUNIQUE WAS OUT OF CONCERN THAT OTHERS WOULD FIND THIS TOO AMBITIOUS. WE COMMENTED ON THE APPARENT PARADOX IN THIS VIEW. ON THE PRESENT SUGGESTED AMERICAN COMMUNIQUE LANGUAGE, WALLIS MAINTAINED THAT IT DREW LARGELY ON THE MONITORING REPORT LANGUAGE RATHER THAN LAST YEAR'S COMMUNIQUE,

(B) TRADE: WALLIS DID NOT RESPOND SUBSTANTIVELY TO OUR ARGUMENTS, ARGUING IN TURN ONLY THAT BY SETTING AMBITIOUS TARGETS COULD ANYTHING BE ACHIEVED. THIS WAS THE LESSON HE DREW FROM LAST YEAR'S OECD MEETING. WE CRITICISED IN DETAIL SOME OF THE AMERICAN LANGUAGE, POINTING OUT THAT IT WAS NOT ACCEPTED TO OECD MEMBERS, LET ALONE DEVELOPING COUNTRIES. IT WAS DIFFICULT TO TELL WHETHER THIS MADE ANY IMPRESSION,

(C) NICS: WALLIS WAS CLEARLY UNAWARE THAT THIS SUBJECT WAS TO BE DISCUSSED OVER LUNCH ON THE SECOND DAY. HE LISTENED TO OUR ARGUMENTS AND COMMENTED THAT HIS OWN APPROACH WAS RATHER DIFFERENT. HE THEN PROCEEDED TO REPEAT IN SIMILAR TERMS THE ARGUMENTS IN HIS SPEECH OF 26 APRIL IN NEW YORK TO THE ASIA SOCIETY (TEXT AVAILABLE TO ERD). THE NICS WERE ECONOMICALLY UNSOPHISTICATED. THE GREAT BENEFIT OF OECD WAS ITS EDUCATION EFFECT THROUGH DISCUSSION. SOMETHING LIKE THIS WAS NECESSARY FOR THE NICS. THE HOMOGENOUS NATURE OF THE OECD WAS IMPORTANT. IT WOULD BE DILUTED (WALLIS USED THE WORD DISINTEGRATE) WITH NIC MEMBERSHIP AND THE OECD'S APPROACH WAS NOT NECESSARILY RELEVANT TO THE PROBLEMS OF THE NICS. IN THE SHORT TERM IT MIGHT BE POSSIBLE TO TRY AND SUBORDINATE THE NICS TO OECD REMEDIES, BUT IN THE LONGER TERM THEY WOULD INSIST ON DISCUSSING THEIR PROBLEMS AND THEIR RELATIONSHIP WITH THE WIDER WORLD IN A FORUM IN WHICH THEY SAW THEIR INTERESTS AS BEING SERIOUSLY ADDRESSED. THEY COULD NOT BE KEPT IN THEIR PLACE FOR EVER. AN INTER-GOVERNMENTAL FORUM WAS NEEDED. HENCE HIS IDEA OF A SEPARATE BODY FOR THE NICS. HE HAD NOT THOUGHT THROUGH ITS RELATIONSHIP WITH THE OECD. THIS NEEDED TO BE CONSIDERED. HE WAS NOT IMPRESSED BY THE ARGUMENTS IN PARAGRAPH 8 OF TUR. WE URGED THAT, THERE SHOULD BE CONSULTATIONS BEFORE ANYBODY TOOK ANY INITIATIVES OR ADVANCED DOWN ANY PARTICULAR ROAD. WALLIS CLAIMED THAT ALL HE WAS DOING WAS AIRING OPTIONS, NOT SUGGESTING INITIATIVES.

(D) MINISTERIAL MEETING OF TRADE MINISTERS IN OECD MARGINS: WE URGED ON WALLIS (AS WE DID SEPARATELY ON FRIERSON,

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YEUTTER'S ASSISTANT) THE IMPORTANCE OF ANY MEETING OF TRADE
MINISTERS IN THE MARGINS OF THE OECD BEING IN SOME FORMAT
OTHER THAN T.8. BOTH APPEARED TO ACCEPT THE POINT AND WERE
FAVOURABLY DISPOSED TOWARDS DUTCH PARTICIPATION. FRIERSON
COMMENTED THAT THE FRENCH MIGHT NOT BE ABLE TO FIELD A TRADE
MINISTER AT ALL, WHICH MIGHT ALSO HELP.

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INFO PRIORITY UKREP BRUSSELS

TELECON CROWE/RICHARDSON AND CROWE'S LETTER OF 25 APRIL: OECD MINISTERIAL

1. AT HIS MEETING WITH WALLIS LATER TODAY CROWE SHOULD DRAW ON THE MATERIAL BELOW. THE OBJECTIVE IS NOT TO DISCUSS DETAILED COMMUNIQUE LANGUAGE. THE FIRST OECD HEADS OF DELEGATION MEETING PRODUCED A RAFT OF AMENDMENTS TO THE DRAFT COMMUNIQUE WHICH PAYE WILL SOMEHOW HAVE TO TAKE INTO ACCOUNT IN CIRCULATING A REVISED TEXT ON 2 MAY DURING ECSS. WE SHOULD INSTEAD LIKE CROWE TO GET A FURTHER READOUT ON UNDERLYING US POSITIONS, PARTICULARLY IN THE FOUR AREAS OF TRADE, AGRICULTURE, INVESTMENT AND RELATIONS WITH THE NICS, ALL ON THE ECSS AGENDA: AND TO CONVEY OUR OWN GENERAL VIEWS. FOR OTHER ITEMS ON THE OECD MINISTERIAL AGENDA, SEE PARAGRAPHS 9-10 BELOW.

TRADE

2. LIKE THE AMERICANS, WE WANT THE OECD MINISTERIAL COMMUNIQUE TO GIVE A STRONG POLITICAL IMPETUS TO THE MTM, AND WE DO NOT WANT TO SETTLE FOR BLAND LANGUAGE (ALTHOUGH OTHERS WILL). WE HOPE THAT IN SOME AREAS THE MTM WILL ACHIEVE CONCRETE RESULTS, FOR EXAMPLE THE STRENGTHENING OF GATT INSTITUTIONALLY (SURVEILLANCE AND DISPUTE SETTLEMENT). IN OTHER AREAS, NOTABLY AGRICULTURE AND SERVICES, WE WANT THE MTM IF POSSIBLE TO SET THE FRAMEWORK FOR SUBSEQUENT NEGOTIATIONS. WE HAVE PROPOSED A NEW PARAGRAPH ON SERVICES FOR THE OECD COMMUNIQUE., ON THE NEED TO SETTLE THE CONCEPTUAL STRUCTURE OF THE NEGOTIATIONS, AND THE USEFUL ROLE THE OECD COULD PLAY.

3. BUT WE THINK IT PREMATURE FOR THE OECD TO ATTEMPT TO SETTLE THE MTM AGENDA. WE WANT THE OECD TO SEND A STRONG GENERAL MESSAGE, BUT WE BELIEVE THE US SHOPPING LIST (THEIR NEW PARAGRAPH ON PAGES 9-10 OF THE ENCLOSURE OF YOUR LETTER TO RICHARDSON) IS FAR TOO DETAILED AT THIS STAGE. WE NEED TO FIND MIDDLE GROUND AT THE MINISTERIAL THAT WILL COMMIT MEMBERS TO MAKING REAL PROGRESS AT THE MTM, POINT TO THE POSSIBILITY OF EARLY AGREEMENTS, BUT NOT TRY TO COVER THE WHOLE FIELD. AT THE LEAST WE MUST RESIST ATTEMPTS TO RULE OUT SPECIFIC RESULTS.

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THE KEY QUESTION IS THE AMERICANS' BOTTOM LINE.

AGRICULTURE

4. THIS IS THE MOST CONTENTIOUS SUBJECT. THE COMMISSION COULD LIVE WITH PAYE'S ORIGINAL TEXT UNCHANGED. THE US, AUSTRALIA AND NEW ZEALAND ALL WANT SUBSTANTIAL EXPANSION. AGRICULTURE IN THE URUGUAY ROUND IS AGAIN THE KEY ISSUE. AUSTRALIA WANTS SHORT TERM ACTION AND A FRAMEWORK FOR LONG TERM REFORM. THE US CAN BUY THE LATTER BUT NOT THE FORMER: THE COMMISSION AND SOME MEMBER STATES THE REVERSE, AND MOEHLER (COMMISSION) SAW LITTLE ROOM FOR MANOEUVRE IN DISCUSSIONS WITH BRAITHWAITE EARLIER THIS WEEK. FOR YOUR INFORMATION, HE MAY HOPE TO INVOLVE THE AUSTRALIANS AS 'HONEST BROKERS'. THE UK WITH SOME OTHERS SEE MERIT IN THIS, AND IN THE GENERAL AUSTRALIAN APPROACH.

POINTS TO PUT TO WALLIS:

5. (A) THE FIRST NEW US PARAGRAPHS (PAGE 11 OF YOUR TEXT) SELECTIVELY REHEARSE LAST YEAR'S COMMUNIQUE (THE PRINCIPLES FOR ACTION). WE THINK IT A MISTAKE TO REOPEN LAST YEAR'S DISCUSSIONS. THERE IS A RISK, NOW THAT THE GATT NEGOTIATIONS ARE UNDER WAY, THAT OECD MEMBERS WILL REGRET AND TRY TO CLAW BACK SOME OF LAST YEAR'S LANGUAGE. WE WOULD SETTLE FOR A GENERAL REAFFIRMATION OF LAST YEAR'S PRINCIPLES PLUS A REFERENCE TO THE IMPORTANCE OF MARKET SIGNALS.

(B) THE COMMUNIQUE SHOULD REAFFIRM OECD MEMBERS' COMMITMENT TO REFORM. WE AGREE WITH THE US (AND AUSTRALIA) THAT IT SHOULD ALSO REFER TO THE NEED FOR PROGRESS ON AGRICULTURE AT THE MTM (TO WHICH THE PRESENT DRAFT COMMUNIQUE MAKES NO REFERENCE IN THE AGRICULTURE CONTEXT). BUT US INSISTENCE ON ENDORSEMENT OF THE GOAL OF LONG TERM ABOLITION OF ALL SUPPORT AND PROTECTION (PAGE 12 OF YOUR TEXT) IS FRANKLY UNNEGOTIABLE, AND REDUCES OUR OWN ABILITY TO HELP. A US/EC STANDOFF AT THE MINISTERIAL WILL SIMPLY LET JAPAN OFF THE HOOK. AT THE MTM WE SEE SCOPE FOR AGREEMENT ON A COMBINED PACKAGE OF SHORT TERM MEASURES (DOWN PAYMENT) AND AGREEMENT ON A FRAMEWORK OF LONG TERM REFORM. THE TACTICAL ISSUE IS HOW FAR TO PUSH FOR SPECIFICITY ON THIS AT THE MINISTERIAL.

(C) WE ARE DISAPPOINTED THAT THE US IS NOT PRESSING FOR MORE POSITIVE LANGUAGE ON PSES. WE BELIEVE THAT PSES SHOULD FEATURE PROMINENTLY IN ANY MTM AGREEMENT ON A NEGOTIATING FRAMEWORK. IF THE US DOES NOT PRESS AT OECD, JAPAN MAY CONTINUE TO OPPOSE PSES. AND IF OECD IS NOT UNITED IT WILL BE HARDER TO OVERCOME DEVELOPING COUNTRY SUSPICIONS AT THE MTM. EC POSITIONS ON PSES HAVE EVOLVED FAVOURABLY. THE US SHOULD TAKE ADVANTAGE.

PAGE 2
CONFIDENTIAL

INVESTMENT

6. GIVEN OUR LIBERAL INVESTMENT REGIME, WE HAVE MUCH SYMPATHY WITH US PROPOSALS TO STRENGTHEN THE NATIONAL TREATMENT INSTRUMENT. THE COMMUNIQUE ALREADY HAS USEFUL LANGUAGE WHICH MIGHT BE REINFORCED. BUT WE WOULD LIKE NATIONAL AND OECD OFFICIALS TO CONSIDER THESE PROPOSALS CAREFULLY BEFORE WE COMMIT OURSELVES TO SPECIFIC TARGETS OR METHODS. CROWE SHOULD ALSO REMIND WALLIS THAT WE HAVE COMPLAINTS ABOUT US PRACTICE (THE FEDERAL GOVERNMENT CANNOT BIND STATES: AND THE QUOTE PUBLIC ORDER AND ESSENTIAL SECURITY UNQUOTE LETOUT IS TOO WIDELY APPLIED).

OECD'S RELATIONS WITH THE NICS

7. WE HOPE THIS ITEM WILL NOT BE UNDULY CONTENTIOUS IN STRICT COMMUNIQUE-DRAFTING TERMS. WE ARE MORE INTERESTED IN THE SUBSTANCE. MINISTERS WILL DISCUSS THIS INFORMALLY OVER LUNCH ON 19 MAY, THE SECOND DAY OF THE OECD MINISTERIAL. AT OFFICIAL LEVEL, OUR PRESENT APPROACH IS:

A) DEAL CASE BY CASE: FREE TRADING HONG KONG AND SINGAPORE QUITE DIFFERENT FROM TAIWAN AND ESPECIALLY KOREA, LET ALONE EMERGING NICS LIKE BRAZIL:

B) WE NEED CARROTS AS WELL AS STICKS TO ACHIEVE OUR OBJECTIVES: NICS HAVE THEIR OWN COMPLAINTS AGAINST US (EG RESTRICTIONS ON TEXTILE IMPORTS). THIS WILL BE AN ESSENTIAL ELEMENT IN THE PURSUIT OF THE URUGUAY ROUND INTEGRATION OBJECTIVES.

C) HAPPY FOR OECD EMISSARIES TO HOLD INFORMAL DISCUSSIONS WITH NICS, COUNTRY BY COUNTRY. DISCUSSIONS COULD COVER BOTH TRADE AND MACROECONOMIC ISSUES, REMEMBERING THAT TRADE POLICY ASPECTS CAN ONLY BE NEGOTIATED IN THE URUGUAY ROUND. OECD NEEDS TO DO ITS HOMEWORK FIRST (BECAUSE OF B) ABOVE). VERY HARD FOR US, AND MAYBE OTHERS, TO ENVISAGE OECD/TAIWAN CONTACTS AT GOVERNMENTAL LEVEL. RESERVE POSITION ON HONG KONG AND SUGGEST WE START WITH KOREA.

8. WE WERE SURPRISED THAT WALLIS APPEARS TO HAVE ADVOCATED A PACIFIC OECD IN HIS SPEECH TO THE ASIA SOCIETY IN NEW YORK (TELECON CROWE/RICHARDSON REFERS). CROWE SHOULD TELL WALLIS THAT WE WANT TO MAINTAIN OECD AS A WORLDWIDE ORGANISATION. WE ARE READY TO CONSIDER NEW ASIAN MEMBERSHIP WHEN THE TIME IS RIPE (AND THERE IS SOME WAY TO GO, HENCE THE EMPHASIS ON INTEGRATION IN THE MTN): AND MEANWHILE THERE MAY BE SCOPE FOR GREATER AD HOC ASSOCIATION OF SOME ASIAN NICS WITH OECD'S WORK. WE WOULD STRONGLY REGRET ANY US INITIATIVE WHICH HAD THE EFFECT OF DIMINISHING THE COMMITMENT TO THE OECD OF ITS NON-EUROPEAN MEMBERS.

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OTHER

9. WHILE WE HAVE A NUMBER OF DETAILED AMENDMENTS TO THE MACROECONOMIC SECTION OF THE COMMUNIQUE, WE SHARE US VIEWS THAT THIS SECTION IS LIKELY TO BE RELATIVELY UNCONTENTIOUS. THE MAIN DIFFICULTY IS INTRA-EUROPEAN. WE CANNOT ACCEPT REFERENCES TO CONCERTED EUROPEAN FISCAL AND MONETARY POLICIES. THE UK ECONOMY IS ALREADY GROWING FAST. WE ALSO WANT GREATER WEIGHT TO BE PLACED ON STRUCTURAL ADJUSTMENT POLICIES IN EUROPE (AND JAPAN).

10. ON DEBT, CROWE SHOULD REMIND WALLIS THAT THE CHANCELLOR URGED HIS COLLEAGUES AT THE DEVELOPMENT COMMITTEE TO AGREE TO HIS PROPOSALS FOR INTEREST RATE RELIEF ON OFFICIAL (PARIS CLUB) DEBT OF THE POOREST AND MOST INDEBTED SUB-SAHARAN AFRICAN COUNTRIES. WE ARE READY TO CONSIDER ALTERNATIVE MEASURES HAVING A SIMILAR IMPACT, FOR THOSE COUNTRIES LIKE THE US WHO CANNOT FOLLOW OUR PREFERRED ROUTE. DISCUSSIONS CONTINUE IN THE PARIS CLUB. THE KEY ELEMENT OF ANY SCHEME MUST BE FAIR BURDEN-SHARING. WE WANT TO REACH AGREEMENT ON A SCHEME AT THE TORONTO SUMMIT.

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MR R I G ALLEN

FROM: SUSIE SYMES
 DATE: 3 May 1988

cc: PS/Chancellor
 PS/Economic Secretary
 Mr Byatt
 Mr Lankester
 Mr A J C Edwards
 Mr Evans
 Mr Bonney o.r.
 Mr Melliss
 Mr Meyrick
 Mr Corry
 Mr Segal

*After the change, Susie Symes is v. busy but
 (Miss Symes needs watch)*

EMPLOYMENT AND OTHER ECONOMY-WIDE CONSEQUENCES OF AGRICULTURAL SUPPORT - PRESS REPORTS 3 MAY

Today's press reports an Australian paper suggesting that up to 3 million jobs could be created in the EC if EC countries removed all agricultural support and protection (including national supports. Other less contentious results note consequences for GDP in the major economies, for non-agricultural sectors in those economies, and for the developing countries. (Press reports, and press release, attached).

2. The Australian paper will be discussed at a Trade Policy Research Centre Conference tomorrow, Wednesday 4 May, at which the Economic Secretary will be speaking. The figures may well be raised in the Agriculture Debate on Thursday 5 May. So it might be helpful to set out a line to take:

- in the long-run, all forms of protection, not only of agriculture, will make the economy less flexible and adaptable, and hence reduce living standards [as Chancellor has said in his Better Made in Britain speech, December 2 1988];
- no doubt that liberalisation would bring substantial gains to the non-agricultural sectors, to consumers and taxpayers, and to the economy as a whole;
- that is why UK Ministers have been pressing for reduced levels of support world wide;

NO!

any estimates of these wider economic consequences are inevitably imprecise and depend on the assumptions used, cannot comment on figuring until we have seen the paper

(however, estimates of long-run employment consequences are dubious; as based on out-dated notions of very inflexible labour markets, whereas there are encouraging signs of the effectiveness - at least in the UK - of government measures directed towards making labour markets work better);

- whatever the status of the numbers, quite clear [- as Foreign Secretary said at OECD Ministerial in 1987] - that agricultural ^{supp} policies do not preserve ^{or h} employment in the long-run.

Susie Symes

SUSIE SYMES

End to farm aid 'will boost jobs and trade'

By John Young

Agriculture Correspondent

The ending of agricultural protectionism will reduce the US trade deficit by more than \$40 billion (£21.3 billion), and generate three million new jobs within the EEC, a report claims today.

It will also boost incomes in developing countries by \$26 billion, allowing even the poorest to reduce their foreign debt by 5 per cent a year.

The report, by the Centre for International Economics, in Canberra, summarizes studies to be discussed at a seminar in London tomorrow.

Dr Andy Stoekel, the centre's director, says present farm support policies are as wasteful, inefficient and damaging to world trade as any other form of protectionism.

"Protection against imports amounts to a tax on exports," he says. "Instead of jobs being secured or gained through farm support policies, they are being lost."

In the United Kingdom, West Germany, France and Italy manufacturing output is lower than it need be as a result of agricultural policies, the report says. By raising the cost of living, these policies reduce the competitiveness of manufacturing output.

Studies in the US indicate the removal of \$31 billion in subsidies in 1986 would have improved the trade balance by \$42 billion.

Farm tariff cut may create 3m jobs

The Guardian
3 May

Rosemary Collins

REMOVING all agricultural trade barriers would cut the US trade deficit by more than \$40 billion, create three million new jobs in EEC countries, and boost incomes in the developing world by \$26 million, allowing even the poorest nations to reduce their foreign debt by 5 per cent a year, says the Centre for International Economics in Canberra.

"Bankers, industrialists, the unemployed and policy makers outside agriculture all have a big stake in the progress of European farm policy reform," says the Centre's latest report, to be discussed at a Trade Policy Research Centre seminar today.

Land prices in industrialised countries with high food tariff barriers, such as Japan and the EEC, would crash by up to 70 per cent if farm tariffs were abolished.

The losers would be agriculture and its satellite industries.

But most people in the world would be winners, and they have so far failed to persuade governments to demand reform.

The report illustrates the scale of the crisis by describing the situation in West Germany, where reform of farm protectionism is widely opposed.

Farming accounts for less than 2 per cent of German GDP and employs about 5 per cent of the labour force, with only 3 per cent full-time.

But public subsidies to farming are more than DM20 billion a year, equivalent to 70 per cent of the country's agricultural gross output.

Food prices in West Germany are roughly 50 per cent above world levels.

Applied to the EEC as a whole, lifting farm trade barriers would create 3 million new jobs, boost manufacturing output by more than 1 per cent and manufacturing exports to the rest of the world by 5 per cent.

Jobs are lost, not saved by agricultural support, says the report.

Farm aid policy 'could have cost 3m jobs'

By Bridget Bloom

UP TO 3m jobs in the European Community could have been lost because of the EC's expensive farm support policies, a new series of studies claims today.

The studies maintain that the abolition of the agricultural protectionist policies practised by industrialised countries could have major macro-economic effects.

As well as increasing employment in the EC, agricultural liberalisation could reduce the US trade deficit by some \$40bn (£22bn) and boost incomes in developing countries by \$26bn, allowing even the poorest to reduce their foreign debt by 5 per cent a year.

The studies are clearly designed to influence the political debate on world agricultural reform expected to gather pace with the forthcoming meeting of OECD ministers in Paris, the June economic summit and the Uruguay Round negotiations within Gatt.

They will be discussed at a seminar jointly organised by CIE and the Trade Policy Research Centre in London tomorrow.

Dr A. B. Stoekel, director of the CIE, claimed in London at the weekend that the findings of the studies were overturning conventional wisdom that jobs were secured through farm support policies.

The studies cover the effects of agricultural subsidies in and on the US, Japan, developing countries and the EC, especially West Germany.



BF with minute of 9/5 12/5

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

From the
Parliamentary
Secretary
(Lords) Office

*Pre see to Davis
if he plans to advise on this.* *df.* *Phf*

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

EXCHEQUER	
DATE	04 MAY 1988
ACTION	Mr P.G.F. DAVIS,
COPIES TO	Mr P. MIDDLETON, Mr G. LITTLE, Mr LANKESTER, Mr MONCK, Mr BURGNER, Mr MACAUSLAN, Mr MOLAN, Mr CAUL, Mr TYRRE.

4/5
4 May 1988

Dear David,

REVIEW OF LONG TERM BANANA POLICY

Thank you for your letter of 29 March. I have also seen Geoffrey Howe's minute of 13 April on the same subject.

As I said in my earlier letter, the report of the recent review of long term banana policy was prepared for specifically Ministers' eyes, and in parts was drafted with that clearly in mind. Thus, whilst I naturally have no objection to our explaining to OFT staff the conclusions and the underlying reasons for them, I still believe - as does Geoffrey Howe - that the report itself should not at this stage be sent to the Director General of Fair Trading.

Indeed, I must say that I am if anything reinforced in that view by the fact that one of the reasons you gave for making the report available to the DGFT was the prospect of involving his officials in the follow-up monitoring. However, what we have agreed is that a less formal procedure - regularly monitoring and publishing data on banana prices and margins - should be adopted in the first instance, and our intention here had always been to carry out this exercise in co-operation with DTI and other interested departments, rather than to involve the OFT at that stage. If this proves to be ineffective, then the possibility of inviting the OFT to carry out a formal investigation would of course remain, but I hope you would on reflection agree that the full report should not at this stage be passed to the DGFT.

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

*Yours ever
Jean*

THE BARONESS TRUMPINGTON



Foreign and Commonwealth Office

London SW1A 2AH

9 May 1988

CH/EXCHEQUER	
REC.	09 MAY 1988
ACTION	Mr SYMES
COPIES TO	PS/EST, PS/EST, Sir P. MIDDLETON, Sir G. LITTLER, Mr LANKESTER, Mr BYATT, Mr H.P. EVANS, Mr MOUNTFIELD, Mr BURGESS, Mr BONNET.

4/5
From the Secretary of State

Jim Song

Prof

Thank you for your letter of 3 May enclosing a copy of the overview of the recently completed studies on the macro-economic consequences of agricultural policies. As the Economic Secretary to the Treasury said to the Trade Policy Research Centre conference on 4 May, these studies are a serious contribution to the farm reform debate.

GEOFFREY HOWE

[Handwritten signature]

His Excellency
The Honourable Douglas McClelland QC

cc: PS/Chancellor

GATT
AGRICULTURE

EXCHEQUER
10 MAY 1988
Ms SYMES
PS/CST, PS/EST.
SIR P. MIDDLETON
SIR G. LITTLER,
MR LANKESTER,
MR BYATT,
MR H.P. EVANS,
MR MOUNTFIELD,
MR BURGNER, MR BONNEY

10/5

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Miss Spencer, ECD(E)

GATT Agriculture

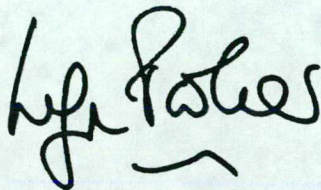
The Secretary of State held a short meeting with the Chancellor, Mr MacGregor and Lord Young today. Officials from the Departments concerned were also present. The following were, I believe, the main conclusions:

- Securing multilateral reductions in agricultural support was an important UK aim, which should be re-stated at the forthcoming OECD meeting, and the Toronto Summit, though the EC could take some credit for the CAP reforms already being put in place.
- Though the GATT MTM was unfortunately timed in US terms, one had to take seriously warnings from Baker and Lyng that lack of progress then might result in (or perhaps serve as an excuse for) retrograde steps by the Americans.
- Yet the Americans were still camping on their "zero by 2,000" proposal and refusing to discuss interim steps, while simultaneously rubbishing the Brussels CAP reforms. Within the Community it was hard to envisage much eg French or German enthusiasm for further early reform.
- The only conceptual GATT proposal which offered much chance of bridging the US/EC gap was the Cairns Group idea of a "down-payment". But the Cairns Group had yet to give it any substantial content. There would be merit in our providing eg the Australians and New Zealanders with UK suggestions for its content. We should also encourage the Americans to take it seriously (and stop rubbishing the February CAP reforms) and commend it to our EC partners.
- Running our ideas under Cairns Group cover should avoid the risk of a major EC row, though we should of course continue to make it clear that we did not regard the Brussels reforms as the end of the road.
- Officials should accordingly, as a matter of urgency, work up specific proposals for fleshing out the "down-payment" concept. Such proposals might be put to eg the Australians and the New Zealanders in the margins of the OECD meeting.

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There was a short general discussion of the correspondence with Shultz. It was agreed that we needed to put the Americans on the spot. The Secretary of State is broadly content with the present draft message. Please let me know whether it needs any further clearance with other departments before it issues.

A handwritten signature in black ink, appearing to read 'L. Parker', with a small flourish underneath.

(L Parker)

3 May 1988

cc:

PS/Mrs Chalker
Mr Braithwaite
Mr Kerr
Mr Richardson, ERD
Mr Rollo, Economic Advisers
Mr Wall, ECD(I)

CONFIDENTIAL

FROM: SUSIE SYMES

DATE: 17 May 1988

CHANCELLOR

- cc PS/ Economic Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Sir Geoffrey Littler
- Mr Byatt
- Mr Lankester o/r
- Mr Burgner
- Mr A J C Edwards
- Mr H P Evans
- Mr Bonney
- Mr Matthews

Ch
OK for Tomlinson
to write as attached? OK
AA
(save copy of this note below, for OECD folder)

GATT AGRICULTURE (AND IMPLICATIONS FOR THE OECD MINISTERIAL 18-19 MAY)

You attended a meeting chaired by the Foreign Secretary, with Lord Young and Mr MacGregor, on 3 May to discuss agriculture and GATT. You were concerned - in part arising from your bilateral with US Treasury Secretary James Baker in Washington - that US attitudes were hardening and progress on agriculture might be jeopardised by growing tension between the Community and the US.

2. Ministers agreed with your points that both the Community and the US needed to move, and that the Cairns Group (major agricultural exporters, including Australia, New Zealand, Canada, Argentina) downpayment concept could be a useful bridge between US objectives for the long term and EC proposals for the short term.

3. Ministers asked officials to work up specific proposals for fleshing out the Cairns Group downpayment concept. Mr Lankester and I have had intensive discussions with officials to agree a line that could be used - in private - in the margins of the OECD Ministerial. Further work will be needed over the next few weeks, in the run up to the Toronto Summit and Ministerial Mid-Term meeting (MTM) in Montreal in December.

4. Initially MAFF officials, with the blessing of Mr MacGregor, ^(to our surprise) circulated a pretty poor attempt. After further discussions, and with help from the Foreign Office, we have now reached agreement at official level on a general line and speaking notes, as set out in the attached Private Secretary letter to Alex Allan. The aim is to encourage a Cairns Group proposal that might bring the EC and US closer together, whilst furthering UK objectives for the MTM and for the Uruguay Round as a whole. *already in folder*

5. We must not appear to be offering to deliver the EC, but we can offer some thoughts to the Cairns countries, to the US and to selected EC contacts. The suggested points to make will be helpful for your bilateral with US Secretary Baker,

and (if arranged) with the new French Finance Minister, M Bérégovoy. Mr Braithwaite and Sir Geoffrey Littler will be drawing on this material in their conversations with officials.

6. The main points of the suggested MTM package are:

i. Longer term framework: recognition of need for substantial, progressive reductions in support and protection, to be measured by the PSE. No specific target for size or timing of reduction in PSE. (The UK have pushed for the PSE (Producer Subsidy Equivalent), which aggregates disparate policy measures - not only direct subsidies but also transfers from consumers through high prices - to show the total value of assistance to producers, usually expressed as a percentage of their total incomes.)

ii. Short term downpayment:

- freeze (strictly, a ceiling), and perhaps followed by a reduction, in recent PSE levels (possibly going beyond the emergency actions proposed by the Community)

- commitment to at least maintain access (for imports) at current levels.

7. Mr Lankester and I are concerned that without some specificity on a longer term commitment the US may not be prepared to consider a downpayment or agree to a long term framework for the negotiations. We would prefer to see some language relating to the longer term goal, which need not mean we adopt the US targets. We have explored this with the Foreign Office, who argue strongly that this might encourage the US to reject the Cairns Group intermediate position. Cairns countries are themselves looking for a long term framework as well as interim results at the MTM, and we will need to look at this again in the next few weeks. We may also need to give further consideration to the question of access, which is particularly important for ldcs.

8. We have made considerable progress, and think this is a worthwhile and reasonably well-crafted attempt to break out of the log jam and manage the transition to the MTM in December. The attached draft Private Secretary letter acknowledges what has been achieved, and suggests that we may need to return to the questions of language for the longer term goal and possible improvements in access - at least for ldcs -; and notes that officials will be giving urgent consideration to the implications of various elements in the downpayment for future EC policy (and that of US and Japan).

SUSIE SYMES
SUSIE SYMES

FCO
me
look at
wjt

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
Department of Trade and Industry
1-19 Victoria Street
LONDON SW1H 0ET

25/5
by ~~24/5~~
(BSE)

CH/EXCHEQUER	
REC.	18 MAY 1988
ACTION	Mr P.G.F. DAVIS,
COPIES TO	PS/EST.
	Sir P. MIDDLETON
	Sir G. LITTLER,
	Mr LANKESTER,
	Mr MONCK,
	Mr BURGNER,
	Mr MACANSLAN, Mr MOLAN,
	Mr CALL, Mr TYRRE.

18 May 1988

✓ 18/5

Dear David,

IMPORT OF BANANAS 1989

Following the recent interdepartmental review of banana policy, one of the main changes we have agreed is to announce in good time a minimum total requirements figure for bananas for the following year. This minimum would then be the basis for decisions on the size of the quota for dollar bananas which itself will be subject to a minimum level, initially 30,000 tonnes. We agreed that for 1989 a specific minimum requirements figure would be determined within the range 360-380,000 tonnes.

Total market requirements have been expanding at around 4-5% per year over the last 4 years. In the first few months of 1988 imports have again increased by around 4% compared with the same period in 1987. The advice to my department from trade interests including retailers, independent ripeners, importers and Caribbean suppliers, is that requirements are expected to continue growing at broadly the current rate. On this basis, they unanimously recommend a minimum total requirement of 380,000 tonnes for 1989, ie at the top end of our indicative range.

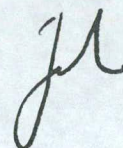
By comparison the best available estimates show ACP supplies to the UK in 1989 rising to some 400-440,000 tonnes. Such supply estimates tend to be optimistic, but barring natural disasters ACP supplies alone are set to exceed 380,000 tonnes, to which of course would be added the 30,000 dollar quota. On all counts, therefore, I believe we can readily accept the trade's advice that 380,000 is an appropriate minimum requirements figure. It will put us well on course to achieve our agreed aim of steady expansion. This in turn will help accommodate the increasing

/supplies of

of ACP bananas. If you agree with this view, I suggest
we announce it to the trade.

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

Yours etc,



JOHN MacGREGOR

To:

- 1) MR OWEN
- 2) PS/MFT

- cc PS/S of S
- PS/Sir B Hayes
- Mr Dell
- Mr Muir OT/4
- Mr Johnson EEP/1
- Mr N Way MAFF

From:

K D NEWNHAM
 OT4/2C
 Room 109
 1 Victoria Street
 215 5056

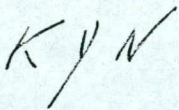
19 May 1988

CHILEAN APPLES

When the Chilean Ambassador called on the Minister to complain about the ECs quota on apples, he handed over a letter from the finance Minister. A draft reply is opposite.

Following the meeting the Minister wrote to Mr Gummer (Annex A). Mr Gummer has also received a letter about the quota from his Chilean opposite number. The proposed reply is at Annex B. We understand that the Chileans will also be writing to the Chancellor of the Exchequer.

When the letter is ready for despatch please return it to me and I will send it to Santiago via the bag.



K D NEWNHAM

DRAFT

Addressed to:

Sr Hernan Buchi Buc
Minister De Hacienda
Ministerio De Hacienda
Santiago
Chile

CHANCEQUER	
REC.	20 MAY 1988
ACTION	Mr MOUNTFIELD
COPIES TO	PS/CST PS/EST SIR P. MIDDLETON SIR G. LITTLER MR H.P. EVANS MR ROBSON

20/5

File No.

Copies to:

PS/S of S
PS/Chancellor of
the Exchequer
PS/Minister of
State for
Agriculture
PS/Sir B Hayes
Mr Dell
Mr Muir OT4
Mr Johnson EEP1

Mr N. Way M.H.F.
Enclosures: }

Originated by:

(Initials and date)

KYN 18/5

Seen by:

(Initials and date)

H.C.
11/5

Type for signature of

MFT

(Initials and date)

DEPARTMENT OF TRADE AND INDUSTRY

Thank you for your letter dated 27 April about the European Commission's restrictions on the imports of Chilean apples to the EEC.

I explained to your Ambassador when he delivered your letter that I had considerable sympathy for your case. I said that I was particularly concerned that the quota should have been imposed at a time when Chile was acting with commendable responsibility in putting her economy in order and paying for overseas debts through export led expansion. Moreover I would not wish to see action such as this cast a shadow over the ever strengthening commercial links between our two countries.

I was pleased to learn that the matter is to be heard in GATT and I very much hope that consideration in that

(CONTINUE TYPING HERE)

File No.

forum will lead to a satisfactory solution.

I know that my colleague John Gummer has written to Sr Prado setting out ~~the UKs~~ position in more detail, and there is nothing further I would wish to add.

BF 23/5

 Agricola (U.K.) Ltd.
Gruppo Ferruzzi

GH/EXCHEQUER	
REC.	23 MAY 1988
ACTION	Ms SYMES.
COPIES	PS/CST, PS/EST, 46 SIR P. MIDDLETON, SIR G. LITTLE, MR LANKESTER, MR BYATT, MR H. P. EVANS, MR MOUNTFIELD, MR BURBNER, MR BONNEY

*N.B.
ALL REPORTS TO
TOP COPY ONLY.

BF 23/5

Pse chase again

BF 3/6
23/5
7/6
Tang

20th May 1988

The Rt. Hon. Nigel Lawson M.P.
Chancellor of the Exchequer
The Treasury
Parliament Street
London SW1

Pse chase (+ if Wang)

*Don't want to do a substantive reply
yet when do we get the
courtesy acknowledgment?*

Dear Chancellor

I enclose a copy of a Policy Statement on Reforming World Agricultural Trade issued by a group of which I was a member. I also enclose a copy of the Executive Summary and a copy of the Press Release issued in Washington on May 4th. The delay has arisen because of the length of time which it has taken to send the documents from Washington.

The approach of the group, which I strongly support, is clearly set out in our conclusion stated on the first page of the Executive Summary. I hope that you will find this statement helpful in progressing the G.A.T.T. negotiations particularly in the agricultural field.

*Yours sincerely
Richard Butler*

Sir Richard Butler
Chairman

enc

FROM: R MOLAN
DATE: 24 May 1988

PS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
Sir G Littler
Mr Lankester
Mr Monck
Mr Mountfield
Mr Bonney
Mr P G F Davis o/r
Ms Symes
Mr Call
Mr Tyrie

Ch.
Content for me
to write as proposal?

OK -

25
2

IMPORT OF BANANAS 1989

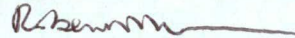
Mr MacGregor's letter of 18 May to Lord Young follows up the recent interdepartmental review of banana policy by seeking agreement to the minimum level of banana imports for 1989.

2. Prior to the review the amount of bananas allowed into the UK from the dollar area amounted to the difference, if any, between the estimated size of the UK market in the year ahead and the quantities that were expected to be available from traditional ACP sources. It was agreed by Ministers following the review that in future the competition should be increased by setting a minimum dollar area quota to be made available to importers other than the three who currently dominate the UK trade, and by increasing this minimum annually. Furthermore, the practice of making short-term estimates of what the market will take will end and under the new arrangements it is assumed that the market will grow, within certain specified limits, at a rate of around 5% per year. Precise figures within those limits are to be decided in advance each year and minimum dollar quota (30,000 in 1989) will increase in line with these. Mr MacGregor's letter sets out what he thinks the precise figure should be for 1989.

3. In the course of the review it was judged that that a minimum supply figure of 360-380,000 may be appropriate for 1989. MAFF have consulted trade interests and the unanimous view is that a minimum total requirement of 380,000 tons would be appropriate. ACP supplies

alone are expected to exceed this figure so it should be an appropriate starting point and should help to facilitate the desired expansion of the UK market. Thus, there are no grounds for disagreeing with Mr MacGregor's conclusion.

4. We suggest that you need only send a Private Secretary letter to Mr MacGregor's office indicating Treasury contentment.



R MOLAN

Mrs Shirley Stays

~~RAFT LETTER TO PS/MINISTER FOR AGRICULTURE, FISHERIES AND FOOD~~

PB) Minister of Agriculture
out

The Chancellor has seen Mr MacGregor's letter of 18 May to Lord Young.

2. He is content with Mr MacGregor's recommendation that the minimum total requirement for 1989 should be set at 380,000 tons^{no} and this should be announced to the trade.

3. I am copying this letter to the Private Secretaries to Lord Young,
Myles Wickstead (ODA), ~~Chris Patten~~ and Sir Robin Butler.

Jeremy Godfrey (DTI), Bob Peirce (FCO)
le

Trevor Wadley (Cabinet Office)

JMG F -

Private Secretary

CC-CSTI FST

Sir G. LITTLE

Mr LANCASTER, Mr Mowbray

Mr MOUNTFIELD, Mr BONNEY

Mr PGFDAVIS, Ms SOMES

Mr MOWAN, Mr TORRE, Mr GILL



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

25 May 1988

Mrs Shirley Stagg
PS/Minister of Agriculture, Fisheries and Food
Whitehall Place
LONDON SW1A 2HH

Dear Shirley

IMPORT OF BANANAS 1989

The Chancellor has seen Mr MacGregor's letter of 18 May to Lord Young.

He is content with Mr MacGregor's recommendation that the minimum total requirement for 1989 should be set at 380,000 tonnes and this should be announced to the trade.

I am copying this letter to Jeremy Godfrey (DTI), Bob Peirce (FCO), Myles Wickstead (ODA) and Trevor Woolley (Cabinet Office).

Yms cm

J M G Taylor
Private Secretary



RESTRICTED

26/5

CH/EX		ER
REC.	26 MAY 1988	
SECTION	Mr P.E.F. DAVIS,	
	P5/CST,	
	Sir P. MIDDLETON,	
	Sir G. LITTLER,	
	Mr LANKESTER,	
	Mr MONCK,	
	Mr BURGNER,	
	Mr Mac AUSLAN, Mr MOLAN,	
	Mr CALL, Mr TYRRE	

FCS/88/108

MINISTER FOR AGRICULTURE, FISHERIES & FOOD

Imports of Bananas 1989

1. Thank you for copying to me your letter of 18 May to Lord Young, about the minimum overall supply requirement for the UK banana market in 1989.
2. In view of the unanimous recommendation of the trade - including the "Big Three" importers from the Caribbean - that ACP supplies alone will exceed 380,000 tonnes, I agree that the minimum overall supply figure should be set at 380,000 tonnes.
3. The announcement of this will, however, need careful handling since the selection of a figure at the top end of the range may - however erroneously - fuel anxieties in the Caribbean about progressive erosion of their preferential access, and the price consequences of the expansion of the UK market. Clearly we will need to monitor market developments and political reactions fairly closely.
4. I am copying this letter to David Young, Nigel Lawson, Chris Patten and Robin Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
26 May 1988

RESTRICTED

HMT ADVICE

iae.nj Don/

Ch/ Show 11 min' copy Mr Gent's letter to MAFF?

FROM: J E J DONOVAN

DATE: 3 June 1988

18 3/6

25 3/6

yes pm

- 1. MR BONNEY
- 2. MR TAYLOR

CHANCELLOR'S CONSTITUENCY CASE: MR GENT

In your minute of 27 May you asked for advice on how to handle the letter of 10 May from Mr Gent, one of the Chancellor's constituents.

2. Under community law, seeds and plant varieties may only be sold if they are included in the national list of approved varieties maintained by member States. Each member State is required to maintain a national list and to have the necessary testing carried out by an "official body". The requirements for inclusion in a national list are that a plant variety should exhibit distinctiveness, uniformity and stability - ie that seeds will produce plants with the same characteristics of yield, disease resistance, etc, as the parents, and that it should show value for cultivation and use.

3. In the UK the testing and evaluation of new plant varieties is carried out for MAFF by a grant aided NDPB, the National Institute of Agricultural Botany (NIAB). The national list trials are combined with those required to acquire Plant Breeder's Rights. These give the Breeder intellectual property rights over the variety and enable him to claim on royalty on sales. Approximately half the cost of this work is recovered through charges for testing and evaluation.

4. MAFF is responsible for the national list. The recommended list is prepared by NIAB itself. It takes the varieties which perform best in the national list trials and selects from them the varieties which it includes in its "Recommended List". NIAB includes with the Recommended List details of the conditions where each variety performs best.

5. MAFF have recently conducted a review of plant variety testing procedures in order to meet, on the one hand, pressure from us to reduce expenditure on support for agriculture and, on the other, resistance from plant breeders to higher charges for

testing work. One of the conclusions of the review is that the Recommended List should no longer be financed from the grant-in-aid to NIAB; we support this conclusion. The report of the review has been circulated to the seed trade for comment. MAFF will then decide on what action to take.

6. Mr Gent considers that the Recommended List is no more than an aid to plant breeders' advertising. However, while seed merchants do use inclusion in the list as part of their advertising, the technical assessments which NIAB include in the Recommended List perform a "Which" type assessment for purchasers. I have been told by MAFF in the past that cereal producers rely quite heavily on the Recommended List in deciding which seed to buy, and tend to go for the newest addition to it. Other sectors apparently place less reliance on the Recommended List; an example of this is in potatoes where the most widely grown variety (Maris Piper) has been on the market for over 15 years.

7. In his letter, Mr Gent instances the wheat variety "Moulin" as an example of why the Recommended List is an advertising device. You may wish to be aware that MAFF originally refused to include this variety in the national list; without national listing it could not have been used at all. It was only included after the developer appealed to the Plant Variety and Seeds Tribunal, which is chaired by a barrister with two technical assessors; the Tribunal overruled MAFF. The problem with Moulin is that its yield is critically dependent on air temperatures at certain stages in the germination period. In the first year it was on the market, temperatures during the growing season suited it and it performed well. In the second year, which is the one Mr Gent comments on, temperatures at the critical time were wrong and the result was a very low yield. The cereal producers concerned have since claimed that they should be compensated for their loss of yield. MAFF are resisting these claims, firstly on the grounds that national listing means no more than that a plant variety meets certain botanical criteria, and secondly that the Recommended List is what it says, a recommendation is specified conditions and on specific soil types, it is not a guarantee.

8. I recommend that you should seek MAFF's advice on this letter. They consider that the Recommended List is NIAB's

responsibility rather than theirs and the report of the review, which was conducted by MAFF staff, shows that they are not committed to maintaining it. They would probably consider the letter useful as a comment on the review report.

PP Pat Silburn

J E J DONOVAN

WALKER
9/6

PPS Pl.
(H.A.)



SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270538 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

Rt Hon Peter Walker MBE MP

Ch. /
Slightly over
the top.
10/6

9 June 1988

CH/EXCHEQUER	
REC.	10 JUN 1988
ACTION	NO SYMES
COPIES TO	Mr BYATT.
	Mr H.P. EVANS.
	Mr BONNEY.
	Mr MEYRICK. Mr EDMONDS.

10/6
Pse Walker
Lam & Wils on X

John MacGregor

Not copied to ns.

I have seen the recent correspondence between our Private Secretaries on the subject of principles of agriculture reform.

I do believe the ten principles set out in the paper represent a policy shift of a very fundamental nature and if applied without other considerations would probably result in destroying much of British agriculture. Certainly if the theory was applied in practice it would mean that the smaller hill farmers would be made bankrupt. I do not believe there are such things as transitional arrangements if the transitional arrangements are purely a transition to bankruptcy. I believe therefore that in any principles to be applied to agriculture careful consideration must be given to both the security of food supply aspects in the future, to the social fabric of the rural areas, to the balance of trade implications, and to the manner in which we will deal with the colossal subsidies that other agriculture industries will be receiving, not just in the United States, but of course also countries like France, where through the Credit Agricole enormous undisclosed subsidies are perpetually made.

X

I could not possibly agree to any set of principles which, by not taking these matters into account, resulted in the destruction of large sections of British agriculture.

I might also express the hope that in future if such a set of principles are being discussed those responsible for agriculture in Scotland, Wales and Northern Ireland will be involved in the discussions.

I am copying this letter to Nigel Lawson, Malcolm Rifkind and Tom King.

John MacGregor

The Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries and Food

DF 23/6

FROM: DAN CORRY
DATE: 21st JUNE, 1988

John Deakin
with
the Secretary

PS/CHANCELLOR ✓

cc PS/CHIEF SECRETARY
MR BYATT
MR BURGNER
MR H P EVANS
MR SPACKMAN
MR BONNEY
MR MEYRICK
MR DODDS
MRS IMBER
MS SYMES

pmf

AGRICULTURAL SUPPORT

Your minute of 14th June asked for a note for the Chancellor on the Welsh Secretary's assertion in his letter of 9th June to the Minister of Agriculture that "through the Credit Agricole enormous undisclosed subsidies are perpetually made". I am replying for Mr Meyrick who is absent through ill health.

2. Mr Walker's letter is mainly about the ten principles of agricultural reform. The ten principles were a Treasury initiative and they have a bearing on resource and budgetary costs. For these reasons the Chancellor may wish to respond.

3. The ten principles are not merely a working document, but a set of principles already in use, agreed with the Secretaries of State for Trade and Industry, Foreign and Commonwealth Affairs and Agriculture and used to guide negotiations in Europe and GATT. They would not "probably result in destroying much of British agriculture" as Mr Walker suggests. As the ninth principle argues, the preservation and development of the rural economies are more likely to be achieved by a diversification of economic activity outside agriculture.

4. On the specific point about subsidies, in addition to the common system of support under the CAP, other support takes place through varying means in member states, the main two basic means being capital grants and interest rate subsidies.

5. The UK gives support to farmers through an extensive system of capital grants (currently under review by Ministers) which can cover 60% of the value of investment in certain cases. By contrast, in France support is given through interest rate subsidies which are granted locally by banks and credit institutions which are then reimbursed by central government. Credit Agricole is one institution through which these subsidies are made available.

6. The Ministry of Agriculture has estimated that the French interest rate subsidy is equivalent to a capital grant of about 20%. This is broadly similar to the UK, where the basic rate of grant is 15% but many grants are given at higher rates.

7. Credit Agricole has recently been privatised and part of the proceeds (about £50m a year for three years) are to be used to subsidise further interest rates for farmers. These changes are expected to be implemented shortly.

8. The Chancellor may wish to respond to Mr Walker's letter and I attach a draft reply. We advise the Chancellor not to mention Credit Agricole; of more relevance is the fact that other countries support agriculture through a variety of means. The draft therefore emphasises the government's role in seeking a world wide reduction in the levels of such support. This is consistent with the Chancellor's line in his letter to Ralph Howell MP and in his speeches on agriculture which emphasise the high costs of agricultural intervention and the need for multilateral reductions. It is important also to reject Mr Walker's attempts to undermine the ten principles.

9. Since the principles reflect agreement between the Treasury and MAFF, it may be desirable to clear the draft letter with MAFF before it is sent.

Dan Corry

Dan Corry

DRAFT LETTER

FROM: CHANCELLOR

TO: SECRETARY OF STATE FOR WALES

COPIES TO: PRIME MINISTER, MINISTER OF AGRICULTURE, SECRETARIES
OF STATE FOR SCOTLAND AND NORTHERN IRELAND

AGRICULTURAL SUPPORT

Thank you for letting me see your letter of 9th June to the
Minister of Agriculture.

I naturally share your concern for the well being of the rural
economy in Wales, but, that said, it cannot be sensible for us to
support an agricultural policy which generates large surpluses at
great cost to the taxpayer and the consumer but barely keeps the
incomes of hill farmers above subsistence levels.

The ten principles for agricultural reform are designed to bring
the agricultural industry into closer contact with its consumers,
to encourage enterprise among farmers and to lead them to offer
products which are attractive to the market. This would benefit
the industry, the customers and the taxpayers and is an extension
of the policies we have applied successfully in other areas of
the economy. The ten principles have been agreed by the
Secretaries of State for Trade and Industry, Foreign and
Commonwealth Affairs and Agriculture and they have been used to
guide negotiations in Europe and in the GATT round. I urge you
to join us in supporting this framework for reform.

Nonetheless, I recognise the threat to British farmers from
unfair, subsidised overseas competition. That is why we have
been, and will continue to be, so active through both the EC and
GATT in pressing for the international liberalisation of
agricultural markets, through substantial multilateral reductions
in support and protection.

I am copying this letter to the Prime Minister, John MacGregor,
Malcolm Rifkind and Tom King.

pp3. p1.

FROM: R J BONNEY

DATE: 22 JUNE 1988

CHANCELLOR

Chief Secretary
 Paymaster General
 Mr Byatt
 Mr Monck
 Mr Lankester
 Mr Burgner
 Mr R I G Allen
 Mr H P Evans
 Mr Spackman
 Mr Turnbull
 Mr Meyrick o/r
 Mr Dodds o/r
 Mrs Imber
 Ms Symes o/r

Oh

I am not at all sure that cc

you should write:

(a) ∴ I understand that

Mr MacLagan is disinclined to reply - and if you do, he may feel obliged to be a bit softer on Mr Walker than you would be.

(b) ∴ Mr Walker's comments are so

self-evidently over the top that no-one will take them seriously.

If you do want to write, I doubt whether you should bring in the PM, as suggested. at 24/6

Thanks, No need to do X.

AGRICULTURAL REFORM

Mr Taylor's minute of 14 June asked for a note on the assertion in the Welsh Secretary's letter of 9 June that in France enormous undisclosed subsidies are perpetually made through the Cr dit Agricole.

2. The attached note by MAFF officials sets out the information which is readily available on the extent of French national subsidies to agriculture and the operations of the Cr dit Agricole. We could, if you wish, obtain a more detailed account from our agricultural counsellor in the Embassy in Paris. As might be expected the extent of national agricultural aids in France is considerably higher in aggregate than the equivalent measures in the UK, although this does not invariably apply to individual items: UK Government expenditure on agricultural R&D is proportionately higher than in France and French farming organisations fund a much higher proportion of the cost of the advice services provided for farmers. The interest subsidies provided through the Credit Agricole are broadly equivalent to the capital grants provided in the UK, although the level of expenditure is rather higher in France. The EC Commission are responsible for vetting all national subsidies for compliance with the principles of free competition set down in the Treaty of Rome.

3. Mr Walker's letter is of course mainly concerned with attacking the paper on the ten principles of agricultural reform which was circulated under your minute of 30 November. In view of the importance of the subject we recommend that you should send a short riposte to Mr Walker's letter.

4. The principles were originally developed for use in the context of CAP reform and the GATT Round negotiation and have been agreed for that purpose by the Foreign Secretary, Minister of Agriculture and the Secretaries of State for the Environment and Trade and Industry. The Territorial Departments were not brought in at that stage (it was MAFF's responsibility to do so, as they are supposed to co-ordinate the views of all four Agriculture Departments on international issues). The 10 principles have already been reflected in briefing for the current round of international meetings. We have also attempted to draw on them in the current reviews of certain aspects of domestic agriculture policy (notably on capital grants, and industry funding of research and advice services). And it is in this context that MAFF have belatedly circulated them to the Secretaries of State for Wales, Scotland and Northern Ireland.

5. The assertions in Mr Walker's letter about the destruction of much of British agriculture if the principles were applied are so extravagant that a detailed rebuttal is not necessary. But we would recommend that you send the attached draft reply which has been agreed with EI and IF Divisions. The letter could, if you consider it appropriate, be copied to the Prime Minister and the other recipients of the original correspondence on the principles of agricultural reform.



R J BONNEY

DRAFT LETTER

FROM: CHANCELLOR

TO: SECRETARY OF STATE FOR WALES

COPIES TO: MINISTER OF AGRICULTURE
SECRETARIES OF STATE FOR SCOTLAND & NORTHERN IRELAND
[PRIME MINISTER
FOREIGN SECRETARY
SECRETARIES OF STATE FOR ENVIRONMENT, TRADE AND
INDUSTRY
Sir Robin Butler]

AGRICULTURAL REFORM

Thank you for sending me a copy of your letter of 9 June to John MacGregor.

2. I am sorry that you were left off the original circulation of my paper on the principles of agricultural reform. As you know, the subject was originally raised in the international context of CAP reform and the GATT round. But I quite agree that many of the principles also have a bearing on domestic policy.

3. Having said that I am surprised that you should regard the ten principles as representing quite such a fundamental shift in Government policy towards agriculture. Certainly it has been our policy for many years now actively to seek substantial reductions in CAP price support and an effective constraint on escalating budgetary costs whilst opposing quantitative restrictions on output. The ten principles, which have already been reflected in the position we have adopted in the GATT Round negotiations, simply apply to agriculture the same sort of economic rationale which we have been deploying so successfully in other areas. We can hardly claim that the present policy mix in the agricultural area has been signally successful in achieving even the rather narrow objective of supporting farm income and I think that the costs which it imposes on the rest of the economy are becoming increasingly widely recognised.

4. Your suggestion that application of the ten principles would result in the destruction of much of British agriculture seems unduly alarmist. Given that by European standards British farming is highly efficient there is every reason to expect that most farmers in the UK would be able to adapt to lower support prices. If there are categories, such as small hill farmers, who would find the process of adjustment particularly difficult, the ten principles would allow for some transitional relief but argue (correctly, in my view) that such measures should be better targetted to achieve specific objectives (unrelated to agricultural production) than the present indiscriminating forms of price support.

5. Of course I accept that we will need to take account of the level of subsidies which other countries offer to their farmers. That is one of the reasons why our objective in the GATT Round is to negotiate a multilateral reduction in agricultural support and protection. But we must not use foreign competition as an excuse for not following our own interests in regard to agricultural reform as and when opportunities present themselves both in the international and the domestic context to reduce the excessive cost of current policies.

6. I am sending copies of this letter to John MacGregor, Malcolm Rifkind and Tom King [and to the Prime Minister and other recipients of the original correspondence].

FRENCH STATE AIDS AND THE CREDIT AGRICOLE

1. The Credit Agricole is responsible for administering loans to farmers at subsidised rates of interest. The French Government determines the rate of interest payable and provides the sums needed in the annual agricultural budget. The table in the Annex, compiled from information in the 1988 French Budget, clearly shows that interest rate subsidies represent one of the main planks of agricultural support in France (a total of some 4.6 billion French Francs, almost a quarter of total support).

2. The Credit Agricole has recently been subject to a rather unusual privatisation campaign carried out by the Chirac government. The head office (Caisse Nationale) was sold off to the regional offices (Caisses Regionales), but the Government retained the right to use the organisation as an instrument for providing farmers with credit. The privatisation was controversial as opponents claimed that the Credit Agricole had been undervalued; the total sale receipts are expected to be about 7 billion francs, whereas the Socialist Party in France put the true value at nearer 14-18 billion francs.

3. The other interesting feature of this privatisation is that 2 billion francs (about £190 m) of the proceeds of the sale will be ploughed back into agriculture. It will be paid out in roughly equal instalments over three years to reduce farmers' indebtedness (which is reputed to amount to 200 billion francs in France) and in particular to reduce the rates of interest on loans taken out by farmers between 1981 and 1986 (the Socialist era), some of which were at rates as high as 12-14%. This was announced in February as part of a 3 billion franc package of aid for French farmers.

ECL DIVISION

MAFF

21 JUNE 1988

FRENCH NATIONAL AIDS TO AGRICULTURE - 1988 BUDGET

<u>Expenditure</u>	<u>Francs(m)</u>	<u>£M</u>
Interest rate subsidies		
(i) general FF 3,967m		
(ii) First tranche of debt relief fund. 1/3 of proceeds of sale of Credit Agricole FF 700m	4,667	446
Aid to Less Favoured Areas	1,289	123
Suckler cow premium	543	52
Forestry, water supply and horses	1,764	168
Disaster aids	269	26
Aids to young farmers	659	63
Cessation grants	1,481	141
Education, research, advice	4,090	390
Animal Health and stock improvement	340	32
Other (including product offices and export promotion)	5,863	558
	<u>20,967</u>	<u>1,997</u>
<u>Revenue foregone</u>		
Fuel concessions	73	7
TOTAL	<u>21,040</u>	<u>2,004</u>

FROM: R J BONNEY

DATE: 5 JULY 1988

CHANCELLOR

cc

- Chief Secretary
- Paymaster General
- Mr Byatt
- Mr Monck
- Mr Lankester
- Mr Burgner
- Mr H P Evans
- Mr Spackman
- Mr Turnbull
- Mr Meyrick
- Mrs Imber
- Ms Symes
- Mr Call

Ch. King
 Given Mr King's intervention, it probably is sensible to write, for the reasons Mr Bonney proposes. Content to do so (but perhaps not going to PM at this stage).
OK

PRINCIPLES OF AGRICULTURAL REFORM

The Northern Ireland Secretary's letter of 29 June to the Minister of Agriculture represents another attempt to undermine the long term objectives for agricultural reform set out in your minute of 30 November 1987. You decided not to intervene when the Welsh Secretary wrote in rather more extravagant terms on 9 June (Mr Taylor's minute of 27 June refers). We have now seen the MAFF Private Secretary's letter of 19 May (not originally copied to the Treasury) which suggests that even Mr MacGregor is distancing himself from the ten principles. It is only a matter of time before Mr Rifkind writes in similar terms.

2. The Chief Secretary has recently reaffirmed the importance which Treasury Ministers attach to assessing domestic policy questions in the light of the ten principles in correspondence on the recent review of agricultural capital grants and we are continuing to deploy them as appropriate in the reviews of agricultural advice services and near market research and development. In these contexts however it would be helpful to us to be in a position to quote a clear statement from you rejecting the proposition to which Agriculture Ministers have subscribed with varying degrees of emphasis, namely that the ten principles

CONFIDENTIAL

are only long term objectives in the international negotiations which cannot be applied to domestic policy until those negotiations have been completed.

3. I attach a slightly revised draft letter to reinforce this point which I suggest should now be addressed to Mr MacGregor. This submission and the draft has been agreed with EI and IF Divisions.



R J BONNEY

CONFIDENTIAL

DRAFT LETTER

FROM: CHANCELLOR

TO: MINISTER OF AGRICULTURE

COPIES TO: SECRETARIES OF STATE FOR SCOTLAND, WALES AND
NORTHERN IRELAND

[PRIME MINISTER
FOREIGN SECRETARY
SECRETARIES OF STATE FOR TRADE & INDUSTRY,
ENVIRONMENT
Sir Robin Butler]

PRINCIPLES OF AGRICULTURAL REFORM

I have seen copies of the letters from Peter Walker (9 June) and Tom King (29 June) on this subject and now also of your Private Secretary's letter of 19 May to which they were responding.

2. It is perhaps a pity that colleagues with territorial responsibilities were not brought into the discussion of the ten principles at an earlier stage. They ^{principles} were of course originally raised in the international context as background to the current negotiations on CAP reform and the GATT Round. But I certainly could not accept Tom King's proposition that we should await the final outcome of these negotiations before taking into account these long term objectives in assessing our own domestic policies in support of agriculture.

3. Having said that, I was somewhat surprised that Peter Walker should regard the ten principles as representing a fundamental shift in Government policy towards agriculture. Certainly it has been our policy for many years now actively to seek substantial reductions in CAP price support and an effective constraint on escalating budgetary costs whilst opposing quantitative restrictions on output. The ten principles, which have already been reflected in the position we have adopted in the GATT Round negotiations, simply apply to agriculture the same sort of underlying approach which we have been deploying successfully in other areas. We can hardly claim that the present policy mix in the agricultural area has been signally successful in achieving

even the rather narrow objective of supporting farm income and ~~I think that~~ the costs which it imposes on the rest of the economy are becoming increasingly widely recognised.

4. Peter's suggestion that application of the ten principles would result in the destruction of much of British agriculture seems unduly alarmist. By European standards British farming is highly efficient and there is every reason to expect that most farmers in the UK would be able to adapt to lower support prices. If there are categories, such as small hill farmers, who would find the process of adjustment particularly difficult, the ten principles would allow for some transitional relief. However it would be better to do this by specific measures rather than the present indiscriminating forms of price support.

5. Of course I accept that we will need to take account of the level of subsidies which other countries offer to their farmers. That is one of the reasons why our objective in the GATT Round is to negotiate a multilateral reduction in agricultural support and protection. But we must not use foreign competition as an excuse for missing opportunities both in the international and the domestic context to reduce the excessive cost of current policies. I see incidentally that a recent Commission report on state aids suggests that we are second only to Luxembourg in the volume of our national spending on agriculture relative to its contribution to GDP.

6. I am sending copies of this letter to Peter Walker, Malcolm Rifkind and Tom King ~~[and to the Prime Minister and other recipients of the original correspondence]~~.



SECRETARY OF STATE
FOR
NORTHERN IRELAND

CH/EXCHEQUER	
REC.	30 JUN 1988
ACTION	Mr BONNEY
COPIES TO	C ST, PMG, Mr BYATT, Mr MONCK, Mr LANKESTER, Mr BURGNER, Mr RIG ALLEN, Mr H P EVANS, Mr SPACKMAN, Mr TURNBULL,

30/6
NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

3

Rt Hon J MacGregor OBE MP
Minister of Agriculture, Fisheries & Food
Ministry of Agriculture, Fisheries & Food
Whitehall Place
LONDON
SW1

Mr MERRICK, Mr DODDS,
Mr IMBER, Ms SYMES

Mr Byatt
Mr Lankester
Mr Spackman
Mr Evans
Mr Monck

29 June 1988

Mr. Bonney

Dear Minister

I do not recall seeing the PS/Minister of Agriculture letter, but I do now wonder whether the Chancellor's PS might not intervene: the Ten Principles may not have been as strong as we all would have wished, but they were useful in keeping other Departments on track — certainly we ought to resist suggestions that the 10 Principles are only relevant if the GATT negotiations are "successful".

PRINCIPLES OF AGRICULTURAL REFORM

In his letter of 9 June Peter Walker has expressed his reservations at certain aspects of the 10 principles of agricultural reform. With my responsibilities for Northern Ireland agriculture I should record my views. In the situation here where agriculture and the related sectors contribute so much more significantly in relative terms to the regional economy and its social structure I share some of Peter's expressed reservations. In particular we must not be so driven by the principles as to discriminate against UK producers in the absence of effective action in other countries, and must recognise the realities of difference within the UK.

SMS
31/6/88

I attach therefore the greatest importance to the statement in your Private Secretary's letter of 19 May that you have not accepted that "they (the principles) should have a direct and determining influence on decisions by Ministers on adjustments to our domestic policies as they apply to agriculture." It is all where?

very well composing UK strategic guidelines for the purposes of international negotiations on agricultural reform, Community financing and the GATT, but such guidelines cannot be used directly and unilaterally in relation to domestic agriculture until these negotiations have been successful. Agricultural Ministers are on public record in "Farming UK" in acknowledging the need for even handed and fair treatment between Member States, between the regions of the UK and between individual producers, traders and consumers. We must stand by this.

Like Peter I am somewhat surprised that territorial Agricultural Ministers were not consulted at the beginning of the 1987 exercise.

I am copying this letter to Nigel Lawson, Peter Walker and Malcolm Rifkind.

yours sincerely

Martin Donnelly

ppTK

*(Approved by the Secretary of State
and signed in his absence)*

Mr Walker



Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switsfwrdd)
01-270538 (Llinell Union)

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru

From The Secretary of State for Wales

Rt Hon Peter Walker MBE MP

9 June 1988

CH/EXCHEQUER	
REC.	10 JUN 1988
ACTION	Mr SYMES
COPIES TO	Mr BYATT
	Mr H.P. EVANS
	Mr BODNEY
	Mr METRICK
	Mr EDMONDS

John

*Mr Rankester
Mr ce Mr Donck
Mr Burger
and return
JB 15/6 VM*

I have seen the recent correspondence between our Private Secretaries on the subject of principles of agriculture reform.

I do believe the ten principles set out in the paper represent a policy shift of a very fundamental nature and if applied without other considerations would probably result in destroying much of British agriculture. Certainly if the theory was applied in practice it would mean that the smaller hill farmers would be made bankrupt. I do not believe there are such things as transitional arrangements if the transitional arrangements are purely a transition to bankruptcy. I believe therefore that in any principles to be applied to agriculture careful consideration must be given to both the security of food supply aspects in the future, to the social fabric of the rural areas, to the balance of trade implications, and to the manner in which we will deal with the colossal subsidies that other agriculture industries will be receiving, not just in the United States, but of course also countries like France, where through the Credit Agricole enormous undisclosed subsidies are perpetually made.

I could not possibly agree to any set of principles which, by not taking these matters into account, resulted in the destruction of large sections of British agriculture.

I might also express the hope that in future if such a set of principles are being discussed those responsible for agriculture in Scotland, Wales and Northern Ireland will be involved in the discussions.

I am copying this letter to Nigel Lawson, Malcolm Rifkind and Tom King.

Walker

The Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries and Food

15/MAY/1988
H/S

~~Mr Dickinson's minute of 6 May to Mr Strang refers.~~

- ~~cc. Mr Hadley~~
- ~~Mr Smith~~
- ~~Mr Anderson~~
- ~~Mr Capstick~~
- ~~Miss Brown~~
- ~~Mr Hollis~~
- ~~Mr McIvor~~
- ~~Mr Thomas~~
- ~~Mr Dawson~~
- ~~Mr Hudson~~

N.B.
NOT ORIGINALLY COPIED
TO HMT. RECEIVED 1/7
ON REQUEST.

David Crawley Esq
Private Secretary to Secretary of
State for Scotland
Scottish Office
Dover House
Whitehall
London SW1A 2AU

CH/EXCHEQUER	
REC.	1-JUL 1988
ACTION	Mr BONNEY
COPIES TO	CST, PMG, Mr BYATT, Mr MONCK, Mr LANKESTER, Mr BARKER, Mr R.I.G. ALLEN, Mr H.P. EVANS, Mr SPACKMAN, Mr TURNBULL,

19 May 1988

Mr MEYRICK, Mr DODDS,
Mr IMBER, Ms SYMES

During the latter part of 1987 the Chancellor of the Exchequer initiated consideration of a set of broad principles which he suggested might be borne in mind by those involved in international negotiations on agricultural reform, in the Community's future financing negotiations and in the wider context of the GATT negotiations. The Chancellor proposed that the principles should provide a link between immediate tactics and the long-term aim of reform, and should put reform of agricultural policy in the wider context of improving the performance of the whole economy. Following consultation with the Foreign Secretary, the Secretaries of State for Trade and Industry and the Environment, and my Minister the Chancellor submitted a statement of Ten Principles of agriculture reform to the Prime Minister.

I understand that in the current review of farm capital grants the Treasury have introduced the thought of using the Ten Principles as a yardstick against which to judge individual policy initiatives on the home front. We regard the principles as a useful statement of our long-term objectives in the context of CAP reform and the GATT negotiations. They have a role to play, as a point of reference, as we consider how we should move towards our goal. But we have not accepted that they should have a direct and determining influence on decisions by Ministers on adjustments to our domestic policies as they apply to agriculture.

Against this background you should clearly have the full text of the principles. I therefore enclose copies of the Chancellor's minute of 30 November last to the Prime Minister and my Minister's minute of 18 December.

/I am copying

I am copying this letter to Jon Shortridge (Welsh Office) and David Watkins (NIO).

SHIRLEY STAGG (MRS)
Principal Private Secretary

FROM: P EDMONDS
DATE: 6 July 1988

1. MS SYMES *Sirie Symes*
2. PS/CHANCELLOR <

cc PS/CST
PS/EST
Sir P Middleton
Sir G Littler
Mr Byatt
Mr Lankester
Mr Burgner
Mr H P Evans
Mr Mountfield
Mr Bonney

*OK (over
connection)*

*Ch.
Context to
write as proposed?*

LETTER FROM SIR RICHARD BUTLER, CHAIRMAN OF AGRICOLA

1. I attach a draft reply to a letter to the Chancellor from Sir Richard Butler which enclosed a statement signed by 29 "agricultural experts" setting out their plans for "Reforming World Agricultural Trade".

2. The statement was issued in May but the Washington Press Release of 4 May received little press attention in the UK. In the statement, the group called on governments to work hard so that agreement on a framework for agriculture negotiations could be reached at the Ministerial Mid-Term Review of the GATT round in December, which would set out the aim of ending trade-distorting agricultural policies and moving to decoupled or trade-neutral farm policies. The group called for the framework to include agreement to set GATT enforceable limits on trade-distorting policies, to set up a standing policy review committee to monitor policies and settle disputes, and to freeze all subsidies and trade barriers at current levels.

3. The call for agreement at Montreal on a framework for long-term reductions in agricultural support and protection, with a short term freeze, closely matches statements made by the Prime Minister and the Chancellor. However, the proposal that governments should categorise instruments of farm policy according to their trade-distorting effects may not be so helpful. Calculating the direct and indirect effects on trade of each form of policy would be difficult and could confuse negotiations over reductions set in term of PSEs.

4. Apart from Sir Richard Butler, who is a former President of the NFU, the other UK signatory is Professor J S Marsh of Reading University. The 29 signatories include some well-known names but many leading agricultural and trade economists are not in the group.

P. Edmonds

P EDMONDS

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



From the Minister

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
HM Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

CH/EXCHEQUER	
REC.	26 JUL 1988
ACTION	Mr BONNEY
COPIES TO	CST PMB, Mr BYATT, Mr MONCK, Mr LANKESTER, Mr BURGNER, Mr R. J. G. ALLEN, Mr H. P. EVANS, Mr SPACKMAN, Mr TURNBULL,

Mr MEYRICK, Mr DODDS,
Mr IMBER, Mr SYMES.

Handwritten initials "BF" and a signature. A red checkmark is drawn over the signature. To the left of the signature is a handwritten "26/7".

26 July 1988

Dec Nigel,

PRINCIPLES OF AGRICULTURAL REFORM

Thank you for your letter of 6 July. I think it is important to underline the fact that the ten principles were conceived as a guide to our objectives in the further reform of the CAP in the wider international negotiations. This is shown clearly by the wording of the principles themselves and, particularly, by the five introductory paragraphs. It is also, no doubt, the reason why you did not copy your letter of 21 September last to other Ministers with agricultural responsibilities.

You say the principles were "originally" conceived in the international context as if they could now be applied elsewhere as well. But I am sure that, had we been drawing up criteria for purely domestic agricultural decisions, we would have needed to word them differently and incorporate additional considerations including, as Tom King has pointed out, the need to treat our farmers fairly vis-a-vis their competitors in other EC Member States.

In this connection I must warn against drawing any conclusions from the Commission report on state aids to which you refer. The figures the Commission seem to have used both for aids and for agriculture's value added in the UK do not agree with our own, and we believe that their figures for aids given in other Member States are seriously deficient. It would be misleading to base policy on, or give currency to, the unsound data on agriculture in this report. Officials have taken the matter up with the Commission, who themselves seem to have no confidence in this part of the Report.

/Finally, I would ...

Finally, I would just like to mention again that our specific negotiating objectives for the CAP have to be drawn up with a view to what it is practicable to achieve. Milk quotas are a good example. It is true that they were not our preferred solution to the problem of over-production. We advocated price cuts instead. But there is no possibility at present of achieving the reductions in support that would be needed to abandon the quotas without a massive rise in output and expenditure. That was why we supported the Commission when they proposed tightening the quota system in 1986 and prolonging it, in the stabilisers context, in 1987.

† I am copying this letter to Peter Walker, Malcolm Rifkind and Tom King.

Yours etc,
JH

JOHN MacGREGOR



BF 9/8

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER

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01-270 0538 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru

22/8

Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

29 July 1988

As usual

(Lynn)

BF 5/9
19/9 12/9

I note the letter that you sent to John MacGregor on the recent Commission report on State Aids and that we are second only to Luxembourg in the volume of our national spending on agriculture relative to its contributions to GDP.

That of course is not the same as State aids and if I may say so the State Aid situation in France through the Credit Agricole far exceeds anything that has ever been done in the United Kingdom and doubtless will continue to do so.

CH/EXCHEQUER	
REC.	02 AUG 1988
ACTION	Mr BONNEY
	CST. PMG.
	Mr BYATT, Mr MONCK
10	Mr LANKESTER,
	Mr BURENER,
	Mr R.I.G. ALLEN,
	Mr H.P. EVANS,
	Mr SPACKMAN,
	Mr TURNBULL,
	Mr MEYRICK, Mr DODDS,
	Mrs IMBER, Ms SYMES.

✓ 2/8
[Large signature]

pse chase
and let me know
entcome

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

M

*Walter
Lynn
I have
Lynn*

FROM: R M PERFECT
DATE: 7 DECEMBER 1988

- 1. MR FARTHING
- 2. CHANCELLOR

Ch

cc: Chief Secretary
 Financial Secretary
 Sir P Middleton
 Mr Anson
 Mr Monck
 Mr Beastall
 Mrs Case
 Mr Bent

This was a Moira 'skeleton' which she had sat on while digging out back pages. Sorry - I have stressed to her & Duncan that delays must not be more than a day or so.

NAO REPORT ON SALE OF NSDO AND PBI

AT

Miss Wallace asked for a note on the recent NAO report on privatisation of the National Seed Development Organisation (NSDO) and the Plant Breeding Institute (PBI).

Background: the sale

2. In 1986 it was decided to sell the NSDO, a company wholly owned by MAFF, and assets of the PBI, a charitable grant-aided institute of the Agricultural and Food Research Council (AFRC). In September 1987 Unilever plc paid £66 million for the complete package. £27.15 million was surrendered to the Exchequer, but £38.85 million was retained by the PBI, contrary to expectations at the time of the sale.

The problem

3. DES's legal advisers, Herbert Smith, identified charity law as a problem in October 1986. But on the basis of their advice steps were taken in 1987 which were intended to ensure the PBI could pay its share of the sale to the Exchequer on condition that the money was used for purposes close to the PBI's objectives. However, after the sale, the PBI sought further advice and in June 1988 Treasury Counsel advised that it would be a breach of trust for the Directors of the PBI (now renamed the Institute of Plant Science Research - IPSR) to hand over to others charitable funds and the responsibility for taking decisions on their use. Treasury Ministers were advised of this development in Mr Kerley's minute of 8 July.

X

Ch / sorry not to have shown shown you X at the time. CST wrote pretty promptly, and as I did not realise that this was the first paper we had had on this long-running saga, I weeded it. Apologies. maw.

Steps taken

4. To ensure the Exchequer benefits indirectly from the sale of the PBI's assets, the costs of building new laboratories for the ex-PBI staff, currently put at £20 million, will be borne by the IPSR. In addition, the AFRC's recurrent grant to the IPSR will be stopped and DES's grant in aid to the AFRC will be reduced by a similar amount.

5. Following a review of the lessons to be learnt from this sale, and discussion with other departments who have dealings with charities, TOA is preparing guidance drawing attention to the problems of selling assets owned by charitable trusts funded by public money.

The NAO Report

6. The NAO report details the history of the sale. It concludes that the 1987 Estimates were framed in such terms that Parliament would have expected the full proceeds of the sale of the PBI assets, after deduction of expenses, to be paid immediately into the Consolidated Fund. In the event the report states that it will be impossible for DES and Treasury to subject the £20 million building project to detailed scrutiny and approval, and that it remains to be seen how far the AFRC will be able to ensure that all expenditure financed by the sale proceeds is subject to the AFRC's normal discipline.

Line to take

7. DES and Treasury accept that the NAO report is accurate. In advance of the PAC hearing on the NAO report, expected to be in February 1989, the Treasury cannot comment on the report's conclusions.

8. Critics may ask about the Government's future attitude to selling charities. You could say that future privatisation plans would depend upon circumstances at the time and advice would be taken early in the decision making process about whether or not a sale could be effected and the proceeds handed over to the Exchequer.

Press Briefing

9. A copy of the DES press briefing, agreed with us and given to IDT, is attached.

Mark Perfect

R M PERFECT

NAO REPORT ON PBI SALE : PRESS BRIEFING

1. This briefing, agreed with the Treasury, is for use in responding to any press enquiries following publication of the NAO Report on 5 December. It is confined to non-controversial background and supplementary information excluding arguments about the conclusions or material in the Report.

Background

2. The Secretary of State for Education and Science acted as sole vendor for the sale of part of the Plant Breeding Institute (PBI) in 1987. After the sale the parts of PBI remaining in the public sector were renamed the Institute of Plant Science Research (IPSR).

3. The PBI (subsequently the IPSR) was a grant-aided institute of the Agricultural and Food Research Council (AFRC), and a registered charity. It was principally funded by the AFRC from its grant-in-aid through the DES Science Budget. Its governors are appointed by the Secretary of State for Education and Science and the Minister of Agriculture, Fisheries and Food.

4. The PBI's plant breeding assets and other items were bought by Unilever for £66M. The DES paid over to the IPSR £38.85M representing the value of its assets included in the sale. The Science Budget grant-in-aid to IPSR for 1988/89 was discontinued on 1 October 1988, and the DES and the AFRC will take into account the assets now held by the IPSR in considering future applications for funding from the Science Budget.

Issues studied by NAO

5. The NAO studied the following issues:-

i) the terms of the 1987/88 original and supplementary estimates for class XII vote 13 which covered the sale and envisaged all the proceeds, less sale expenses, reverting to the Consolidated Fund;

ii) parliamentary knowledge of plans to build laboratory premises for IPSR at Norwich adjacent to the John Innes Institute;

iii) controls over the use of part of the £38.85M to build the Norwich laboratory.

Conclusions reached by NAO

6. The NAO's conclusions on each of the above issues are as follows.

i) On the basis of the 1987/88 estimates, Parliament would have expected the proceeds of the sale of the PBI assets, after deduction of sale expenses, to be paid immediately into the Consolidated Fund.

ii) It was not made clear to Parliament that there would be a need for substantial capital expenditure on a new laboratory.

iii) Although DES and AFRC are seeking an agreement with the IPSR governors over the expenditure of their share of the sale proceeds, it remains to be seen how far the expenditure of the £38.85M proceeds of the PBI sale will be subject to AFRC's normal financial disciplines.

Line to take

NAO conclusions

7. In advance of the PAC hearing on the NAO report, expected about February 1989, the Department cannot comment on the report's conclusions.

Facts of the case

8. Before the sale, the DES had been advised that the PBI could pay their share of the proceeds over to the AFRC for expenditure on research in line with the PBI objects. Subsequent legal advice made it clear that this was not possible. The proceeds were accordingly retained by the PBI and the grant-in-aid that would otherwise be paid to them by the AFRC is being abated.

9. The PBI and all other parties consented to the sale and to the Secretary of State acting as sole vendor. The DES received legal advice throughout the sale, including on the PBI's charitable status.

10. AFRC are discussing an agreement with IPSR for IPSR to operate within cash limits set by AFRC, and to provide information appropriate to future monitoring of IPSR expenditure.

DES 2/12/88

FROM: M SLATER
DATE: 21 DECEMBER 1988

1. MR BONNEY

B 21/12

cc. PS/PMG
Mr Lankester
Mr RIG Allen
Mr Burgner
Mr Child
Mr Call

Copy attached for:
CHIEF SECRETARY

2. CHANCELLOR

Handwritten notes in red ink:
- A large scribble at the top left.
- "Quinn was" written vertically.
- "Lester" written vertically.
- "to be" written vertically.
- "Apr" written vertically.
- "Committee" written at the bottom right.

AGRICULTURE COUNCIL: 19-20 DECEMBER

1. The Council broke up on the morning of 20 December having failed to reach agreement on an extensive package of reforms which included income aids, beef, milk quotas, green rates, cereals and nuts. UKREP telegram no 3981 summarises the outcome. Mr. MacGregor is likely to report on it at Thursday's Cabinet meeting. This submission suggests a line to take if there is any discussion.

behind

2. Final Commission compromise: the main elements of the latest compromise were set out in my minute to the Chief Secretary of 16 December. The costs of each element are contained in the annex to this minute. Having deferred discussion of sheepmeat reform until after the price fixing, beef reform was the most significant issue facing the Council. The Commission proposed to limit intervention expenditure (at record levels during the past year) by imposing a 200,000 tonne annual ceiling on purchases, lowering the level of prices at which intervention is triggered and imposing a tendering system. Premium expenditure was to be increased, but the schemes simplified by abolishing particular schemes like the UK variable premium.

3. Among the other elements of the package were:

(i) an income aid programme, agreed in principle by the February European Council and designed to support producers over a limited period in adjusting to CAP reforms;

(ii) the allocation of 600,000 tonnes of additional milk quotas (SLOM) to milk producers who had given up milk production prior to October 1983, and whom the European Court had recently adjudicated to have been illegally excluded from subsequent quota allocation (this proposal was linked to a 2% cut in the butter intervention price providing partial off-setting savings);

(iii) minor green rate changes for beef and a major 6 point devaluation in the green drachma;

(iv) a proposal allowing member states to use, within limits, their own definitions of small cereal producers (small producers will not be required to pay the cereals coresponsibility levy);

(v) a scheme to support nut producers (mostly Mediterranean member states).

4. **Reasons for the deadlock:** failure resulted because four member states (UK, France, Denmark and Ireland) could not support the Commission compromise. In addition, Ireland threatened to invoke the Luxembourg compromise on the beef proposals if they were put to a formal vote. Ireland took the most extreme position in calling for an increase of 100,000 tonnes in the intervention ceiling to 300,000 tonnes and a softening of price criteria. France also wanted the intervention price triggers to be weakened and was concerned about the costs of the income aid scheme; Denmark had reservations about the SLOM proposal and the administration of the new beef regime. The UK was not prepared to agree the beef premium arrangements (on the grounds that they were not sufficiently generous), and consequently also maintained a reserve on income aids.

5. **The UK position:** MAFF's line in entering the negotiations had been to seek an agreement if at all possible on the grounds that any later compromise would be on less favourable terms. MAFF officials had also agreed with Treasury that they would seek a Commission declaration that the proposed package would be contained within the 1989 FEOGA budget provision. They were prepared to take a tough line on income aids, beef intervention, milk quotas and

nut subsidies, but indicated a willingness to accept these proposals in the context of an overall package which did not break the 1989 Budget provision and the financial guideline limits for future years. In the event, it is unfortunate that one of the sticking points in the negotiations should have been the amount of money that the Commission were prepared to spend on the special beef premium in the UK. The Commission had originally proposed paying the premium on the first 75 head of cattle on each holding. MAFF opposed the headage limit as discriminating against the UK because of its larger herd structure. The Commission compromised by proposing two further options, first, a premium of 40 ecu per head for the first 50 cattle, and 20 ecu per head for the excess (no headage limit), and second, a lower premium of 25 ecu per head for all cattle with no headage limit. Both these options were estimated to be budgetary neutral. The UK refused to accept less than 37 ecu per head with no headage limit, which MAFF calculated was budgetary neutral for the UK, and which the Commission also appear to have accepted was the case. Unfortunately, the Commission claimed that the special premium would have to be reduced to 25 ecu per head if Spain also wanted to operate without a headage limit. The Commission was not prepared to consider a separate financial envelope for each member state.

6. Likely consequences: the failure to reach agreement has already led to the extension of the existing beef regime until 5 March (premia schemes were due to expire on 31 December). The Council will reconvene under the Spanish presidency on 16 or 23 January. Should Northern European member states demand concessions on the beef reform package, it is likely that concessions will also have to be made on income aids, nuts and perhaps also on sheep, which are important to Mediterranean producers, thus increasing the overall cost of the package.

7. Greek green rate devaluation: the proposed 6 point green drachma devaluation would cost 61 mecu (two thirds of the increased costs resulting from the Commission compromise proposal). MAFF's line has been that there is very little that can be done to oppose it, and in fact the telegrams suggest the issue was not even raised in Council. This state of affairs is unfortunate since only a few months ago the Greeks twice invoked or threatened to invoke the Luxembourg compromise over devaluations

that were less than they wanted. Eventually agreeing a compromise, it was made clear that there would be no further revisions until mid-1989.

Line to take:

Outcome of Council:

(i) unfortunate that no agreement was reached in the Council because any future agreement is only likely to be more costly;

UK position:

(ii) also unfortunate that UK should have refused to agree the compromise by sticking out for a higher premium rate because:

- we have previously been in the forefront of attempts to reduce CAP costs;

- such a stance sends wrong messages to Community free spenders;

- the sticking point, the precise rate of beef premium without a headage limit, could surely have been resolved by reaching agreement in principle and fixing rate later on basis of agreed figures;

Green Drachma devaluation:

(iii) it is highly undesirable that the Greeks should be allowed to get away with such a large and costly devaluation as a reward for having twice invoked the Luxembourg compromise on similar devaluations in the 1988 price fixing; remind Foreign Secretary of FCO paper promised on our approach to the Luxembourg compromise; hope this will now be circulated very soon and will draw moral from Greek devaluation saga.

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ANNEX: IMPLICATIONS OF REFORM AND COMPROMISE PROPOSALS FOR FEOGA EXPENDITURE (in mecu based on most recent Commission calculations for the reform, and MAFF calculations for the compromise).

Proposal	Cost of reform		Additional cost of compromise	
	<u>1989</u>	<u>full year</u>	<u>1989</u>	<u>full year</u>
<u>beef</u>	-51	-55	0	0
<u>income aids</u> (a)	+288	+288	0	0
<u>SLOM</u>	+18 ?	+36	+9 ?	+18
<u>green rates</u> (b)	-	-	+63	+63
<u>cereals</u>	0	0	0	0
<u>nuts</u> (a)	+79	+79	+14	+14

(a) full year equivalent cost.

(b) of which 61 mecu accounted for by 6 point devaluation of green drachma.