PREM 19/215

PART 3

SECRET

MT

Confidential Filing

Common Agricultural Policy (CAP)

Review of support for British Agriculture.

EUROPEAN POLICY

Part 1: May 1979

Part 2: February 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~7.2.80~~							
~~11-2-80~~							
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~~6.3.80~~							
10.3.80							
ends							

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PART 3 ends:-

RTA to PM 10.3.80

PART 4 begins:-

Ch Ex to S/S MAFF 17.3.80

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
OD(E)(80) 8	05/02/80
OD(E)(80) 9	05/02/80
C(80) 11	07/02/80
OD(E)(80) 3rd Meeting, Minutes	07/02/80
CC(80) 6th Conclusions, Item 3 (Extract)	14/02/80
CC(80) 7th Conclusions, Item 3 (Extract)	21/02/80
CC(80) 8th Conclusions, Item 3 (Extract)	28/02/80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate **CAB** (CABINET OFFICE) CLASSES

Signed A. Wayland Date 29 March 2010

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Cmnd. 7812 Annual Review of Agriculture 1980
HMSO Final Revise

House of Commons Hansard 20/02/1980
Columns 452-463 European Community (Agriculture Ministers' Meetings

House of Commons Hansard 27/02/80
Columns 1358-1372 European Community (Council of Ministers' Meetings)

House of Commons Hansard 05/03/80
Columns 476-488 European Community (Agriculture Ministers' Meeting)

Signed OMWayland Date 29 March 2010

PREM Records Team

Ref: A01642

SECRET

PRIME MINISTER

CAP Prices

At the meeting you had with the Foreign and Commonwealth Secretary on 20th February, it was agreed that officials should produce a note on what it might cost us to accept the CAP price package along the lines proposed by the Commission or, alternatively, what would happen if we blocked it until we secured a settlement on the budget.

2. The attached note has been agreed with the MAFF, Treasury and FCO. I am sending copies to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture.

3. In brief, if we accepted the Commission's proposals as they stand, food prices would go up by 0.3 - 0.7 per cent, there would be a reduction of £50 million in public expenditure (in a full year), of £5 million in our net contribution to the Community Budget and £27 million in farmers' incomes. But these effects depend heavily on the proposals for the milk co-responsibility levy which will not emerge unscathed from the discussions in the Agriculture Council. If less is done to cut the milk surplus in this way and larger price increases are agreed, the costs will go up by £16 million on our net budget contribution for every 1 per cent price increase for all products. But we should then be likely to secure agreement to continue the 100 per cent Community financing of our butter subsidy from which we would gain £23 million. These figures give only the static effect and take no account of how Community production and consumption might be influenced; but they suggest that a CAP price settlement around the area of the Commission's proposals would not be too expensive a concession for a satisfactory budget deal.

4. Conversely, if we were blocking an agricultural price settlement, we should only be foregoing a relatively small reduction in our net budget contribution (and none at all so long as we could retain the present butter subsidy). Farmers in this country would not suffer because although they would not get the price increases they would escape the economy measures at the same time. Farmers

throughout the Community, however, are expecting that in the end the economy measures will be less severe and the price increase will be higher than the Commission propose. They will resent being denied a settlement.

RA

Robert Armstrong

10th March 1980

NOTE ON CAP PRICES 1980/81

The Commission's proposals

1. The Commission's proposals for 1980/81 involve price increases ranging generally from 1½ per cent (for milk) to 3¾ per cent (for cereals). They estimate that their proposal on prices and related measures will increase the cost of the CAP by about 130 meua in 1980 and 290 meua in a full year, compared with the rejected 1980 draft Budget.

2. But their proposals are closely bound up with earlier proposals for achieving economies in expenditure on surplus products notably milk. Indeed the Commission have said that they will reconsider their price proposals unless this "economy package" is adopted. We too have said that the one cannot sensibly be decided without the other. The Commission estimate that the economy package will save 490 meua in 1980 and 1,000 meua in a full year. (However, the increase in the co-responsibility levies on milk account for 427 meua in 1980 and 665 meua in a full year.) They estimate that the recent decisions already taken and market developments will save an additional 460 meua in 1980. Thus, according to the Commission estimates (which they have included in the new draft Budget for 1980 submitted to the Council), the net effect of the two sets of proposals would be to bring 1980 expenditure slightly below the 1979 provision and to save 820 meua on the original draft budget for 1980. In addition, own resources would be increased by 45 meua in 1980 and 160 meua in a full year.

3. The Commission's proposals would, if implemented as they stand, involve a significant reduction in real farm support prices and should go some way to curbing the production of surpluses. The Commission's estimates, however, do not concern themselves with the effects of real price changes on the volume of production. They cover only the effect of changes in support prices on surplus disposal and other costs assuming an unchanged volume of production. Therefore they understate the difference between a complete price freeze and the price increases they are proposing. They probably also overstate the savings which would result from the economy package even if it were adopted as it stands. But on the assumption that it remains unchanged (and ignoring the decisions already taken and market developments), the Commission's figures would reduce the UK Government's net contribution by £15 million in 1980/81 and about £5 million in a full year; producers' returns in the UK, after

allowing for the higher feed costs, would fall by about £27 million in a full year; and the food price index would go up by 0.3 per cent (less than 0.1 per cent on the RPI) assuming that the butter subsidy is continued at its present level but with 75 per cent Community financing instead of 100 per cent as at present. On the same assumption about butter, the PSBR would be reduced by £70 - £75 million in a full year and public expenditure would be reduced by about £35 million in 1980/81 and over £50 million in a full year.

The Likely Outcome

4. However, all Member States will be arguing for amendments to the Commission's proposals. The main difficulties will be over:-

(a) the level of prices. The farmers' organisations are asking for about 8 per cent; and most Agriculture Ministers will take the opposite view to us: that the Commission's proposals are too low. On the Commission's estimates (without allowing for production changes), every 1 per cent increase in the average level of CAP prices (assuming this applied across the board) raises the cost of the CAP by about 130 - 140 meua and our net contribution by about £16 million in a full year;

(b) the milk package. The combined effect of the Commission's proposals on the milk levies, even with a 1½ per cent price increase, will be too much for some Member States. They will press for the proposals to be softened, for example, by a larger increase in the price, the abandonment of the supplementary levy, or widespread exemptions for small producers. However, we are only ready to accept a higher basic levy if it is non-discriminatory and not offset by a price increase. The outcome of this complicated and difficult negotiation will critically affect the UK position. If the outcome was no increase in the milk price but no new supplementary levy and no change in the basic co-responsibility levy either, then the cost of the CAP in a full year would be about 560 meua more than the estimates under the Commission's proposals and the UK net contribution would be lower by about £5m; retail prices of milk products would be lower than under the Commission's proposals and UK farmers would be better off. If, on the other hand, greater exemptions were given to small farmers (eg by extending the first 60,000 litre exemption from the less favoured areas to all milk producers), then the CAP cost would go up by 135 meua and the UK net contribution would rise by £8m. (Only about 25 per cent of UK production would be exempted compared with some 70 per cent in the other 8 Member States).

If the outcome was not to proceed with the proposed supplementary levy (a prohibitive tax on extra milk production) but to increase the basic levy say to 3 per cent instead of 1½ per cent, then the cost to the CAP would be some 230 meua more (with the UK net contribution about £5m higher).

(c) The UK butter subsidy. This year, as last year, the net budgetary effect on the UK will be heavily influenced by the fate of the butter subsidy. If, contrary to the Commission's proposal, it were continued in its present form, then, as compared with the estimates in paragraph 3, public expenditure would be reduced by a further £31m and the UK net contribution would be reduced by a further £23m. Changing the method of financing the UK butter subsidy would have no effect on the impact of the Commission's proposals on the food price index - about 0.3 per cent in a full year;

(d) Sugar quotas. The present proposals for the allocation of the reduced quota bear unfairly on the UK and we are pressing for improvement. Given the current high world price of sugar and the fact that farmers are already sowing the 1980/81 beet crop, the Council may want to postpone any action this year to reduce quotas. The Commission's estimate of the saving from this measure is 130 meua in a full year. The financial effects on the Community's budget of postponement would depend on whether world sugar prices remain at high levels. It would still leave unresolved the underlying surplus production;

(e) Beef. The Commission have proposed a beef cow subsidy to be paid on the first 15 cows in a herd. This limit would discriminate against our larger herds and reduce the benefit of the subsidy to the UK. If the Council cannot agree on this subsidy, the Commission will almost certainly propose a higher increase in the beef price, probably 3 per cent;

(f) Monetary compensatory amounts (MCAs): The Commission's proposals involve cutting German MCAs by 1 percentage point and Benelux by ½ percentage point. If this was dropped it would add 50 meua to the cost of the CAP and it would retain the advantage enjoyed by German farmers.

5. It is impossible at this stage to forecast the likely outcome; but it is clear that there will be strong pressure in the Agriculture Council to repeat the traditional pattern of an outcome more favourable to farmers than the original Commission proposal.

Failure to Agree

6. A decision will be necessary at the end of March on the extension of the marketing years for milk and beef. Since the 100 per cent UK butter subsidy is linked to the marketing year for milk, a decision to extend the year would imply a continuation of our subsidy. It would not be unknown for negotiations on agricultural prices to continue into June. If decisions have not been reached by the end of June, the Community would be faced with having to decide on the commencement of marketing years for other major commodities (where there is no provision for extension). In this event there would be strong pressures from other Member States to begin new marketing years. It might be difficult for us to prevent this but we could continue to resist price increases. If this led to pressure to start a new milk year, it might be difficult in these circumstances to be sure of getting agreement to continue the 100 per cent Community-financed butter subsidy.

7. A summary of the figures underlying this note is attached covering the Commission 's CAP and economy proposals, their effect on the UK, and the effects of possible variants of their proposals.

Cabinet Office
5 March 1980

COMMISSION AGRICULTURAL PROPOSALS FOR CAP PRICES AND ECONOMIES

SUMMARY OF FIGURES

Effects of Commission Proposals on the Community Budget

		in 1980		in a full year
		MEUA		MEUA
Economy package	-	491	-	998
(of which milk levies)	(-	427)	(-	665)
Price proposals and related measures	+	129	+	288
Net effect of both packages	-	362	-	710
Savings from decisions already taken and from market developments	-	461		
	-	823		
Total for farm price support in rejected draft 1980 Budget		11,193		
		10,370		

Note: the revised figure of 10,370 MEUA is marginally below the corresponding appropriations for 1979 (10,384 MEUA).

Estimated Effects of Commission Proposals on the UK (based on the Commission's figures, but ignoring the saving from decisions already taken and from market developments)

(1) Reduction in UK net contribution to the EEC:

£15m in 1980-81
£ 5m in a full year

(2) Reduction in UK farmers' returns:

£27m in a full year (0.4% of forecast final output)

(3) Increase in food prices (when all effects have worked through):

	food price index	retail price index
if butter subsidy continued	0.3%	less than 0.1%
if butter subsidy ended	0.7%	less than 0.2%

(4) Reduction in UK public finance (assuming butter subsidy continued):

public expenditure: - £50m in a full year; £30m in 1980/81
PSBR: - £70/75m in a full year

Possible variations on Commission's proposals

(a) Commission estimate of effects of each 1% increase in prices:

- On Community Budget (full year) + 130-140 MEUA
- On UK net contribution (full year) + £16m

(But these figures are of limited value since they ignore the effect of price increases on the volume of production.)

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(b) Effect of extending exemption from milk levy to all milk producers:

- on Community Budget (full year) +135 MEUA
- on UK net contribution (full year) +£8m

(c) Effect of further $1\frac{1}{2}\%$ increase in milk CR levy but no milk supplementary levy:

- on Community Budget (full year) + 230 MEUA
- on UK net contribution (full year) + £5m

(d) Effect of continuing UK butter subsidy with 100% EEC financing instead of 75% as proposed:

- on UK public expenditure: reduction of £31m
- on UK net Budget contribution: reduction of £23m

FROM:

THE RT. HON. LORD HAILSHAM OF ST. MARYLEBONE, C.H., F.R.S., D.C.L.

CONFIDENTIAL

HOUSE OF LORDS,
SW1A 0PW

Prime Minister

This will be awkward.

– but we must have one

6 March 1980

PRIME MINISTER

EUROPEAN COMMUNITY BUDGET: CAP PRICE PROPOSALS

1. We considered at Legislation Committee ~~this~~ yesterday morning the recommendations of the Scrutiny Committee that there should be debates in the Commons on the latest Commission paper entitled "Convergence and Budgetary Questions", on the UK net contribution problem and on a series of documents relating mainly to the Commission's proposals for agricultural prices, CAP economy measures, and sheepmeat.

2. We would all have preferred to postpone any debate on the Budget documents until after the European Council meeting on 31 March. There is an obvious risk that the Opposition will seek to move amendments to any motion we table which would support our aim in reducing the UK contribution, but do so in such terms as would hamper your negotiating position at the Council meeting. Some of our own supporters might be tempted to support such an amendment. We concluded, however, that a debate would have to be held later this month. You will know that we have given undertakings to the House that, save in exceptional circumstances, Ministers will not reach decisions on legislative proposals recommended by the Scrutiny Committee for debate until the House has expressed a view about them. (While the budget document is not, strictly speaking, a legislative proposal, it is clearly intended to provide the basis for legislative action, so that not to debate it before it is discussed would offend the spirit of the undertaking.) The Minister of Agriculture was severely criticised last month for an alleged breach of this undertaking in relation to proposals about fisheries.

3. The view of the Chancellor of the Duchy of Lancaster and the Chief Whip, with which the Committee agreed, was that if the Government appeared to be trying to avoid a debate before the European Council the Opposition would find means of bringing the matter to the House, accusing us of not honouring our undertaking, and that the debate would then be forced upon us in the worst possible atmosphere.

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4. The Chancellor of the Duchy and the Chief Whip will be considering the precise timing of the debate and consulting the Lord Privy Seal and Treasury Ministers about the wording of the relevant motion. It will probably prove convenient to take a debate on the various agriculture documents on the same day.

5. I am sending copies of this minute to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer as well as to my colleagues on Legislation Committee. I am also sending a copy to Sir Robert Armstrong.

H: of S: M.

Epar PO1
PA
MS

B/F Pref Hansard

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

From the Minister's Private Office

N Sanders Esq
Prime Ministers' Office
10 Downing Street
London SW1

5 March 1980

Dear Nick.

COUNCIL OF MINISTERS (AGRICULTURE): 3-4 MARCH 1980

I attach a copy of the Statement which Mr Buchanan-Smith hopes to make to the House today, as the Minister is in Paris. I would be grateful for immediate clearance.

I am copying this letter to Bernard Ingham; John Stevens (Leader of the House's Office); Murdo MacLean (Whip's Office, Commons); Charles Cumming-Bruce (Whip's Office, Lords); David Wright (Cabinet Office) and to private Secretaries of the other Agricultural Ministers and Members of OD(E).

Yours sincerely
Frances

Miss F H Thompson
Assistant Private Secretary

DRAFT STATEMENT ON AGRICULTURE COUNCIL 3/4 MARCH 1980

With permission Mr Speaker I would like to make a statement about the Council of Agriculture Ministers meeting in Brussels on 3/4 March at which my Rt Hon Friend and I represented the United Kingdom. My Rt Hon Friend is today attending the OECD meeting in Paris. The main items discussed were sheepmeat and the Commission's economy proposals on sugar, milk and beef.

On sheepmeat, the Council considered a draft resolution tabled by the Commission for interim measures to apply from the opening of the French market until 15 July. My Rt Hon Friend said that, to be acceptable to the United Kingdom, three conditions would have to be met. First, the French Government would have to undertake that they would not reintroduce restrictions on imports in the future. Second, Community finance would not be used for intervention during this period. Third, there must be agreement for a fair allocation of the available Community funds between Member States.

The French Government ~~would~~ did not give an assurance that import restrictions would not be reintroduced. Nor would they accept interim arrangements that did not allow for Community financing of intervention measures.

Eight Member States were ready to accept a proposal made by the Presidency of the Council that, following the opening of the French frontier, there should be interim Community aid to support farmers' incomes, but with any intervention measures nationally financed. The Irish delegation stated that they did not rule out the principle of Community financing for intervention measures. The French delegation refused to accept the President's proposal.

The President expressed deep regret at this. He said that the French Government's position was a blatant violation of the Treaty and that Member countries should not feel able to break the law with impunity. He also said that the Commission, as guardians of the Treaty, had a clear duty to act. Vice-President Gundelach accepted that the Commission must carry out its role in this respect and said that it would do so.

The discussion on sugar centred on the Commission's proposals to reduce the maximum quotas to 10.5 million tonnes and on the allocation of this reduced quota. Wide differences of view were put forward on behalf of Member States. We maintained our support for the proposed overall cut in quotas, but made clear our opposition to the proposed basis of allocation. There was no progress towards agreement. The Commission will be making a new proposal before the next Council.

The discussion on milk was mainly concerned with the proposed co-responsibility levies. On the basic levy, a number of delegations, including ourselves, are opposed to further exemptions of the kind proposed by the Commission. Others, however, favour progressive rates of levy with higher charges on more intensive producers.

A number of fundamental objections were also registered against the Commission's supplementary levy.

We have made it clear that we are ready to consider additional co-responsibility levies provided these do not discriminate unfairly against the UK. The milk proposals will be further discussed in a High Level official group.

There was a further brief discussion on the Commission's proposals for beef. This focused particularly on the proposed suckler cow subsidy. We expressed strong reservations about the proposed limitation of the subsidy to the first fifteen cows in the herd.

Finally the Council had a brief discussion on national aids towards fuel costs of intensive horticulture. My Rt Hon Friend expressed concern about unfair competition and emphasised the urgent need for an agreed policy for the Community as a whole. The Vice-President accepted that this problem needed attention and undertook that the Commission would ~~be producing~~ investigate this ~~a report~~ as quickly as possible.

Euro Pol.

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

From the Minister

(2)

Prime Minister
f.s. Prw 3/3

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

3 March 1980

Dear Chancellor,

INSTITUTE FOR FISCAL STUDIES: PAPER ON THE COST OF THE CAP

Thank you for your letter of 27 February.

You seem to be interpreting my comments on the IFS study as indicating a reluctance to examine the costs and benefits of supporting agriculture. This is not the case. The point I was making was a very simple one. "The cost of the CAP to the United Kingdom" implies, to my mind, a cost which falls on this country as a result of Community membership. That is certainly how the press reports, which gave rise to the mention of the IFS paper at Cabinet on 7 February, interpreted the figures. I am sure you will agree that the economic costs of membership are large enough, without the need to exaggerate them. I therefore thought it important to make clear that the IFS paper could only be said to be measuring a cost resulting from membership on the assumption that, if we were not in the EEC, we would not be supporting our agricultural industry at all, which would be absurd. I am certainly not prepared to imply that, out of the Community, we would be supporting agriculture at a lower level; indeed, such a claim would be obviously untrue, since we have ourselves determined the current level of support, by devaluing the green pound and by taking the decisions that we have on capital grants and other subsidies which remain partly within our own control.

The resource costs resulting from membership are, as you say, set out in the work done by my economists. I am glad you consider that this work is highly relevant to the current negotiations, expecially as it was Treasury and FCO officials who last year argued very strongly against any mention of non-budgetary transfers in discussions with other Member States (even in the context of the dispute about the attribution of MCAs, which hardly makes sense unless non-budgetary transfers are brought into the argument). Indeed, you yourself asked me to ensure that the figures were not published until after the Dublin summit.

/I am well aware of ...

I am well aware of what the IFS study is attempting to measure. I am glad you agree that it falls short of a full cost-benefit analysis. And I would be interested to know, supposing we had supported agriculture at a much lower level over (say) the last 5 years, in what particular sectors of the economy you consider that the resources thus displaced (including land and labour) would have been more productively employed.

As you say, the IFS approach involves a series of major assumptions notably about the response of producers and consumers to price changes. My economists have recently obtained from the Institute the assumptions which the authors have employed, and they will be studying them. I imagine the scope for dispute between experts in this area is immense. And we need to bear in mind that the important feature of world prices is not merely that they are lower than the prices at which most developed countries support their agriculture but also that they are highly volatile. It is the exposure of agriculture to a very uncertain level of return, rather than to one which was on average lower, which would have the greater effect on output; just what the effect would be is impossible to estimate with any confidence, but it would certainly be very large.

What I find difficult to follow is the use of which you think such an analysis could be put. So far as UK agriculture is concerned, the economic arguments for continuing to provide support were examined by the inter-departmental group of officials last year, we discussed their report in Cabinet, and we arrived at decisions, in particular to devalue the green pound and increase the retail price of milk.

As for using the results to persuade other Member States to reform the CAP, I fear they would be completely unimpressed. Most of the other Governments would probably be prepared to admit that the budgetary cost of the CAP has been rising rather fast and needs to be restrained. But as I pointed out in my minute, they basically regard this cost as justified by the social and political need to maintain a large and reasonably prosperous rural population, and by the social and political difficulties which would be caused if farmers were forced off the land particularly at a time of relative recession in the rest of the economy.

In this connection, I do not think we can attach much weight to Chancellor Schmidt's remarks to the Prime Minister. Sir Oliver Wright shows an excellent appreciation of the true situation in the telegram he sent on Thursday (copy attached for convenience). For years he has periodically grumbled, in a very vague way, about the cost of the CAP but has never shown the slightest sign of doing anything practical about it. If we asked him what precise reforms he had in mind, I very much doubt whether we would get a clear answer. He raises it with us simply because he cannot, particularly in an election year, take a firm line with his Minister of Agriculture who is regarded as essential to the coalition, and he vaguely hopes we might do so instead. The Germans have never supported our efforts to hold down prices; and for over 10 years they have consistently operated the highest price level in the Community and have strenuously resisted all attempts to persuade

/them to revalue their ...

them to revalue their green rate and thus bring it down. Germany could make a major and immediate contribution to the reform of the CAP by cutting her prices by the 11% that would be needed to align them with those operated by the majority of other Member States. They could be assured not only of our support but also of that of all the other countries. The fact is that for ten years Ertl has been kep as Minister of Agriculture by the Social Democrat Leadership. Hardly a sign of their genuine criticism.

The high level of farm support in Germany is shown by the fact that in 1978 (the last year for which figures are available) 29% of FEOGA expenditure (Guarantee Section) took place in Germany. This was a higher amount than in any other country, France coming next with 20%. It was Germany's rapidly increasing budgetary receipts under the CAP that reduced her net contribution to the relatively low level of £230m in 1978 (or £140m if the adjustments under Article 131 of the Accession Treaty are ignored). Further, of total stocks currently in intervention in the Community, Germany holds 62% of the cereals, 68% of the butter and 95% of the skimmed milk powder. If there were a thorough and radical reform of the CAP, Germany would undoubtedly have to make the biggest adjustment and, on some measurements, would have most to lose.

This being the situation, I cannot agree to priority being given to an exercise whose results would not only be highly contentious but would also have little practical relevance to the problems we face. I have only a limited number of economists and they are heavily occupied at the moment in analysing the economic effects of the Commission's proposals for changes in the CAP, variants on them, and counter-proposals which we or other Member States might make, work which is of immediate and vital importance for the negotiations in which I shall be engaged over the next month or so. I also want them to update the earlier work on trade transfers.

When time permits, I have no objection to the wider aspects of the CAP being studied. But a more relevant approach might be to take a level of EEC food output which there might be some chance of other Governments accepting as an appropriate long term objective, and then to examine what levels and mechanisms of farm support this objective would imply and how to get there. My officials could certainly consult yours about the methodology and assumptions to be employed in such a calculation, particular on supply response which is the difficult area.

I hope you can agree to proceeding on these line.

I am copying this letter to the Prime Minister, other Members of the Cabinet and Sir Robert Armstrong.

Yours sincerely

Frances Thompson A.P.S

p.p. PETER WALKER
Approved by the Minister and signed in his absence in Brussels

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AMENDED DISTRIBUTION. 29 FEBRUARY 1980.

FM BONN 281245Z FEB 80

TO PRIORITY FCO [FRAME AGRICULTURE]

TELEGRAM NUMBER 200 OF 28 FEBRUARY

INFO UKREP BRUSSELS ROME

YOUR TEL NO 129.

CHANCELLOR SCHMIDT'S VISIT : REFORM OF THE CAP

1. I AM SURE THAT YOU AND THE PRIME MINISTER REALISE THAT CHANCELLOR SCHMIDT IS HANDING YOU THE POISONED CHALICE. IT IS NOT, OF COURSE, THAT SCHMIDT DOES NOT SINCERELY WISH FOR A REFORM OF THE COMMON AGRICULTURE POLICY. LIKE ALL SENSIBLE PEOPLE, HE THINKS IT IS A DISASTER AREA OF THE COMMUNITY. IT WASTES A LOT OF MONEY, PRODUCES A LOT OF UNNNECESSARY NOURISHMENT, UPSETS THIRD COUNTRIES AND IS LIKELY, THROUGH ITS FINANCIAL EXCESSES, TO BRING ABOUT THE COLLAPSE OF THE COMMUNITY. BUT HE IS THINKING OF MUCH MORE GRADUAL REFORM THAN WE ARE, GIVING GREATER WEIGHT TO MAINTAINING FARMERS' INCOMES. HIS MAIN IMMEDIATE INTEREST IS IN ENFORCING THE 1 PER CENT VAT CEILING ON COMMUNITY EXPENDITURE.

2. WHY DOES HE HIMSELF NOT TAKE THE LEAD FOR RAPID AND RADICAL REFORM? I SUGGEST THERE ARE AT LEAST THREE REASONS OF MAJOR IMPORTANCE. FIRST TO DO SO WOULD BRING ABOUT A MAJOR ROW WITHIN HIS OWN COALITION. HIS AGRICULTURAL MINISTER, ERTL, WHILE PREACHING MODERATION IN AGRICULTURAL PRICE RISES, IS CERTAINLY NOT A MAN TO GO ALONG WITH MAJOR REFORM. HE HAS BEEN MINISTER OF AGRICULTURE FOR OVER 10 YEARS AND HAS PRESIDED OVER A VERY CONSIDERABLE INCREASE IN THE PROSPERITY OF THE GERMAN FARMER TO HIS OWN VERY CONSIDERABLE POLITICAL PRESTIGE. WHETHER OR NOT HE RETAINS HIS OFFICE AFTER THE ELECTIONS ON OCTOBER 5 TH -AND THERE HAVE BEEN SIGNS THAT HE WISHES TO RETURN TO PRIVATE LIFE - HE IS NOT THE SORT OF MAN TO STAND FOR HIS WHOLE RECORD AS AGRICULTURE MINISTER BEING UNDERMINED. REFORM OF THE COMMON AGRICULTURE POLICY, AS SEEN FROM BONN, CAN ONLY MEAN A REFORM BASED ON PRESERVATION OF THOSE ELEMENTS WHICH HAVE BEEN OF PARTICULAR BENEFIT TO GERMAN FARMERS. I CANNOT SEE THE PRESENT GERMAN GOVERNMENT PUTTING MUCH STEAM BEHIND RADICAL REFORM NOR ANY LIKELY SUCCESSOR, EXCEPT INSOFAR AS REFORM MAY BE FORCED UPON THE CAP BY FINANCIAL CONSTRAINTS (SEE THE RECENT GERMAN INITIATIVE IN ECOFIN).

3. SECONDLY THE COMMON AGRICULTURE POLICY FORMS PART OF THE ESSENTIAL DEAL WITH FRANCE WHICH LAY AT THE HEART OF THE FOUNDATION OF THE EUROPEAN COMMUNITY. IN POLITICAL TERMS, THE COMMUNITY SYMBOLISES THE POST-WAR RECONCILIATION BETWEEN GERMANY AND FRANCE. IN ECONOMIC TERMS, IT WAS A PACKAGE DEAL BETWEEN GERMAN INDUSTRY AND FRENCH AGRICULTURE. IN THE EVENT, BOTH FRENCH INDUSTRY AND GERMAN AGRICULTURE HAVE TAKEN ADVANTAGE OF THE DEAL. BUT UNLESS THE FRENCH ATTITUDE TO THE COMMON AGRICULTURE POLICY HAS

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CHANGED, AND ON THIS I AM NOT COMPETENT TO JUDGE, THE FACT OF THOSE FUNDAMENTAL DEALS MEANS THAT THERE IS NOT A SNOWBALL'S CHANCE IN HELL OF ANY GERMAN GOVERNMENT PUTTING SUFFICIENT PRESSURE ON ANY FRENCH GOVERNMENT TO PROMOTE RADICAL REFORM.

OF COURSE, IF THE FRENCH POSITION IS CHANGING, THEN THIS ARGUMENT FALLS AWAY. BUT YOU CAN BET YOUR BOTTOM DOLLAR THAT THE GERMANS WOULD ONLY GO AS FAST AND CERTAINLY NO FASTER THAN THE FRENCH ARE PREPARED TO GO ON REFORM.

4. THIRDLY, I BELIEVE IT TO BE THE CONSIDERED VIEW IN LONDON THAT, AS FAR AS THE COMMON AGRICULTURE POLICY IS CONCERNED, QUOTE WHAT IS DESIRABLE IS NOT NEGOTIABLE, AND WHAT IS NEGOTIABLE IS NOT DESIRABLE UNQUOTE. IF THAT IS SO, IT OCCURS TO ME THAT THE THOROUGH GERMANS MAY ALSO HAVE REACHED THIS CONCLUSION FOR THEMSELVES FROM THEIR OWN READING OF THE BRITISH INTEREST. SCHMIDT'S PROPOSAL, ON THIS READING, IS A SAUCY ATTEMPT TO CALL OUR BLUFF.

5. NONE OF THIS IS TO SUGGEST THAT THE REFORM OF THE COMMON AGRICULTURE POLICY IS NOT A THOROUGHLY DESIRABLE OBJECTIVE AND THAT THE WEIGHT OF HER MAJESTY'S GOVERNMENT SHOULD NOT BE BEHIND IT. I ALSO BELIEVE THAT SCHMIDT IS SINCERE IN HIS DESIRE TO GET THIS COW OFF THE ICE. THIS IS MERELY A RECOMMENDATION THAT WE SHOULD EXAMINE VERY CAREFULLY THE TEETH OF THIS GIFT HORSE BEFORE WE ACCEPT DELIVERY OF IT. THE COMMISSION, FOR ALL THEIR DEFECTS, I SUGGEST IS THE PROPER PLACE FOR IDEAS OF THIS SORT, CERTAINLY UNTIL WE HAVE GOT WHAT WE WANT ON OUR OWN BUDGET PROBLEM AND CERTAINLY UNTIL AFTER THE GERMAN ELECTIONS IN OCTOBER 1980 AND THE FRENCH PRESIDENTIAL ELECTIONS IN THE SPRING OF 1981.

6. I SHALL OF COURSE REPORT FURTHER WHEN I HAVE CARRIED OUT YOUR INSTRUCTIONS. THIS TELEGRAM DESCRIBES THE ESSENTIAL BACKGROUND AGAINST WHICH THEY ARE CARRIED OUT.

WRIGHT

FRAME AGRICULTURE.
E.C.D(I)

Europe Pt 1

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1A 2HH

3 March 1980

Dear Peter,

SHEEPMEAT

I refer to your letter of 27 February to Peter Carrington. The "compromise" presents us with a dilemma. On the one hand, there is attraction in a pragmatist approach. We could take advantage of an offer which would open the French market to our exports, give us more Community money than the French would get, and get the sheepmeat argument out of the way, at least temporarily. There would be the further advantage in that the offer could not be used by the French as a bargaining counter against us in the Budget negotiations (when we might have to settle for a deal on sheepmeat which would be worse, both in principle and in practice, than the one now on offer, in order to get their agreement to a reasonable settlement).

On the other hand, I see clearly the difficulties of principle: it is wrong to have to offer a Member State a bribe in order to get it to obey Community law, and the French would undoubtedly use their share of the money for limited intervention, which is undesirable in principle and might be the thin end of a wedge.

I conclude, like you, that we should not accept a deal. We have not in any case any authority from colleagues to do so, but on the other hand we should not reject it so forthrightly as to offend the Italian President, who is being and can be helpful to us, or to lead other Member States to regard us, and not the French, as the main stumbling block to a settlement.

I therefore support the line you suggest, making as much as we can of the communautaire arguments and of the danger of setting a precedent of yielding to blackmail by a Member State before it will obey the law, but making it clear that we remain ready to negotiate about any interim solution which would recognise the interest of the UK (and not least Scotland) as the main producer of lamb within the Community.

Copies as before.

Yours ever,

George

Pr. Rud

FCS/80/47

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Sheepmeat

1. Thank you for your letter of 27 February.

2. I agree with what you propose. I understand that you have discussed with Ian Gilmour the presentation of our case in the unlikely event that Gundelach does table the proposals at the Council on 3/4 March.

3. I am sending copies of this minute to the recipients of your letter.

C

(CARRINGTON)

Foreign and Commonwealth Office

3 March 1980

CONFIDENTIAL

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NBPM
Mub

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

29 February 1980

Dear Peter

SHEEPMEAT

Thank you for copying me your letters of 25th and 27th February on this issue to the Prime Minister and to Lord Carrington.

I have some doubt about the value of an interim scheme of any kind. In any event this is not the time to agree to one. From the point of view of the Budget negotiations, there would be advantage in keeping the French on the defensive until the Council meeting in March. It is after all they who broke the law by imposing import restrictions on our sheepmeat. There is no reason why we need lean over backwards to accommodate them. And while an interim scheme would open French markets to our sheepmeat it could be against our interests and objectives in the long run. I quite see that it is difficult for us to reject the proposals out of hand given our firm stance on the iniquity of the French import restrictions, and the risk that if we appear too rigid it might undermine our position in the Budget negotiations. I agree therefore that the most promising way to handle this is to insist on a series of constraints likely to prove unacceptable to the French.

With this in mind I firmly endorse the conditions you specify in your later letter of 27th February. We should not be prepared to budge on any of these points. I regard them as absolutely essential if in the event we are pushed towards an interim scheme, which would inevitably influence the eventual structure of a permanent regime. In this connection I think the second condition relating to the exclusion of Community funds for the purposes of financing national intervention measures is crucial. If we agree at this stage to widen the intervention arrangements to a further product the consequences could hardly

/be regarded

The Rt. Hon. Peter Walker, MBE., MP.

CONFIDENTIAL

be regarded as propitious for our aim to reform the CAP system.

There is a further condition which I regard as important and one which you should press if, unexpectedly, the Council did seem prepared to endorse the Commission's proposals as modified by your proposed conditions. The Resolution should make it clear that the Community funds might be used to help recoup the Exchequer for the money already spent on deficiency payments to UK sheepmeat producers under our national price guarantee arrangements. We have a good case here on the grounds that these payments arose because of the depressed sheepmeat market, which in itself reflected the French import restrictions. Such a condition would imply that the receipts would be used solely to reduce our net contribution, and would not therefore be available to finance increased spending in the United Kingdom. Hence the arrangement would have the advantage of helping to reduce the PSBR.

I am sending copies of this letter to the Prime Minister and other members of OD(E), to Sir Robert Armstrong, and to the Secretaries of State for Scotland, Wales and Northern Ireland.

(GEOFFREY HOWE)

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TO PRIORITY FCO
TELEGRAM NUMBER 200 OF 28 FEBRUARY
INFO UKREP BRUSSELS ROME

CONFIDENTIAL

NH Read in full.

YOUR TEL NO 129.

CHANCELLOR SCHMIDT'S VISIT : REFORM OF THE CAP

1. I AM SURE THAT YOU AND THE PRIME MINISTER REALISE THAT CHANCELLOR SCHMIDT IS HANDING YOU THE POISONED CHALICE. IT IS NOT, OF COURSE, THAT SCHMIDT DOES NOT SINCERELY WISH FOR A REFORM OF THE COMMON AGRICULTURE POLICY. LIKE ALL SENSIBLE PEOPLE, HE THINKS IT IS A DISASTER AREA OF THE COMMUNITY. IT WASTES A LOT OF MONEY, PRODUCES A LOT OF UNNNECESSARY NOURISHMENT, UPSETS THIRD COUNTRIES AND IS LIKELY, THROUGH ITS FINANCIAL EXCESSES, TO BRING ABOUT THE COLLAPSE OF THE COMMUNITY. BUT HE IS THINKING OF MUCH MORE GRADUAL REFORM THAN WE ARE, GIVING GREATER WEIGHT TO MAINTAINING FARMERS' INCOMES. HIS MAIN IMMEDIATE INTEREST IS IN ENFORCING THE 1 PER CENT VAT CEILING ON COMMUNITY EXPENDITURE.

2. WHY DOES HE HIMSELF NOT TAKE THE LEAD FOR RAPID AND RADICAL REFORM? I SUGGEST THERE ARE AT LEAST THREE REASONS OF MAJOR IMPORTANCE. FIRST TO DO SO WOULD BRING ABOUT A MAJOR ROW WITHIN HIS OWN COALITION. HIS AGRICULTURAL MINISTER, ERTL, WHILE PREACHING MODERATION IN AGRICULTURAL PRICE RISES, IS CERTAINLY NOT A MAN TO GO ALONG WITH MAJOR REFORM. HE HAS BEEN MINISTER OF AGRICULTURE FOR OVER 10 YEARS AND HAS PRESIDED OVER A VERY CONSIDERABLE INCREASE IN THE PROSPERITY OF THE GERMAN FARMER TO HIS OWN VERY CONSIDERABLE POLITICAL PRESTIGE. WHETHER OR NOT HE RETAINS HIS OFFICE AFTER THE ELECTIONS ON OCTOBER 5 TH -AND THERE HAVE BEEN SIGNS THAT HE WISHES TO RETURN TO PRIVATE LIFE - HE IS NOT THE SORT OF MAN TO STAND FOR HIS WHOLE RECORD AS AGRICULTURE MINISTER BEING UNDERMINED. REFORM OF THE COMMON AGRICULTURE POLICY, AS SEEN FROM BONN, CAN ONLY MEAN A REFORM BASED ON PRESERVATION OF THOSE ELEMENTS WHICH HAVE BEEN OF PARTICULAR BENEFIT TO GERMAN FARMERS. I CANNOT SEE THE PRESENT GERMAN GOVERNMENT PUTTING MUCH STEAM BEHIND RADICAL REFORM NOR ANY LIKELY SUCCESSOR, EXCEPT INSOFAR AS REFORM MAY BE FORCED UPON THE CAP BY FINANCIAL CONSTRAINTS (SEE THE RECENT GERMAN INITIATIVE IN ECOFIN).

3. SECONDLY THE COMMON AGRICULTURE POLICY FORMS PART OF THE ESSENTIAL DEAL WITH FRANCE WHICH LAY AT THE HEART OF THE FOUNDATION OF THE EUROPEAN COMMUNITY. IN POLITICAL TERMS, THE COMMUNITY SYMBOLISES THE POST-WAR RECONCILIATION BETWEEN GERMANY AND FRANCE. IN ECONOMIC TERMS, IT WAS A PACKAGE DEAL BETWEEN GERMAN INDUSTRY AND FRENCH AGRICULTURE. IN THE EVENT, BOTH FRENCH INDUSTRY AND GERMAN AGRICULTURE HAVE TAKEN ADVANTAGE OF THE DEAL. BUT UNLESS THE FRENCH ATTITUDE TO THE COMMON AGRICULTURE POLICY HAS

CHANGED, AND ON THIS I AM NOT COMPETENT TO JUDGE, THE FACT OF THOSE FUNDAMENTAL DEALS MEANS THAT THERE IS NOT A SNOWBALL'S CHANCE IN HELL OF ANY GERMAN GOVERNMENT PUTTING SUFFICIENT PRESSURE ON ANY FRENCH GOVERNMENT TO PROMOTE RADICAL REFORM.
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WRIGHT

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ECD(I)
WED
PS
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PS/PUS
LORD BRIDGES
MR HANNAY

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

From the Minister

The Rt Hon Lord Carrington PC KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

NBPM
Rod 29/2

CONFIDENTIAL

28 February 1980

Dear Peter

CAP PRICES

Thank you for your minute of 15 February. I was grateful also for Geoffrey Howe's comments in his letter of 15 February and for George Younger's in his to you of the same date. I shall be circulating shortly a paper for discussion in OD(E). Meanwhile, I am not expecting any final positions to be taken up at next week's meeting of the Agriculture Council except on sugar where the Presidency intend to try to reach an outline agreement or to decide to roll forward the present quotas for another year.

As you said, the inclusion in the reference period of 1979/80 lessens the discrimination against us a little - but not much. The new proposal would leave us with an unchanged A quota of 936,000 tonnes and give us a small B quota of about 74,000 tonnes. At 1.01m tonnes our new maximum quota would represent a cut of 24% from our present maximum quota (compared with a cut of 30% under the previous proposal). The revised proposal would cut our present production level (1.154m tonnes) by some 15%. This year's production is not the result of exceptional yields.

We should thus suffer a serious cut back not only in production but in potential expansion if we were to accept the present Commission proposal which imposes more severe sacrifices on us than on most other Member States.

Given normal yields we can expect this year's crop to be repeated or exceeded next year. This would, of course, strengthen our negotiating hand if the present quota regime were to be rolled forward for another year as the Presidency favour.

Continued/

An early decision on sugar is increasingly pressing with the beet growing season now approaching. But, at next week's meeting, I shall continue to press as hard as I can for a definitive settlement which would need to include a fair quota figure for the UK. It is difficult to judge how the discussions will go. It is possible that the Presidency and other Member States will press for a roll forward of this year's quotas if a definitive settlement looks remote. I should need, if necessary, to agree to an extension for a further year rather than accept any partial solution which would not ensure for us a reasonable quota figure.

Turning to the milk proposals, I am sure that we must adhere to the decision in OD(E) to agree to an increase in the basic co-responsibility levy only if this does not discriminate against the UK industry. Agreement to arrangements which discriminated against our producers would not only be very damaging politically at home, but would also be seen as capitulation to those who argue that the milk (and other) regimes should be used to support the inefficient peasant farmer at the expense of the efficient producers. The additional exemption proposed for the basic levy could turn into the thin end of a very thick wedge.

As to the supplementary levy, I shall avoid taking up a firm position at next week's meeting. But I am very doubtful whether we shall be able to accept this proposal. It would imply that the costs of any future expansion in the UK would have to be borne by our producers or consumers, while producers elsewhere, many of whom are less efficient than our own, would continue to be underpinned by the Community Budget. I shall, however, develop my thinking more fully in the paper to OD(E).

I do not think I need to comment on other commodities before next week's meeting. I shall, of course, cover them fully in my paper to OD(E).

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

(Also copied to other Agriculture Ministers)

PETER WALKER

(2)

You will want to be aware that this work is being put in hand.
Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

27 February 1980

Dear Peter

INSTITUTE FOR FISCAL STUDIES:
PAPER ON THE COST OF THE CAP

Thank you for sending me a copy of your minute of 8 February to the Prime Minister on the above subject.

The method devised by the IFS and the calculations produced last year by your economists, are as you say different; but I think both are valuable.

I regard the IFS study as a natural development of the measurements we currently use to measure the CAP cost to this country. Much of the presentation of our case on the EEC budget has focussed on the net budgetary contribution. This is an important estimate to us because it demonstrates the size of the net financial transfers which are channelled through the United Kingdom budget to the Community budget; it provides therefore an estimate of the addition to the United Kingdom tax burden associated with this aspect of our membership obligations. These numbers are hard and easily identifiable and they have presentational advantages. Even so the net budgetary contribution (or strictly the CAP share of it) falls short of the full measurement of the net transfers of resources associated with the CAP arrangements.

The work carried out by your economists helps to fill this gap. In the case of the CAP for example food imports from the EEC pay no levy because this is subsumed within the price - in a sense the United Kingdom consumer is paying an implicit levy to the EEC producer. Similarly a United Kingdom exporter could be said to receive an implicit restitution of payment when he sells to consumers in the EEC. The approach developed by your Department takes these trade flow transfers into account as well as the CAP share of the net budget contribution. The figures are highly relevant in the context of the current negotiations where our major concern is over the inequitable transfer costs imposed on this country, and I am glad to note that the calculations will be updated in time for the round just beginning.

The Rt. Hon. Peter Walker MBE., MP.

The IFS study attempts to take the story much further. Its essential purpose is to widen the concept of costs and benefits so as to include the effects on domestic resources as well as the net transfer of resources to overseas. This kind of approach requires a range of assumptions about the price of agricultural produce in conditions of a free market and the response of consumers and farmers to significant price changes. Inevitably this makes the results more speculative and open to challenge. In fact I gather the authors regard their work mainly as a pioneering attempt to set out a methodology, and hope that the work will be developed further.

At the same time I agree with the authors that before employing fiscal instruments like the CAP policy makers should be aware of the costs and benefits and of the distribution of those costs and benefits likely to be associated with the use of the instrument. For such an analysis in the case of the CAP it is reasonable to start with the assumption that if food prices are maintained above levels that would rule in a free market for agricultural produce extra resources will be drawn into food production which might have been employed more productively elsewhere. Farmers benefit, of course, but the economy as a whole is that much poorer. This is a familiar enough problem in many parts of the industrial sector at the moment. Consumers also suffer a real resource loss because at any given level of income they face higher prices for food than they would in a free market, and they buy less food than they would prefer if they had the same income but food prices were lower. And to finance the system the domestic tax burden as a whole is higher than it otherwise would be. I recognise that the IFS approach falls short of a full cost benefit analysis. Benefits can be claimed for maintaining a viable farming industry for example. But in principle I think that the IFS study is on the right lines.

I regard an analysis along these lines as of more than academic interest. It is needed if we are to make progress towards reforming and reducing the cost of the CAP, and would be very relevant to the presentation of the case for a radical reform of the CAP which Chancellor Schmidt has asked the Prime Minister to make. There is a powerful case for this quite apart from the budget problem. You suggested in your letter of 13 February that one way forward may be to switch agricultural support to national budgets. But whether the cost falls on the Community budget or on our own, we must be prepared to examine the economic costs and benefits of such expenditure in the widest sense.

For this purpose something like the IFS approach would be needed, and I would like my officials and yours therefore to consult together as to how this might best be achieved. I hope you will agree that this work should be in hand without delay.

I am copying this to the Prime Minister, other members of the Cabinet and to Sir Robert Armstrong.

GEOFFREY HOWE

Original filed
Euro Pol (Budget) Pt5

CONFIDENTIAL

Ref. A01544

PRIME MINISTER

Community Affairs

You and the Foreign and Commonwealth Secretary may wish to inform the Cabinet that the recent talks with Chancellor Schmidt have led to useful exchanges of views on how to handle the budget problem, though no progress on the substance of the issues.

2. The Foreign and Commonwealth Secretary and the Lord Privy Seal might be invited to give an account of their recent discussions on the same subject with Messrs. Thorn, Genscher and Von Dohnanyi.

3. The Minister of Agriculture might be invited to report on the latest developments on sheepmeat, including the compromise proposal now being canvassed by the Commission under which the French would comply with the Court ruling in exchange for limited Community financing - from which the United Kingdom would also benefit - during a short interim period pending the negotiation of a permanent internal regime.

ROBERT ARMSTRONG

(Robert Armstrong)

27th February, 1980

EURO POL

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

From the Minister

Discussed at Cabinet

CONFIDENTIAL

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

27 February 1980

SHEEPMEAT

In my minute of 25 February to the Prime Minister which I circulated to all members of OD(E), I drew attention to the latest compromise floated by the Commission for an interim arrangement under which, in response to the French lifting their illegal import restrictions, the Community would set aside a fund to provide financial aid towards unspecified national measures to support sheep farmers.

This proposal, in the form in which Gundelach is now apparently envisaging presenting it to the Agricultural Council on 3/4 March, could in practice amount to a commitment by the Community to fund intervention in France which, although initially on a temporary basis, would clearly pre-empt the form of permanent Community arrangements for sheepmeat. It would allow the French to assume a posture of legality for the time being without any assurance that they would not re-impose their import restrictions if subsequently they failed to secure agreement to permanent arrangements providing for continuing Community supported intervention in their market. It would also give Community endorsement to the very high level of price support which the French are seeking for their market.

Despite the possibility that the Commission's proposals would allegedly offer the UK a fair share of the FEOGA aid to be made available, I do not think we should contemplate going along with a proposal which carries the serious implications I have identified.

If the Commission put this proposal as it stands to next Monday's Agricultural Council it is quite likely to secure the support of the majority of member countries. We must avoid this if possible. After a preliminary talk with Ian Gilmour I have concluded that despite our strong reservations a flat rejection of the whole approach could be counter-productive and that tactically we would be better to inform the Commission as soon as possible of the conditions which would have to be made to make it possible for us even to consider the proposal. The two main conditions would be:

(i) an unqualified assurance that free circulation, free of levies and quantitative restrictions, would not only be established immediately but permanently (ie a total commitment by France not to revert to illegal import restrictions or levies at a future date);

(ii) the resolution would also have to make it clear that the use of Community funds to aid any national intervention measures is totally excluded.

We should add that the basis of the distribution of FEOGA funds would need to be clearly specified and agreed and that this would have to ensure that UK receipts reflected fully its share of total Community production of sheepmeat.

The first of these two main conditions above, and the requirement that the UK should receive its appropriate share of FEOGA aid, can be presented as strictly communautaire. The inclusion in the proposal of our two main conditions would almost certainly make it unacceptable to the French.

Our best chance of deterring Gundelach from even tabling a proposal at next Monday's Council, certainly on the lines he is now envisaging, would be to put our conditions to the Commission as soon as possible. We propose to do this early tomorrow, unless contacts which the Cabinet Office are having with the French today throw up any developments leading us to think again about these tactics.

I am copying this to the Prime Minister, members of OD(E) and Sir Robert Armstrong.
(Also copied to Secretaries of State for Scotland, Wales and Northern Ireland)

PETER WALKER

28 FEB 1980

Euro Pol

(2)

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

From the Minister

Prime Minister: I asked for this note following our discussion of the line to take in questions last week. Mr Walker has taken the opportunity to describe the latest Commission proposal.

25 February 1980

PRIME MINISTER

Dear Prime Minister

SHEEPMEAT

I attach a short note which explains the legal moves that the Commission has made against France to get her to open her frontiers to our exports of mutton and lamb.

The note goes on to outline the latest developments in the negotiations to set up support measures for sheep producers throughout the Community. The latest compromise floated by the Commission would involve setting aside some twelve million units of account for unspecified measures to support sheep farmers. The United Kingdom would get the larger share of the money× and France would use its share, almost certainly, to finance intervention buying of mutton and lamb.

I am consulting colleagues urgently about the nature of our response to the latest moves and I am sending copies of this letter and the attached note to members of OD(E).

Yours ever
Peter

PETER WALKER

× According to Mr Gundelach!

NOTE

SHEEPMEAT

1. This note summarizes the legal action so far taken by the Commission against the French restrictions on imports of British sheepmeat and also the progress of negotiations on Community arrangements for sheepmeat.

Legal Action by the Commission

2. Following the judgement of the European Court on 25 September 1979 declaring the French import restrictions illegal, the Commission have started a second action in the Court against the French and have taken preliminary steps for a third action. The second case, which was commenced on 14 January 1980, is directed particularly against French continued quantitative restrictions. The third action is being directed against the French levies which were re-introduced briefly in January 1980 when French prices strengthened sufficiently for the French to lift the closure of their market. The Commission delivered a Reasoned Opinion under this third action on 8 February and set a deadline for compliance of 14 February, but the French refused to comply.

3. At their meeting on 20 February the Commission deferred a decision both on whether to proceed to the Court with the third case and also, despite UK pressure for immediate action, whether to overlay the two cases with an application to the Court for an interim injunction requiring France to suspend immediately her import restrictions pending judgements in the two cases (which might not be reached for up to a year).

Negotiations on a Common Regime

4. The EEC Treaty provides for a common organisation for sheepmeat and in April 1978 the Commission tabled proposals for a light regime. In subsequent discussions of these proposals the Commission have attempted to meet reservations by some member states (not the UK) on the degree of protection afforded to Community producers by putting forward possible modifications to their original proposals.

5. On the external side, the Commission rejected French pressure for de-consolidation of the GATT bound 20% tariff and proposed that voluntary restraint arrangements should be negotiated with the principal third country suppliers, notably New Zealand. The Commission have now opened negotiations on the basis of a mandate approved by the Council. New Zealand is willing to participate subject to not becoming firmly committed until the form of the common regime as a whole is known.

6. As regards internal arrangements, the Commission's original proposals confined permanent producer support to private storage aid but allowed for premiums to ease transitional difficulties. Discussion of Commission working proposals on internal arrangements has not yet led to agreement. The two main areas of difficulty are

i) whether there should be support of market prices through intervention, which the French are pressing for but the majority of the Council have until recently opposed;

ii) how far Community-financed premiums should compensate producers for any fall in market returns due to free trade. The majority of member countries favour full compensation in the first year but with gradual degression of premiums thereafter.

7. Our position has been, first, total opposition to Community-financed intervention and, second, we have argued that premium arrangements should not perpetuate the present discrimination against the UK due to the French import restrictions and should reflect our predominant position in this sector. The premium proposals as they stand do not meet these UK requirements. In particular they would result in little or no Community expenditure on premiums in the UK.

8. Last October OD(E) agreed that we should explore support for a low cost, market-related common premium arrangement as a safety net for producers in years of weak market prices. So far this approach has secured no support. On 25 January OD(E) decided that

the UK should continue to participate constructively in negotiations on a Community regime but that no concessions should be made before the next European Council.

Possible Interim Arrangements

9. At the Council of Agricultural Ministers on 18 February the Germans and Dutch, clearly prompted by the Italian Presidency, suggested that immediate attention should be focused on achieving free circulation and that to this end temporary arrangements might be introduced for an interim period pending agreement on a common regime to enable the French to lift their import restrictions immediately. The Commission were invited by the Presidency to bring forward a paper on this possibility to next week's Council on 3/4 March after appropriate consultations.

10. The Commission have since sounded us informally about arrangements which would apply only until 15 July and would take the following form

i) the French would lift their import restrictions completely;

ii) the Community would make available 15 MEUA (£10 million) for helping to support producer incomes or reasonable expectations of income. This aid would be subject to "a harmonious distribution" notably between the UK and France. The Commission have suggested to us that this would mean giving the UK more than France, to be agreed in advance though not necessarily formally decided by the Council.

The Commission suggests that such an arrangement could be initiated through agreement at next week's Council to a resolution on the lines of the draft at Annex I. The hope would be that a Community sheepmeat regime could be agreed, at least in outline, by the middle of July when the above arrangement would cease to apply.

MUTTON AND LAMB

Draft resolution of the Council

The Council

- taking note of the decision of the French Government to open its frontiers to mutton and lamb from all member states, without quantitative restriction , import charge or measures of equivalent effect

- wishing to ensure that, in the interim period before the introduction of the common market organization for mutton and lamb, the risk to the revenue or to the reasonable expectation of revenue of Community mutton and lamb producers is minimized

resolves

- that 15 million EUA will be available from FEOGA funds in the period between the opening of the French frontier and 15 July 1980, in order to meet the objective set out above

- that this sum will be allocated according to the need, account being taken of a harmonious distribution between the two principal producing member states

invites the Commission to present a proposal for the use of the available funds, if in the light of the development of markets and prices this is necessary for the objective set out above.

Afghanistan (Sit) Pt3

Ref: A01485

CONFIDENTIAL

PRIME MINISTER

Community Affairs

[If not taken under the Foreign Affairs item.] The Foreign and Commonwealth Secretary might be invited to report on the 19th February Ministerial meeting of the Nine in political co-operation, at which he put forward the United Kingdom proposal for the neutralisation of Afghanistan.

2. The Minister of Agriculture might report on the 18th February Agriculture Council, which approved a package on wine, had an inconclusive first exchange of views on the Commission's price proposals for 1980-81, and showed signs of an emerging move to buy off the French on sheepmeat in advance of their compliance with the European Court judgment.

RTA

(Robert Armstrong)

20th February 1980

CONFIDENTIAL

20 FEB 1980

OD(E)
(FCO)
HMT
Ld. Pres.
Ld. Privy Seal
MAFF
D/Trade
Att-Gen. + C.O.

European Policy

DSG

10 DOWNING STREET

From the Private Secretary

21 February 1980

NEW ZEALAND BUTTER: POST 1980 ACCESS

The Prime Minister has seen the Ministerial correspondence, now resting with the Minister of Agriculture's letter of 20 February to the Foreign and Commonwealth Secretary, on this subject. She agrees that New Zealand's case should be fought in the Foreign Affairs Council and that the Foreign and Commonwealth Secretary should explain this approach to Mr. Talboys this afternoon as being the best way, in our judgement, to secure a satisfactory deal for New Zealand. She has asked, however, that the link between this problem and the problem of the British contribution to the Community Budget should be constantly borne in mind.

I am sending copies of this letter to the Private Secretaries to the members of OD(E) and to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Paul Lever, Esq.,
Foreign and Commonwealth Office.

GD

HS

Ref: A01484

(1)

CONFIDENTIAL

Prime Minister
Agree A overleaf?
[initials] 20/2

MR. ALEXANDER

New Zealand Butter Post 1980 Access

The Minister of Agriculture's letter of 7th February to the Prime Minister has been commented on by the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Trade. In your letter of 8th February to Gareth Walters you said that the Prime Minister had expressed the hope that we would continue to support the New Zealand case.

2. The Foreign and Commonwealth Secretary is seeing the New Zealand Deputy Prime Minister (Mr. Talboys) tomorrow afternoon, Thursday, 21st February, and the Minister of Agriculture is seeing him on the morning of Friday, 22nd February. An agreed Government line is needed for these meetings

3. The Minister of Agriculture has argued that the negotiations on New Zealand butter are bound to be linked with those on farm prices for 1980-81. In particular it may be difficult to prevent the Member States hostile to continued New Zealand access (principally France and Ireland) trying to associate it to the prices package. He thinks that we cannot allow the negotiations to drag out beyond the price-fixing because, in the absence of agreement, New Zealand access will simply lapse at the end of the year. This makes it necessary to let the New Zealanders know where they stand as soon as possible. The Minister of Agriculture has also suggested that at some stage the Prime Minister may wish to raise the question with her fellow Heads of Government. On balance, however, it would be better not to have to raise this issue at the European Council at all and especially not while we are still pressing for a solution to our Budget problem.

4. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary of State for Trade all argue that we should make the case for New Zealand on broad economic and political grounds rather than in the specifically agricultural context where the linkage with prices will be very awkward for us. The Foreign and Commonwealth Secretary has said that he is ready to fight hard for New Zealand in the Foreign Affairs Council. On timing, Lord Carrington thinks that we could still get a good settlement in that Council

A

after the price-fixing. In commenting on the Foreign and Commonwealth Secretary's views, the Minister of Agriculture has said that he supports Lord Carrington's proposal that he should fight for New Zealand's case in the Foreign Affairs Council and that Lord Carrington should explain this approach to Mr. Talboys as the best prospect of getting a satisfactory deal. If the Prime Minister agrees that this is the best way to proceed, it would be helpful if this view could be made known before the Foreign and Commonwealth Secretary's meeting with Mr. Talboys at 3.10 pm tomorrow.

D J Wright

(D.J. Wright)

20th February, 1980

Agreed - but this must be viewed in the light of our discussions this evening when we talked about the whole matter in the context of the budget.

MT

20 FEB 1980

PA
MS

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

From the Minister's Private Office

N Sanders Esq
Prime Minister's Office
10 Downing Street
London SW1

20 February 1980

Dear Nick,

COUNCIL OF MINISTERS (AGRICULTURE): 18 FEBRUARY 1980

Thank you for letting me know that the Prime Minister is content with the draft statement that I circulated yesterday. I now attach a final copy of the Statement which Mr Walker intends to make to the House, and it incorporates some minor revisions suggested by other Departments.

I am copying this letter to Ingham; Stevens (Leader of the House's Office); MacClean (Whip's Office, Commons); Cumming-Bruce (Whip's Office, Lords); Wright (Cabinet Office) and to private secretaries of the other Agricultural Ministers and members of OD(E).

Yours sincerely

Garth Waters

G R Waters
Principal Private Secretary

DRAFT STATEMENT

With permission, Mr Speaker, I would like to make a statement about the Council of Agriculture Ministers which took place in Brussels on 18 February. My Hon Friend, the Minister of State in my Department and I represented the United Kingdom at this meeting.

The Council had a preliminary discussion of the Commission's price proposals for 1980/81 together with the package of economy measures which the Commission presented to the Council in November. Several Member States argued that the proposed price increases were far too modest and pressed for much higher ones. I emphasised that, as we are by far the largest net contributor to the Community Budget, we had a special concern to see the cost of the CAP brought under control. I pointed out that the Commission's own proposals would produce only a relatively small overall saving on the estimated Budgetary cost of the CAP, and that this was only achieved by the raising of substantial additional revenues through the proposed levies on milk. I said that firm price restraint was necessary, particularly for those commodities in structural surplus, including milk, sugar and wine.

On the main problem commodity, milk, I argued that the Commission's own proposals were intended to prevent further surplus, and would do nothing to tackle the level of the existing surplus.

I said that the Council needed a plan to achieve a steady reduction in surpluses. I opposed the exemptions from the co-responsibility levy which would discriminate against the United Kingdom, as well as the Netherlands and Denmark, who supported my stance. The details of the milk proposals are now to be studied further by a group of senior officials.

The Council had a further discussion of sugar but did not reach agreement. I supported the Commission's proposal to cut maximum quotas by 1.3 million tonnes. However, I made it plain that even the Commission's revised quota proposal for the United Kingdom discriminated strongly against the United Kingdom in that it would still involve a 24% cut in our present maximum quota, compared with a cut of only 5% in other Member States and in France and Germany. Other countries objected to the quota allocations and any decision was deferred until the next meeting of the Council on 3/4 March.

We again opposed any extension of the existing temporary scheme for high priced end of season distillation of wine, stored under long term contracts.

In a further discussion of sheepmeat, there was wide recognition in the Council of the serious consequences for the Community which resulted from a failure of one Member Country to obey the law. There was some discussion of possible interim arrangements to apply until a definitive sheepmeat regulation could be agreed.

I made clear once again that the obligation on the French Government to respect the Court ruling was quite distinct from the question of Community arrangements for this sector.

I asked for and received from Vice-President Gundelach an assurance that whatever further discussions might take place on interim arrangements the Commission would play fully its role as guardian of the Treaty. I also said that I would not accept any arrangements under which one set of Member Countries gave financial aid to another Member Country to enable it to obey the law. Nor would I accept any endorsement by the Community of intervention in the sheepmeat sector.

Euro Pol.

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

From the Minister

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

NBPM yet

20 February 1980

Dear Lord Carrington,

NEW ZEALAND BUTTER

Thank you for your letter of 18 February. You will see that I have received a similar letter from Geoffrey Howe on the same date.

I am all in favour of you having fights for New Zealand in the Foreign Affairs Councils. I am just telling you both as a fact that the other countries will link the New Zealand position with the price fixing.

Although I would never admit it, you cannot blame them that when Britain is pressing for action upon the butter surplus which is going to result in a reduction in their production and income, they feel hostile towards guaranteeing that 90,000 tonnes of dairy products should come in from what to them is a third country.

In the discussions we have had this past week, the Irish and the French have indicated their hostility to the New Zealand butter quota, and in the discussions I had with the Commissioner after the Council meeting he too made clear the difficulty that both France and Ireland would make on this question.

On the question of prices, whilst naturally I appreciate more than most the rhetoric and the emotion of it all, I must however point out to you that out of a total estimated budget this year of about £7 billion for the CAP, the cost of all the price increases suggested by the Commission amounts to only about £200 million, so even if we achieved a total freeze on every commodity to the hostility of all eight nations in Europe, the impact upon the magnitude of the CAP would be somewhat limited. As to the effects on production, we had a total freeze on milk prices last year and milk production rose in every country with the exception of the United Kingdom and Denmark.

/I say these things ...

I say these things not out of any disagreement with the policy. As you know, it is the policy I personally suggested and advocated. But it is vital that we do keep in perspective the relatively minor impact that the proposed price changes will have on the CAP budget and our contribution to it.

If, however, you still do not wish me to press New Zealand's case in the Agriculture Council before the CAP price fixing then we shall have to explain this to the New Zealand Government. As you will be seeing Mr Talboys tomorrow before I see him on Friday, can I take it that you will be explaining your tactics to him?

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

Yours sincerely

Caroline W.[illegible]

for

Peter Walker
Approved by the Minister
and signed in his absence

20 FEB

1

PRIME ~~MINISTER~~
Content?
MJS

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

From the Minister's Private Office

PA
MJS

Yes MT

seen by MODBA

N Sanders Esq
Prime Minister's Office
10 Downing Street
London SW1

19 February 1980

Dear Nick,

COUNCIL OF MINISTERS (AGRICULTURE): 18 FEBRUARY 1980

I attach a copy of the Statement which Mr Walker hopes to make to the House tomorrow. I would be grateful for immediate clearance.

I am copying this letter to Ingham; Stevens (Leader of the House's Office); MacClean (Whip's Office, Commons); Cumming-Bruce (Whip's Office, Lords); Wright (Cabinet Office) and to private Secretaries of the other Agricultural Ministers and members of OD(E).

Yours sincerely,

Garth W. Fry

G R Waters
Principal Private Secretary

DRAFT STATEMENT

With permission, Mr Speaker, I should wish to report to the House on the Council of Agriculture Ministers which took place in Brussels on 18 February. My Hon Friend, the Minister of State in my Department and I represented the Government at this meeting.

The Council had a preliminary discussion of the Commission's price proposals for 1980/81
together with the package of secondary measures which the Commission presented to the Council in November. Several Member States argued that the proposed price increases were far too modest and pressed for much higher ones. I emphasised that, as we are by far the largest net contributor to the Community Budget, we had a special concern to see the cost of the CAP brought under control. I pointed out that the Commission's own proposals would produce only a relatively small overall saving on the estimated Budgetary cost of the CAP, and that this was only achieved by the raising of substantial additional revenues through the proposed levies on milk. I said that firm price restraint was necessary, particularly for those commodities in structural surplus, including milk, sugar and wine.

On the main problem commodity milk, I argued that the Commission's own proposals were intended to prevent further surplus, and would do nothing to tackle the level of the existing surplus. I said that the Council needed a plan to achieve a steady reduction in surpluses. I opposed the exemptions from the coresponsibility levy which would discriminate against the United Kingdom, as well as Holland and Denmark, who supported my stance. The details of the milk proposals are now to be studied further by a group of senior officials.

The Council had a further discussion of sugar but did not reach agreement. I supported the Commission's proposal to cut maximum quotas by 1.3 million tonnes. However, I made it plain that even the Commission's revised quota proposal for the United Kingdom was totally unacceptable because it would still involve a 24% cut in our present maximum quota, compared with a cut of only 5% in other Member States and in France and Germany. Other countries objected to the quota allocations and any decision was deferred until the next meeting of the Council on 3/4 March.

We again opposed any extension of the existing scheme that provided for the storage and distillation at Community expense of all surplus wine.

In a further discussion of sheepmeat, there was wide recognition in the Council of the serious consequences for the Community which resulted from a failure of one Member Country to obey the law. There was some discussion of possible interim arrangements to apply until a definitive sheepmeat regulation could be agreed. I made clear once again that the obligation on the French Government to respect the Court ruling was quite distinct from the question of

Community arrangements for this sector. I asked for and received from Vice-President Gundelach an assurance that whatever further discussions might take place on interim arrangements the Commission would play fully its role as guardian of the Treaty. I also said that I would not accept any arrangements under which one set of Member Countries gave financial aid to another Member Country to enable it to obey the law. Nor would I accept any endorsement by the Community of intervention in the sheepmeat sector.

2

Prime Minister

You may like to glance. The Foreign Secretary & the Chancellor are in agreement in opposing the line favoured by Mr Walker.

FCS/80/37

MINISTER FOR AGRICULTURE FISHERIES AND FOOD

18/2

New Zealand Butter: Post-1980 Access

1. Thank you for sending me a copy of your letter of 8 February to Geoffrey Howe.

2. I am not convinced that arguments based on broad foreign policy grounds stand little chance of bringing about a satisfactory solution. On the contrary, I think this is the approach most likely to secure what we, and New Zealand, want. And on presentation I agree very much with the ideas set out in John Nott's letter to me of 11 February. I am ready to fight hard at a series of Foreign Affairs Councils to ensure a fair deal for New Zealand post-1980.

3. I note what you say about linkage with the 1980 price fixing. But I think your approach involves serious risks. Our opponents will in any case be tempted to try to establish a link between the price settlement and continued access for New Zealand. Their aim will be to ensure that we pay in terms of the former for concessions by them on the latter. But, as Geoffrey Howe says in his letter of 6 February, on the cost of the CAP we really have little to give. If therefore we ourselves link the two issues it seems to me that we should be acting against our own best interests.

4. Nor do I accept that once prices for 1980-81 are settled the two member states which are most reluctant to acknowledge New Zealand's case will be able in practice to prevent the conclusion of a satisfactory agreement. There are already political pressures working in New Zealand's favour and they are likely to be considerably reinforced if, as we anticipate, the Commission come forward with a reasonably satisfactory proposal.

5. If we run into difficulties I would not at this stage want to rule out the possibility of unilateral action by the UK. My officials will be looking more closely into this aspect with Legal Advisers.

6. We shall both be seeing Talboys in London next week. I hope we can agree before then on what we should say to him on timing and linkage.

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

C

(CARRINGTON)

Foreign & Commonwealth Office

18 February 1980

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

February 1980

R18

Dear Peter

NEW ZEALAND BUTTER

Thank you for your letter of 8 February.

I do not underestimate the difficulty of isolating the problem of New Zealand butter from the discussions in the Agriculture Council, but I still think that we should try to do so. If the issue is referred to Foreign Ministers this will enable you to counter any proposal made in the Agriculture Council that a cut in the New Zealand quota could count as a saving in the economies package by claiming that it raises questionswhich are of interest to another Council.

I do not think that by moving the issue out of the Agriculture Council we would miss an opportunity of using the price fixing as a lever to secure what we want for New Zealand. This would only be so if we were prepared to trade our assent to the kind of price increases the other member states want for a fair settlement for New Zealand. But our aim must surely be to use the imminence of the 1 per cent VAT ceiling as a decisive argument for refusing any price increases for surplus products and to avoid this stance being undermined by our need to secure anything from the price package for ourselves. The argument that we must not ourselves be demandeurs in this particular price fixing was a major reason for our decision to devalue the green pound in December rather than waiting for the price fixing and I would not want the New Zealand question (or, for that matter the UK butter subsidy which you referred to in ODE(80)8) to undermine the position which we established then.

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

GEOFFREY HOWE

The Rt. Hon. Peter Walker MBE., MP.

18 FEB 1980

European Policy

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

NBPM

CONFIDENTIAL

The Rt Hon The Lord Carrington
KCMG MC
Secretary of State
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

15 February 1980

Dear Secretary of State,

CAP PRICE PROPOSALS

I fully support the general line in Peter Walker's letter to you of 13 February. The negotiating line is awkward: as he says we have got to be tough on prices, but not unrealistically so, given that we will inevitably have to settle for a good deal less than the ideal.

I have only two comments. First, I am sure that we should resist any form of discrimination in the milk levies. While we will probably have to settle for levies of some kind, as part of the overall package, we could not tolerate a levy which applied to a substantially greater percentage of our production than any other Member State's. That situation could not be defended either politically or financially. Our stance should be that while we are prepared to share in the general misery, the shares should be equal throughout Member States.

On beef, a suckler cow subsidy ought in principle to be advantageous to us, given the size of our beef herd. That the Commission's proposal is not so reflects the perversity of restricting assistance effectively to small herds: another example of the Commission's current over-preoccupation with small and relatively inefficient units. Here our line ought to express willingness to consider the proposal, but again on the basis that it should offer equal help to all beef herds. (A beef cow subsidy would obviously make it easier for us to bandon our own beef premium scheme and to reconcile our producers to a weakening of intervention support.)

CONFIDENTIAL

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

Yours sincerely,

J S Wilson

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

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

15 February, 1980

IVRP ⁄ Pud

Dear Minister,

CAP PRICE PROPOSALS

Thank you for copying to me your letter of 13th February to Peter Carrington.

In general I agree the line you propose, but I do feel that you should take a more stringent line on the price issue. It would be advisable to take a tough and uncompromising posture from the outset and to open with a robust statement of our view of the need to avoid any price increase for products in surplus, inflation or not. I agree that you should argue that wine as well as milk and sugar is in surplus. The Commission's report on the trends of cereals production and consumption seems to me to give good grounds for resistance to price increases in this sector also.

Milk Levies

Your line on the general co-responsibility levy for milk has of course been agreed in OD(E). But, I am not convinced that the revised proposals for a super levy should be entirely rejected at this stage. At first sight there seems to be a marked improvement on the original proposal, and you might perhaps at least indicate readiness to study them in detail. The scheme represents a form of quota and your recent OD(E) paper did not rule quotas out entirely. If you are doubtful about our ability to negotiate a sufficiently long lasting price freeze to curb expanding production it may be necessary to contemplate measures of this kind.

Butter Subsidy

I agree that the continuance of the 100 per cent financed UK butter subsidy is a desirable objective.

/Sugar Quotas

The Rt. Hon. Peter Walker, MP

CHANCELLOR OF THE EXCHEQUER

Sugar Quotas

I am uneasy about your proposed line here. I recognise that if no agreement can be reached on a reduction in quotas by June it would be better to continue with the existing quotas than with none at all. But if no agreement has been reached on quotas there will also have been no agreement on prices, and we should be able to secure at a minimum that existing prices would continue only if the quota scheme continues. I would have thought, therefore, that you can continue to argue for lower total quotas well beyond March. On the UK quota, I note that the Commission has made an improvement in its original proposal, but it is not clear from your letter why you regard the offer as unfair.

Beef Cow Subsidy

I can agree provisionally to your proposed line pending a more detailed examination of the costs and benefits of the Commission's proposals. You should bear in mind though the implications of the minute I recently circulated on the use of Community funds. If additional receipts from the Community are to contribute to the reduction of public expenditure they must replace not add to existing public expenditure commitments.

National Financing

I agree that the possibility of national financing of surplus disposal is a promising one which deserves further study. But it seems to me to be premature to propose it at this stage.

It will be seen as an attack on a major principle of the CAP and there can be no prospect of it being adopted except as a measure of desperation arising from the 1 per cent VAT ceiling. I should, therefore, have thought it better to reserve this idea at least until we have studied the paper you propose to circulate on this subject. And, in a purely tactical sense, it may be difficult for you to argue simultaneously for 100 per cent Community financing of the UK butter subsidy and for the introduction of partial national financing of the main mechanisms of the CAP.

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

yours sincerely

D Wiggins (Principal Private Secretary)

for (GEOFFREY HOWE)

(approved by the Chancellor & signed in his absence)

NBPM

Prend

FCS/80/36

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

CAP Price Proposals

1. Thank you for your letter of 13 February in which you asked for my views on the line you propose to take at the Agriculture Council on 18 February.

2. I am sure that, since there will only be opportunity for a very preliminary review and we have not yet had all the relevant documentation or time for a proper collective discussion, your suggestion that you should not be too categoric about particular proposals but should leave our position open for subsequent negotiation is absolutely right.

3. I do not, however, think that you should use this occasion to advocate national financing. Instead, we should hold to the line agreed in OD(E) on 7 February. Raising debudgetisation now in the context of the price proposals and before the next European Council will simply enable the French (who have already made clear that they see a link between prices and the budget contribution problem) and others to distract attention from our perfectly legitimate tough stance on prices and argue that we are attacking the principles of the CAP itself thus making our budget negotiations that much more difficult. We will face strong opposition anyway on prices.

4. I note that you intend to prepare a further paper on CAP reform for OD(E) before the March Council discussions. This will no doubt contain your own recommendations but I think the financial trade and political consequences as well as the agricultural ones should have been discussed interdepartmentally at official level beforehand, as we agreed in OD(E) on 7 February. I am asking the Cabinet Office to organise this in the usual way.

/5. While I

5. While I agree substantially with the guiding principles you outline in your third paragraph, I do not think we should seek to oppose every measure which places a burden on the UK. Ought we not to try to ensure that the economy package and price proposals taken as a whole do not unfairly penalise the UK? This points towards taking a slightly less hostile line to the economy package than you intend (I come back to this below). I think we need to see more detailed figures on the resource cost to the UK of the price proposals before we can judge exactly the extent of the bias against our interests. This will not doubt emerge from further discussion in the Community and between departments, but again underlines the need not to take up too clearcut a stance at this Council.

6. I agree with your general approach on prices, but I wonder whether there is not a case for including cereals and beef in the list of products for which we should say we see no justification for a price increase. Support for cereals cost 1,600 m EUA in 1979, or 15% of the total cost of the FEOGA Guarantee Section. After milk, it is the second most expensive commodity. The position on beef is not much better; expenditure could rise to 1,100 m EUA in 1980 according to the Commission's estimates and the proposed premium system for suckling cows is likely to attract farmers out of milk and into beef production. In addition to firm opposition to price rises on sugar and milk, I think you should also at this stage underline the difficulty we have in contemplating increases on cereals and beef (even though we will probably have to concede some later).

7. I also believe it is important that in criticising individual parts of the Commission economy package, we are not seen as overly negative. Most other countries, except the Germans, have objections to parts of the package. We should aim to keep in line with them but not to lead the pack. I enclose some notes on individual products which I hope you and your officials can take on board for next week's meeting and for your further consideration of the price and economy proposals.

/8. I am

8. I am copying this minute to the recipients of yours.

C

(CARRINGTON)

Foreign and Commonwealth Office

15 February 1980

MILK LEVIES

We should retain our condition of no increase in prices. Agreed that the 60,000 kg exemption discriminates somewhat against us, although it is likely to be more objectionable to the Danes and Dutch who have no Less Favoured Areas. Moreover, our estimate is that the net cost to the UK would only be about 3-4 m EUA and this does not seem particularly penal. We shall want to consider how far we should press this objection in subsequent negotiations and it would be better not to give it too much emphasis at this Council. On the supplementary levy, understand that we still do not have final details of what the Commission propose. Should at least reserve our firm view until this appears. While agree that it would act like a quota, we have already accepted quotas for sugar and, if used with a price freeze, would squeeze high cost producers and reduce surpluses.

BUTTER SUBSIDY

Agree with your views. The difficulty is that this subsidy is much more expensive than other disposal methods (660 ECU/kg as against 180 ECU/kg for export refunds). But should emphasise that preference in disposal should be given to Community consumers and the UK already suffers from less than average receipts from the Agriculture sector.

SUGAR QUOTAS

Confess to some scepticism about our arguments on this front. The inclusion of the 1979/80 marketing year in the reference period has lessened the level of discrimination inherent in the original Commission proposals. The cut in our quotas remains higher than for others, but not the cut in real production. 1979/80 has been an exceptional year for the whole Community with a record harvest of 12.2 m tonnes. Although the immediate prospect is for a tightening in the world market, many experts seem to believe that it will not last. Can see the attraction of

/extending

extending the present arrangements for a further year. Presumably, would hope for a good UK harvest next year and we should then have two good reference years on which any cut in our quota would be based. May be an objective worth pursuing, although in so far as Community production as a whole increases, the cuts proposed next year might then have to be rather deeper.

BEEF

No objection to your proposal as our opening bid. All the more important to give general support to the Commission's economy proposals on beef as agreed in OD(E).

CEREALS AND WINE

Agree with proposed line, though may have to look again at starch refunds as negotiations progress.

Original a
Euro Pol, Budget Pt 5

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CONFIDENTIAL

NBPM yet

Ref. A01435

MR. ALEXANDER

Sheepmeat and the Community Budget

You asked for a comparison between the benefit to France of the concessions on sheepmeat, which OD(E) envisaged we might make in return for a satisfactory Budget settlement, and the French contribution to the cost of that settlement.

2. Reckoned on the same basis as the cost to us of £13 million to provide a sheepmeat regime to suit French interests, the benefit to France of the suggested concessions on sheepmeat during the first year of the regime would be £25 million. Subsequent benefit would depend on how quickly we were able to get producer premia down to a common, non-discriminatory level and the amount of intervention buying in France.

3. The £25 million would be a useful if small offset to the French share of meeting our budgetary requirements. To bring the United Kingdom's net contribution down from 1814 meua to say 300 million eua would cost the French about 445 million eua or £300 million.

D J Wright

(D.J. Wright)

15th February, 1980

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Euro PC(Budget)
Pt5

Ref: A01415

CONFIDENTIAL

PRIME MINISTER

Community Affairs

The Chancellor of the Exchequer might be invited to report on the 11th February Finance Council. The first reading of the Commission's paper on supplementary Budget measures for the United Kingdom was noteworthy only for a French attempt to stake out a negotiating position by arguing that our gains from North Sea oil meant that we did not even need the £350 million relief offered at Dublin. The Finance Council approved a set of guidelines intended to encourage the Agriculture Council to secure economies in CAP expenditure.

2. The Minister of Agriculture might wish to give his first assessment of the Commission's CAP price proposals for 1980-81, which were published last week. Pending detailed study, OD(E) on 7th February agreed that he should at next week's Agriculture Council maintain our opposition to price increases for surplus commodities. The Minister of Agriculture might also report on the current sheepmeat position; the Commission have now initiated a third infraction case against France, with a deadline for reply early next week.

3. The Secretary of State for Trade might be invited to say where matters now stand on the application we made last week for Commission action to restrain United States imports of three synthetic textile products. The five working days within which the Commission have to reach a decision expire on Friday, 15th February.

4. Last weekend the Lord Privy Seal attended the first Ministerial discussion of the report of the Three Wise Men on institutional improvements. Decisions, e.g. on the size of the next Commission, are unlikely to be taken before the June European Council.

ROBERT ARMSTRONG

(Robert Armstrong)

13th February 1980

CONFIDENTIAL

Euro Pol

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

From the Minister

NBPM

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

13 February 1980

CAP PRICE PROPOSALS

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

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

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

On the basis of this principle, the Commission's proposals measure up very badly. They are heavily biased against our interests and would increase the net resource cost which the policy imposes on our economy. The Commission claim that they represent a total saving to Community funds of 823 million EUAs by comparison with the draft 1980 budget presented last October. But over half this alleged saving is represented by the co-responsibility levies on milk,

/which are not a reduction .....

which are not a reduction in cost but a new source of revenue. The real saving is only about 370 million EUAs, and this net figure conceals an additional cost as a result of the price increases proposed. My officials are preparing a detailed analysis of all the proposals for discussion with other Departments. But the general picture is clear.

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

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

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

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

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

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

/Cereals The Commission ...

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

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

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

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

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

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

Yours ever

PETER WALKER

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

PW

PETER WALKER

MAP EURO POL

DEPARTMENT OF TRADE 1 VICTORIA STREET LONDON SW1H 0ET Telephone 01-215 7877

From the Secretary of State

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London, SW1A 2AL

11 February 1980

Dear Peter

NEW ZEALAND BUTTER: POST 1980 ACCESS

I have seen a copy of Peter Walker's letter to you of 23 January, and of your response.

Our problem is to get the best deal we can for New Zealand without having to pay a price that jeopardises our vital objectives on the budget and the CAP. I suggest we shall best succeed in this if we present the case for New Zealand access in terms of the interest of the Community as a whole rather than as a national interest of the UK.

We could point out that the political, economic and strategic reasons for looking after New Zealand's interests are not peculiar to the UK: it is as helpful for our partners as for us to have a prosperous trading partner and reliable friend in the Southern Pacific, and West German spokesmen have recognised this: it is thus in their interests as much as ours to admit the dairy products on which New Zealand's prosperity uniquely depends. Moreover other Community countries, as well as ourselves, have a stake in New Zealand's market. Preserving a reasonable level of access for New Zealand butter does no special favour to Britain; we share the burden it imposes on the Community Budget for the sake of the wider benefits to the Community as a whole, and look to our partners to do the same.

From the Secretary of State

I believe such an approach would give us the best chance of keeping down the price we have to pay. It is helpful that Commissioner Gundelach has himself spoken in the European Parliament of a commitment to New Zealand (as "a good customer of the EEC") by the Community as a whole. This fits well with the Commission's expected proposal that New Zealand butter should have access to the Community market as a whole, not just the UK; and with the ending of the transitional arrangements in the Treaty of Accession.

I agree with Peter Walker that the arrangements should be as open-ended and as permanent as possible. We will therefore need to be wary of any review of the entitlement after 1985 if butter consumption had declined, because the probability of such a decline will call the permanence of the arrangement into question.

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

Yours ever

John.

JOHN NOTT

2

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

From the Minister

PRIME MINISTER
Mr Walker's criticism of the IFS sums. The essence is what system you assume in the absence of CAP – see paras 5 →. MAP 14/2.

PRIME MINISTER

INSTITUTE FOR FISCAL STUDIES: PAPER ON THE COST OF THE CAP

1. This paper, which has attracted some attention in the press, was mentioned at Cabinet yesterday. It states that the "true cost" to the UK of the Common Agricultural Policy was £1.37 bn in 1978 and will be some £2.2 bn in 1980. I thought I should let you and Cabinet colleagues have my views on this calculation.

2. The paper claims that it is the first attempt ever to present a comprehensive set of estimates of the resource flows between European countries resulting from the CAP. This is untrue. Last year economists in my Department published a study of these resource flows, which the authors of the IFS paper acknowledge as one of their sources. This study calculated the net budgetary gain or loss of each Member State on account of the CAP. To this, it added the gain or loss made by each Member State through trading with other EEC countries at high CAP-determined prices instead of at the world prices at which this trade would have to be carried out if the CAP did not exist. In short, my Department's calculations assumed that each Member State supported its farmers at the same level and by the same mechanisms as the CAP, but did so on a national basis, with no common financing through the EEC Budget and with intra-Community trade taking place at world prices.

3. On this basis, the budgetary cost of the CAP to the UK in 1978 was calculated at £673m and the trade cost at a further £100-£150m, ie about £800m in all. For 1980, assuming trade costs are about the same as in 1978, the total cost will rise on this basis to some £1.3 bn due to our increased contribution to the Budget.

4. The IFS paper does not explain precisely how all its figures have been arrived at. But there are probably two main differences.

/5. First, it adds two ...

5. First, it adds two additional elements to the resource flows as defined above: the loss to consumers representing the difference between the amounts they actually buy at CAP prices and what they would buy if they got all their food at world prices; and the extra costs incurred by farmers to produce the amounts they actually produce at CAP prices compared with what they would produce if they only received world prices. (For the whole Community, the paper puts these two elements at £4.1 bn in 1978, which it describes as the cost of the CAP to the EEC as a whole; this demonstrates that it is measuring much more than resource transfers between Member States, which would by definition balance.) In short, the authors of the IFS paper are comparing the CAP not with the cost of operating a similar national system of farm support, but with the results (as they see them) of operating no farm support system at all.

6. I do not regard this as a realistic comparison. No one seriously supposes that, if we were not in the EEC, we would be supporting our farmers at a markedly different level, let alone that we would not be supporting them at all. Nor, if there were no support, is it obvious that the resources thus released from the agricultural sector would be more productively employed elsewhere; and it is highly improbable that, in those circumstances, consumers would get supplies at somewhere close to present world price levels, which (see below) is what the paper seems to assume.

7. Even if it were proved that supporting agriculture 'cost' the Community £4.1 bn, there is no doubt that other Member States would regard this as a very modest price to pay to avoid the social and political problems that would result from not supporting agriculture at all, with consequent depopulation of the countryside and high unemployment.

8. The second difference between the two studies probably lies in the assumptions employed about world price levels. The IFS paper does not state what world prices it has assumed. The intention appears to be to reflect what the position would be if EEC agriculture were not supported: yet the paper concludes that "in many cases world prices would not be very different from what they are now". This seems highly improbable.

9. My Department's calculations, on the other hand, assumed that if we were operating a national rather than a common farm support system, we would continue to buy our butter and sugar (for example) at the prices currently paid to New Zealand and the ACP countries under CAP arrangements, and not at residual world market prices. I consider this to be a reasonable assumption: before we joined the EEC, there were a number of products which we imported at more than world prices.

10. To conclude, I believe that the natural interpretation of "the cost of the CAP" is the cost of operating a farm support system as a member of the Community, with the financial and

/other rules that the ...

other rules that the Community has, as compared with operating an analogous national support system. For this purpose the figures quoted in paragraph 3 above, which will be updated when the necessary information is available, are the appropriate ones.

11. I am copying this minute to other members of the Cabinet and to Sir Robert Armstrong.

Peter Walker
8 February 1980

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

From the Minister

CONFIDENTIAL

NBPM

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
London SW1

8 February 1980

Dear Geoffrey,

Thank you for your note on New Zealand butter.

I am all in favour of the Foreign Ministers Council giving support as to the necessity of providing a dairy quota to New Zealand. To obtain the approval of the French and the Irish Foreign Ministers to such a concept would be excellent.

There is no way they will not bring this issue into play, for they can quite rightly say that if it was not for taking in New Zealand dairy products the cost of disposing of Europe's butter surplus would be reduced. They will put this forward as a saving and I believe that in all likelihood they will oppose the Commission's proposals for a continuing quota of New Zealand dairy products. If, therefore, Peter Carrington could in any way obtain this as part of a foreign policy decision I would be delighted.

We must recognise that, if we do try to spin matters out beyond the prices settlement, we shall lose the only effective means we have of bringing pressure to bear on the other Member States for a timely and fair agreement on post-1980 access for New Zealand. Indeed, once they have got a price settlement under their belts, those Member States who are ill-disposed towards continued access could decide to spin out the discussions interminably in the knowledge that, when the existing arrangements lapse at the end of the year, New Zealand butter will become subject to the full levy and thus be totally unable to sell on our market. I am sure, therefore, that we must be prepared to press for a settlement of this issue no later than the CAP price fixing.

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

Yours,
Peter

PETER WALKER

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CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary 8 February 1980

New Zealand Butter: Post 1980 Access

The Prime Minister has seen your Minister's letter to her of 7 February on this subject. She has taken note of its contents. She has expressed the hope that we will continue to support the New Zealand case.

I am sending copies of this letter to the Private Secretaries to the members of OD(E), to the Secretaries of State for Scotland, Wales and Northern Ireland and to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Garth Waters, Esq.,

Ministry of Agriculture, Fisheries and Food.

CONFIDENTIAL

3 to Press office
1 to File.
Mr Ingham.
✓ MJ

27582 CABOFF GV
27582 CABOFF G
87171 MONSER G

PARKER BISHOP LANCING

PLEASE PASS FOR THE URGENT ATTENTION OF MR. ANDY WOOD

VERBATIM TRANSCRIPT OF ITEM ON BBC RADIO 4 'FARMING TODAY'
6.10.A.M. 7/2/80

ANNOUNCER: THE SO-CALLED PRICE REVIEW THIS YEAR HAS BEGUN WITH THE FORMAL TABLING OF THE COMMISSION'S PRICE PROPOSALS AND THERE ARE SOME SHOCKS. BRIAN GARDNER REPORTS FROM BRUSSELS.

BRIAN GARDNER: THE E.E.C. COMMISSION HAS DEXIDED TO RECOMMEND AN INCREASE IN E.E.C. FARM SUPPORT PRICES OF JUST UNDER TWO AND A HALF PER CENT IN 1980, BUT THE MEASURES WHICH WILL ACCOMPANY THE PRICE PROPOSALS TO BE PUBLISHED LATER TODAY ARE FAR MORE IMPORTANT FOR BRITISH FARMERS, BRITISH CONSUMERS AND THE U.K. CONTRIBUTION TO THE E.E.C. BUDGET. THE COMMISSION IS PROPOSING THAT THE PRESENT E.E.C. FINANCE CONSUMER SUBSIDY ON BUTTER IS TO BE ABOLISHED, THIS WILL INCREASE BUTTER PRICES BY AT LEAST TWELVE PENCE A POUND, DEPRESS THE DEMAND FOR BUTTER AND THUS REDUCE BUTTER SALES AND INCREASE THE NET BRITISH CONTRIBUTION TO THE E.E.C. BUDGET BY AT LEAST NINETY MILLION POUNDS.

THE COMMISSION IS ALSO INTENDING TO ABOLISH THE E.E.C.FINANCE BEEF DEFICIENCY PREMIUM SYSTEM WHICH DURING THE LAST FOUR YEARS HAS BOLSTERED PRODUCER PRICES AND KEPT DOWN THE PRICE OF BEEF IN BRITISH SHOPS. BEEF MARKET EXPERTS PREDICT THAT WITH THE E.E.C. BEEF MARKET REACHING A PLATEAU ONCE AGAIN, CONSUMPTION FALLING AND BEEF FLOWING INTO INTERVENTION PARTICULARLY IN IRELAND, A COLLAPSE OF THE BEEF MARKET SIMILAR TO THAT OF 1974 AND '75IS NOT OUT OF THE QUESTION IF THE COMMISSION IS ALLOWED TO GO AHEAD WITH THESE PROPOSALS. AND IN ADDITION TO THESE POTENTIAL BLOWS TO THE SUPPORT OF THE BRITISH AGRICULTURAL MARKET, THE COMMISSION IS ALSO RECOMMENDING A NEW SURPLUS TAX ON DAIRIES WHICH COULD MEAN THAT ANY INCREASED U.K. DAIRY PRODUCTION WOULD ONLY RECEIVE SIXTEEN PER CENT OF THE E.E.C. SUPPORT PRICE.

THE COMMISSION AGREED YESTERDAY THAT IT WILL RECOMMEND AN INCREASE IN THE CO-RESPONSIBILITY TAX ON MILK PRODUCERS FROM ITS PRESENT HALF PER CENT TO ONE AND A HALF PER CENT OF THE TARGET PRICE. IN ADDITION, HOWEVER, IT'S PROPOSING THAT THERE SHOULD BE A TAX ON DAIRIES OF EIGHTY-FOUR PER CENT OF THE MILK TARGET PRICE ON EVERY ONE PER CENT OF FACTORY THROUGHPUT ABOVE THE PRODUCTION CEILING. THE CEILING WOULD BE NINETY-NINE PER CENT OF LAST YEAR'S OUTPUT. THIS LEVY WOULD THUS ALLOW THE COMMISSION TO CLAIM BACK FROM THE DAIRY INDUSTRY THE ESTIMATED COST OF DISPOSING OF FUTURE SURPLUSES. IT WOULD AT THE SAME TIME, HOWEVER, ADD ANOTHER TWO PER CENT TO THE LEVY PAID BY DAIRY FARMERS, IF IT'S PASSED ON BY THE DAIRIES TO THE MILK PRODUCER. THIS WOULD MEAN THAT THE TOTAL LEVY TO BE PAID BY FARMERS WOULD THEREFORE BE THREE AND A HALF PER CENT. BUT THE COMMISSION IS PLANNING THAT FARMERS WITH LESS THAN ABOUT TEN COWS SHOULD BE EXEMPT FROM THE NEW LEVY.

THE OTHER MAIN PRICE INCREASES TO BE RECOMMENDED ARE TWO PER CENT ON THE INTERVENTION PRICE OF ALL CEREALS, A ONE AND A HALF PER CENT INCREASE IN THE SUGAR BEET PRICE, ONE AND A HALF PER CENT ON BEEF AND A THREE PER CENT INCREASE IN THE BASIC PRICE OF PIGMEAT.

IN THE MONETARY SPHERE THE COMMISSION IS RECOMMENDING THAT THE MONETARY SUBSIDIES CURRENTLY PAID TO FOOD EXPORTERS IN GERMANY A ND THE BENELUX COUNTRIES SHOULD BE CUT BY ONE PER CENT AND HALF A PER CENT. THESE CHANGES ARE EXPECTED TO ENCOURAGE THE GOVERNMENTS OF THESE COUNTRIES TO ASK FOR A LARGER INCREASE IN SUPPORT PRICES THAN THOSE RECOMMENDED BY THE COMMISSION. THERE WILL ALSO BE RELATED ARGUMENT OVER LAMB AND MUTTON POLICY AND THE FUTURE ACCESS OF NEW ZEALAND BUTTER TO THE BRITISH MARKET. THE IMPORTANT FIRST STAGE OF THE PRICE REVIEW THIS YEAR IS LIKELY TO BE THE PRESENTATION OF THE MONEY SAVING ASPECTS OF THE PRICE PACKAGE AS PART OF THE NEW 1980 BUDGET WHICH THE COMMISSION HAS TO PRESENT TO THE EUROPEAN PARLIAMENT IN STRASBOURG NEXT WEEK. UNLESS THE PARLIAMENT IS CONVINCED THAT THEY WILL SAVE MONEY, THEN FURTHER MODIFICATIONS WILL HAVE TO BE MADE.

ANNOUNCER: BRIAN GARDNER AND WE HOPE TO HAVE SOME REACTIONS TO THOSE PROPOSALS - AND I SUSPECT THEY'LL BE SOMEWHAT LEADEN - TOMORROW MORNING.

SENT 1305/7/2/80 JFP

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CONFIDENTIAL

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

From the Minister

PRIME MINISTER

7 February 1980

(2)

I do hope that for once we can stand by our friends.

Prime Minister

NEW ZEALAND BUTTER : POST 1980 ACCESS

Your Private Secretary's letter of 28 January recorded your view that we should try to secure continued access for 100,000 tonnes of New Zealand butter after the present arrangements expire this year. I agree that such a figure would be excellent if it could be secured; but I do not think it is negotiable.

Ever since we took office, I have been urging on Commissioner Gundelach the vital importance of this matter to New Zealand and the need to get it settled before the 1980 price fixing (so as to avoid its getting entangled with other negotiating issues). But despite repeated assurances he has still not put forward formal proposals, though he is expected to do so shortly.

I understand Mr Gundelach has it in mind to suggest 100,000 tonnes for 1981, decreasing by 2,500 tonnes per annum until 1985 and then stabilising at 90,000 tonnes from then onwards. As the New Zealanders are very anxious that the new arrangements should have the effect of settling the access question permanently, this last feature of Mr Gundelach's proposals is attractive. The 90,000 tonnes is in fact in line with what the New Zealand Government has told us they could live with in the longer term. Their revenue position (important to us as trading partners) would be very largely safeguarded by another feature of Mr Gundelach's proposal, an increase in price from around 60% of the intervention price to 75%.

The problem is that, when it comes to the actual negotiation, most of the Member States will be dedicated to reducing the figure as far as possible (some will indeed argue that New Zealand has no rights of access after 1980) and to removing any suggestion of permanence. For this reason, as well as my desire to secure the best possible deal for New Zealand, I have repeatedly urged Mr Gundelach to propose a higher figure. He will not do so and we understand privately that he accepts that it is highly probable that in the end it will be necessary to settle for something less than 90,000 tonnes (perhaps 80,000 tonnes or even lower).

/My opening position will .....

CONFIDENTIAL

My opening position will certainly be that there should be no reduction from the 115,000 tonnes which is New Zealand's 1980 entitlement, but it is now bound to get caught up in the price fixing negotiations and we shall have to weigh our desire to see a satisfactory settlement for New Zealand against our other negotiating objectives, particularly in relation to the Budget and the dairy sector, both of which have already been linked to the New Zealand issue by other Member States. It is important to realise that a solution has to be attained before the end of 1980, since, if it is not, New Zealand butter will be treated like other third country butter and be liable to the full levy from the beginning of 1981. This fact further weakens our negotiating position.

I shall of course keep you and my other colleagues in touch with the progress of negotiations as they progress. At some stage you may indeed wish to raise the question with your fellow heads of Government.

I am sending copies of this minute to the Foreign and Commonwealth Secretary and to the other members of OD(E), to the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robert Armstrong.

PETER WALKER

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

6 February 1980

NBPM yet
Mus

Dear Peter

NEW ZEALAND BUTTER: POST 1980 ACCESS

I agree with Peter Walker's suggestion that our opening negotiating position should be to try to improve the Commission's proposal. I am also content with his line on the detailed changes in the provisions for implementing the arrangements for New Zealand's access which he expects the Commission to propose.

The question of the links with other negotiations is more difficult to resolve at this stage. I agree that it would be undesirable for this issue to become entangled with the problem of the UK's net budgetary contribution at the next European Council. But it is also undesirable for it to be linked with this year's price fixing as the other member states will no doubt see this as an opportunity to undermine our resistance to increasing the cost of the CAP. If at all possible, therefore, I should like to see the issue steered towards the Foreign Council with a view to its being resolved in the European Council in June, or even as Peter Carrington suggests, later still.

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

Geoffrey

GEOFFREY HOWE

The Rt. Hon. The Lord Carrington KCMG., MC.

-7 FEB 1980

-7 FEB 1980

CONFIDENTIAL

Weekend Box

ACTION

Prime Minister

It seems it is not possible to adapt the C.A.P. to suit Britain - no matter how hard we try.

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

OD(E) (80)8

5 February 1980

COPY NO 2

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

SUB-COMMITTEE ON EUROPEAN QUESTIONS

POSSIBLE MEANS OF REDUCING THE COST OF THE COMMON AGRICULTURAL POLICY

Memorandum by the Minister of Agriculture, Fisheries and Food

CONFIDENTIAL

4. Secondly, effective measures to reduce production would arouse strong political opposition in other member states, to which their governments would on past form be likely to bow.

5. Thirdly, the policy does not inflict damage on other member countries. Indeed for the majority of them it provides positive benefits. Britain alone sustains considerable costs and damage. The resource flows which the CAP produces are set out in the table at Annex II. Four countries - Netherlands, France, Denmark and Ireland - gain substantially from the policy. Belgium/Luxembourg

Ref: A01331

CONFIDENTIAL

Prime Minister.
Even if there is no 'linkage', it is clear that the French will not agree to a Budget settlement unless there is also a sheepmeat settlement in roughly the same timescale. You may like to be reminded of the maximum cost to the U.K. of a sheepmeat regime. It is very small compared with the sums at stake on the Budget.
5/2

MR. ALEXANDER

Sheepmeat and the Community Budget

As part of a Budget settlement, the French will press for a Community sheepmeat regime to suit their interests. They want a high initial "reference price" to give their producers a large premium financed by the Community and some form of intervention. In his paper OD(E)(80) 1, the Minister of Agriculture put the cost of meeting these requests at £13 million in the first year. The cost in later years would be less as the higher premium for French producers was phased out: after the transition we would expect any premium scheme to yield the United Kingdom a net resource benefit.

2. The cost of any intervention scheme is impossible to estimate. The Commission put it at 35 million eua per annum (on top of aids for private storage which everyone accepts), but the actual cost would depend on the precise system of intervention adopted and the state of the market. The MAFF estimate (accepted by the Treasury) of £13 million includes the possible cost of intervention because, if it took place, it would reduce expenditure on premium. The Commission argue that a mixed premium/intervention system would actually be cheaper than premium alone, but the MAFF dispute this.

D J Wright

(D. J. Wright)

5th February 1980

PART 2 ends:-

Hansard extract 31.1.80

PART 3 begins:-

OD(E)(80) 8 5/2/80.

END