PREM 19/217

Part 5.

Confidential Filing.

Common Agricultural Policy (CAP)

Review of Support for British Agriculture.

EUROPEAN POLICY

Part 1: May 1979

Part 5: May 1980.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~2-5-80.~~							
~~16-5-80.~~							
~~30.5.80.~~							
~~2-6-80~~							
~~3-6-80~~							
~~9.6.80~~							
~~12-6-80~~							
~~17.6.80.~~							
~~18.6.80~~							
~~19.6.80~~							
10.7.80							
ENDS							

PREM 19/217

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
OD(E)(80) 6th Meeting, Item 2	21/05/80
CC(80) 23rd Conclusions, Item 3 (Extract)	11/06/80
CC(80) 24th Conclusions, Item 3 (Extract)	19/06/80

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 *CWayland* Date *13 April 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.

House of Commons Hansard 08 May 1980
Columns 536-546 European Community (Agriculture Ministers' Meetings)

House of Commons Hansard 02 June 1980
Columns 1058-1070 European Community (Agriculture Ministers' Meetings)

House of Commons Hansard 18 June 1980
Columns 1569-1582 European Community (Agriculture And Fisheries Ministers' Meetings)

Signed OWayland Date 13 April 2010

PREM Records Team

[ESTI]MATED AVERAGE REAL PRICE EFFECTS OF APRIL PRICE PROPOSALS TAKING ACCOUNT OF PROPOSED[a] AND AGREED[b] GREEN RATE CHANGES

%

	Nominal Price Changes From:			Inflation Rates	Net Price Reductions in Real Terms without Corep. Levy	Net Price Reductions in Real Terms with Corep. Levy
	Common Price Increases	Green Rate Changes	1 and 2 Combined			
	1	2	3	4	5	6
Germany	4.6	-1.1	+3.4	5.0	1.5	1.8
Denmark	4.4	+4.9	+9.5	12.5	2.7	3.0
Netherlands	4.5	-0.2	+4.3	6.8	2.3	2.9
Luxembourg	4.3	-0.2	+4.1	6.5	2.3	2.7
Belgium	4.6	-0.2	-4.4	6.9	2.3	2.6
UK	4.4	+5.3	+9.9	18.9	7.6	8.0
Italy	4.8	+9.2	+14.4	17.1	2.3	2.4
Ireland	4.2	-	+4.2	15.5	9.8	10.2
France	4.5	+5.1	+9.8	12.1	2.1	2.3
Total	4.55				3.0	3.3

Notes: (a) The proposed changes are:
(i) For W.Germany a 1 percentage point reduction in MCAs.
(ii) For the Benelux an 0.2 percentage point reduction in MCAs.

(b) The agreed changes are:
(i) For UK a 5% devaluation of the green pound, agreed in December 1979.
(ii) For Italy a 5% devaluation of the green lira, agreed in December 1979 and a further 3.523% devaluation agreed in April 1980.
(iii) For France a 3.5% devaluation of the green franc, agreed at the 1979/80 price fixing and a further 1.336% devaluation agreed in April 1980.
(iv) For Denmark, a 4.6% devaluation of the green krone, agreed in December 1979.

PART 5 ends:-

CDL to Ld Chanc 16/7

PART 6 begins:-

MAFF to PM 18/7/80.

Euro Pol:

Chancellor of the Duchy of Lancaster

PRIVY COUNCIL OFFICE

WHITEHALL, LONDON SW1A 2AT

16 July 1980

Dear Q.

NBPM
Mr

NEW ZEALAND BUTTER

I have seen a copy of the Minister of Agriculture, Fisheries and Food's letter of 11 July to the Foreign and Commonwealth Secretary seeking agreement for a debate to be held on the Commission's proposals for the importation of New Zealand butter during 1980 and for post-1980 access.

Subject to comments from other recipients of the letter, I do not think that we need bring this to Legislation Committee. We will try to ensure that a debate is held before the summer recess and will make arrangements for a 90-minute debate on an expanded take-note motion along the lines suggested by the Minister of Agriculture.

I am copying this letter to the recipients of yours.

ever yours
N

The Rt Hon Lord Hailsham of St Marylebone
CH FRS DL
Lord Chancellor
House of Lords

Euro Pol.

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

(2)

Prime Minister

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

11 July 1980

CONFIDENTIAL

NEW ZEALAND BUTTER

The Commission's proposals for the importation of New Zealand butter during 1980 and for post-1980 access were tabled at the Special Committee for Agriculture on Tuesday of this week, but the published document is not yet available. The proposals will now be examined at official level before being discussed by the Council of Agriculture Ministers on 22 July.

The Commons Scrutiny Committee recommended last November that, when these draft legislative proposals were submitted by the Commission, the House should debate the "Report from the Commission to the Council on the Dairy situation in the Community, the World Market and in New Zealand in relation to the Import of New Zealand Butter into the United Kingdom" (8832/79 of 31 July 1979).. In this Report the Commission had set out its intentions in general terms on the nature of the post-1980 access arrangements.

We must now give the House an early opportunity to discuss that Report and the proposals. If agreement is not reached at the Agriculture Council on 22 July, we need to be in a position to take decisions at a Foreign Affairs Council or the Agriculture Council before the House re-assembles. This means that we should hold the Debate before the summer recess. I hope colleagues will agree that a time should be allocated which could, I suggest, be after 10pm. Alick Buchanan-Smith would open and wind up the debate.

The Commission's proposals are not at all bad for New Zealand. We had expected the Commission to seek a voluntary reduction in 1980 offset by a levy reduction. It will be for New Zealand to say whether she is prepared to do a deal of this sort for 1980. As to the proposal for 1981 and beyond, although this provides for the quantity to decline to 90,000 tonnes in 1984 rather than 1985, there are

Continued/

attractions to New Zealand in the fixed rather than variable levy arrangement and from the relatively generous special levy rate for 1981. The proposal is for a continuing agreement subject to review provisions. A continuing agreement is clearly in our and New Zealand's interests. The New Zealand Government is naturally concerned about the rate of degressivity and the precise terms of the review clause. But I doubt if these need be sticking points.

Mr Gundelach is going to New Zealand this weekend and returning in time for the Council on 22 July. Although he will be mainly engaged in negotiating a Voluntary Restraint Agreement on sheepmeat, he will also be discussing the butter proposals and we must hope that he can reach agreement in principle on these with the New Zealanders. We shall then be faced with ensuring that the agreement gets through the Council with as little amendment as possible.

In the Debate in the House, we shall want to make clear our continuing determination to secure satisfactory access for reasonable quantities of New Zealand butter after 1980 and to welcome the Commission proposals as providing a basis for reaching agreement with the New Zealanders. We shall have to decide what we say in detail on quantities, the review provisions and the levy arrangements when we know how Mr Gundelach's talks with the New Zealanders have progressed. We should not, in particular, want to indicate acceptance of the Commission's quantities unless the New Zealanders have by then shown themselves willing to accept them in the context of a satisfactory overall settlement.

I suggest that the Government Motion might read as follows:-

> "That this House takes note of Commission Documents 8832/79 and [ ] on access for New Zealand butter to the European Community and supports the Government's intention to secure satisfactory arrangements for the importation of New Zealand butter into the European Community after 1980".

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

PETER WALKER

vb

Euro Pol,

17 June 1980

Sheepmeat and New Zealand

The Prime Minister has seen your Minister's letter to her of 13 June on this subject and has taken note of the points made in it.

I am sending a copy of this letter to George Walden (Foreign and Commonwealth Office).

(SGD) MICHAEL ALEXANDER

Garth Waters Esq
Ministry of Agriculture Fisheries & Food

JP

File in Venice

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

From the Minister

Prime Minister ②

CONFIDENTIAL

PRIME MINISTER

13 June 1980

SHEEPMEAT AND NEW ZEALAND

I understand that you were unhappy with the line taken in the brief which the Foreign and Commonwealth Office supplied for your conversation on Wednesday with the Prime Minister of New Zealand. I had not seen this brief, which I understand had to be prepared at short notice, and now that I have done so I share your own disquiet.

In particular I think the line suggested on export refunds was far too weak. We have set up a situation in which New Zealand has the opportunity to negotiate an understanding which should effectively limit the use of export refunds to insignificant proportions. Gundelach assured Brian Talboys, as he had assured me, that the Council Declaration, whereby implementation of refunds must not prejudice the agreements being negotiated with third country suppliers, gives New Zealand an effective veto over export refunds distinct from its power of veto over the proposed sheepmeat regime as a whole. New Zealand will not of course want to use this veto to block the whole regime: but it sets up a strong negotiating position for her and I am sure she will make good use of it.

As you know we have made it very clear to the New Zealanders that we are entirely at their service in this negotiation and my officials have kept in the closest possible touch with them. They have not sought to involve us as actual participants in the negotiation, though they know we are very much at

./...

their service. They clearly and understandably take the view that to involve us overtly could stir up other member countries against whatever comes out of the talks, and they prefer to use us simply as advisers. I am also sure they are right to raise the negotiation to the political level at this stage and I am glad that Gundelach is ready to go to New Zealand. That is the only way to settle matters satisfactorily.

Finally, I believe you were surprised by Bob Muldoon's reference to the possibility of intervention in other member countries outside the July-December season. The regulation does indeed make provision for this, but only if a serious market situation arises and then only under Management Committee procedure. This means it can only happen if the Commission proposes it (and not too many countries object to it), and I know the Commission will be extremely reluctant to do so. It is in any case very unlikely to happen, simply because this is the season when marketings are light and prices usually high. And if prices were to fall catastrophically and intervention were to be introduced temporarily in France, the way the deficiency payment system will operate here will immediately put a stop to our exports and so firm up the French market above intervention levels. So it is in no sense a real threat, and the Commission have made this clear to New Zealand.

I am sending a copy of this letter to Peter Carrington.

Yours ever
Peter

PETER WALKER

CF

CWMAFF
FCO
Euro Pol
JS.

10 DOWNING STREET

THE PRIME MINISTER

12 June 1980

Dear Sir James,

Thank you for your letter of 2 June conveying the views of your Government on the international trade implications of the new common organisation of the market in sheepmeat.

I should be grateful if you would convey to your Government my recognition of Australia's interest in this sector and her concern that Community arrangements should not disrupt world trade. We also are determined that this should not happen.

The common organisation just agreed by the Council of Agriculture Ministers does include a measure of intervention. This was necessary in the interests of agreement. Intervention will, however, be limited, normally operating only between August and December, and it will not be used in the UK. Instead we shall operate a variable premium on similar lines to our present deficiency payment, which will be recovered on exports. So our consumer price will not be forced up and when the French market is weak there should be little or no importation from the UK to depress it further. Sales into intervention should therefore be light.

Because the regime will only come into force when voluntary restraint agreements have been concluded with the main third country suppliers, this gives the countries concerned an opportunity to ensure that the total arrangements are not disruptive of world trade. We expect the negotiations on these agreements

/to cover not

to cover not only the volume of imports to the Community and the tariff level but also the Community's export policy, including the use of refunds. We have made it clear that we do not believe refunds are appropriate in this sector and that the Community must come to terms with its third country suppliers - and notably of course with New Zealand, its principal supplier - on this question.

I hope that this explanation will allay the concerns of your Government. I suggest that it would be helpful if Australian officials were to keep in close touch with officials of our Ministry of Agriculture during your Government's negotiations with the Commission on voluntary restraint.

Yours sincerely

Margaret Thatcher

His Excellency Sir James Plimsoll, AC, CBE.

CONFIDENTIAL

cc FCO
CO

BK

10 DOWNING STREET

From the Private Secretary

11 June 1980

Dear Garth,

Telephone Conversation with the
Prime Minister of New Zealand

As arranged, the Prime Minister spoke on the telephone with Mr. Muldoon this evening.

Mr. Muldoon said that the negotiations on lamb were not making much progress. He was afraid they might go off the boil and that it would take a long time to reach conclusions. He had asked Commissioner Gundelach to come to New Zealand but expected that it might be a little while before he replied. The particular points about which the New Zealand Government was concerned were:-

a) Intervention;

b) Restitution

On both these points the Commission were taking the line that the rules of the Community could not be bent. They were, for instance, arguing that under the intervention proposals, lamb could be bought in at any time. This was impossible for New Zealand:

c) The Levy.

The New Zealand Government took the view that in the situation where there was a voluntary restraint agreement, a levy or tariff was simply a tax. In their view it should be abolished. The Commission had offered a reduction of 5 per cent in the existing tariff. The likelihood was that after argument, a compromise setting the level of the tariff at, say, 10 per cent would emerge. (Mr. Muldoon's tone made it clear how unwelcome this would be to New Zeala[nd]

As regards price, Mr. Muldoon anticipated that there would be a price reduction as production built up in the United Kingdom. A price reduction had been agreed between the UK and New Zealand officials but here again the Commission were proving very reluctant to move.

/The Prime Minister

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The Prime Minister said that her understanding was that before any lamb could be exported, the New Zealand Government were to be consulted as to where and at what price it should be sold. For the rest, Mr. Walker had spoken to Commissioner Gundelach earlier in the day and had established that the Commissioner was very willing to go to New Zealand to negotiate with Mr. Muldoon and with other members of his Cabinet. He had the approval of the Commission for the visit. In talking to Mr. Walker, Commissioner Gundelach had said that negotiations of this kind had a habit of running into the sand when conducted by officials and it very often became necessary to raise them to the political level. He saw no insuperable difficulties in the negotiations. The Prime Minister added that she herself would see what she could do in Venice in the next two days.

Mr. Muldoon said that what the Prime Minister had said sounded very helpful. He added that President Giscard had been relatively forthcoming when he had seen him in Paris recently. He had said that New Zealand lamb had been caught up in the Community sheepmeat problem by accident and that whatever was done to sort out the Community's problem should not damage New Zealand's position. The Prime Minister said that this was fine as far as it went, but it was the detail that mattered. It would be essential to keep on top of the problem and to ensure that it was settled to New Zealand satisfaction.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office) and David Wright (Cabinet Office).

Yours sincerely

Richard Alexander

Garth Waters, Esq.,
Ministry of Agriculture, Fisheries and Food

SUBJECT

NOTE OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF NEW ZEALAND, MR. R. D. MULDOON AT 1950, WEDNESDAY 11 JUNE

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T 125/80.

Prime Minister: Hello Bob. Margaret Thatcher. How are you Bob? Alright?

Mr. Muldoon: Oh yes, I just got back to New Zealand late last night.

Prime Minister: Yes.

Mr. Muldoon: I thought I should ring you at this stage about this lamb question because we are not making very much progress at officials level with the Commission and what is worrying me is that the thing might go off the boil. We will take a long time I believe to make any progress with the officials at the Commission. We have asked Commissioner Gundelach to come to New Zealand. He indicated that he would be prepared to do so but we haven't had a reply on that and it may be some time and I thought in the context of the various meetings you are going to have I should bring you up to date with where we are.

Prime Minister: Yes please do.

Mr. Muldoon: The three issues on which we are making very little progress are the three important ones. Intervention and restitution - the Commission officials say to us that this is a matter of the rules of the Community, they can't be bent and they've just got to take their normal course. Now that of course both presentationally and in fact is an impossible situation. Intervention in that any lamb can be bought in at any time, which is not what we had in mind at all and restitution of course can be subsidised into third markets.

Prime Minister: But it is not really what my understanding of what Peter Walker agreed, which was that before any lamb was sold out of intervention you indeed must not only be consulted but part of the negotiation about the prices it was sold at and where it was sold.

Mr. Muldoon: That's right. That's really exactly as I understood it but the officials in the Agricultural Commissioners Department in

/ Brussels

Brussels have ...

Prime Minister: They are being rigid...

Mr. Muldoon: ...they will, this simply can't be done. That's the present state of play. The other issue is the question of the levy which now really becomes a duty. It's really a tax now because if we have voluntary restraint it's no longer a protective duty it's simply ..

Prime Minister: .. a tax, yes.

Mr. Muldoon: .. and our provision was to say that we believed that the thing should be abolished, it no longer serves any purpose other than that of a tax. The Commission has responded by saying that they are prepared to agree to a reduction of 5 per cent. Now, we are so far apart on this that it is going to become simply a negotiating situation where we meet somewhere in the middle at about 10 per cent. They have already discussed with us some time ago the possibility of reducing it to 8 per cent, and the importance of it now is that they agree, as does your Ministry of Agriculture man, that we will very likely be given a slight reduction both on the British market and on third markets as production builds up somewhat. We don't think it will build up very much but if it builds up by 10 per cent, say, there will be a price reduction which will be reflected in third markets as well - they are very directly linked. That's been agreed with the British officials and our own officials but with the Commission they are proving to be very reluctant to move on the levy. It becomes a budgetary matter of course - I mean, there is money involved, so one can understand their attitude, but those are the three issues on which we are so far apart that it seems to me that at officials level we are not going to make much movement.

Prime Minister: That is the three issues... one moment Bob, that was the export rebates, export restitution and they are being difficult about that, and also they are being difficult about the level of the tariff, and the third one was what?

/ Mr. Muldoon:

Mr. Muldoon: The third one was intervention, the actual buying in of lamb.

Prime Minister: The actual buying in at any time of the year.

Mr. Muldoon: Yes.

Prime Minister: Whereas we were.... in France.

Mr. Muldoon: That's right. What we were talking about was a very limited intervention both regionally and seasonally.

Prime Minister: But none in Britain, but only buying in during the season which did not affect you.

Mr. Muldoon: That's right.

Prime Minister: Well, look, Peter Walker heard about this and also his office got onto Gundelach this morning and spoke to Gundelach in the terms in which you have been speaking and Gundelach said he was quite prepared to go to New Zealand and would like to do so to negotiate with you and if need be with the other members of the Cabinet. I understand that he thinks that talks between officials often run into difficulties but there was a Commission meeting this morning and he has now got the Commission's approval to come to New Zealand for talks.

Mr. Muldoon: I see.

Prime Minister: I am not sure whether he has to get any other permissions, I don't think so. But he is now fully expecting, with the Commission's approval, to come to New Zealand, to discuss the matter with you and any ordinary members of the New Zealand Cabinet. He thinks it's far better to do direct negotiation than to do it between officials which he said has a habit of running into the sand, because none of them have the requisite authority. I think that will be very much better Rob. In the meantime, I will see what I can do this weekend on these three points.

Mr. Muldoon: Good. I had a very helpful meeting with President Giscard in Paris. He was quite forthcoming although not well-briefed on the detail.

Prime Minister: Oh, forthcoming in what way?

Mr. Muldoon: Well, he accepted that the New Zealand lamb got caught up with this more or less by accident and that whatever was done should not damage our position.

Prime Minister: Well, thank goodness for that. In the end it depends what is done in detail, Rob, you know it's not a question of general settlement, it's detailed amounts and levies.

Mr. Muldoon : Of course.

Prime Minister: Alright, well I'll have a word this weekend with my colleagues. I don't think Gundelach will be there, but I'll try and have a word with one or two other people too. And as I say, he told Peter Walker today, Gundelach, that he positively was coming to New Zealand and he thought that was the best way to do it. And that, I must say also, that he saw no insuperable difficulties in the situation, but he had found previously that often that talks between officials did run into difficulties which did not occur when he got talking to people with authority to act.

Mr. Muldoon: Yes. Well that sounds helpful.

Prime Minister: Well, we have to look after this vital subject. Alright Rob, anything else..?

Mr. Muldoon: Thank you very much. That's helpful. I thought I should keep you ...

Prime Minister: Oh, I am very grateful, I am very grateful because we're going there tomorrow....

Mr. Muldoon: .... I don't want the thing to be dragged out until it becomes just a nuisance.

Prime Minister: You must get it settled...

Mr. Muldoon: .... try and get it tidy while it's still an issue.

Prime Minister: ...settled... settled to your total satisfaction. Well that's what we are after.

Mr. Muldoon: Good.

Prime Minister: Alright Rob. Thank you very much for phoning. Good to talk to you.

Mr. Muldoon: Goodbye.

Prime Minister: Goodbye.

Foreign and Commonwealth Office

London SW1A 2AH

11 June 1980

Dear Michael,

<u>Telephone Conversation Between the Prime Minister and the Prime Minister of New Zealand: 7.45 pm on 11 June</u>

I attach a brief which takes account of points made by the MAFF.

Copies go to Garth Waters (MAFF) and David Wright (Cabinet Office).

Yours ever

Paul

(P Lever)
Private Secretary

M O' D B Alexander Esq
10 Downing Street
LONDON

CONFIDENTIAL

TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF NEW ZEALAND 7.45 P.M. ON 11 JUNE

EC/NEW ZEALAND: SHEEPMEAT

POINTS TO MAKE

1. In our view first round of negotiations has not gone badly. Commission line clearly an opening bid. Right therefore for New Zealand also to have opened high. Should be scope for some movement on both sides.

2. Gundelach has now agreed negotiations should be raised to ministerial level and should take place in New Zealand. Important New Zealand should follow this up.

3. In both UK's interest and New Zealand's to have early settlement on sheepmeat. This should help secure acceptable terms for butter too. Corresponding risk of damaging prospects on butter if sheepmeat settlement delayed.

4. (If Mr Muldoon raises detailed issues of substance e.g. tariff reduction, quantities). Final decision must rest with New Zealand Government. British officials always ready to give advice.

5. (If Mr Muldoon says he is not prepared to accept any tariff above zero). Zero tariff sensible opening bid. But unprecedented in practice. Community unlikely to be able to agree to it. Difficulties with farming lobby, including UK farmers, and with principle of Community preference. However we understand Commission have given clear signal of willingness to move below 15 per cent.

6. (If Muldoon argues that the Commission will not give satisfactory assurances on export refunds). We have always accepted that this would be difficult. Formula on export refunds agreed by Agriculture Council essentially a compromise between contradictory points of view. But New Zealand should press Commission to see what language they can come up with. Wrong simply to give up at this stage.

7. (If Muldoon suggests the UK should become directly involved in the negotiations). Counter-productive at this stage. Better for us to reserve our main fire until later and in particular for when Gundelach reports to the Council on the outcome of the negotiations.

/ESSENTIAL FACTS

CONFIDENTIAL

ESSENTIAL FACTS

8. We understand Mr Muldoon has taken the view that the respective positions of New Zealand and the Commission are so far apart that discussion at official level cannot resolve them. He may not however be aware of the fact that Gundelach has now told Mr Walker on the telephone (this morning) that he shares the New Zealand view that negotiations should be raised to ministerial level. He said he had secured the agreement of his Commission colleagues that he should travel to Wellington for the next round of talks.

9. It is in New Zealand's interest to achieve a quick settlement on sheepmeat. Failure to do so would reopen the question of the Community's internal arrangements and could seriously diminish the goodwill towards New Zealand which at present exists in the majority of Member States. This in turn would prejudice the prospects for securing acceptable terms for post-1980 access for New Zealand butter. By the same token the prospects for butter would probably be improved by an early settlement on sheepmeat.

10. It is also important for the UK that this negotiation should be brought to an early, satisfactory conclusion (if at all possible during July) so that the Community arrangements for sheepmeat which have been negotiated can be implemented. Delay would mean continuing uncertainty amongst UK producers and deprive us of early benefit from Community funding of support for UK sheep production.

11. In our view New Zealand would not in any case be justified in precipitating a breakdown in negotiations at this early stage. According to the New Zealand negotiators' own account (passed to us in confidence by the High Commission) the outstanding issues can be divided into three categories:

A) <u>Issues on which they see no difficulty over reaching agreement with the Commission</u>:

(i) the form of the agreement;
(ii) the preamble;
(iii) enlargement;
(iv) safeguards;
(v) review clause;

/(vi)

(vi) GATT rights and obligations;
(vii) duration;
(viii) consultation.

B) Issues on which they see scope for compromise:

(i) quantities, where the New Zealanders have bid for 240,000 tonnes and believe that the Commission could go up to 230,000 tonnes and
(ii) import procedures (licensing, etc.).

C) Issues where there are wider differences between the New Zealand and Commission positions:

(i) the extent of the tariff cut. The New Zealanders have bid for a zero tariff. The Commission have responded with a 15 per cent offer but have made it clear that they regard this as an opening bid;
(ii) product mix between fresh and chilled meat on the one hand and frozen meat on the other. For the New Zealanders it is an important point of principle to establish some flexibility for the future. The Commission have no mandate to negotiate on this but have indicated they may be able to contemplate a token transfer up to 500 tonnes;
(iii) growth, on which the Commission's proposals provide for both upward and downward movement. The New Zealanders cannot accept provision for downward revision;
(iv) assurances over disposal of intervention stocks and use of export restitutions. The Commission argue (correctly) that they cannot, on the basis of their existing mandate, enter into legally binding commitments. They have however offered to write into the agreement with New Zealand:

- an undertaking to try and prevent any marketing trends which might hinder the marketing of New Zealand lamb;
- a statement that export restitutions should respect international obligations and should not undermine the proper application and functioning of the arrangement with New Zealand. (Respect of these principles is to be ensured by the Joint Consultative Committee).

/The

The New Zealanders have said that on intervention stocks a mutually acceptable formula could perhaps be found but that on export refunds they do not think the gap between the two sides can be bridged by drafting.

Foreign and Commonwealth Office

11 June 1980

C.F. ✓ Original = AR

cc MAFF

js

10 DOWNING STREET

THE PRIME MINISTER

11 June 1980

Dear Mr. Butler

Thank you for your letter of 20 May enclosing a copy of the resolution by your Council on the state of UK farming.

The resolution asked the Government to ensure that the new level of European prices was agreed by the end of May and, subject to overall ratification of the settlement, this has of course been achieved. The increase in support prices of about 5 per cent on average and the related measures will mean an addition to farmers' revenues in a full year of some £100 million after taking account of the extra cost which arises on feed. I recognise that farmers' costs are rising by more than 5 per cent, but we have in addition a settlement of significant benefit to the sheep sector which raises the guaranteed level of support to our producers by around 17 per cent. It is also necessary to take account of other steps by the Government, for example the three green pound devaluations since we came to office, the increases in the price of milk for the benefit of the dairy industry as a whole of some 22 per cent, and the substantial increase in Hill Farm Subsidies.

Your resolution mentions the livestock sector in particular. Several elements of the settlement give help to livestock producers. Apart from the agreement on sheep and on prices, the package includes the introduction of a new suckler cow subsidy worth about £12 a cow. This will be a useful supplement for

/those with

those with specialist beef herds. The Minister of Agriculture also succeeded in retaining the Beef Premium Scheme.

Overall, I am sure that we have a satisfactory outcome to the negotiations and I hope that your members will welcome it. I can assure you, moreover, that the Government will continue to keep under close review developments in UK agriculture, which I entirely agree is among our most efficient industries.

Yours sincerely

MT

The Hon. Richard Butler

Reference ....

MINISTER'S TELEPHONE CONVERSATION WITH MR GUNDELACH - 11 JUNE 1980

The Minister telephoned Mr Gundelach this morning to say that he had heard that talks between New Zealand and Commission officials on sheepmeat had been going badly and to ask for information on the state of play before Mr Muldoon telephones the Prime Minister this evening. Mr Gundelach said that he had received similar reports, but he was not taking them too dramatically. The possibility of holding the talks in New Zealand rather than in Brussels had already been raised between him and Mr Talboys and, following the Commission's meeting this morning, he now had their approval to go to New Zealand in the relatively near future for talks with Mr Talboys. He hoped he would also have the support of the Agriculture Council. In the light of this, Mr Gundelach suggested that the Prime Minister should say to Mr Muldoon that talks between bureaucrats often ran into difficulties if they dug in their heels too far. Nevertheless Mr Gundelach and the Commission felt that there were no insuperable difficulties and hoped that direct talks between Mr Gundelach and Mr Talboys would iron out the difficultie Mr Gundelach added that he thought it would be helpful for him to go to New Zealand in any case because this would provide an opportunity for talks with other members of the New Zealand Cabinet.

D.E. Jones

D E JONES
11 June 1980

Mr Wilson + 1

cc Miss Rabagliati
Mr Steel
Mr Sadowski
Mrs Brock
Mr J H V Davies
Mr Parkhouse
Mr Edwards
Mr Wilkes
Mr Alexander - 10 Downing Street
PS Lord Privy Seal
PS SS Scotland
PS SS Wales
PS SS Northern Ireland
PS SS Trade
Mr D Wright - Cabinet Office

CODE 18-77
SS 8/78

cc FCO
MAFF
M Franklin

New Zealand High Commission
New Zealand House
Haymarket
London SW1Y 4TQ

Telephone 01-930 8422 Ext.
Telex 24368

Reference

PM. Seen [initials] 17/6

Tuesday 10/6

Dear Michael,

I've enclosed a copy of a message from our Embassy in Brussels (No. 630), reporting the Commission's reaction to the statement of our position on sheepmeats we had 'tabled' last week. It is on the basis of this message that Mr Muldoon asked to be able to speak with Mrs Thatcher tomorrow evening.

Mr Muldoon's assessment of the situation, summarised in the final paragraph, is that our position and that of the Commission on the aspects of key concern to N.Z., are so far apart that further negotiation may not have much point.

Regards — Brian. L.

ACTION . MR C ELDER
INFOR . MR B J LYNCH
MR G F THOMPSON
MR D CRUMP

FOR NEW ZEALAND

CONFIDENTIAL EYES ONLY.

CONFIDENTIAL NEW ZEALAND EYES ONLY 9 JUNE 80
FROM BRUSSELS 12245
TO WELLINGTON 630 -PRIORITY-
RPTD LONDON 353 -PRIORITY-
PARIS 185, BONN 158, ROME 150, HAGUE 153 -ROUTINE-
SVGS ATHENS 19 (VIA LDN)

NZ/EC: SHEEPMEAT

TODAY WE RECEIVED THE CONSIDERED COMMISSION REACTION TO THE POINTS PUT FORWARD BY NEW ZEALAND AT LAST WEEK'S DISCUSSIONS ALONG THE LINES OF THE PRIME MINISTER'S TELEGRAM TO WELLINGTON (1095 FROM PARIS). VON VERSCHUER WENT THROUGH EACH OF THE POINTS MENTIONED AS FOLLOWS:

(A) FORM OF THE AGREEMENT:

HE THOUGHT THAT THIS WOULD BE AN AGREEMENT BETWEEN NEW ZEALAND AND THE COMMUNITY SUBJECT TO THE AGREEMENT OF THE COUNCIL OF MINISTERS. IT WAS STILL OPEN WHETHER THIS WOULD TAKE THE FORM OF THE PRESIDENT OF THE COUNCIL SIGNING SUCH AN AGREEMENT OR WHETHER IT WOULD BE WITH THE COMMISSION BUT AGREED BY THE COUNCIL AND PUBLISHED. THIS SECOND COURSE WOULD GIVE THE SECURITY NEW ZEALAND REQUIRED. IT BOUND BOTH THE COUNCIL AND THE COMMISSION AND HAD THE ''NECESSARY JURIDICAL SOLIDITY''.

(B) PREAMBLE:

VON VERSCHUER THOUGHT THIS WAS MAINLY A QUESTION OF FINDING THE RIGHT DRAFTING ONCE BOTH SIDES WERE CLEARER REGARDING THE CONTENT OF THE AGREEMENT. THIS WAS ESPECIALLY TRUE REGARDING THE AGREEMENT BEING REPRESENTED AS ASSURING GUARANTEED ACCESS FOR NEW ZEALAND. IT MUST BE UNDERSTOOD THAT A VOLUNTARY RESTRAINT UNDERLAY THIS, THAT NEW ZEALAND WOULD HAVE CERTAIN RESPONSIBILITIES ARISING FROM IT, AND THAT IT WOULD NOT MEAN MORE THAN A GUARANTEE OF ACCESS. SALES COULD NOT BE GUARANTEED.

CONFIDENTIAL

CONFIDENTIAL FOR NEW ZEALAND

 EYES ONLY.

(C) QUANTITIES:

VON VERSCHUER NOTED THAT NEW ZEALAND'S FIGURES WERE BASED ON A SIX YEAR AVERAGE WHICH HAD BEEN SOMEWHAT ROUNDED UP. THE COMMISSION HAD ANALYSED THE FIGURES PROVIDED BY NEW ZEALAND AND ITS OWN FIGURES AND THE RESULTS SEEMED TO BE AS FOLLOWS:

	NEW ZEALAND EXPORT FIGURES	COMMUNITY IMPORT FIGURES
	TONNES	TONNES
6 YEAR PERIOD, 1973/78	231,741	230,113
3 YEAR PERIOD, 1977/79	223,356	223,703
3 YEAR PERIOD, 1976/78	226,734	224,962

VON VERSCHUER NOTED THAT THESE FIGURES WERE RELATIVELY NEAR TOGETHER. THEY WERE NOT SUFFICIENTLY DISPARATE TO REQUIRE ANY IDENTIFICATION OF POSSIBLE REASONS FOR DIVERGENCE. THE PROBLEM, HE SAID, WAS WHAT TO DO WITH THE FIGURES. THE AVERAGE FIGURE, ACCORDING TO THE COMMUNITY NEGOTIATING MANDATE POSITION, WAS 224,000 TONNES, BUT THE MEAN FIGURE BETWEEN THIS AND THE NEW ZEALAND SIX YEAR FIGURE WAS 227,000 TONNES. THIS WAS REASONABLE IF ONE TOOK ACCOUNT OF THE DIFFERENT FIGURES, ALTHOUGH IT WAS OBVIOUSLY LOWER THAN THE FIGURE NEW ZEALAND HAD PUT FORWARD. IT COULD, HOWEVER, BE DEFENDED IN THE COUNCIL IN SPITE OF BEING HIGHER THAN THE FIGURE THROWN UP BY THE MANDATE. LATER IN THE DISCUSSION VON VERSCHUER NOTED THAT THERE WAS NO NEED TO FIX ON ANY REFERENCE PERIOD OR FORMULA THAT NEEDED TO BE INCLUDED IN THE AGREEMENT ITSELF. THIS WAS JUST A CRITERION FOR ARRIVING AT THE ORDER OF THE FIGURE AND THE AGREEMENT ITSELF NEED ONLY MENTION AN AGREED FIGURE.

(D) PRODUCT DIFFERENTIATION:

HERE VON VERSCHUER NOTED NEW ZEALAND AND THE COMMUNITY BOTH HAD BASIC POSITIONS OF PRINCIPLE. IT WAS IMPORTANT TO NEW ZEALAND NOT TO BE PUT INTO A STRAITJACKET, EVEN IF THERE WERE NO EARLY SHIFT IN PRODUCT MIX IN VIEW. IT WAS IMPORTANT TO THE COMMUNITY IN PROVIDING SOME SECURITY THAT THE MARKET WOULD NOT BE DE-STABILISED THROUGH ANY MAJOR SHIFT IN PRODUCT MIX. IT HAD BEEN ESTABLISHED IN TECHNICAL DISCUSSIONS THAT THE PRESENT LEVEL OF NEW ZEALAND CHILLED EXPORTS WAS VERY LOW AND THAT IT WAS AN EXPENSIVE LUXURY PRODUCT THAT SOLD ABOVE THE PRICE OF LOCAL COMMUNITY PRODUCT.

VON VERSCHUER SUGGESTED THAT INSTEAD OF TRYING TO RESOLVE A DIFFICULT BATTLE ON PRINCIPLE IT WOULD BE BETTER TO FIND A PRACTICAL ARRANGEMENT WHEREBY BOTH SIDES WERE SATISFIED. THE COMMISSION WISHED TO PUT FORWARD THE IDEA THAT THE AGREEMENT WOULD CONTAIN A PROVISION THAT FOR THE NEXT THREE YEARS NEW ZEALAND FORESAW THE EXPORTS OF A QUANTITY OF NO MORE THAN UP TO 500 TONNES A YEAR. THIS WOULD NOT BE DANGEROUS FOR THE COMMUNITY AND THE MATTER COULD, ANYWAY, BE INCLUDED WITHIN THE PURVIEW OF A REVISION CLAUSE AND COULD BE LOOKED AT AFRESH THEN. IF, OVER THE THREE YEAR PERIOD, IT WAS PLAIN THAT NEW ZEALAND CHILLED EXPORTS PRESENTED NO DANGER, THEN THE COMMUNITY MIGHT BE LESS ANXIOUS TO DEFEND THE PRINCIPLE, AND THE COMMISSION FORMULA DID ALLOW FOR FURTHER DEVELOPMENT.

(E) GROWTH FORMULA:

VON VERSCHUER NOTED THE TREND OF NEW ZEALAND'S EXPORTS IN THE PAST HAD BEEN PRETTY MUCH PARALLEL WITH THE MOVEMENT OF CONSUMPTION IN EITHER DIRECTION. DURING EARLIER TALKS THE COMMISSION HAD FLAGGED THEIR RESERVATIONS ABOUT ANY MARKET SHARING FORMULA - SUCH A THING HAD NEVER BEEN INCLUDED IN ANY COMMUNITY AGREEMENTS WITH THIRD COUNTRIES BEFORE. NEW ZEALAND, FOR ITS PART, WOULD NOT HAVE FOUND THE FLEXIBLE FORMULA THE COMMISSION HAD PUT FORWARD (INCREASES OR DECREASES TO BE MUTUALLY AGREED) SUFFICIENT. ON FURTHER REFLECTION, THE COMMISSION WAS PREPARED TO MOVE TO A MORE AUTOMATIC FORMULA, BUT ONE WHICH, LIKE THE PREVIOUS FORMULA, MOVED IN EITHER DIRECTION. ''FOR THE TIMEBEING'', SAID VON VERSCHUER, ''THIS IS WHAT WE THINK WE CAN DEFEND IN THE COUNCIL OF MINISTERS.''

(F) TARIFF REDUCTION:

IN NEGOTIATING TERMS THIS WAS A MORE EASILY DEFINED ISSUE, VON VERSCHUER SAID. ''CONFRONTED WITH NEW ZEALAND'S OPENING BID, I HAVE BEEN INSTRUCTED TO PUT FORWARD THE COMMUNITY'S OPENING BID, A REDUCTION IN THE TARIFF FROM 20 PERCENT TO 15 PERCENT.'' IN PUTTING FORWARD THIS FIGURE, VON VERSCHUER NOTED THE BUDGET CONSTRAINTS THAT THE COMMUNITY WAS FACING WHICH RELATED NOT ONLY TO COMMUNITY EXPENDITURE BUT ALSO TO THE LEVEL OF COMMUNITY REVENUES FROM CUSTOMS DUTIES. EACH POINT OF THE TARIFF WAS WORTH ABOUT 4 MILLION ECUS. A REDUCTION OF 5 PERCENT THEREFORE MEANT A REDUCTION IN COMMUNITY REVENUES OF 20 MILLION ECUS.

CORRECTION PAGE 3 4TH LINE FROM BT BOTTOM 5 TH WORD SHOULD BE ''AFRESH''

 EYES ONLY.

(G) NEW MEMBERS:

THE COMMISSION HAD ASSESSED WHAT THE AVERAGE OF NEW ZEALAND SENDINGS TO GREECE HAD BEEN OVER THE RELEVANT REFERENCE PERIODS. THESE WERE, BASED ON NEW ZEALAND FIGURES ONLY, AS FOLLOWS:

1973/78	1976/78	1977/79
11,991 T.	10,944 T.	11,400 T.

THIS IMPLIED A FIGURE OF AROUND 11,000 TONNES SAID VON VERSCHUER THE COMMISSION AGREED IN PRINCIPLE THAT A FIGURE FOR NEW ZEALAND EXPORTS TO GREECE SHOULD BE ESTABLISHED AS SOON AS POSSIBLE TO OBTAIN SECURITY FOR NEW ZEALAND FOR THE PERIOD FROM 1 JANUARY 1981. IN FORMAL TERMS, HOWEVER, WHAT THE COMMISSION SAID NOW COULD ONLY BE INDICATIVE BECAUSE IT WAS A REQUIREMENT OF THE INTERIM ARRANGEMENT BETWEEN THE COMMUNITY AND GREECE THAT GREECE MUST BE CONSULTED ON SUCH A MATTER. GREECE WAS NOT BOUND BY THE ACCESSION TREATY TO REDUCE ITS TARIFFS AT ONCE. IT COULD DO SO ONLY IN FIVE STEPS, IF IT CHOSE. THERE WERE ALSO QUANTITIVE RESTRICTIONS IN THE GREEK SYSTEM THAT WOULD NEED TO BE ABOLISHED. THE COMMISSION WOULD CONSULT GREECE AS SOON AS POSSIBLE TO SEE IF THEY COULD GET THE GREEKS TO AGREE TO THE RIGHT QUANTITIES AND ON REASONABLE DUTY ARRANGEMENTS.

FOR OTHER PROSPECTIVE MEMBERS THIS WAS MORE A QUESTION OF APPROPRIATE DRAFTING ESTABLISHING THE PRINCIPLE OF NECESSARY ADJUSTMENT. IT WAS TOO EARLY TO FIX FIGURES. THERE WAS NO AGREED TIMETABLE ON ENLARGEMENT.

(H) DISPOSAL OF INTERVENTION STOCKS

NEW ZEALAND'S POSITION ON THIS, VON VERSCHUER SAID, RAISED A DEFINITE PROBLEM OF PRINCIPLE. IT WAS A CLEAR RESULT OF THEIR INTERNAL EXAMINATION OF THIS THAT ''WHATEVER OUR INTENTIONS ARE WE ARE NOT ENTITLED TO TAKE LEGALLY BINDING COMMITMENTS ON HOW TO HANDLE INTERNAL MEASURES ON OUR MARKET WHICH ARE SUBJECT TO COMMUNITY LEGISLATION''. PERHAPS THE COMMISSION AND NEW ZEALAND SHOULD LOOK AT A FORMULA THAT GAVE SUFFICIENT REASSURANCE TO NEW ZEALAND THAT NO ACTIONS WOULD BE UNDERTAKEN THAT CREATED ANY DIFFICULTIES FOR IT. VON VERSCHUER ALSO REFERRED US TO THE FORMULATION AT THE BEGINNING OF ITS OWN PAPER THAT THE COMMUNITY WOULD TRY AND PREVENT ANY MARKETING TRENDS THAT MIGHT HINDER THE MARKETING OF NEW ZEALAND LAMB, PLUS THE SUGGESTION THAT THE CONSULTATIVE COMMITTEE WOULD HAVE THE RESPONSIBILITY FOR EXAMINING THE OPERATION OF THE MARKET. FOR THE COMMISSION THIS KIND OF FORMULA MEANT GOING SOME DISTANCE. NEW ZEALAND SHOULD LOOK AT THE JOINT EFFECT MORE CLOSELY. IT PERMITTED NEW ZEALAND TO SEE THAT THERE WOULD BE ''NO NONSENSE'' IN THE COMMUNITY'S POLICY BUT PROTECTED THE COMMISSION AGAINST CRITICISM THAT IT WAS COMMITTING THE COMMUNITY WHERE IT HAD NO POWER TO DO SO.

(I) EXPORT RESTITUTIONS

HERE, VON VERSCHUER SAID THAT BOTH SIDES WERE CONFRONTED WITH DIFFERING POSITIONS OF PRINCIPLE AT THE START. THE COMPROMISE POSITION REACHED IN THE COUNCIL HAD MADE IT POSSIBLE FOR MEMBER STATES OPPOSED TO THE PRINCIPLE OF EXPORT RESTITUTIONS IN THE REGULATION, AND THOSE WHO ALSO FOR REASONS OF PRINCIPLE WANTED SUCH A PROVISION, TO AGREE. THE COMMISSION, HE FELT, FACED SOMETHING OF THE SAME POSITION. THE COUNCIL FORMULA MIGHT HELP IN BRIDGING THE DIFFERENCE BETWEEN THE COMMISSION AND NEW ZEALAND. THE WORDING OF THE COUNCIL STATEMENT WHEREBY EXPORT RESTITUTIONS WOULD

BE PUT INTO EFFECT ONLY IN CONFORMITY WITH INTERNATIONAL OBLIGATIONS (WHICH, HE SAID, WAS A CLEAR REFERENCE TO ARTICLE 16.3 OF GATT) AND WITHOUT PREJUDICE TO AGREEMENTS TO BE NEGOTIATED WITH THIRD COUNTRIES MIGHT PROVIDE THE BASIS FOR A SIMILAR FORMULA IN THE AGREEMENT WHEREBY THERE WOULD BE TWO CONDITIONS TO BE RESPECTED - ONE REGARDING INTERNATIONAL OBLIGATIONS, AND THE SECOND THAT THE EXPORT RESTITUTIONS WOULD BE APPLIED IN SUCH A WAY THAT THEY DID NOT UNDERMINE THE PROPER APPLICATION AND FUNCTIONING OF THE ARRANGEMENT WITH NEW ZEALAND. THE CONSULTATIVE COMMITTEE WOULD ENSURE THE PROPER APPLICATION AND FUNCTIONING OF THE ARRANGEMENT. VON VERSCHUER THOUGHT THAT THIS WOULD PROVIDE A BRIDGE WHEREBY BOTH SIDES COULD ARRIVE AT A COMPROMISE. LATER IN THE DISCUSSIONS, VON VERSCHUER SAID THAT HE WOULD THINK OVER WHAT FURTHER FORMULA THE COMMISSION COULD PROVIDE. THE DIFFICULTIES WOULD NOT BE EASY TO OVERCOME BUT IN ECONOMIC TERMS THE QUESTION WAS SMALL-SCALE. THE RISK OF HIGH QUANTITIES OF LAMB IN INTERVENTION WAS NOT VERY BIG. THEY WOULD BE DISPOSED OF PRINCIPALLY IN DIFFERENT PARTS OF THE COMMUNITY. THE COMMISSION MUST TAKE INTO CONSIDERATION HOWEVER, HE SAID, THE EXPORTS THAT ARE TAKING PLACE AT PRESENT. IT COULD NOT IMPLY THAT AT A MINIMUM THESE COULD NOT RECEIVE THE BENEFIT OF EXPORT RESTITUTIONS.

(J) SAFEGUARDS

THE COMMISSION WILL PREPARE A DRAFT, AS PROMISED, ON THIS BUT HAD NOT YET DONE SO.

(K) IMPORT PROCEDURES

VON VERSCHUER NOTED THAT THIS HAD ALREADY BEEN DISCUSSED AT THE TECHNICAL LEVEL. HE FELT THAT PROPER PROCEDURES COULD BE AGREED ENABLING NEW ZEALAND AND THE COMMISSION TO MEET THEIR OWN REQUIREMENTS.

(L) REVIEW PROVISION

THE COMMISSION THOUGHT, ON FURTHER REFLECTION, THAT IT WOULD PROBABLY BE WISE FOR BOTH NEW ZEALAND AND THE COMMISSION TO HAVE SOME PROVISION FOR REVIEW PARALLEL TO THAT IN THE REGULATION. UNDER THE REGULATION THE COMMISSION MUST REPORT TO THE COUNCIL BY OCTOBER 1983 AND SUBSEQUENTLY PUT FORWARD APPROPRIATE PROPOSALS, IF REQUIRED, FOR A COUNCIL DECISION TO BE TAKEN BY 1 APRIL 1984. IT WAS VON VERSCHUER'S UNDERSTANDING THAT IF THERE WERE NO CHANGES THEN THE REGULATION, AS CURRENTLY AGREED, WOULD CONTINUE TO APPLY. HE THOUGHT THAT NEW ZEALAND SHOULD CONSIDER SERIOUSLY THE SORT OF LINK IN TIMING THAT THE COMMISSION HAD IN MIND.

(M) GATT OBLIGATIONS

THE COMMISSION COULD ACCEPT NEW ZEALAND'S REQUIREMENT FOR A REFERENCE TO GATT OBLIGATIONS AND DUTIES IN THE AGREEMENT WITH THE COMMUNITY.

2. THE NEW ZEALAND SIDE(LAST 3 U/L) RESPONDED THAT WHAT NEW ZEALAND WANTED WAS NOT JUST A VOLUNTARY RESTRAINT AGREEMENT, BUT AN AGREEMENT CONTAINING CERTAIN GUARANTEES THAT NEW ZEALAND NEEDED, IN THE LIGHT OF THE NEW REGIME, AS BOTH GUNDELACH AND SOME MEMBER STATES HAD RECOGNISED. ANY DIFFICULTIES THE COMMISSION HAD WITH ITS NEGOTIATING MANDATE MIGHT NEED, ANYWAY, TO BE REAPPRAISED BECAUSE NEW ZEALAND AND THE COMMUNITY WERE MOVING INTO A BROADER CONCEPT.

3. WE MADE IT CLEAR THAT ON THE QUESTION OF QUANTITY THERE WAS STILL CONSIDERABLE DIFFICULTY. WE COULD NOT CONCEAL THAT. THE FIGURE OF 240,000 TONNES HAD BEEN PROPOSED BECAUSE THE NEW ZEALAND INDUSTRY NEEDED REASSURANCE IN AN UNCERTAIN TRADING ENVIRONMENT

THAT IT COULD SEND SOMETHING LIKE THAT FIGURE TO THE COMMUNITY. CERTAINLY THE NEW ZEALAND GOVERNMENT WOULD FEEL THAT THE FIGURE PUT FORWARD BY THE COMMISSION WOULD NEED TO GO HIGHER, BEFORE IT COULD CONTEMPLATE VOLUNTARY RESTRAINTS.

4. ON PRODUCT MIX, THE COMMISSION'S VIEW WAS EFFECTIVELY TO LEAVE THE QUESTION ASIDE AND LOOK AT IT IN THE REVIEW. FROM A PRACTICAL POINT OF VIEW NEW ZEALAND WAS UNLIKELY TO WANT TO GO OVER THE 500 TONNES FIGURE BUT IT WAS A VERY IMPORTANT POINT OF PRINCIPLE THAT NEW ZEALAND SHOULD NOT TIE ITSELF TO A FRAMEWORK THAT MIGHT BE INCREASINGLY RESTRICTIVE WITH CHANGES IN TECHNOLOGY AND CONSUMER DEMAND. SUCH A PROVISION COULD, MOREOVER, PROVIDE A SPRINGBOARD FOR FURTHER RESTRAINT IN A REVIEW. THIS CONTINUED TO BE AN IMPORTANT POINT FOR NEW ZEALAND.

5. ON A PROVISION FOR GROWTH, THIS WAS SEEN AS A VERY IMPORTANT PART OF THE GUARANTEES THE COMMUNITY WOULD EXTEND TO NEW ZEALAND. THE NEW ZEALAND INDUSTRY SHOULD HAVE AN ASSURANCE ABOUT THE MINIMUM LEVEL OF ACCESS, BUT THE POSSIBILITY OF ANY REDUCTION IN NEW ZEALAND'S SENDINGS WOULD BE VERY UNWELCOME.

6. ON THE TARIFF, WE SAID PLAINLY THAT THE COMMISSION AND NEW ZEALAND WERE POLES APART. THIS WAS PERHAPS A QUESTION WHICH, IN THE NATURE OF SUCH NEGOTIATIONS, WAS LIKELY TO BE SETTLED LATER RATHER THAN EARLIER. NEW ZEALAND HAD GOOD REASONS FOR ITS REQUEST FOR A ZERO TARIFF WHICH IT HAD ALREADY OUTLINED TO THE COMMISSION.

7. ON NEW MEMBERS, THE ACTUAL FIGURE OF NEW ZEALAND'S AVERAGE SENDINGS TO GREECE ASIDE, NEW ZEALAND AND THE COMMUNITY'S POSITIONS SEEMED PRETTY MUCH AGREED - ON THE ASSUMPTION OF COURSE THAT THE COMMISSION'S CONSULTATIONS WITH GREECE TURNED OUT SATISFACTORILY.

8. ON INTERVENTION STOCKS, IT WAS AN IMPORTANT AIM FOR NEW ZEALAND THAT THE AGREEMENT SHOULD STATE THAT, IN GENERAL, THE DISPOSAL OF SUCH STOCKS SHOULD TAKE PLACE WITHIN THE MEMBER STATES CONCERNED AND IN A MANNER THAT EXPANDED CONSUMPTION. BUT WE UNDERSTOOD THAT THE COMMISSION HAD DIFFICULTIES WITH THIS: PERHAPS A MORE GENERAL FORMULATION COULD BE FOUND.

9. ON EXPORT RESTITUTIONS, NEW ZEALAND HAD VERY REAL DIFFICULTIES. WHAT THE COUNCIL OF MINISTERS HAD SAID WENT ONLY PART WAY TOWARDS PROVIDING REASSURANCE FOR NEW ZEALAND. BUT NEW ZEALAND WAS SERIOUSLY CONCERNED THAT EXPORT RESTITUTIONS WERE IN THE REGULATION AT ALL. WE RECOGNISED THAT SUCH A PROVISION COULD NOT NOW BE REMOVED BUT IT WAS IMPORTANT FOR US THAT IT BE ESTABLISHED THAT IT WAS NOT INVOKED IN PRACTICE. THIS WAS NOT A POINT THAT COULD BE BRIDGED BY DRAFTING.

10. ON IMPORT PROCEDURES, DISCUSSIONS AT THE TECHNICAL LEVEL HAD ENCOURAGED US, WE SAID, TO THINK THAT WE WERE MOVING TOWARDS COMMON GROUND ON THE OPERATION OF THE VOLUNTARY RESTRAINTS AND IMPORT FORMALITIES, BUT THERE WAS STILL CONSIDERABLE WAY TO GO AND THERE HAD BEEN NO MEETING OF MINDS ON THE QUESTION OF PAYMENT OF DEPOSITS WHICH WAS STILL TROUBLING THE NEW ZEALAND SIDE.

11. ON DURATION, NEW ZEALAND WANTED AN AGREEMENT THAT WAS AS LONG RUNNING AS POSSIBLE. WHEN A REVIEW WAS CARRIED OUT IT MIGHT POSSIBLY BE UNDER CIRCUMSTANCES NOT SO FAVOURABLE TO NEW ZEALAND. IT WOULD BE IMPORTANT TO HAVE AN ELEMENT IN THE AGREEMENT THAT IF THERE WERE NO CHANGES AGREED BY NEW ZEALAND AND THE COMMUNITY THEN THE AGREEMENT WOULD ROLL FORWARD.

12. THE TWO SIDES THEN DISCUSSED WHAT FURTHER STEPS MIGHT BE TAKEN. WE NOTED THAT A GOVERNMENT RESPONSE TO THE COMMISSION'S POSITION WAS NOT LIKELY TO BE FORTHCOMING BEFORE NEXT WEEK. ON THOSE POINTS WHERE NEW ZEALAND AND THE COMMISSION POSITIONS SEEMED REASONABLY CLOSE (SEE BELOW) THE COMMISSION WILL PREPARE FURTHER DRAFTING AND WILL CONTACT US WHEN THIS IS READY. IT WAS AGREED THAT TECHNICAL DISCUSSIONS WOULD CONTINUE ON WEDNESDAY 11 JUNE.

CONFIDENTIAL FOR NEW ZEALAND EYES ONLY

13. OVERALL, THE POINTS IN THE COMMISSION'S POSITION SEEM TO FALL INTO SEVERAL CATEGORIES:

(1) THOSE WHERE NEW ZEALAND AND COMMUNITY POSITIONS ARE OR COULD FAIRLY QUICKLY BE MADE BROADLY COMPATIBLE WITH FURTHER DISCUSSION AND DRAFTING. THESE WOULD BE:

- THE FORM OF THE AGREEMENT
- THE PREAMBLE
- NEW MEMBERS
- SAFEGUARDS
- REVIEW CLAUSE
- GATT RIGHTS AND OBLIGATIONS
- DURATION
- CONSULTATION

(2) THOSE WHERE OUR POSITIONS REMAIN APART BUT WHERE THE SCOPE FOR A COMPROMISE, IF NOT THE ACTUAL POINT OF COMPROMISE, WAS SIGNALLED BY THE COMMISSION OR HAS BEEN FURTHER DEFINED BY DISCUSSION. THESE ARE:

- QUANTITIES: HERE VON VERSCHUER SEEMED TO INDICATE THAT THE COMMISSION COULD GO BEYOND THE FIGURE IMPLIED IN THE COMMISSION'S NEGOTIATING MANDATE UP TO E.G. 230,000 TONNES. THE CLEAR IMPRESSION, HOWEVER, WAS THAT THE COMMISSION WOULD NOT BE ABLE OR WILLING TO GO BEYOND THAT POINT.
- IMPORT PROCEDURES: THE COMMISSION, AT LEAST AT THE OPERATIONAL LEVEL, IS LIKELY TO PROVE TENACIOUS IN TRYING TO ENSURE THAT THE NEW ZEALAND AGREEMENT STICKS AS CLOSE AS POSSIBLE TO EXISTING PRECEDENTS, BUT ON SOME ASPECTS E.G. IMPORT LICENCES, THEY SEEM OPEN TO A MORE INNOVATIVE APPROACH. ON THE PAYMENT OF DEPOSITS, IT WILL NEED MORE PRESSURE TO SHIFT THEM.

(3) THOSE POINTS WHERE SERIOUS DIFFERENCES ON MATTERS OF PRINCIPLE OR SUBSTANCE REMAIN:

- TARIFF: THE COMMISSION'S ''OPENING BID'' WAS CONSCIOUSLY EXPRESSED AS A CLASSICAL NEGOTIATING RESPONSE TO WHAT IT SEES AS A CLASSICAL NEGOTIATING OPENING BID BY NEW ZEALAND. NO DOUBT FROM THE COMMISSION'S POINT OF VIEW IT WOULD EXPECT BOTH SIDES TO MOVE IN DUE COURSE TO SOME LOWER(U/L) COMPROMISE FIGURE.
- PRODUCT MIX
- GROWTH FORMULA
- EXPORT RESTITUTIONS
- DISPOSAL OF INTERVENTION STOCKS

  ON THESE LAST TWO POINTS WE DO NOT UNDER-ESTIMATE THE COMMISSION'S LEGAL DIFFICULTIES REGARDING INTERNATIONAL UNDERTAKINGS THAT TOUCH ON INTERNAL POLICY. WE SUSPECT, HOWEVER, THAT THEY MIGHT IN THE END BE WILLING TO AGREE ON SOME STRENGTHENED AND MORE SPECIFIC DRAFTING THAT GOES BEYOND THE POINTS IN THEIR INITIAL PIECE OF PAPER.

14. THE BASIC OUTLINE OF THE DISCUSSIONS HAS BEEN CONVEYED TO THE PRIME MINISTER IN SAN FRANCISCO.

=

CONFIDENTIAL

Gwold

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

cc FCO

From the Minister's
Private Office

N Sanders Esq
Private Secretary
No 10 Downing Street
London SW1

9 June 1980

Type for signature.

Dear Nick

My Minister has seen the Australian High Commissioner's letter of 2 June to the Prime Minister about sheepmeat and has suggested that the Prime Minister may like to make use of the attached draft reply.

F.C.O. agree.

Yours sincerely

David Jones

D E Jones
Assistant Private Secretary

No comments from FCO
11.6

DRAFT LETTER FROM THE PRIME MINISTER TO THE AUSTRALIAN HIGH COMMISSIONER

Thank you for your letter of 2 June conveying the views of your Government on the international trade implications of the new common organisation of the market in sheepmeat.

I should be grateful if you would convey to your Government my recognition of Australia's interest in this sector and her concern that Community arrangements should not disrupt world trade. We also are ~~also~~ determined that this should not happen.

The common organisation just agreed by the Council of Agriculture Ministers does include a measure of intervention. This was necessary in the interests of agreement. Intervention will, however, be limited, normally operating only between August and December, and it will not be used in the UK. Instead we shall operate a variable premium on similar lines to our present deficiency payment, which will be recovered on exports. So our consumer price will not be forced up and when the French market is weak there should be little or no importation from the UK to depress it further. Sales into intervention should therefore be light.

Because the regime will only come into force when voluntary restraint agreements have been concluded with the main third country suppliers, this gives the countries concerned an opportunity to ensure that the total arrangements are not disruptive of world trade. We expect the negotiations on these agreements to cover not only the volume of imports to the Community and the tariff level but also the Community's export policy, including the use of refunds. We have made it clear that we do not believe refunds are appropriate in this sector and that the Community must come to terms with its third country suppliers - and notably of course with New Zealand, its principal supplier - on this question.

I hope that this explanation will allay the concerns of your Government. I suggest that it would be helpful if Australian officials were to keep in close touch with officials of our Ministry of Agriculture during your Government's negotiations with the Commission on voluntary restraint.

With the compliments of
the Assistant Legal Secretary

H STEEL

I have phoned MAFF for a copy of the prev letter. 5/a

Attorney General's Chambers,
Law Officers' Department,
Royal Courts of Justice,
Strand. W.C.2A 2LL

01 405 7641 Extn. 3291.

Euro PA

ATTORNEY GENERAL

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

01-405 7641 Extn

3 June, 1980

NBPA

6/6

Dear Peter.

RESPONSE TO ILLEGAL SUBSIDISATION OF FRENCH AGRICULTURE

I am replying to the letter which you sent to me a little while ago raising a number of legal questions concerning our possible response to unilateral measures by the French to subsidise their agricultural producers. Though the particular situation which you had in mind will now, happily, not arise, one cannot be sure that the issues involved may not recur in a different situation or perhaps in a different form. I therefore think that it is still worthwhile setting down my advice on those questions. I am authorised to say that the Lord Advocate, who has seen your letter, concurs in the advice conveyed in this reply.

Your letter took for granted that the French measures would be illegal in terms of Community law. I think that this is right as regards a substantial part of those measures. But it is necessary to be a little more specific about the nature and extent of the illegality since that might determine the response open to us. I cannot give you comprehensive advice on this without knowing exactly what the French were going to do but I think that I am safe in saying that, at least as regards some agricultural commodities which their measures were likely to cover, unilateral aids to producers of kind they apparently had in mind would, prima facie, be a contravention of Article 92(1) of the EEC Treaty as being "aid granted by a Member State .... which distorts or threatens to distort competition ... [and] affects trade between Member States". Their introduction without first complying with the procedure described in Article 93(3) (prior notification to the Commission and thereafter, if the Commission objected to them, the full working-out of the machinery established by Article 93(2): see below) would have been an infringement of the requirement imposed by the last sentence of Article 93(3) which has direct effect.

/Article

ATTORNEY GENERAL

ROYAL COURTS OF JUSTICE

LONDON, WC2A 2LL

01-405 7641 Extn

Article 42 of the Treaty prima facie excludes "production of and trade in agricultural products" from the scope of the anti-competition rules in Articles 92-94 of the Treaty but I understand that, as is contemplated by Article 42, Regulations have from time to time been made bringing some of the more important agricultural commodities within the scope of Articles 92-94.

Article 92(2) and Article 92(3) provide for certain exceptions to the general prohibition contained in Article 92(1) but I do not think that the French measures could plausibly have been brought within either of those provisions, though a purported reliance on Article 92(3)(b) or even Article 92(2)(b) was perhaps a possibility. The Council would have had power under Article 93(2) (third paragraph) to permit derogation from Article 92 if they considered that "such a decision [was] justified by exceptional circumstances" but unanimity would have been required for this and that would obviously not have been forthcoming. The Commission would have had no formal dispensing power of this kind. But the accelerated infraction procedure which is provided for by paragraphs 1 and 2 of Article 93(2) can be initiated only by the Commission which could in practice, therefore, have given de facto authorisation to the measures in question simply by declining to set the procedure in train. Equally, if the French gave due notice under Article 93(3), the Commission could have refrained from invoking the procedure for objection which that provision establishes and that too, would have been a de facto authorisation. In either case, such a refusal by the Commission to initiate action against the French measures could, of course, itself have been challenged by the United Kingdom under Article 175. But, if we were contemplating taking the issue to the European Court in those circumstances, it might have been better to go straight for ordinary infraction proceedings against France under Article 170.

In the second paragraph of your letter you implied that the French measures might be illegal because of their incompatibility with the Treaty on grounds other than their tendency to "distort competition" i.e. the breach of Article 92(1). While it is possible that further research might suggest other grounds upon which we could challenge the measures, I have to say that I cannot, as at present advised, identify any other specific ground of that kind

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and I think that we must therefore consider our possible responses on the basis that it is only a breach of Article 92 (and that only in respect of certain of the commodities in question) that we should be legally aggrieved by.

That takes me to the question of what our responses might in practice be. You first canvassed the possibility of a legal challenge in the French courts. I am not competent to advise on French domestic law - if necessary, we could obtain an opinion from a French lawyer - but I have little hesitation in saying that there would have been substantial difficulty (in terms of _locus standi_, etc.) in the British Government itself bringing such an action, even if that were thought to be a politically acceptable course. The position would have been different for British exporters whose goods were being undercut by improperly subsidised French produce: they might have had a cause of action in the French courts in reliance on the direct effect of the last sentence of Article 93(3) - assuming that the French had indeed failed to comply with that provision. However, there might still be considerable difficulties of proof of actual damage if this is required by French law, and I think that difficulties of this kind would almost certainly rule out action by British producers (as distinct from exporters). If the equivalent of a declaratory action could be brought in the French courts, an exporter who had been undercut by subsidised French produce might be expected to have had sufficient interest to have the subsidy declared illegal. But I repeat that I cannot give authoritative advice on questions of French law, and in particular on whether an action in the French courts (irrespective of who the plaintiff is) would have been likely to be successful. Nor can I advise on the question which you put to me as to whether, if such an action were successful, it would be likely to lead to effective pressure by the French judiciary on the French Government to remedy the illegality that they were found to be committing. If you think that that question should be pursued, I think that we must look to the FCO, on the basis of advice which they could obtain from HM Embassy in Paris, to provide the answer.

However, the natural and obvious way in which we could have mounted a legal challenge to the French measures would be through the machinery established for that purpose by the Treaty and you asked for my advice on our chances of success if we followed that course.

/As

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As I have said above, Article 93(2) of the Treaty prescribes a procedure for dealing with these cases but this has to be initiated by the Commission. Assuming that the Commission could have been persuaded to move in this case - and I do not think that I am in a position to assess that - it would first have had to invite comments from "the parties concerned" and then, if it decided that the French measures were incompatible with Article 92, to prescribe a time within which those measures should be abolished or amended. If that requirement were not met, either the Commission or the United Kingdom would then have been able to take the case direct to the Court, bypassing the usual procedure under Article 169 or Article 170. However, quite apart from the delay which could be imported by the Commission taking matters at a leisurely pace and prescribing a generous time-limit for compliance, the French could further have spun things out by making an application to the Council under paragraph 3 of Article 93(2). In that case the Commission's proceedings would have been put into suspense pending the Council's decision but subject to a maximum interruption of 3 months from the date of the French application to the Council. It will be seen that the whole process could have been protracted for a considerable period, especially if the Commission were not inclined to pursue it vigorously. As I have said above, I do not think that the Commission could plausibly have refused to act under Article 93(2) (paragraphs 1 and 2) if we had urged them to do so and, if they did refuse, we should have had a good case against them under Article 175 if we chose to invoke it. Alternatively, we could in those circumstances have gone directly against France under Article 170. On the face of it, we (or the Commission) should have had a strong case against France when we got to the Court.

The other kind of response which your letter canvassed - I am not clear whether you regarded it as an alternative or as an accompaniment to a legal challenge - is the imposition in the United Kingdom of retaliatory levies on French produce. It is not clear to me how such a system of levies would have worked or what domestic authority for imposing it you would have relied on or how its benefit would have been passed on from the Government to the British producers and exporters whom it was intended to compensate. I do not read your letter as asking me for advice on these questions (for which purpose, indeed, I should need a great deal more information as to what was contemplated) but rather on (a) the

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legality of such a system of levies under the Treaty (and, implicitly, the risk of effective challenge in Luxembourg) and (b) what legal challenge it might have faced in the United Kingdom courts and with what chances of success.

It is obvious that such a system of levies might be contrary to Article 12 (customs duties or charges having equivalent effect) and Article 30 (quantitative restrictions on imports and measures having equivalent effect) and perhaps to other provisions also. There is no doubt that the fact that the levies had been imposed in retaliation for an illegal (or allegedly illegal) act by the French would be no defence. There is ample authority in the jurisprudence of the Court, and I have so advised in connection with Budget withholding, that an infringement of the Treaty by a Community institution (and the same would apply to an infringement by a Member State) does not justify the aggrieved Member State in taking the law into its own hands and refusing to observe its own obligations under the Treaty. We should therefore have been exposed to infraction proceedings by the Commission under Article 169 and by France under Article 170. It might be thought that a complaint by France would, in the circumstances in question, have been too impudent to be contemplated. But I doubt if that sort of consideration would deter the French and the manifest illegality of our action might have given them and the Commission a welcome opportunity to muddy the waters of our own complaint against France, especially if the French had devised some colourable justification for their acts (eg under Article 92(3)(b)). Your letter suggested that the Commission might have "approved" our retaliation, but I do not see on what basis they could have done that.

So far as the European Court is concerned, therefore, I think that the net effect of our retaliatory measures would have been to blunt the point of any proceedings that were on foot, or in contemplation, to challenge the legality of what the French had done. In the end, and whatever the result of our complaint against the French, we ourselves would have been bound to stand condemned for an illegal act.

As regards (b), I think that a would-be importer of French produce that was subjected to the levy could have sought, and would almost certainly have obtained, a declaration from a United Kingdom court that the levy was unlawful (by virtue of the direct effect of Article 12 and/or Article 30) and might also have obtained damages.

/This

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This is all on the assumption that the levy had not been imposed by or under a new Act of Parliament which went so far as expressly to override the 1972 Act: I take it that it was not proposed that we should resort to such a drastic step, going to the fundamentals of our membership of the Community, in anything short of the extreme situation which we contemplated in the context of a possible withholding of our Budget contribution.

In your letter you adverted to the possibility of such proceedings in the United Kingdom courts being protracted by a reference to the European Court. The hope, if I have correctly understood the drift of your remark, was that we might defer an adverse judgment in the United Kingdom courts until after the French had been brought to rescind their measures, in which case we could have accepted with relative equanimity the finding that we had acted illegally. I think that it would have been unwise to count on that calculation. Given the relatively simple issue which would have been raised in the United Kingdom proceedings (at any rate if the claims had been confined to the making of a declaration), I do not think that it would have taken our courts, or the European Court on an Article 177 reference, very long to dispose of it. When necessary, the High Court (including the Court of Appeal) can move very quickly indeed, as recent cases have shown and I am not sure that we could have counted on being able to force an appeal to the House of Lords. I am not even sure that we could have counted on there being an Article 177 reference, since the Luxembourg jurisprudence on the indefensibility of a Member State taking the law into its own hands is so settled that the plaintiff in the case might successfully have invoked "acte clair". In any event, I must leave you in no doubt that, in my view and in the absence of fresh legislation by Parliament expressly overriding the 1972 Act, the course of conduct on which we had embarked would have been illegal; would have been generally seen to be illegal; and would almost certainly have been eventually declared by our own courts to be illegal. I do not think that it would have been right for us deliberately to embark on it in that knowledge, in the hope that we would have secured our political objectives by the time that our courts forced us to climb down.

/I

ATTORNEY GENERAL

ROYAL COURTS OF JUSTICE
LONDON, WC2A 2LL

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I am copying this letter to the Prime Minister, the Foreign and Commonwealth Secretary, the Lord Advocate and the Secretary to the Cabinet.

Yours ever. Michael.

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

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Europe Pol

10 DOWNING STREET

From the Private Secretary

3 June 1980

The Prime Minister was grateful for your Minister's letter of 27 May with which he enclosed a paper on the possibility of revaluing the green pound. In the light of the arguments set out, she is prepared to rule out the idea of a green pound revaluation for the time being.

I am sending copies of this letter to John Wiggins (H.M. Treasury), George Walden (Foreign and Commonwealth Office), John Craig (Welsh Office), Godfrey Robson (Scottish Office), Roy Harrington (Northern Ireland Office), and David Wright (Cabinet Office).

T. P. LANKESTER

G.R. Waters, Esq.,
Ministry of Agriculture, Fisheries and Food

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AUSTRALIA

Prime Minister
The F.C.O. are drafting a reply with the M.A.F.F.
[illegible]

2 June, 1980

The Rt. Hon Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
LONDON SW1.

Thatcher [illegible]

Dear Prime Minister,

I have been asked to convey urgently to you the following views of the Government of Australia.

The Australian Government notes that broad agreement has been reached within the Community on the shape of a common regime on sheepmeat. While we do not have details our understanding is that it includes provision for intervention in France and some other countries. It is our belief that a regime of this kind will be likely over time to disturb the existing supply/demand relationship for sheepmeat in the Community and have implications for world trade beyond the Community's market.

We understand, furthermore, that all member countries, except for Britain, and some others reluctantly, indicated a preparedness to accept export restitutions.

Australia is the largest supplier of sheepmeat and sheep for slaughter to markets outside the EC. Hence we have a vital interest in any Community policy towards restitutions. We are, of course, also concerned that New Zealand, as the largest supplier, and Australia should continue to secure access to the Community at a fair and reasonable level of trade.

The introduction by the Community of a restitution mechanism would inevitably lead over time to the dumping of EC sheepmeat on world markets at highly subsidised prices.

The Government wishes to repeat the advice which it has previously given to the members of the Community and its Commission that the Community should not develop a policy of subsidised pricing of exports of sheepmeat to third countries.

Copies of this message are being sent to the Secretary of State for Foreign and Commonwealth Affairs, to the Minister for Agriculture, Fisheries and Food and to the Secretary of State for Trade.

I remain,

Yours sincerely,

J. Plimsoll

(J. Plimsoll)
High Commissioner

2 - JUN 1980

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10 DOWNING STREET

From the Principal Private Secretary

2 June 1980

subject copy filed on:- New Zealand : Visits of N. Zealand PM - Muldoon : May 79

Dear George,

Visit by the Prime Minister of New Zealand

The Prime Minister of New Zealand, Mr. Muldoon, called upon the Prime Minister at Chequers on Saturday 31 May 1980. He was accompanied by the New Zealand High Commissioner, His Excellency The Honourable Mr. Gandar, Mr. Galvin and Mr. Woodfield. Sir Brian Hayes was also present.

New Zealand Economy

Mr. Muldoon said that agriculture generally in New Zealand was doing well this year. The last two years had been good seasons for feedstock, and this had led to a reduction in the killings of lamb and an increase in breeding. The size of the sheep flock was now at the record level of 66 million. As a result there would be an increase in wool production and a rise in the number of lamb killings next year. The farming community's confidence was strong and their spending correspondingly high. This had repercussions right through the New Zealand economy. The rate of inflation at the end of March had stood at 18.4%. He expected it to drop in the second half of 1980 and by next year it might be down to 15%. Increases in oil prices were a major cause of New Zealand's inflation. The deficit on the external current account was the same as the increase in oil prices since 1978. Last year bulk electricity prices had had to be raised by 60%. None the less, he was more relaxed about the economic and political scene in New Zealand than perhaps he should be. Sheepmeat, however, was a very real concern for him.

Sheepmeat

The Prime Minister said that the sheepmeat proposals which Mr. Walker had secured in Brussels on Thursday were much better than what had been on offer when she had last seen Mr. Talboys. Even so, New Zealand would have to conduct very tough negotiations with the Community, and Mr. Walker was ready to take part, if that

/ was the wish

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was the wish of the New Zealand Government. Sir Brian Hayes added that New Zealand in effect had a veto on the introduction of the sheepmeat régime. The Community regulation would provide that the timing of the introduction of the sheepmeat régime was linked to the entry into force of the Voluntary Restraint Arrangements. This meant that if New Zealand did not reach agreement on a VRA the régime would not come into effect.

Mr. Muldoon said that while he did not dispute what Sir Brian Hayes had said, the fact was that if New Zealand did not agree a VRA, there were other retaliatory measures which the Community could take such as the de-consolidation of the present GATT arrangement or the imposition of quotas. Another area where the Community could hit New Zealand's interests would be by being unsympathetic about access for butter after 1980. For these reasons he did not believe that the veto was quite the powerful tactical weapon that had been suggested.

Sir Brian Hayes said that it was always open to the Community to take action of the kind described by Mr. Muldoon, whether there was a sheepmeat regime or not. But, with the exception of butter, the agreement of the United Kingdom would be needed for any of these measures, and we would not go along with anything which harmed New Zealand. In fact, the sheepmeat proposals had put New Zealand in a strong negotiating position, not only on sheepmeat itself but, probably, also on butter. None the less, if they were to take advantage of what had been achieved so far, the New Zealanders would have to negotiate very toughly.

Sir Brian Hayes continued that the UK had not wanted to see export restitution as part of the sheepmeat regime. But this had been a sticking point for the French: they had made it absolutely clear that if there had been no export refunds, there would have been no agreement. None the less, the Commission had persuaded the Council that there must be a declaration that export refunds must be operated in conformity with international obligations and so as not to prejudice agreements being negotiated with third country suppliers. This meant that New Zealand was being virtually invited to ensure by their negotiations with the Commission that there were no effective export restitutions at all. But, again, the New Zealanders would have to take a tough position in the negotiations.

Mr. Muldoon said that what Sir Brian Hayes had said about the New Zealand position in the forthcoming butter negotiations and export restitutions for sheepmeat all chimed with his own analysis of the Brussels proposals. But he was concerned about the effect of export refunds on New Zealand's markets outside the Community. These markets - for example, New Zealand would be exporting 65,000 tonnes of lamb to Iran this year - were vital to New Zealand in terms of quantity and price. He was concerned that New Zealand's stake in these markets would be vulnerable once export refunds were introduced, and this was why New Zealand was opposed to such restitutions.

/ Sir Brian Hayes

Sir Brian Hayes repeated that it was up to New Zealand, with British help, to ensure in the course of the negotiations with the Commission that there were so many conditions attached to the export refunds that they never operated in practice in relation to any markets.

In reply to a question by Mr. Muldoon, Sir Brian Hayes continued that it was not true that Mr. Walker had not opposed those who wanted a higher price level for intervention. Mr. Walker had in fact argued for a lower price structure throughout, but the French had insisted on an intervention price at the same level as last year's market price. As against that, we had not only avoided intervention in the UK but our variable premium scheme would operate in such a way as to prevent UK lamb going into intervention in France and thus limit the danger of a lamb mountain. The guaranteed price to British farmers would be at the same level as the French intervention price. If our price went below, there would be a deficiency payment to British producers. But if British producers exported, whether to other Community countries or third countries, they would have to refund their deficiency payments. Thus, if a British producer sold lamb to France, he would lose his premium and, on top of that, would have to pay transport and marketing costs. These arrangements would be a strong incentive to British producers to keep their lamb in the UK and to pocket the deficiency payments. Moreover, our assessment was that the French market price was unlikely to get down to the intervention price, and we therefore did not expect to see significant quantities of sheepmeat in French intervention. Nor did we expect Irish lamb to have much effect because the quantities involved were small.

Sir Brian Hayes added that in all member countries of the Community reference prices would be set which would act as a guarantee of average producer returns. These prices were to be aligned over a four year period. The UK would be departing from a low starting point, and as reference prices converged, the cost to the Community of paying British producers would be very large. We estimated at the end of the four year period the payment to the UK might be £100 million a year. There was therefore every incentive for the Community to hold down prices.

Mr. Muldoon said that he was surprised that the French Government had accepted the proposed sheepmeat regime, since it appeared to contain many disadvantages for French farmers. He wondered what the impact of the movement of reference prices over four years would be on the UK's production of lamb. Would the British producer not increase his production in order to get higher prices? If there was more lamb on the British market, the price to the British housewife would go down. That in turn would mean that the price of New Zealand lamb in Britain would drop, and that would then pull down the price of New Zealand lamb in third countries such as Iran. New Zealand might be able to accept this, provided the Community was ready, in view of these difficulties, to abolish the 20% tariff against New Zealand lamb.

/ The Prime Minister

The Prime Minister said that New Zealand should argue very strongly in the course of the negotiations for a nil tariff. Sir Brian Hayes added that during the main marketing season for fresh lamb from New Zealand, there was likely to be an incentive for British producers to sell in France because the French market price would be higher then. This would mean that prices for British lamb in the UK would go up too, and this in turn would give New Zealand a price advantage in the UK. The fact was that the British Government wanted the UK to remain a market for New Zealand lamb.

Mr. Woodfield confirmed that if the 20% tariff was dealt with generously by the Community, New Zealand could probably live with downward pressure on the market from increased British production.

Sir Brian Hayes said that the British and New Zealand Governments should consult quickly to decide what New Zealand should go for in the forthcoming negotiations with the Community. We should need to marshal the arguments for a nil tariff. We should pitch the VRA quantity as high as possible by taking a long period for the New Zealand average. (Mr. Muldoon interjected that he thought New Zealand could substantiate a figure of 240,000 tonnes, though this would need to be increased by 15,000 when Greece acceded to the Community.) It might be difficult to get the Commission to agree to the New Zealand requirement that there should be no differentiation in quotas between fresh and frozen lamb. It would be much better to conduct the negotiation with the Commission rather than go for a Council declaration or regulation which would require nine signatures. New Zealand would get a better deal out of the Commission, though the eventual exchange of letters would need to be as water-tight as possible.

Mr. Muldoon said that he agreed that negotiations with the Community should be opened very soon. He thought that New Zealand would be able to live with price variations from year to year, but the regime as a whole went to the heart of the New Zealand lamb industry. The lamb industry was far more important to New Zealand than the milk products industry, and if lamb went the same way as milk products had gone, this would be disastrous for New Zealand. He would arrange for the sheepmeat proposals to be considered by the New Zealand Cabinet on the following Tuesday.

The Prime Minister emphasised the need for New Zealand to negotiate a precise and water-tight agreement with the Community. Mr. Walker and Sir Brian Hayes would be ready to give whatever further help the New Zealanders required.

<u>Butter</u>

Mr. Muldoon asked what the British view was on how the butter negotiations should be handled in the light of the developments on sheepmeat. 10,000 tonnes of butter was neither here nor there to the Community but it was vital for New Zealand.

 / The present

The present quota of UK imports of New Zealand butter had already been reduced from 165,000 tonnes in 1973 to 115,000 tonnes in 1980. Mr. Gundelach intended to propose to the Council that the quota for 1981 should be 100,000 tonnes, declining progressively to 90,000 tonnes in 1985. This was absolutely rock bottom as far as New Zealand was concerned. He wondered whether he should seek to deal with butter at the same time as sheepmeat or whether it would antagonise the Community to link the two negotiations.

Sir Brian Hayes said that the sheepmeat proposals strengthened New Zealand's hand on butter and they should press the Commission to deal with butter at the same time as lamb.

Palestine Liberation Organisation

Mr. Muldoon said that he was due to take part in an IMF/IBRD meeting the following week which would consider the PLO's request for observer status at meetings of these bodies. There was pressure from the Americans against the PLO request and pressure in the other direction from the Arab world. He saw no prospect of the meeting reaching agreement, but they would have to devise some formula to deal with the problem.

Olympic Games

Mr. Muldoon said that individual New Zealand sports bodies were pulling out of the Olympic Games one by one, and he thought that in the end only about one half of them were likely to attend. Although the New Zealand Olympic Committee had refused to bow to pressure from his Government, public opinion was now substantially against participation in the Games. All three political parties in New Zealand were also opposed to New Zealand sportsmen taking part.

The Prime Minister said that the British Government had faced the same problem. We had no effective lever we could use against the British Olympics Association. Unlike the Germans, for example, we could not withdraw financial support, since British sports bodies relied entirely on voluntary financial assistance.

I am sending copies of this letter to Garth Waters (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

Yours ever,

Michael Alexander.

G.G.H. Walden, Esq.,
Foreign and Commonwealth Office.

2.28 arrived

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

2 June 1980

Dear Nick,

COUNCIL OF MINISTERS (AGRICULTURE): 28-30 MAY 1980

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

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

Yours sincerely

Geoffrey Waters

G R Waters
Principal Private Secretary

Final Revise [illegible]

STATEMENT ON THE OUTCOME OF THE COUNCIL OF AGRICULTURE MINISTERS 28/29/30 MAY

With permission, Mr Speaker, I wish to make a statement about the Council of Agriculture Ministers' meeting in Brussels on 28 to 30 May at which I represented the United Kingdom with my hon Friend the Minister of State.

At that meeting the Agriculture Council completed its consideration of the 1980/81 agricultural prices and related proposals.

We have pressed for and secured important modifications to the original proposals of the Commission. We have removed those elements of severe discrimination against our industries and we have secured a number of parts of the package from which we will derive substantial benefits.

The Commission had originally excluded any continuation of the special butter subsidy currently worth 13p a pound on butter. We have succeeded in obtaining the continuation of this subsidy for the coming marketing year, 100% financed by Community funds. ~~This subsidy will be worth £108 million to consumers.~~

For 5 years we have failed to obtain substantial refunds on cereals used in the export of whisky. We have now succeeded in obtaining the refunds, backdated to the period since accession and this will bring us in a net benefit of £40 million this year and approximately ~~£60~~ £16 million per annum thereafter.

We did argue for no price increases upon those products in surplus. On sugar, however, the world price has now gone well ahead of the European price and therefore there will be no cost of disposing of Europe's sugar surplus in the present circumstances. Britain will retain the same sugar quotas as last year.

The wine structural reform package agreed earlier this year is designed to make a major impact on the structural surplus and will impose an important discipline on producers in France and Italy.

At the Council meeting in Brussels last week I insisted on a further discipline of a limit being placed for the first time on the amount of wine eligible for end of season distillation, and this will impose a limit of 18% on any individual producer whose production goes into store.

The price increase on milk is offset by an increase in the co-responsibility levy so that the net increase on milk prices will be 2½%. This increase does not affect the liquid milk sales in the United Kingdom. During the marketing years 1979/80 and 1980/81 the average increase in the price of milk in the Community net of co-responsibility levy will be 1¼% per annum and this, compared with the substantial increase in input costs of dairy producers, will mean that there will be a substantial reduction in real terms of the income of dairy producers throughout the Community.

The total effect of the whole of the CAP package on the consumer will be an increase of .7% on the food price index and of .15% on the retail price index over a full year.

The package includes the introduction of a new suckler cow subsidy worth about £12 a cow, financed 100% from Community funds. The original Commission proposals, limiting this subsidy to smaller herds only, was successfully eliminated. We also managed to retain in the package, contrary to the Commission's original proposals, the right to continue the variable beef premium. As Britain provides 26% of the specialist ~~specialised~~ beef herd ~~production~~ in Europe these measures will be of net benefit to the United Kingdom.

I obtained agreement ~~from the Council~~ that at an early Council meeting the Council would consider ~~Commission should come forward with~~ structural proposals to benefit the agriculture of Northern Ireland.

At Luxembourg eight countries had agreed upon a sheepmeat régime based upon intervention throughout the Community. I believed that this would be bad for the British consumer, bad for the British producer and bad for New Zealand. I informed the Commission that there was no way the British Government would accept such a scheme in spite of it being backed by eight other Member countries.

I succeeded in persuading the Commission and the Council of Ministers to accept United Kingdom proposals whereby there will be no intervention in the United Kingdom and, where the arrangements will so operate, that there will be no incentive for any British lamb to go into intervention in France or any other part of the Community.

I succeeded, for the first time in the history of the Community, in persuading the Community to provide Britain with a full deficiency payment system financed 100% from Community funds. The only previous example of the Community accepting the principle of deficiency payments was when the previous Government negotiated the beef premium scheme, but that, whilst hailed as a triumph at the time, is a scheme that still enables intervention of British beef to take place and is financed only 25% from the Community funds and 75% from the Treasury.

The housewife will benefit because British lamb will tend to stay in Britain to be eaten by the British consumer at reasonable prices instead of being sucked into intervention overseas as would have happened under the Commission's Luxembourg proposals.

British producers will obtain a 17% improvement in their guaranteed prices this year and can look forward to a secure future as the Community guaranteed price converges to a common price. These improved producers' returns will be financed 100% by the Community with deficiency payments, and I anticipate that on the completion of the first four years of the scheme we will receive an annual benefit from the Community to the order of £100 million per annum.

It was vital to defend New Zealand's interests and the whole regime will take effect only if and when New Zealand reaches a satisfactory agreement on the volume of her imports into the Community in exchange for a reduction in the tariff. I have agreed with the Commission that this agreement should and must include a New Zealand agreement as to the possible use of any export refunds. The fact that Britain, which produces half the lamb of Europe, will now have no lamb going into intervention means that, unlike the Commission's original proposals and those agreed by the Eight in Luxembourg, there will be little intervention in the Community.

[illegible]

Throughout the negotiations I have kept close to the New Zealand Government and will continue do do so until their negotiations are satisfactorily completed.

Last year I was able to announce a price settlement which for the first time gave the United Kingdom a net benefit.

Had it not been for the overall budget agreement, this year's agricultural price settlement would have given a net benefit of £37 million in 1980/81. In addition, the Commission's proposals to eliminate the butter subsidy, worth £108 million to British consumers, have been successfully rejected.

End

XXX

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cc B. Ingham

Min faxed to Chequers. 30/5

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FRAME AGRICULTURE

FM UKREP BRUSSELS 301022Z MAY 80

TO F L A S H FCO

TELEGRAM NUMBER 2655 OF 30 MAY

INFO IMMEDIATE BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG AND WELLINGTON

AGRICULTURE COUNCIL 28/29/30 MAY

CONCLUSION

1. THE COUNCIL MET FOR TEN MINUTES THIS MORNING (30TH) FOLLOWING THE CONCLUSION OF THE FOREIGN AFFAIRS COUNCIL. IT DECIDED TO PUT IN HAND WORK ON THE IMPLEMENTING REGULATIONS AND LEGALITIES OF THE PACKAGE OF AGRICULTURAL PRICES AND SHEEPMEAT, AGAINST THE CONTINGENCY THAT THE UK BUDGET PROBLEM WOULD BE RESOLVED OVER THE WEEKEND, FOLLOWING DISUCSSIONS IN CAPITALS.

2. THE COMMISSION WILL THEREFORE CONVENE MANAGEMENT COMMITTEES THIS AFTERNOON FOR BEEF AND MILK, AND HAVE ALREADY CALLED ONE ON AGRI-MONETARY REGULATIONS , TO AGREE THE NECESSARY REGULATIONS TO BRING INTO FORCE THE NEW MARKETING YEAR ON THE 1ST OF JUNE. IF AGREEMENT TO THE PACKAGE IS CONFIRMED BEFORE MONDAY THE REGULATIONS WILL BE PROMULGATED IN THE OFFICIAL JOURNAL. THE COUNCIL DID NOT DISCUSS WHAT MEASURES TO TAKE IF AGREEMENT WAS NOT REACHED.

COUNCIL DID NOT DISCUSS WHAT MEASURES TO TAKE IF AGREEMENT WAS NOT REACHED.

3. MARCORA INITIALLY PRESENTED THE PROCESS AS THE UNRAVELLING OF A SUCCESSION OF RESERVES AD REFERENDUM - ON THE BUDGET FIRST THEN THE PRICES PACKAGE, THEN SHEEPMEAT. HOWEVER MR WALKER MADE CLEAR THAT ALL THREE ELEMENTS IN THE PACKAGE HAD TO BE CONSIDERED BY THE UK GOVERNMENT SIMULTANEOUSLY AND HOPED THAT A DECISION COULD BE TAKEN QUICKLY.

4. THE COUNCIL CONCLUDED WITH MUTUAL CONGRATULATIONS, AND A ROUND OF APPLAUSE FOR MARCORA WHO WAS DESCRIBED BY GUNDELACH AS A BRILLIANT CHAIRMAN WHO HAD MADE IT ALL POSSIBLE.

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DOT - VINALL
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J DIXON MISS S BROWN HADLEY
TSY - ROBERTS
DAFS - CRAMOND
DANI - JACK
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NO 10 - ALEXANDER

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Mr faxed to Chequers.

Prime Minister ②

S J Pike
Duty 29.5.80

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TO FLASH FCO

TELEGRAM NUMBER 2642 OF 29 MAY

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COUNCIL OF MINISTERS (AGRICULTURE): 28/29 MAY

SHEEPMEAT REGIME.

MESSAGE FOR THE PRIME MINISTER FROM THE MINISTER OF AGRICULTURE.

1. THE COUNCIL OF AGRICULTURE MINISTERS HAS NOW FINISHED ITS DISCUSSION OF SHEEPMEAT. THE MAIN RESULTS ARE AS FOLLOWS:

(I) VARIABLE PREMIUMS. WE HAVE SECURED OUR FULL AIMS ON VARIABLE PREMIUMS. THE UK WILL OPERATE THESE INSTEAD OF INTERVENTION, SO THAT BRITISH HOUSEWIVES WILL BENEFIT: BRITISH PRODUCERS WILL GET GUARANTEED RETURNS AT THE EXPENSE OF COMMUNITY FUNDS: AND ANY RISK OF BRITISH SHEEPMEAT GOING INTO FRENCH INTERVENTION IS REMOVED.

(II) REFERENCE PRICES. WE HAVE SECURED ARRANGEMENTS UNDER WHICH REFERENCE PRICES FOR PRODUCERS IN EACH COUNTRY WILL REACH THE SAME LEVEL BY EQUAL STAGES OVER FOUR YEARS. THIS WILL MEAN A SUBSTANTIAL NET FINANCIAL BENEFIT FOR THE UK FROM THE REGIME AS A WHOLE, AND PUT OUR PRODUCERS ON LEVEL TERMS WITH OUR COMPETITORS WITHOUT RAISING THE PRICE TO OUR HOUSEWIVES.

(III) NEW ZEALAND IMPORTS. THE THREAT OF ACTION AGAINST NEW ZEALAND IMPORTS HAS BEEN REMOVED. THE WHOLE REGIME WILL COME INTO EFFECT ONLY WHEN NEW ZEALAND HAS AGREED ON VOLUNTARY RESTRAINT OF HER IMPORTS INTO THE COMMUNITY IN EXCHANGE FOR A TARIFF REDUCTION. THIS GIVES NEW ZEALAND AN EFFECTIVE VETO OVER THE REGIME IF THEY WANT TO USE IT.

(IV) EXPORT REFUNDS. THE MAJOR DIFFICULTY HAS BEEN OVER EXPORT REFUNDS. THE FRENCH HAVE INSISTED ON INCLUDING PROVISIONS FOR THEM FOLLOWING VOLUNTARY RESTRAINT AGREEMENTS WITH COUNTRIES LIKE NEW ZEALAND, AND THE COMMISSION AND ALL OTHER COUNTRIES EXCEPT OURSELVES AND THE NETHERLANDS HAVE AGREED. THE COMMISSION HAVE, HOWEVER, INSISTED ON A COUNCIL DECLARATION THAT THEY MUST BE OPERATED IN CONFORMITY WITH INTERNATIONAL OBLIGATIONS AND SO AS NOT TO PREJUDICE AGREEMENTS WITH THIRD COUNTRY SUPPLIERS. IN OTHER WORDS, NEW ZEALAND IS FREE TO NEGOTIATE, AS PART OF THE VOLUNTARY AGREEMENT, AS TO HOW THEY SHOULD OPERATE, AS WELL AS HAVING AN OVERALL VETO ON THE REGIME.

2. I HAVE MAINTAINED A FIRM UK RESERVE ON THE ENTIRE REGIME, BUT IT IS CLEAR THAT THIS SCHEME WOULD

2. I HAVE MAINTAINED A FIRM UK RESERVE ON THE ENTIRE REGIME. BUT IT IS CLEAR THAT THIS SCHEME WOULD BRING US CONSIDERABLE NET BENEFIT AND THAT THE NEW ZEALAND POSITION IS EFFECTIVELY SAFEGUARDED.

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Euro Pol, CAP

Euro Pol/
cc B. Ingham
cc Marks
Italy
Top Copy: Italy, May 80, Visit of Signor Colombo 28 May 80

10 DOWNING STREET

From the Principal Private Secretary

29 May 1980

Dear Paul,

EUROPEAN COMMUNITY: VISIT OF SIGNOR COLOMBO

The Prime Minister gave a dinner last night for Signor Emilio Colombo, the Italian Foreign Minister. The Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and Mr. Franklin were also present. Signor Colombo was accompanied by Signor Cagiati, the Italian Ambassador in London, and Signor Ruggiero.

The Prime Minister said that the problem of the British contribution to the Community budget had got bigger rather than smaller since the meeting of the European Council in Luxembourg. She hoped that progress towards its solution would be made at the meeting of the Foreign Affairs Council the following day. If the issue was still substantially unresolved by the time the European Council met on 12/13 June, there would be a crisis of unprecedented proportions at Venice. She wondered whether the other member states were genuinely seeking a solution or not.

Signor Colombo said that he hoped very much that the question would not have to be referred again to the European Council. He agreed that the situation had got worse not better since Luxembourg, but he believed nonetheless that all the members of the Community wanted a solution. The fact was, however, that every country had its own problems, and to all of them their difficulties had seemed more complicated after their return to their capitals from Luxembourg. Chancellor Schmidt, for example, had had serious trouble with his Finance Minister, Herr Matthofer, and there was something of a Cabinet crisis on this issue in Bonn. Similarly, President Giscard had been attacked on his return to Paris by supporters of M. Chirac. If progress on the problem of the British budget contribution was to be made, account had to be taken of everybody's difficulties, including the UK's, and of each member country's approach to the matter.

The Prime Minister commented that some of the other heads of government had dramatised their problems. In fact their difficulties were small in relation to the UK's. Even if a settlement had been agreed in Luxembourg on the basis of a British contribution of 538 meua for 1980, the UK would still have been the second biggest net contributor by far.

/Signor Colombo said

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Signor Colombo said that he believed that support was growing for the idea that there should be a fundamental review of the Community's financial arrangement, while a "truce" was called in the short term. Under this approach a precise mandate, with a firm timetable, would be given to the Commission to study the restructuring of the Community's finances. This might include a provision that when agricultural surpluses accumulated beyond defined limits, they would be financed only partially by the Community budget and for the rest by national funds.

The Foreign and Commonwealth Secretary said that the problem needed a more fundamental attack than that. The Chancellor of the Exchequer commented that what Signor Colombo had described was only one element of a mid-term solution which did not, in any case, remove the urgent need to deal with the immediate problem of the UK contribution.

Signor Colombo said that when he had referred to a "truce" for the period prior to a comprehensive reshaping of the Community's financial arrangements, he had in mind a provisional solution which dealt with the problem over the next two years. At Luxembourg there had been a proposal on the table for 1980: this had envisaged a UK net contribution of 538 meua for that year, and this meant that a burden of 1240 meua would have been transferred to the Eight. But because of Chancellor Schmidt's domestic difficulties since Luxembourg, this proposal no longer existed. His soundings over the last few weeks had shown, however, that it might be possible to bring forward another proposal for 1980 which entailed transferring a smaller burden to the other member countries. As regards 1981, Mrs. Thatcher had proposed at Luxembourg that the British net contribution should increase in proportion to the growth of the budget as whole. Another approach might be to distribute the increase in the UK's contribution by fixed proportions round the member countries: for example, if the UK's net contribution went up by 100 meua in 1981 X% might be paid by the UK and Y% by the other countries. We virtually had a firm figure for 1980, even though some small change would be needed to accommodate Chancellor Schmidt's difficulties, and it should be possible to get an agreed figure for 1981 without too much difficulty. 1982, however, was much more of a problem. It was very difficult to see what the UK's contribution in that year would be. If the fundamental review of the whole system which he had earlier suggested was completed in the next two years, the problem would disappear. But we could not be sure that the system would have been fundamentally reformed by 1982. If it had not been restructured and we were still using the existing system, it remained very difficult to forecast what the figures would be for that year. All this pointed to the need to build on what was done for the first and second years to "open a window" for the third year which would allow the Community to deal with the situation if the system had not been reformed in the meantime. An approach on these lines might offer the way ahead, but he had to admit that it was not at present accepted by either the French or the Germans. He had already mentioned the Germans' difficulties over the figure for the first year. The French, on the other hand, saw problems about the second year: they felt that they were being asked to decide now what the UK's net contribution should be but without any guarantee on agricultural prices for 1981. What was

/needed

needed - though he had no formulation to offer yet - was an arrangement which balanced the certainty of the budget solution for the second year with some measure of security for the French on farm prices.

The Foreign and Commonwealth Secretary said that Signor Colombo appeared to be suggesting a trade-off in the second year between the budget solution and agricultural prices. But this would only compound the follies of the CAP of the last 10 years and would make the problem of reforming the Community's finances even more difficult than it was now. The Chancellor of the Exchequer added that everybody had been agreed in 1972 on the need for radical reform of the CAP. But this had not been achieved eight years later and nobody knew when it would be. In the meantime the UK was paying an unfair share of the cost of the unreformed policies. Britain needed a solution that dealt with the problem until a fundamental reform took effect. An acceptable approach would be to agree upon the UK's net contribution in terms of a proportion of its unadjusted contribution to the budget for 1980 and then to apply this principle to all subsequent years until such time as there was a permanent solution resulting from the kind of fundamental review which Signor Colombo had been advocating.

The Prime Minister said that just as Chancellor Schmidt now thought that he had been too generous with his offer at Luxembourg, so she believed that she had been too forthcoming in agreeing on a figure of 538 meua for 1980. A net contribution of this size would still make the UK the second largest contributor by a long way, despite the fact that our income per head was well below the average of the Community as a whole. Nonetheless, she had agreed to this figure in Luxembourg and she stood by it now.

Signor Colombo said that it was essential to oblige the institutions of the Community to find solutions to the problems facing the member countries: otherwise empirical solutions would have to be adopted and these were likely to be damaging in one way or another. This was why it was important to fix a timetable for financial reform. If a radical solution was not found, there was no doubt that the Eight would have to make larger contributions to the budget in order to reduce the burden on the UK. He had no doubt that all nine member countries wanted a fundamental solution.
Signor Ruggiero added that the truce which Signor Colombo had mentioned earlier would apply to the short term. It would be a compromise which sought to alleviate the problem of the budget but not to solve it. Part of the truce would have to be higher agricultural prices. An approach of this kind was in keeping with the natural logic and habit of the Community. Did the UK accept the idea of a truce?

The Prime Minister said that she had no difficulty in agreeing to the concept, but everything depended on the terms of the truce.

Signor Ruggiero said that the terms of the truce had to be negotiated. Once that was done, the UK would have all the weapons in its hands to negotiate the peace - the permanent reform of the Community's financial arrangements. Surely the UK did not want to try to negotiate the peace while still fighting. This was the case for the truce, which

/would embody firm

could embody firm arrangements for the first two years and a window on the third year. Replying to a question by Lord Carrington, he said that he could not at present put a figure on the fixed ceiling for the UK contribution in the first year. Signor Colombo interjected, however, that it would have to be "a little more" than 538 meua.

The Foreign and Commonwealth Secretary said that 538 meua for 1980 and indexed thereafter was as far as we could go. We had after all argued for broad balance at Dublin and then in the New Year had told Signor Cossiga that we were prepared to go up to a net contribution of 400 meua. We had moved a very long way and could go no further. The Prime Minister added that we had been trying to find a solution to the UK's problem for over a year. What hope was there that the Community could tackle successfully the much bigger issue of fundamental reform of its finances in as little as two years?

Signor Colombo said that if a formula for the British contribution was agreed for the first and second years, it was inconceivable that it would not be used for the third year if there had been no reform in the meantime. The history of the Community showed that once something of this kind was established, it was very difficult not to carry on with it.

The Chancellor of the Exchequer said that the conditions of the truce must endure until the peace treaty had been negotiated, and we had no idea how long this would be. The Prime Minister said that she was not convinced by what Signor Colombo had said about the third year. It was likely that at the end of the second year, the Community would come up against the 1% VAT ceiling, and this was likely to lead the other heads of government to say that the UK could have a solution for the third year, provided the 1% VAT ceiling was breached. But the moment we went above the ceiling, we were abandoning any prospect of reforming the CAP. We must have a solution for the third year which prevented this happening.

Signor Colombo said that one way of dealing with the Prime Minister's concern would be for the mandate to the Commission to say that in studying how the Community's finances might be reformed, they should exclude the possibility of going above the 1% VAT ceiling. Signor Cagiati added that the Prime Minister's point about the 1% VAT ceiling could be reversed: the UK could argue that unless the Community accommodated them on the budget, they would not agree to go above the 1% VAT ceiling.

The Chancellor of the Exchequer said that Signor Colombo's suggestion about the Commission's mandate was part of the peace treaty. We had to have a truce that lasted three years. If it was agreed that the formula for the first year worked in the second year as well, why should it not govern the third year rather than some much vaguer arrangement? The Foreign and Commonwealth Secretary said that public opinion in the UK was such that we had to have a settlement that was cast iron for three years: the British Government could not sell anything less at home. He believed that our partners were reluctant to agree to a firm arrangement for the third year because the budget figures for 1982 were so big and so speculative that they did not want to accept the risk-sharing which a reduction in the UK's net contribution required. Mr. Franklin added that the UK did not believe

/that a radical reform

that a radical reform could be agreed and implemented in two years. But if we were wrong, the new system could be introduced in time to take care of the third year. What was needed now therefore was an arrangement for the third year on the same lines as that for the first and second years but on a contingency basis.

Signor Ruggiero said that if the UK stuck out for arrangements which applied uniformly to all three years, the Eight would argue that the base line should be less favourable to the UK than what had been proposed in Luxembourg for the first year. They would say that what Britain gained on duration they should lose on the amount. If he were in the UK's place, he would prefer to create in the first and second years a better precedent for the third year. Signor Cagiati said that if the agreement extended explicitly to the third year, this would reduce the pressure on the Community to go for fundamental reform. What was required was a solution that formally covered the first two years but in practice extended to the third, fourth, fifth years and so on. It might be possible to say in the mandate for the Commission that the problem had to be solved in two years but if it was not, the interim solution would continue: this would avoid mentioning the third year. Signor Colombo said that he had suggested his approach because everybody was uncertain about the third year: in looking ahead to 1982 we were entering the unknown, though it was worth bearing in mind the corrective mechanism would still exist in that year.

The Prime Minister said that she could not accept an arrangement which left the third year unclear. She could not contemplate having a wrangle year after year. It would be better to have one big row early on and reach a lasting solution. She would be prepared to accept a formula which provided that, in the absence of a permanent solution being introduced in the third year, the UK net contribution for that year would be no bigger as a proportion of the Community budget than it had been in the second year. The Chancellor of the Exchequer said that we should not forget that of the first two years five months had already gone. For the purpose of the UK's domestic financial plans he would have to take account in less than 12 months' time of what our net contribution in 1982 would be. This meant that if 1982 was left undecided now, we should have to reopen the budget issue again in less than a year. If the formula being suggested for years one and two was a device which shared equitably the risks and burdens, how could it be unreasonable to apply it to the third year when we were all faced with uncertainty?

Signor Colombo said that he was making a big effort to see that everybody understood everyone else's problem. He was trying to ensure that there were no victors and no vanquished. But he also had to consider what would happen if there was no agreement on the budget. It would mean that there would be no agricultural price increases on 1 June: on the other hand, national aids would lead to the break-up of the Community. It would mean also that there was no budget for 1980; nor could the 1981 budget be drafted. Failure to reach internal agreement would seriously reduce the ability of the Community to act cohesively on the international scene. He was therefore trying to find a solution acceptable to everybody and he believed that what he had in mind was a step forward from Luxembourg.

/The Prime Minister

The Prime Minister said that if the French introduced national aids, it would be the end of the CAP. If the French acted in this way, it would be very difficult for the British Government to stand idly by and do nothing. National aids would produce yet bigger surpluses, but the UK were not prepared to finance them. She hoped that there would be a serious negotiation in the Foreign Affairs Council the following day and that substantial progress towards a solution would be made. But if that did not happen, she was ready for the European Council to resume their discussion of the problem at Venice.

I am sending copies of this letter to Martin Hall (Treasury), Garth Waters (Ministry of Agriculture) and David Wright (Cabinet Office).

Yours ever,

Michael Whitmore.

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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COUNCIL OF MINISTERS (AGRICULTURE): 28/29 MAY 1980

OVERNIGHT REPORT 28 MAY

1. THE COUNCIL STARTED AT 6 PM AND ADJORNED AT 8 PM. THE SESSION WAS QUIET AND PRODUCED NO SURPRISES. SOME LOOSE ENDS ON THE PRICES PACKAGE WERE FAIRLY EASILY TIED UP.

2. ALL THE DAY'S INTEREST CAME FROM THE BILATERAL SESSIONS WHICH OCCUPIED THE EARLY PART OF THE AFTERNOON. THERE WAS MUCH BILATERAL DISCUSSION OF THE POSSIBLE INTRODUCTION OF NATIONAL MEASURES TO CIRCUMVENT NON-AGREEMENT OF THE PRICES PACKAGE, WHICH REVEALED UNIVERSAL OPPOSITION, PARTICULARLY FROM GERMANY (ERTL) BUT THERE

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3. IN THE COUNCIL, RIGHT AT THE END, GUNDELACH INTRODUCED THE SUBJECT OF SHEEPMEAT, AND WAS, EVEN BY HIS STANDARDS, UNBELIEVABLY CONVOLUTED AND AMBIGUOUS ON EXPORT REFUNDS. HOWEVER, PREVIOUS BILATERAL EXPLORATORY TALKS WITH THE COMMISSION ON A VARIABLE PREMIUM SYSTEM FOR THE UK WENT WELL, AND THERE ARE TO BE FURTHER BILATERALS OVERNIGHT AND EARLY TOMORROW MORNING BEFORE THE COUNCIL RESTARTS AT 11 AM, WHEN IT SEEMS LIKELY THAT GUNDELACH WILL MAKE ADDITIONAL PROPOSALS.

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NO 10 - ALEXANDER
TSY - ROBERTS

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Original on: Euro Pol. Budget Pt 8

10 DOWNING STREET

From the Principal Private Secretary

28 May 1980

Dear Paul,

EUROPEAN COUNCIL

The Prime Minister met the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture this morning to discuss the present position on outstanding Community issues and to settle the line to be taken at the working dinner with Signor Colombo this evening and at the Foreign Affairs Council tomorrow. Mr. Franklin was also present. The meeting had before it Mr. Franklin's minute of 27 May 1980.

FARM PRICES

The Minister of Agriculture said that the French had now told the Commission that they were proposing to introduce national aids which would give their farmers price increases that were equivalent to the figures agreed by the Eight. The Commission were likely to say that they needed more information about the French proposals and wanted more time to consider them. Nonetheless, the indications were that the French would introduce national aids at the end of the month. We should make it clear that action of this kind by France would be contrary to the Treaty of Rome and that if the French went ahead, the consequences for them would be very serious. We should do all we could to rally our partners against the French and not let them simply acquiesce in unilateral action by France. If we did nothing, France would be seen by the rest of the Community to be getting away with it again and our general position in relation to our other partners would inevitably be weakened, with implications for the negotiations on other issues.

It was pointed out in discussion that if the French acted illegally on national aids as well as on sheep meat, this would make it easier for us to withhold our VAT contribution.

UK BUDGET CONTRIBUTION

The Chancellor of the Exchequer said that he had had a number of useful bilateral meetings in the margins of the previous day's meeting of ECOFIN. Herr Lahnstein had told him that Germany's internal budgetary problem was not an insuperable obstacle to settling the issue of the British budget contribution: a supplementary budget at the time of the Federal elections would be difficult for the Germans but not impossible. Signor Pandolfi had told him that if there was to be

/a budget settlement

a budget settlement lasting three years, the figure for the first year would have to be higher than 538 meua and he had mentioned a figure of 600 meua. He was also doubtful whether a figure could be fixed for 1982. At the Council meeting itself nobody had seriously criticised the Commission's paper and they had agreed that it should be submitted to the Foreign Affairs Council as a basis for discussion. Although our aim of a settlement lasting three years was acknowledged, the meeting had echoed Signor Pandolfi's doubts about the feasibility of settling on a figure for the third year. No-one, however, thought that any agreement could apply to 1980 only. There was increasing concern in the Council about the inevitable collision between the 1% VAT ceiling, the growth of CAP expenditure and the problem of solving the issue of our budget contribution. Other members of the Council appeared to accept the need for all to share in the risks of further growth in the budget and in discussing the Dutch refund-based approach to the problem of our contribution, they had recognised the need for indexation. He had developed this idea since the meeting of the Council and had now worked out the outline of a scheme which provided a refund indexed in line with growth of the Community Budget (the Chancellor gave his colleagues at this point a note of the figures for the scheme). Although our partners would almost certainly regard the scheme as too favourable to us, it might be worth introducing into the negotiations at some point.

Mr. Franklin said that there was likely to be considerable difficulty in getting a precise figure agreed for 1982, whatever solution we went for, because of the uncertainty over how much room there would be within the 1% VAT ceiling. There would in any case have to be a major review of the Community's finances some time during the next 18 months. For these reasons it might suit our interests better to have a formulation which required the Commission to propose a figure for the third year taking account of the outcome of any general review of the Community's financial arrangements, but with a commitment that if there was no comprehensive solution our net contribution in 1982 should be limited in the same way as that for 1981.

The Foreign and Commonwealth Secretary said that he was not at all sure that there would be a serious discussion of our budget problem at the Foreign Affairs Council. Monsieur Francois-Poncet would not be present, and it now seemed likely that Herr Genscher would not be there either. Nonetheless, we should make it clear that we were ready to try to make progress towards a solution.

In discussion it was agreed that the Foreign and Commonwealth Secretary's opening position should be the proposal we had made in Luxembourg (line 2 of the table attached to Mr. Franklin's minute of 27 May). If our partners showed any readiness to come towards us, he should be ready to move to Mr. Jenkins' figure of 586 meua for 1980, though the corresponding figures for 1981 and 1982 should be based not on line 8 of the table attached to Mr. Franklin's minute but on the 72% formula of line 6. It was important that our net contribution should not rise above 700 meua in any one year. It might make discussion in the Council too complicated to float the Chancellor of the Exchequer's new formula and it would be better therefore not to use it at this stage.

/It was agreed that

It was agreed that if there was no progress at the Council and if the French went ahead with the introduction of national aids, we should need to respond quickly. One possibility was to impose levies on imports from France to compensate for the disadvantages to which we would be put nationally by French levies on British sheep meat and by the French Government's assistance to their farmers. There might, however, be a number of difficulties about proceeding in this way, and there was agreement that it would be better to respond to illegal French actions by withholding our VAT contribution to the Community Budget. The Cabinet Office should look urgently at the possibility of delaying by two or three days our VAT contribution for May, if this had not already been paid over. A step of this kind would not come as a surprise to our partners, since the Foreign and Commonwealth Secretary had warned Community Ambassadors the previous day that if the French did anything illegal, we would withhold.

SHEEP MEAT

It was agreed that there could be no agreement on a sheep meat regime without a settlement of the budget problem. Moreover, the Prime Minister would be seeing Mr. Muldoon at the weekend and there could not therefore be an agreement on sheep meat before then. The Minister of Agriculture should accordingly explore at the Agriculture Council later today a system of variable premia for the United Kingdom and Ireland. He should also seek to establish how it was proposed to dispose of surplus sheep meat that would result from any intervention in France.

FISH

The Minister of Agriculture said that the British fishing industry was now in an explosive frame of mind, and if any text dealing with principles mentioned equal access, there was likely to be an outcry. The wording which we had put to the Germans ought to satisfy them, though they would probably not accept it because they wanted some recognition of the commitment to equal access at least outside the 12 mile limit. Because the phrase "equal conditions of access" appeared in Article 2 of the basic fisheries regulation which had been codified and agreed by the last Government in 1976, we were on weak legal ground in seeking a formula which did not mention equal access.

Mr. Franklin said that the French were now lining up with the Germans on fish. Germany was trying to pre-judge in their own favour the negotiation on a fisheries agreement which would inevitably have to take place. They were seeking now a movement of substance on our part which would go beyond either of the two formulae set out in his minute. We could not agree to that. We were simply trying to preserve our existing position prior to the negotiation.

The Prime Minister said that fish was a major political issue which if it went wrong, could lead to our eventual withdrawal from the Community.

It was agreed that at the Foreign Affairs Council the Foreign and Commonwealth Secretary should not move from the form of words which the Minister of Agriculture had put to the Germans in bilateral talks.

/MEETING WITH SIGNOR COLOMBO

MEETING WITH SIGNOR COLOMBO

It was agreed that the line to be taken with Signor Colombo later today was to tell him that we were still seeking a settlement lasting three years and embodying the kind of net contribution which we had indicated at Luxembourg. We should make it clear that if a satisfactory settlement was not reached, the Community would be facing a very serious crisis. We should also let Signor Colombo know that we were totally opposed to any French plan to introduce national aids for their farmers and that if France went down this road, it would be necessary to respond immediately. If he pressed us on the need to reach agreement on sheep meat and fish in parallel with movement towards a budget settlement, we should explain to him the efforts we were continuing to make.

I am sending copies of this letter to Martin Hall (Treasury), Garth Waters (Ministry of Agriculture) and David Wright (Cabinet Office).

Yours ever,

Michael Whitmore.

Paul Lever, Esq.,
Foreign and Commonwealth Office.

9

Secret

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

Chancellor

European Budget

Variant of Scheme 7 : refund indexed in line with growth of community budget.

	80	81 L	81 H	MUEA 82
(1) Unadjusted net contrib	1900	2240	2320	2472
(2) Refund	1300	1534	1586	1856
(1)-(2) Net contrib. after refund	600	706	734	616

RT
28/5

CONFIDENTIAL

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

1

From the Minister

For the time being
MO.

27 May 1980

Prime Minister
This paper argues - fairly compellingly I think - that there is no mileage in a green pound revaluation. Are you content to let this idea rest?
TL
30/5

PRIME MINISTER

REVALUATION OF THE GREEN POUND

Your Private Secretary's letter of 2 May 1980 asked for a paper "discussing whether or not the impact of the farm price package on the housewife could not be moderated by an adjustment in the green rate of the pound".

I enclose a paper giving the factual position, but I must emphasise that, in my judgement, there is no way in which this Government could make a decision to see that British farmers were prevented from obtaining any increases that were finally agreed.

The simple fact is that British farmers had a fall in real terms in their incomes of 11% in 1978, 17% in 1979 and, even with the package available in Brussels, will have a further fall in their incomes in 1980.

As the paper indicates, our farmers are paying the highest interest rates, meeting the worst inflation and the highest increases in energy costs of all the farmers in Europe, added to which the strength of sterling is a severe incentive to their competitors' export to this market and a severe handicap to them in their efforts to export abroad.

We have used the CAP as a negotiating position. If we had been using it as other countries have used it to try and maintain farm incomes, we would have been making the bid for the highest increases. I am copying this letter and enclosure to Geoffrey Howe, Peter Carrington, Robert Armstrong, Nicholas Edwards, George Younger and Humphrey Atkins.

Peter

PETER WALKER

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REVALUATION OF THE GREEN POUND

Memorandum by the Minister of Agriculture, Fisheries and Food

INTRODUCTION

1. This memorandum discusses the suggestion that the Green Pound should be revalued when the CAP price settlement takes effect.

IMPLICATIONS OF A GREEN RATE REVALUATION

2. The effect of a green rate revaluation would be to reduce the price support levels in the UK in terms of sterling below what they would otherwise be. At last week's exchange rate, the maximum scope for revaluation measured by the gap between the green and market rates for sterling was some 2.2 per cent. If a revaluation of this amount were to be implemented, the CAP prices and the various payments to farmers and traders resulting from a CAP price settlement would be reduced by the amount of the revaluation. Thus, if the 5 per cent increase agreed by the Eight were implemented, the net increase in the UK would be around 3 per cent.

EFFECT ON FARMING INDUSTRY

3. The impact on the farming industry of a decision to revalue has to be considered in relation to the severe erosion of farming net incomes over the last 2 years. These fell by 11 per cent in real terms in 1978 and by a further 17 per cent last year. Although it is not yet possible to make any firm assessment of the prospects for 1980 (among other things this will depend on the growing season), the industry is going to face another year of severe cost/price squeeze. Input costs are expected to rise on average by 16 per cent. Bank advances continue at a very high level (about £2.6 billion) on which farmers are having to pay 20 per cent interest. Even after allowing for the effect of a 5 per cent average price increase, net farm incomes are expected to fall in real terms. The industry therefore faces a further decline in profitability and in its ability to generate resources for investment.

No/

4. The implications will be most serious in the livestock sector. The net effect of the price increase and the co-responsibility levy will be to increase milk producers' returns by only about 0.5 per cent when the full effects have worked through. If there is no further increase in the retail price this year, average net margins of dairy farmers are expected to decline again by as much as 35 per cent in real terms. A decision to revalue by 2 per cent would leave milk producers with a reduced return in money terms while their competitors in other Member States will be receiving increases of 1 to 2 per cent (after payment of co-responsibility levy and after allowing for the effects of revaluation in Germany and the Benelux). The proposed curtailment of investment aids to milk producers will further reduce the resources available in this sector.

5. The following table of current interest rates to farmers shows the current disadvantage in the United Kingdom:

		Interest Rate
UK	(Overdraft rate)	20%
Germany	After deducting the interest rate subsidy applying under the structure directive.	9.25%
France		10%
Holland		10%
Italy		12.5%

6. Current inflation rates (1980 compared with 1979) of major agricultural producing countries:

UK	18.9%
Germany	5.0%
France	12.1%
Holland	6.8%
Italy	17.1%

7. All Member States support their agriculture from national funds. The French Agricultural Budget, for example, is £2.9 billion in 1980 and the German Federal Budget in 1979 was nearly £1,650 million. Some of this is spent on schemes which are not comparable with assistance to UK agriculture (eg social security payments to farmers). But after allowing for this, their national support for agriculture, relative to the sizes of their agricultural sectors, is still over a third larger than ours.

Added to by Jim [illegible]

8. A decision to revalue would reduce the returns to UK producers relative to those in other Member States who would receive the full advantage of the price increases. With the prospect of continuing surpluses on the Community markets, the UK industry faces severe competition both at home and in export markets. The high rate of inflation in the UK relative to that in most other Member States reduces the real value of output price increases and thus already places our producers at a competitive disadvantage. As the figures in Annex A show, the UK producer faces a higher net reduction in real output prices than producers in all other Member States except the Irish Republic. The UK reduction is four times that for Germany, three times those for France and Italy; and more than two and a half times for the Benelux and Denmark. A decision to revalue would make this comparison even worse.

EFFECT ON CONSUMERS

9. The effect on consumer prices in the UK of a 5 per cent average price increase agreed by the Eight would be to increase the Food Price Index by about 0.8 per cent and the Retail Price Index by less than one-quarter of 1 per cent in a full year when the full impact had worked through. Other influences are having a much greater effect on the rate of inflation. The year on year increase in the Food Price Index in March was 14 per cent of which nearly two-thirds (about 8 per cent) was attributable to higher wages, fuel and other costs borne by the food processing and distributing sectors. Thus, a 5 per cent price settlement, which would work through gradually over the next few months, would itself have a very small impact on the trend of inflation.

10. The effect of a 2 per cent revaluation would reduce the price increases in the CAP prices package by less than 0.4 per cent on

the FPI and less than 0.1 per cent on the RPI. Spread over a number of months, this effect would have no noticeable impact on the underlying trend. It would have little value in presenting the prices package to UK consumer interests. Producers, on the other hand, would contrast the effect of a revaluation on their net incomes (which have to finance future investments as well as current incomes) with the large pay increases to workers in food processing, distribution and other sectors of the economy. A paper that I have already submitted indicates that increased wages and distribution costs are by far the biggest factor affecting food prices at the present time.

EXCHANGE RATE CONSIDERATIONS

11. Although scope for revaluation at present is some 2.2 per cent, this amount will certainly vary from week to week as the market rate for sterling moves. Since the market rate moved above the green rate in early March, the gap moved from -0.1 per cent on 17 March to 4.0 per cent on 14 April since when it has tended to narrow.

12. If a decision to revalue was followed by a weakening of sterling, against the ECU, a negative gap would open up again. There would be immediate pressures for a further devaluation to increase the sterling value of support prices. It would be impossible to resist such pressures given the Manifesto commitment.

13. A decision to revalue could, therefore, lead to a succession of circumstances in which further green rate changes had to be considered if the market rate of sterling was fluctuating around the green rate. It has always been Government policy to avoid too frequent changes in green rates because of the uncertainties which these create on domestic markets. The possibility of a succession of revaluations and devaluations would have a very damaging effect on producer confidence.

CONCLUSION

14. Even with a 5 per cent price increase, farming net incomes are likely to decline again in 1980. A decision to revalue would cast

doubts on the Government's commitment to enable the industry to compete effectively with producers in other Member States for a larger share of domestic and export markets.

15. The effect of a 5 per cent price settlement on the FPI and RPI, spread over a number of months, would be very small and have no discernible effect on the trend of inflation. A decision to revalue would have little value in presenting the prices settlement to consumer interests; but would be strongly resisted by producers who would contrast the trend in their incomes with those of other groups.

16. A revaluation, followed by a weakening of sterling, would lead to pressures for a further devaluation. The possibility of a succession of green rate changes could have a very damaging effect on the confidence of producers in the support system.

Minister of Agriculture, Fisheries and Food
27 May 1980

(2)

PRIME MINISTER

MESSAGE FROM MR. MULDOON

You will recall seeing last week the text of a letter to you from Mr. Muldoon. Since the letter was received, you have seen Mr. Talboys twice and are now due to see Mr. Muldoon himself at the weekend. I discussed the question of a formal reply from you to Mr. Muldoon with the New Zealand High Commission. They have said that they do not think a reply is necessary at this stage and that Mr. Muldoon is not expecting one.

27 May 1980

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OO FCO DESKBY 271600Z Mr HANNAY

OO CANBERRA

OO WELLINGTON IMMEDIATE ~~CABINET OFFICE~~

RR COPENHAGEN Mr FRANKLIN

RR THE HAGUE

RR ROME ~~MAFF~~ Read in full

RR DUBLIN PS/MIN

RR PARIS MT Mr ANDREWS

RR BONN Mr G WILSON

GRS 560 NO10

~~Mr ALEXANDER~~

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SHEEPMEAT

TALBOYS/GUNDELACH MEETING: 23 MAY

1. THE NEW ZEALAND MISSION HERE HAVE GIVEN US AN ACCOUNT OF THIS MEETING, WHICH CAME AT THE END OF TALBOYS' TOUR OF EC CAPITALS.

2. TALBOYS REPORTED THAT A NUMBER OF MEMBER STATES' MINISTERS HAD AGREED THAT THE SHEEPMEAT REGIME, AS IT WAS NOW FIRMING UP, COULD DAMAGE NZ, AND ALL, EXCEPT FRANCE, SEEMED PREPARED TO CONSIDER GIVING NZ SOME GUARANTEE.

3. GUNDELACH REPLIED THAT HE WAS LOOKING HARD FOR SOME FORMULA WHICH WOULD SATISFY NZ THAT THEY COULD SAFELY CONCLUDE AN AGREEMENT WITH THE COMMUNITY. HE ENVISAGED SOMETHING GOING BEYOND A VOLUNTARY RESTRAINT AGREEMENT: SOMETHING MORE IN THE NATURE OF A ''BILATERAL AGREEMENT'' BETWEEN NZ AND THE COMMUNITY. HE ENNUMERATED THE MAIN ELEMENTS OF SUCH AN AGREEMENT. AS REPORTED , THESE FOLLOW CLOSELY THE HEADINGS IN THE MANDATE FOR DISCUSSION OF VRAS SO LABORIOUSLY AGREED IN THE AGRICULTURE COUNCIL AT THE TURN OF THE YEAR. HOWEVER, GUNDELACH APPARENTLY ALSO OFFERED CONSULTATION WITH NZ OVER ANY EC SALES OF SHEEPMEAT IN THIRD COUNTRY MARKETS AND OVER FUTURE DEVELOPMENTS ON THE INTERNAL EC MARKET WITH A VIEW TO ENSURING THAT NZ'S POSITION WAS NOT ADVERSELY AFFECTED BY DEVELOPMENTS AFTER AGREEMENT HAD BEEN REACHED. GUNDELACH APPARENTLY REPLIED TO NZ QUERIES AS TO WHETHER THIS DID NOT GO BEYOND THE MANDATE BY SAYING (SOMEWHAT INCONSISTENTLY) THAT IT DID NOT, SINCE NZ COULD NOT BE EXPECTED TO SIGN UP FOR A DEAL LACKING THESE ELEMENTS.

4. NZ (UNDERSTANDABLY) SEEM TO HAVE COME AWAY FROM THE MEETING UNCLEAR AND UNEASY ABOUT JUST HOW MUCH OF A NEW INITIATIVE GUNDELACH WAS MAKING. IT COULD BE THAT HE WAS RESPONDING TO CONTINUED PRESSURE FROM NZ AND THE UK AND GENUINELY OFFERING SOMETHING NEW AND, PERHAPS, WORTH HAVING, OR IT COULD BE THAT HE WAS MAKING A WEASLY ATTEMPT TO GET HIMSELF PAST THE NEXT STAGE OF NEGOTIATIONS ON THE INTERNAL REGIME WITHOUT HAVING TO TELL THE COUNCIL THAT PROSPECTS WERE POOR FOR NEGOTIATING VOLUNTARY RESTRAINT WITH NZ. NZ SAY THE BALL IS IN GUNDELACH'S COURT AND THEY ARE WAITING TO SEE IF HE FOLLOWS UP HIS SUGGESTION. THEY TOLD US THAT THE NZ PRIME MINISTER'S INITIAL REACTION WAS SCEPTICAL. CLEARLY HE IS LIKELY TO WANT TO RAISE THIS ISSUE WITH THE PRIME MINISTER AT THE END OF THE WEEK.

5. THE NEW ZEALANDERS ARE PLAYING THIS ONE VERY QUIETLY. WE UNDERSTAND WELLINGTON HAS TOLD CANBERRA AND, APART FROM THE BRIEFING THEY HAVE GIVEN US HERE, THAT IS ALL THEY HAVE DONE. IT MAY BE THAT THEY WILL TELL US THE SAME STORY MORE OPENLY LATER IN THE WEEK,

5. THE NEW ZEALANDERS ARE PLAYING THIS ONE VERY QUIETLY. WE UNDERSTAND WELLINGTON HAS TOLD CANBERRA AND, APART FROM THE BRIEFING THEY HAVE GIVEN US HERE, THAT IS ALL THEY HAVE DONE. IT MAY BE THAT THEY WILL TELL US THE SAME STORY MORE OPENLY LATER IN THE WEEK, OR GUNDELACH WILL SAY SOMETHING IN THE AGRICULTURE COUNCIL, BUT UNTIL THEN WE WOULD BE GRATEFUL IF OUR SOURCE COULD BE PROTECTED AND WE DID NOT VOLUNTEER KNOWLEDGE OF GUNDELACH'S INITIATIVE.

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CAB - FRANKLIN
MAFF - PS/MIN, ANDREWS, G WILSON

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10 DOWNING STREET

From the Private Secretary 27 May 1980

Dear Paul,

EC/NEW ZEALAND

You wrote to me on 9 May about a reply to Mr. Muldoon's message to the Prime Minister. The Prime Minister has agreed that, in view of her two meetings with Mr. Talboys and her forthcoming meeting with Mr. Muldoon, no reply to Mr. Muldoon's letter is necessary at this stage. I have so informed the New Zealand High Commission who are content.

I am sending copies of this letter to John Wiggins (HM Treasury), Godfrey Robson (Scottish Office), George Craig (Welsh Office) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Paul Lever, Esq.,
Foreign and Commonwealth Office.

SECRET.

Original
European Policy : Pt 8
Budget.
8

MR. WHITMORE

COMMUNITY BUDGET

The Prime Minister may find it helpful before the meeting tomorrow morning to have set out the issues which will need to be decided both for the meeting with Signor Colombo and the Agriculture and Foreign Affairs Councils later this week. This is of course being written without knowing the outcome of the Ecofin Council, on which the Chancellor of the Exchequer will no doubt report, or the Lord Privy Seal's visit to Bonn to see Herr von Dohnanyi.

On the budget issue itself I attach a note (the figures in which have been agreed at official level with the Treasury) summarising the latest Commission estimates and considering various possible formulae for fixing our net contribution for the three years 1980, 1981, and 1982. Subject to the outcome of the Ecofin Council, the position can be summarised as follows. The last offer the Prime Minister made at Luxembourg would, on these figures, have yielded us about 4700 meua over the three years; but this was not accepted by the others. The Giscard/Schmidt offer, which we did not accept and which has of course now been withdrawn, only covered two years. Even if it had been extended to three years, it would only have yielded about 4000 meua and have left us making too high a contribution in 1982. Against this background, I suggest that our aim should be to secure a three-year arrangement; one which does not produce too steep a rise in our net contribution; and which yields something closer to the top of this range, say 4500 meua. We should also, I suggest, still aim for a limit on our net contribution rather than a fixed refund since this would be a safeguard against a steeper rise in agriculture expenditure than the Commission's new estimates have allowed for. The table contains several formulations which would satisfy these criteria, but they do suggest that in order to be negotiable, the net contribution for 1980 will have to be somewhat higher than 538 meua. The Prime Minister will want to consider whether it would be in

/our interests

SECRET.

our interests to pay a bit more in the first year if we can thereby improve our position in the later years and avoid too sharp an increase in our net contribution. The table also contains a suggestion which Mr. Jenkins made at the end of last week which as formulated would not be acceptable.

There will be considerable difficulty in getting a precise figure agreed for 1982 because of the uncertainty over how much room there is likely to be within the 1 per cent VAT ceiling. It is clearly not in our interest to call the VAT ceiling into question. On the other hand, we do not want to accept too little relief on our net budget contribution now simply because, on the Commission's very uncertain forecasts, the Community would otherwise exceed the 1 per cent limit. There will in any case have to be a major review of the Community's finances some time during the next eighteen months. For these reasons it might suit our interests better to have a formulation under which the Commission had to propose the figure for the third year taking account of the outcome of any general review of the financial arrangements but with a commitment that, in the absence of any more comprehensive solution, the UK net contribution in 1982 would be limited in the same way as the figure for 1981.

As regards the <u>CAP price</u> issue, the Minister of Agriculture has now sent a warning letter to Commissioner Gundelach about the possible French national measures to aid their farmers, along the lines the Prime Minister agreed last week. We can expect other member states at the Agriculture Council to express concern at the intention of the French Government to take measures of doubtful legality. The more they make the running on this the better for us. The best outcome of the Agriculture Council for us would be a prolongation of the existing farm price arrangements, with out acceptance of the Luxembourg 5 per cent price increase remaining dependent on a satisfactory outcome on the budget. Ministers will need to consider later what our position would be if, in the event, the French Government decide to implement such measures without the approval of the Commission.

/On <u>fisheries</u>

On fisheries, there is discussion in COREPER today on a possible text dealing with principles, and the Minister of Agriculture may be able to report the outcome. In the bilateral talks with the Germans, the Minister of Agriculture suggested that we might be able to agree to the following text on access:-

> "The decisions to be taken under Article 103 of the Treaty of Accession must be in accordance with the objectives and principles of the Treaty of Rome and the Treaty of Accession (inter alia the objectives underlying Articles 100-102) and with the decisions of the Council of Ministers of 3 November, 1976 (inter alia Annex VII)."

This will not satisfy the Germans who want some recognition of the commitment to equal conditions of access at any rate outside 12 miles. The phrase "equal conditions of access" appears in Article 2 of the basic fisheries regulation which was codified and agreed to by the last Government in 1976. There are of course possibilities to derogate from this principle under the provisions of the Accession Treaty and the Hague agreements of 1976 and it is on these that our case rests. In his paper of 9 May the Minister of Agriculture suggested that, in the context of an otherwise satisfactory deal, we could accept the following:-

> "Equal conditions of access, subject to the need to take account of the vital needs of local communities specially dependent upon fishing and the industries allied thereto, and of the necessity of adopting without delay provisions to solve the problems of coastal fishing activity, in particular in economically disadvantaged regions, and to regulate fishing activity within a coastal belt."

On sheepmeat the Foreign and Commonwealth Secretary minuted the Prime Minister on 21 May reporting the conclusions of OD(E). The Prime Minister will want to consider, particularly in the

/light of

light of further exchanges between the Commission and Mr. Talboys, whether the proposals in that minute provide a reasonable negotiating basis for the Agriculture Council which Mr. Walker will be attending later in the day.

Finally, the Prime Minister will want to consider how best to tackle Signor Colombo, who will arrive fresh from talks in Bonn and Paris. He will be pressing us for ways to resolve fisheries and sheepmeat. We shall want to press him on the budget issue. The key question is whether, without mentioning figures, the Prime Minister should hint that if we could get satisfaction on the later years she might be prepared to go slightly higher than 538 meua for 1980.

I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and to the Minister of Agriculture's Private Secretaries.

M.D.M. FRANKLIN

Cabinet Office
27 May 1980

LATEST BUDGET FIGURES

The Commission have now produced estimates for discussion at the Ecofin Council of the total size of the Community Budget in 1981 and 1982, with variants depending mainly on whether agriculture expenditure increases by 12 per cent or 18 per cent per annum.

All these estimates show total expenditure as below the 1 per cent VAT ceiling and they leave room for a refund to the United Kingdom of not less than 1500 meua (higher estimate) for 1981 but virtually no room for any refund in 1982 on the more pessimistic assumption (2150 meua on the more optimistic one).

They have also produced revised estimates of the UK's unadjusted net contribution in 1980 and 1981, but not for 1982. The Treasury's own estimates for the earlier years are as follows (meua):-

1980	1981
2027	2352

In the attached table,
Line 1 puts our unadjusted net contribution for 1980 at 1900 million EUA. In fact, the Commission is still using 1784 million EUA, but they acknowledge that without negative MCA's our net contribution will be higher. The Lower and Higher figures for 1981 are straight Commission estimates, the former based on 12 per cent growth in CAP expenditure between 1980 and 1981, the latter on 18 per cent. The single figure of 2472 m EUA for 1982 represents the Treasury's estimate of the highest United Kingdom net contribution which is consistent with the Community's remaining within the 1 per cent ceiling. The Commission have offered no forecasts of the net positions of member states in 1982.

Line 2 is the proposal the Prime Minister made in Luxembourg, i.e. 538 million EUA for 1980 increased in future years by the same percentage as the increase in the Community Budget.

/Line 3

Line 3 is the same formula but starting from 600 million EUA in 1980.

Line 4 is the alternative formulation approved by the Prime Minister (but starting from 600 million EUA) whereby our unadjusted net contribution is reduced by the same percentage in the following 2 years.

Line 5 shows that on this method, we could still end up with the same figure for 1982 as in line 3, even if we were to accept 650 million EUA for 1980.

Line 6. This is a variant of line 4 produced by the Treasury under which we pay 600 million EUA net in 1980 but the refund in future years is calculated as though we had paid only 538 million EUA in 1980; i.e. it is 72 per cent of the unadjusted net contribution rather than 68 per cent. It produces an even more favourable result to us than the Prime Minister's last offer in Luxembourg.

Line 7. This is the only formula based on a refund instead of a limit on our net contribution. The idea is that we should get a financial envelope covering the whole three year period distributed so as to give an even rate of increase from a refund of 1300 million EUA in 1980. It builds on suggestions made by the Dutch at the Luxembourg European Council.

Line 8. This formula was suggested by President Jenkins to the Lord Privy Seal on 22 May. The figure for 1980 is 538 increased by the 9 per cent increase in the Budget between 1979 and 1980. We do not know exactly how he would calculate the figure for future years but the table assumes it would be by the same percentage increase as the total Community Budget to which is added half the year-on-year increase in the unadjusted net contribution. This formula has the effect of loading on to us most of the risk of increase in our net contribution arising from an increase in the Community Budget.

27 May 1980

[illegible]

23/c.

Dear Michael,

There are references in here that might interest you!

Brian.

With the Compliments

of the

Deputy High Commissioner

NEW ZEALAND HIGH COMMISSION
NEW ZEALAND HOUSE, HAYMARKET
LONDON SW1Y 4TQ

ACTION . MR C ELDER
INFO . MR B J LYNCH
MR G F THOMPSON
MR D CRUMP

UNCLAS 23 MAY 89
FROM WELLINGTON
TO BRUSSELS 549 ROUTINE
RPTD LONDON 3923, PARIS 1943 - ROUTINE 10902
FOR MINISTER

SHEEPMEATS: TEXT OF PRIME MINISTER'S
INTERVIEW: 22 MAY

THE FOLLOWING IS THE TEXT OF INTERVIEWS THE PRIME MINISTER GAVE THIS AFTERNOON TO PETER BURKE, AND TO RICHARD HARMAN, FOR BROADCAST TONIGHT.

BEGINS:

BURKE: PRIME MINISTER WHAT IS YOUR REACTION TO THE COMPROMISE PROPOSAL WHICH HAS COME OUT OF BRUSSELS?

MR MULDOON: WELL AT THIS STAGE ITS NOT GOOD ENOUGH FOR US TO NEGOTIATE ON BECAUSE IT HAS IN IT INHERENT DANGERS AND WE COULDN'T AGREE TO A PROPOSAL WHICH AS TIME WENT BY WAS ALTERED MORE OR LESS IN OPERATION SO AS TO DO THE KIND OF DAMAGE THAT WE FEAR, AND THIS PROPOSAL IS IN THAT CATEGORY.

BURKE: WHAT PARTICULAR ASPECTS OF IT THEN DON'T YOU LIKE?

MR MULDOON: WELL I DON'T LIKE THE INTERVENTION CLAUSE IN ANY CASE. WE ARE TOTALLY OPPOSED TO THAT, AND IF THAT INTERVENTION CLAUSE WAS APPLIED IN SUCH A WAY AS TO BUILD UP STOCKS OF LAMB AS IT COULD BE, THEN IT MUST INEVITABLY AFFECT OUR TRADE. FURTHERMORE IF THIS PROPOSALS REGIME WERE TO RAISE THE GENERAL PRICE OF LAMB IN THE COMMUNITY - AND THAT MEANS PARTICULARLY IN BRITAIN - SO THAT OUR LAMB WAS NO LONGER COMPETITIVE, THAT WOULD DO TERRIBLE DAMAGE.

BURKE: ISN'T IT A LITTLE BETTER THAN PERHAPS WAS ON ABOUT TWO WEEKS AGO WHEN MR TALBOYS FIRST WENT TO EUROPE?

MR MULDOON: YES.

BURKE: DO YOU THINK THEN THAT NEW ZEALAND CAN EFFECT ANY CHANGES IN THE PROPOSAL THAT IS CURRENTLY BEFORE THE COMMISSION?

MR MULDOON: OUR ABILITY TO EFFECT CHANGES IS LIMITED, BUT OUR ABILITY TO SAY NO IS UNLIMITED, AND WE ARE SAYING NO TO THIS ONE.

BURKE: WHAT THEN CAN NEW ZEALAND DO IF THIS PROPOSAL IS ELECTED BY THE COMMUNITY?

MR MULDOON: WE CAN RELY ON ASSURANCES THAT WE HAVE HAD FROM OUR FRIENDS IN THE BRITISH GOVERNMENT. MARGARET THATCHER HAS SAID VERY CLEARLY AND VERY PUBLICLY SHE IS NOT GOING TO SEE NEW ZEALAND LAMB PRICES OFF THE TABLE OF THE BRITISH HOUSEWIFE.
BURKE: WHAT ABOUT SUCH THINGS THEN AS PERHAPS A PUBLICITY CAMPAIGN IN BRITAIN TO POINT OUT THE DANGERS OF LAMB GOING UP IN PRICE IF THIS LAW IS ENACTED?
MR MULDOON: NO I DON'T THINK THAT WOULD BE HELPFUL TO THE BRITISH GOVERNMENT. WE WOULD SOONER WORK WITH THE BRITISH GOVERNMENT THAN TAKE OUR OWN INITIATIVE AND MAKE IT APPEAR THAT WE WERE PUTTING PRESSURE ON THE BRITISH GOVERNMENT. WE HAVE HAD THE FIRMEST OF ASSURANCES, AND WE RELY ON THEM.
BURKE: WHAT ABOUT THIS QUESTION OF VOLUNTARY RESTRAINTS THEN? WOULD NEW ZEALAND AGREE TO THAT?
MR MULDOON: WE HAVE ALREADY SAID THAT WE ARE PREPARED TO TALK VOLUNTARY RESTRAINTS. BUT THIS WEEK WE HAVE SAID 'NO, NOT WHILE THIS UNACCEPTABLE PROPOSAL IS IN FRONT OF THE COUNCIL OF AGRICULTURAL MINISTERS'.
BURKE: IN THE FINAL CRUNCH THOUGH, WILL BRITAIN REALLY BE ABLE TO TOTALLY PROTECT NEW ZEALAND'S INTERESTS, KEEP THEM EXACTLY THE SITUATION AS IT IS NOW?
MR MULDOON: WELL YOU TALK ABOUT VOLUNTARY RESTRAINTS. I SUPPOSE THAT WOULD BE A CHANGE. BUT, THE BRITISH RESOLVE IS VERY STRONG, AND AFTER ALL BRITAIN WAS INTERESTED IN NEW ZEALAND LONG BEFORE THEY WERE INTERESTED IN EUROPE.
BURKE: BUT REALLY, IF BRITAIN WANTS TO KEEP NEW ZEALAND LAMB THERE, IT MAY IN FACT MEAN THAT IT WANTS EUROPE OR NEW ZEALAND?
MR MULDOON: NO I DON'T THINK ITS AS SIMPLE AS THAT. THE BUDGETARY QUESTION COMES OVER THE TOP OF IT, AND THE WHOLE COMMON AGRICULTURAL POLICY WHICH IS A TOTALLY INIQUITIOUS CONCEPT, AND THAT IS RECOGNISED BY BRITAIN AS IT IS BY NEW ZEALAND.
BURKE: ARE YOU DISAPPOINTED IN THE REACTION THAT MR TALBOYS HAS RECEIVED FROM PEOPLE WHO IN THE PAST GIVEN SOME RATHER FAVOURABLE ASSURANCES TO NEW ZEALAND?
MR MULDOON: LITTLE DISAPPOINTED WITH THE GERMANS. THE MINISTER ERTL CAME OUT HERE, AND WAS VERY HELPFUL, AND WE UNDERSTAND HE

WENT BACK AND PUT THE CASE TO THE GERMAN CABINET. BUT WAS NOT SUCCESSFUL IN GETTING THEM TO ACCEPT IT. WE ARE DISAPPOINTED IN THAT I MUST CONFESS.

BURKE: WHAT ABOUT SOME OF THE OTHER EUROPEAN PARTNERS SUCH AS DUTCH AND EVEN PERHAPS THE DANES?

MR MULDOON: WELL THEY HAVE SAID KIND THINGS TO MR TALBOYS. AND I COULDN'T SAY I AM DISAPPOINTED. THEIR CONCERN IN THIS MATTER IS HOWEVER, MUCH LIMITED, MUCH MORE LIMITED.

BURKE: ALL THE NICE THINGS THEY MAY SAY IN THE END, IT SEEMS TO BE THAT NEW ZEALAND'S INTERESTS ARE NOT TAKEN INTO ACCOUNT THAT VERY MUCH IN THE FINAL CRUNCH?

MR MULDOON: I THINK OUR INTERESTS ARE TOTALLY IN THE HANDS OF THE BRITISH GOVERNMENT AT THE PRESENT TIME.

BURKE: AND ITS ON THEM THAT WE RELY FOR OUR SURVIVAL OR NOT?

MR MULDOON: YES.

''EYE WITNESS'' INTERVIEW 22 MAY 1980

HARMAN: PRIME MINISTER IT SEEMS THAT OVER THE LAST FEW YEARS WE HAVE DEVOTED ENORMOUS AMOUNT OF DIPLOMATIC ENERGY TO AVOIDING THE KIND OF SITUATION THAT SEEMS TO HAVE DEVELOPED OVER SHEEP MEATS OVER THE PAST FEW WEEKS. WHY DID WE FAIL?

MR MULDOON: WELL I WOULDN'T USE THE WORD 'FAIL'. I THINK IT IS GENERALLY UNDERSTOOD THAT THIS COMES FROM SOMETHING LIKE 12,000 TONNES OF IRISH LAMB GOING INTO FRANCE AND IT IS JEOPARDISING 200,000 TONNES OF NEW ZEALAND LAMB TOGETHER WITH OUR WHOLE SHEEP INDUSTRY.

HARMAN: TO WHAT EXTENT HAS MARGARET THATCHER'S INSISTENCE ON A BUDGETARY REDUCTION JEOPARDISED OUR OWN POSITION?

MR MULDOON: NONE. AS FAR AS I AM AWARE.

HARMAN: A NUMBER OF EEC COMMENTATORS HAVE SUGGESTED THAT THE TWO MATTERS ARE NOT CLOSELY LINKED?

MR MULDOON: WELL THEY ARE CLOSELY LINKED BUT NOT IN THE CONTEXT THAT WE ARE TALKING ABOUT. THIS RIDICULOUS PROPOSAL FROM THE FRENCH CAME ABOUT BECAUSE THE IRISH LAMB GOING INTO FRANCE, A BRITISH REACTION, NOTHING TO DO WITH THE BUDGET AT THIS STAGE.

HARMAN: SO YOU SEE THE PRESENT SITUATION THEN AS POSSIBLY BEING INEVITABLE?

MR MULDOON: NO I DON'T. I THINK IT IS A THOROUGHLY RIDICULOUS SITUATION, ITS THE RESULT OF THIS INIQUITOUS COMMON AGRICULTURAL POLICY, AND THE FACT THAT ALTHOUGH THE COMMUNITY IS ONLY TWO THIRDS SELF SUFFICIENT IN SHEEP MEAT THEY ARE MOVING TO A SHEEP REGIME. THIS IS TOTALLY CONTRARY TO THE SIGNING OF THE TRADE PLEDGE BY ALL THE OECD MEMBERS IN THE COMMUNITY THAT THEY WOULD NOT TAKE PART IN FURTHER RESTRICTIONS ON INTERNATIONAL TRADE. THE PLEDGE IS NOT WORTH THE PAPER IT IS WRITTEN ON. THIS IS A QUESTION OF HONOUR.
HARMAN: IS NEW ZEALAND, OR WOULD NEW ZEALAND CONSIDER ANY FORM OF RETALIATION AGAINST THE FRENCH, GERMANS... PEOPLE WHO SEEM TO HAVE SOLD US OUT OVER THE PAST FEW WEEKS?
MR MULDOON: OUR ABILITY TO RETALIATE IS VERY VERY LIMITED, BUT I CAN ASSURE YOU THAT IT DOES NOTHING TO CREATE GOOD RELATIONS BETWEEN OURSELVES AND PARTICULARLY THE FRENCH WHO ARE THE LEADERS IN THIS.
HARMAN: COULD THIS POSSIBLY AFFECT THE FRENCH POSITION IN THE PACIFIC?
MR MULDOON: WELL TIME WILL TELL. BUT I HAD CERTAIN ASSURANCES FROM MR STERN THE FOREIGN MINISTRY, JUNIOR MINISTER WHO WAS HERE LAST YEAR AND SAID FRANCE WOULD DEAL SYMPATHETICALLY WITH NEW ZEALAND IN THE QUESTION OF SHEEP MEAT, AND WE GAVE CERTAIN ASSURANCES IN RETURN. FRANCE HAS NOT DEALT SYMPATHETICALLY WITH NEW ZEALAND IN THIS MATTER.
HARMAN: HOW WOULD YOU DESCRIBE RELATIONS BETWEEN FRANCE AND NEW ZEALAND AT THE MOMENT THEN?
MR MULDOON: WELL THEY ARE NOT AS GOOD AS I WOULD LIKE THEM.
HARMAN: LOOKING AT THE BRITISH SITUATION. YOU HAVE SAID WE CAN RELY ON BRITAIN. EVIDENCE OVER THE PAST FEW YEARS THOUGH INDICATES THE BRITISH ARE PERHAPS NOT QUITE SO ENTHUSIASTIC ABOUT NEW ZEALAND AS THEY WERE ONCE DOESN'T IT? WE THINK OF MINISTERS WHO CAME HERE YEARS AGO WHO MADE ALL SORTS OF ASSURANCES.
MR MULDOON: WELL THATS NOT MY EXPERIENCE. I HAVE HAD THE STRONGEST ASSURANCES PERSONALLY FROM MARGARET THATCHER THE PRIME MINISTER.

HARMAN: ARE YOU ABSOLUTELY CONVINCED THEY WON'T SELL US OUT?
MR MULDOON: WELL YOU USE THE TERM 'SELL US OUT'. THAT IS NOT A TERM I WOULD USE MARGARET THATCHER IS COMMITTED TO ENSURING THAT THE BRITISH HOUSEWIFE STILL HAS NEW ZEALAND LAMB ON HER TABLE AT A PRICE SHE CAN AFFORD. AND COMMITTED PUBLICLY IN BRITAIN, QUITE APART FROM ANY COMMITMENT TO US. WE KNOW THE PRESSURE THAT THEY ARE UNDER, TREMENDOUS PRESSURES. BUT THSE ARE THE FACTS AND WE ARE TALKING ABOUT A VERY STRONG LADY.
HARMAN: LOOKING AT OUR POSSIBLE ALTERNATIVE MARKETS. DOES IT WORRY YOU THAT THE UNITED STATES IS PRESSURING US TO LIMIT OUR RELATIONS WITH BOTH IRAN AND THE SOVIET UNION?
MR MULDOON: YES IT DOES IN THE CONTEXT IN WHICH YOU ARE SPEAKING. NOT SO MUCH THE SOVIET UNION IN TERMS OF LAMB, BUT CERTAINLY IRAN. HOWEVER, THE UNITED STATES HAS NOT REQUIRED US OR ASKED US TO CUT OUT TRADE INFOOD, SO THAT THE LAMB TRADE WITH IRAN REMAINS UNDISTURBED. BUT IT IS NOT JUST THE UNITED STATES. THE WHOLE POSITION IN IRAN IS UNCERTAIN LOOKING AHEAD. IT CANNOT BE REGARDED AS A STABLE MARKET BECAUSE THE POLITICAL SITUATION IN IRAN IS TOTALLY UNSTABLE.
HARMAN: DOES THE POSITION AS FAR AS WE ARE CONCERNED IN EUROPE MEAN THAT WE ARE LESS LIKELY TO FOLLOW THE AUSTRALIAN POSITION ON IRAN?
MR MULDOON: LESS LIKELY? WELL I WOULDN'T LIKE TO PUT IT THAT WAY. AT THE MOMENT WE ARE CERTAINLY NOT GOING TO STOP SELLING LAMB TO IRAN, THATS WHAT WE ARE TALKING ABOUT TONIGHT.
HARMAN: LOOKING AT THE OVERALL SITUATION. HOW BIG A THREAT TO THE ECONOMY OF NEW ZEALAND IS WHAT IS HAPPENING IN EUROPE AT THE MOMENT?
MR MULDOON: OUR SHEEP INDUSTRY IS OUR MOST IMPORTANT EXPORT INDUSTRY, ITS AN INTEGRATED INDUSTRY. YOU CAN'T GET A LAMB WITHOUT SHEEP, AND FROM THE SHEEP WE GET MUTTON, WE GET WOOL, WE GET BY-PRODUCTS OF ALL KINDS. IF YOU LOSE THE LAMB TRADE YOU LOSE OR ALL OF THAT AS WELL. SO THIS IS ABSOLUTELY VITAL, FAR MORE VITAL THAN IN ANY OTHER ISSUE THAT WE HAVE HAD WITH EUROPE SINCE BRITAIN JOINED THE COMMUNITY.

HARMAN: HOW NERVOUS ARE YOU AT THE MOMENT?
MR MULDOON: I AM NOT NERVOUS AT ALL.
HARMAN: YOU ARE CONFIDENT THIS IS GOING TO BE RESOLVED...
MR MULDOON: I THINK YOU ARE USING THE WRONG TERM WHEN YOU SAY 'NERVOUS.' I AM DISTURBED, I AM DISTURBED AT WHAT IS HAPPENING. WE HAVE JUST GOT TO BATTLE IT OUT.
HARMAN: WILL WE WIN?
MR MULDOON: TIME WILL TELL, I DON'T KNOW.
HARMAN:
PRIME MINISTER THANK YOU.
=

COL CKD
23/0218Z WLN

No 10 Downing St.

Out telegram
ADVANCE LVL

[illegible]

Prime Minister

Brussels have informed that this message has been passed to Gundelach's Chef de Cabinet, who was "reassuring." Brussels will be sending comment by telegram on Tuesday.

S. J. Pike Duty Clerk
23. 5. 80

GR 200

CONFIDENTIAL
FRAME AGRICULTURE
FM FCO 231614Z MAY 80
TO IMMEDIATE UKREP BRUSSELS
TELNO 575 OF 23 MAY

PLEASE PASS FOLLOWING URGENTLY TO COMMISSIONER GUNDELACH FROM MR WALKER (S OF S MAFF).

1. I WAS DISTURBED TO READ REPORTS OF THE COMMUNIQUE PUBLISHED AFTER THE MEETING OF THE FRENCH COUNCIL OF MINISTERS WHICH STATED THAT: 'IF THERE IS NO DECISION AT THE COUNCIL OF MINISTERS (AGRICULTURE), THE GOVERNMENT WILL TAKE MEASURES, WITH EFFECT FROM THE MEETING OF THE COUNCIL OF MINISTERS POSTPONED UNTIL FRIDAY 30 MAY, ALLOWING, AS A HOLDING OPERATION, ARRANGEMENTS EQUIVALENT TO THE EIGHT'S COMPROMISE TO BE APPLIED. THESE ARRANGEMENTS WILL IN PARTICULAR TAKE ACCOUNT OF THE SITUATION OF PRODUCERS OF MILK AND BEEF SINCE BOTH ARE PRODUCTS FOR WHICH MARKETING YEARS SHOULD HAVE STARTED ON 1 APRIL LAST. THE GOVERNMENT WILL TAKE APPROPRIATE MEASURES FOR OTHER PRODUCTS AS A FUNCTION OF THE NORMAL COMMUNITY CALENDAR FOR SO LONG AS NO AGREEMENT HAS BEEN REACHED ON PRICES'.

2. I ASSUME THAT THE COMMISSION WILL EXAMINE ANY PROPOSED MEASURE AGAINST THE PRINCIPLES OF THE TREATY AND OF THE COMMON AGRICULTURAL POLICY. I SHOULD BE GLAD OF YOUR ASSURANCE THAT, IF THE MEASURES ARE NOT CONSISTENT WITH THE TREATY, THE COMMISSION WILL URGENTLY TAKE EVERY STEP OPEN TO IT TO AVOID THEIR INTRODUCTION.

CARRINGTON

NNNN

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fa. Pmd

Paul Lever Esq
Private Secretary to the
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

22 May 1980

FRENCH NATIONAL MEASURES

The Prime Minister agreed this afternoon that my Minister should send a message to Mr Gundelach, telling him what we had learned of the measures the French propose to introduce to support their farmers if no agreement is reached on prices at next week's Agriculture Council, and asking him to confirm their illegality. The message was to be based on advice from the Attorney General's office and from FCO lawyers.

I now enclose a draft message which my Minister has approved and which has been agreed with the Attorney General's office and your own lawyers. If the Foreign and Commonwealth Secretary is content I should be grateful if you could arrange for UKREP to deliver it to Mr Gundelach tomorrow.

I am sending copies of this letter to Michael Alexander at No 10, to Michael Franklin (Cabinet Office), and to the Private Secretaries to the Chancellor of the Exchequer, the Attorney General and the Cabinet Secretary.

Garth Waters
Principal Private Secretary

cc Private Offices
Mr Davies
Mr Wilson
Mr Andrews
Mr Gammie
Mr Reade

MESSAGE FROM THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD TO VICE-PRESIDENT GUNDELACH

We have picked up what seem to be reliable reports from Paris about what the French Government intends to do if there is no agreement on prices for 1980 at next week's Council. The measures proposed apparently include monthly subsidies to dairies, so that milk producers could be paid prices equal to what they would have received if the 4% price increase proposed by the Commission were in operation; and a direct subsidy to meat producers, on broadly the same basis.

I do not see how measures of this kind could be regarded as compatible with the common market, since they seem to be contrary to the principles of the Treaty and of the common agricultural policy. I should be glad to have your assurance that if France were to act in breach of the Treaty in this way, the Commission would take every measure open to it, with maximum urgency, to bring this action to an end.

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Ed.

cc. HMT
MAFF
CO

10 DOWNING STREET

From the Private Secretary

22 May 1980

cc Euro Pol Pt 8 Budget.
Master set.

Dear Paul,

European Community

The Prime Minister held a meeting earlier this afternoon to discuss the present state of play on the various negotiations at present in train with the other members of the Community. The meeting was attended by the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture and Mr. Franklin.

Sheepmeat

It was agreed that this was the right time for the New Zealand Government to press their case with the European Commission. Mr. Walker had already made this point to Mr. Talboys. The New Zealand Government should be seeking assurances on, e.g., tariff and quota levels. The Prime Minister said that any Community sheepmeat regime would have to be acceptable to New Zealand. But it was noted that there might well be more than one way to safeguard the interests of New Zealand and that New Zealand's first preference was not necessarily the only one which would be acceptable to the New Zealand authorities.

Fisheries

Mr. Walker said that recent developments had been relatively encouraging. It had been agreed that there would be no meeting of the Fisheries Council at the end of this month. Anglo-German discussions of the guidelines text for the negotiations on a Common Fisheries Policy had made some headway.

National Aids

It was agreed that Mr. Walker should write as soon as possible to Mr. Gundelach expressing H.M.G.'s concern about reports of the French Government's intention to introduce national aids in the absence of an agreement on agricultural prices at next week's Agricultural Council. Before the letter was sent, the Law Officers and F.C.O. legal advisers were to be consulted about the legality of the French Government's actions - insofar as we had precise information about these.

/ It was

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It was agreed that all the evidence suggested the French Government were determined to act at the end of the month and that they were not merely indulging in brinkmanship. Against that background, careful thought would need to be given to the situation which would arise after 31 May if the French had introduced national aids and if these were clearly illegal. A Working Group should be set up at once to review the possibilities. The sort of questions which would have to be considered, either by the Group or separately, would include:

- how best to demonstrate the seriousness of our own threat to withhold VAT;

- what to do about French imports of nationally subsidised products after the end of the month;

  and

- whether or not to try to withhold agreement on the provision of additional twelfths for FEOGA.

ECO/FIN Council

It was agreed that the meeting of ECO/FIN early next week should be treated as an exercise in damage limitation. The object would be to prevent any slippage, e.g. in the direction of a discussion of rebates, rather than of the ceiling on the UK's net contribution. The more that could be found out about the intentions of other members, and in particular the Germans, the better. No flexibility could be indicated on the Luxembourg figure of 538 meua as the UK contribution for 1980. A solution covering three years was essential.

Budget Contribution

It was agreed that, given the German concern about the 1980 figure, an effort should be made to identify a formula which would be more beneficial to the UK in the second or third year and less beneficial in 1980 than those previously discussed. Whether or not such a formula produced a firm figure for the third year (it was noted that a firm figure might give rise to difficulties in the context of the one per cent VAT ceiling) any formula should enable a third year figure to be quantified if necessary. If the approach of an "envelope" for three years was to be adopted, the total figure would have to be a large one. The Prime Minister mentioned 5,000 meua.

Foreign Affairs Council

It was agreed that the UK should support the holding of a Foreign Affairs Council at the end of next week.

/Next Meeting

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Next Meeting

It was agreed that the same group of Ministers would meet again on Wednesday, 28 May at 9.30 p.m. to hear a report from the Chancellor of the Exchequer on the outcome of ECO/FIN and to discuss the line which the Minister of Agriculture would take at the Agriculture Council and the Foreign and Commonwealth Secretary at the Foreign Affairs Council.

I am sending copies of this letter to John Wiggins (H.M. Treasury), Garth Waters (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Paul Lever, Esq.,
Foreign and Commonwealth Office.

Rt Hon Sir Michael Havers QC MP
Attorney General
Royal Courts of Justice
LONDON
WC2

22 May 1980

RESPONSE TO ILLEGAL SUBSIDISATION OF FRENCH AGRICULTURE

The French Government is widely reported as considering measures to support the incomes of French farmers if agreement on the 1980/81 prices package is not reached before 1 June. Firm information is not yet available, but they seem to have in mind mainly a straight hand-out of cash to farmers, perhaps combined with interest rate and repayment concessions on existing loans. Any such measures should, of course, be notified to the Commission for consideration as to their compatibility with the rules of the Treaty of Rome. They may, of course, be notified and be accepted. But they may not be notified; or they may be notified and, judged to be incompatible. The Commission's response, on past form, is unlikely to be firm or rapid.

In that situation we should have to consider what our own response should be. Measures which were not compatible with the Treaty of Rome would not only be illegal but would distort the terms of competition between France and the United Kingdom as well as other countries in the EEC. I believe that we should consider taking action on two fronts, but we would need to be absolutely sure of the legal position before we did so. I would very much like your advice on these legal points.

Firstly, I would like to know exactly how the Government would stand in regard to the law if we were to impose retaliatory duties on levies against French produce arriving here to offset what we calculated to be the illegal subsidies to that produce. As I understand it, there is no provision under the Treaty of Rome for countervailing action against illegal subsidies applied by another Member State. It is for the Commission to take action. I would be grateful for your confirmation that this is how you see the position.

Nevertheless, if we had recourse to such retaliatory measures, what would be the legal consequences for the British Government? Unless the measures were approved by the Commission, I take it that the main risk of challenge would come from angry traders who would take action against us in the British Courts. What form of action could they take and with what degree of success? Could we be faced with a final adverse judgment in our Courts (whether without or after a reference to the European Court) before the French subsidies against which we were retaliating had also been rescinded?

/It seems unlikely that we

It seems unlikely that we could ourselves bring any action in the French Courts. An individual trader who could establish loss would be better placed. But the circumstances could allow us to refer direct to the European Court under Article 93:2 of the Treaty. I would be grateful for your advice and your assessment of our chances of success. I have been given to understand that the French judiciary would be unable to compel compliance with the law on the part of the French Government with the same force as our judiciary would exert with us in the United Kingdom. I would like to know if you will share that assessment.

We may have to face decisions on taking retaliatory measures as early as next week. I would therefore be grateful if you could give the matter your urgent consideration.

I am sending a copy of my letter to the Solicitor General, the Lord Advocate and the Solicitor General for Scotland.

PETER WALKER

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Pr. Minister

Prime Minister

I apologise if I misunderstood your wishes on the draft of Mr Walker's letter. I attach the letter in the form in which it issued. As you will see it incorporates the point you raised & is extremely firm in tone.

MAP 22/5

Paul Lever Esq
Private Secretary
Foreign and Commonwealth Office
Downing Street
London SW1

21 May 1980

MUTTON AND LAMB

I attach a letter for immediate despatch to Mr Gundelach in which my Minister seeks certain assurances about the Commission's intentions in regard to the mutton and lamb régime. It incorporates the changes suggested by Michael Alexander at No 10, Michael Franklin at the Cabinet Office and your own Department.

I am copying my letter and its enclosure to Michael Alexander, Michael Franklin, John Wiggins (Treasury) and the Private Secretaries to the Secretaries of State for Scotland, Wales and Northern Ireland.

G R WATERS
Principal Private Secretary

Mr F O Gundelach
Vice President
Commission of the European Communities
Rue de la Loi 200
1040 Brussels

21 May 1980

When we met last week, I said I would write to you about certain points on the proposed sheepmeat régime. First, you said that you had no intention of introducing any provision for export restitutions into the régime and that, if you did not do so, there was no way through a horizontal regulation or by any other means that export restitutions could be paid for sheepmeat. I should be glad if you would confirm this.

Secondly, on New Zealand, you said you were sure that an agreement could be made with the New Zealand authorities which would fully satisfy them and that you would not finalise a sheepmeat regulation until you were assured of New Zealand's agreement. I think the New Zealanders would need assurances of access, any agreement on quantities to be balanced by a reduction of the tariff and an assurance that any intervention would be limited in scope and quantity, and an indication of how the intervention stocks would be disposed of, and that any Community export of sheepmeat would be on a small scale and without benefit of export refunds. I am sure that the New Zealanders would also need written assurance that any major changes in the régime once established should be the subject of consultation with New Zealand. I should like you to confirm that this statement corresponds with your view of the situation.

I should be most grateful to your your written confirmation before the next Council.

PETER WALKER
Approved by the Minister
and signed in his absence

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A COMMON ORGANISATION OF THE MARKET FOR SHEEPMEAT

NOTE BY THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD

At this week's meeting of the Council of Agriculture Ministers we put a series of questions to the Commission directed to exposing the serious short-comings of the sheepmeat proposals they tabled during the European Council in Luxembourg. Following an unconvincing response from Vice-President Gundelach, other Member States offered no comments and at our insistence the Commission's proposals were remitted for detailed examination by the Special Committee. We now need to consider what approach we should adopt in further discussion of these proposals.

2. The Commission has now moved to a position of recommending unlimited intervention throughout the Community from mid-July to mid-December, the main marketing season, with the possibility of further intervention at other times of the year. They have further suggested an initial basic price at the high French price level and an intervention price above the forecast average Community market price with free trade. Although export refunds are not specifically included in the Commission's latest proposals, Gundelach has confirmed at the Council of Ministers that he saw a role for them in the scheme he has put forward which implies that provision for the use of export refunds would be included in the Council regulation we would be expected to accept. There would also be large premiums for French producers, but little or no such aid for ours, and no firm timetable for phasing out such compensatory payments and establishing a common reference price and common premium.

Attitude of other Member States

3. The French are determined to have intervention to put a floor in the Community market above the current weighted average Community market price, to be supplemented by compensatory premiums to maintain French producers' revenues at their present

level. Until recently other Member States, except Ireland, have fully supported us in opposing an interventionist regime but they will now find it difficult to pull back from their acceptance in Luxembourg of the Commission's proposals which they saw as a means of allowing them Farm Price increases they desperately need. It will now be very difficult for us to secure any significant modification to these proposals despite their obvious shortcomings.

Implications of the Commission's Proposals

4. Our estimates of the intervention and financial consequences of the Commission's proposals are in Appendix I. These show that in the first year of the regime some 18,000 tonnes could go into intervention, mainly in the UK. The UK would secure no premium benefits while contributing to the cost of premiums for France and other Member States. This contribution would be more than offset by receipts from the Community for the cost of intervention incurred in the UK. Thereafter if in subsequent years the initial intervention level were maintained in real terms we could see the quantities purchased rising over several years up to about 100,000 tonnes (two-thirds in the UK) due to a combination of rising production but declining consumption caused by the level of intervention price. The regime would become increasingly costly, but our net receipts from the Community budget would rise because the larger part of the increasing intervention would occur in the UK. Were intervention confined to France the effect would be to attract a large, and increasing, quantity of British lamb away from the domestic market into France over and above our increased exports resulting from free circulation.

5. The disposal of stocks of frozen sheepmeat on this increasing scale would not only be extremely expensive but could disrupt the markets on which they were sold. New Zealand is currently sending the Community as a whole around 250,000 tonnes of frozen lamb, mainly to the UK. She will benefit from the strengthening of UK prices under a common market with free circulation. But any disposal of intervention stocks at the increasing levels foreseen in our estimate on the Community market would be very

damaging to New Zealand's sales and returns. Similarly to dispose of stocks on this increasing scale with the aid of export refunds in North Africa and the Middle East could seriously disrupt these markets which in the case of the Middle East are becoming very important to New Zealand.

6. These implications of the Commission's proposals are only too evident to New Zealand as Mr Muldoon's recent message to the Prime Minister shows. The negotiation of a voluntary restraint agreement would be seriously prejudiced. In the absence of a sufficient moderation of the Commission's proposals to satisfy New Zealand that the consequences discussed above would be avoided, she would presumably refuse to sign up to a voluntary agreement. The French would then seek a deconsolidation of the GATT binding.

UK Approach in Further Negotiations

7. Our main objectives should be to secure arrangements which would give us a resource gain and to avoid heavy intervention with all the adverse consequences this would carry with it. In the note on the Commission's proposals submitted in Luxembourg by the Agricultural Council to the last European Council, UK objections were recorded to -

i) the principle of public intervention

ii) the method of calculating premiums and in particular reference prices

iii) the principle of export refunds (French request for their inclusion)

iv) the level of the basic price (the Commission having proposed 345 ECU/100 kg).

8. Ensuring a resource gain for the UK and eliminating the present discrimination against our sheepmeat sector requires securing <u>premium arrangements</u> which will give a proportionate benefit to our producers. We should in particular seek a firm timetable for phasing out discriminatory premiums, in not more than 2/3 years, and for establishing a common reference price and common premium.

9. As regards <u>export refunds</u>, we should press for complete exclusion from the Council regulation. Otherwise decisions on their use would rest with the Commission under the Management Committee procedure. If we are unable to secure agreement to exclusion permanently the only acceptable fall back would be to accept initial exclusion but with a review after a period.

10. As regards <u>intervention</u>, we should of course seek all means of restricting its scope and minimising the likely disruption of markets which would result from the disposal of large stocks of frozen sheepmeat. The idea of providing for the re-sale at subsidised prices of stocks purchased, still in fresh or chilled form, to areas of the Community where little sheepmeat is now consumed might be tested out in discussion. What would be essentially a commercial operation by intervention agencies would however present formidable administrative problems. And even if means could be found for preventing such subsidised meat being sold back into the French market, other Member States would not welcome the sale of cheap mutton and lamb in their meat markets.

11. Measures to restrict the scope of intervention will not however in themselves remove the risk of intervention buying on the increasing scale foreseen in our estimates unless we can secure a significant reduction in the proposed <u>basic price</u> of 345 ECU/100 kg, and the derived intervention price which would be above the current weighted average of the Community market price. To remove the likelihood of heavy intervention the basic price needs to be reduced to not more than 315 ECU which would bring the derived intervention prices down to 268 ECU (Continent) and, say, 263 ECU (UK and Eire). The estimates in Appendix I indicate that with prices at these levels intervention would be initially minimal and subsequently should be held to moderate levels.

12. We could go for the options of not operating intervention in the UK at all or of setting the intervention price in the UK much lower than in France. Neither however would overcome the problem posed by an over-high intervention price in France which would draw large quantities of lamb from the UK to France

over and above the requirements of free trade unless there was some counter-balancing support in the UK. There would still be very large quantities in intervention and the fact that it was concentrated in France would make it no less objectionable to New Zealand.

12. The only possible means of offsetting these effects of a high intervention price in France would be to operate a FEOGA financed variable premium in the UK linked to seasonalised target prices at a level comparable with the seasonalised intervention price in France. Under this alternative in any week when the average market price is below the seasonalised target price a premium equal to the gap between the two prices is paid on eligible sheep marketed for slaughter. The return to the producer is maintained; there is no adverse impact on consumption; and, if the premium is recouped on export there is no risk of heavy exports into French intervention. Provision for such an alternative was included in working proposals circulated by the Commission last year. It will be difficult to secure, but some other Member States would like to avoid heavy intervention and they are all committed to 100% FEOGA funding of whatever measures are agreed.

Conclusion

13. Public intervention is both unnecessary and inappropriate for the Community sheepmeat sector; but France is insisting on an intervention-based sheepmeat regime as part of her price for a settlement of the budget issue. If she sticks to this, we shall have to negotiate the best arrangements for sheepmeat that we can, reducing as far as we can the adverse effects for ourselves and for New Zealand. Our main objectives, reflecting the reservations on the Commission's proposals we have already lodged, should be the following -

1) we should seek a substantial reduction in the proposed basic price and derived intervention price to avoid the risk of heavy intervention particularly in the UK;

2) we should also seek maximum limitations on the scope of intervention and explore whether there is any possibility of avoiding the freezing of meat bought into intervention;

3) if we are unable to secure a sufficient reduction in the basic price we should seek a variable premium for the UK to avoid the over-high intervention price leading either to heavy intervention in the UK or to exports of our sheepmeat into French intervention;

4) we should seek the exclusion of export refunds from the regime;

5) we should seek a basis for calculating the premiums proposed by the Commission which will give proportionate benefits to the UK: and in particular a firm timetable for the early achievement of a common reference price and premium.

PRELIMINARY ESTIMATE OF COST OF SHEEPMEAT REGIME

A COMMISSION'S PROPOSALS IN ANNEX 2 TO AGRICULTURAL PRICES DOCUMENT

Year 1	MECU	£m
Premiums	94	61
Intervention	39	25
Total EC Expenditure	133	86
UK Gross Contribution	24	15
UK Receipts	29	19

Longer Term

Premiums - expenditure would depend on movement of market prices and alignment of reference prices

Intervention costs:	MECU	£m
Total EC Expenditure	217	140
UK Gross Contribution	39	25
UK Receipts	132	85

B ASSUMING INTERVENTION PRICE BELOW CURRENT WEIGHTED AVERAGE MARKET PRICE

Year 1	MECU	£m
Premiums	112	72
Intervention	1	1
Total EC Expenditure	113	73
UK Gross Contribution	21	14
UK Receipts	0	0

Longer Term

Premiums - expenditure dependent on market price and reference price changes

Intervention:	MECU	£m
Total EC Expenditure	32	21
UK Gross Contribution	6	4
UK Receipts	19	12

NOTES:

i. Commission indicated at Council that they envisaged basic price of 345 ECU/100kg. Costs at A are based on intervention price of 295 ECU/100kg for Member States except UK and Eire where 288 ECU/100kg is assumed to take account of transport costs. Costs at B are based on basic price of 315 ECU/100kg; intervention prices of 268 ECU/100kg on the Continent and 263 ECU/100kg in UK and Eire.

ii. Estimated quantities taken into intervention (tonnes);

A

First Year		Long-term	
UK	13,500	Total	100,000
Eire	2,500	(UK about 65,000)	
Others	2,500		

B

First Year		Long-term	
Total	less than 500 (all in Eire)	Total	17,000 (10,000 in UK)

iii. Assumes intervention all the year round as French are insisting. Commission propose that intervention would operate from 15 July to 15 December with intervention at other periods of year on a temporary basis if necessary. Limiting intervention in this way could reduce the quantities bought in somewhat, but would tend to encourage production in the intervention period.

iv. Year 1 market price assumption as in 6448/80.

v. Cost of intervention 1720 ECU (£110) tonne (Commission estimate). Cost of export refunds equals difference between the intervention price in each Member State, minus the loss of value in intervention, and the world price. This varies between 450 ECU (£290) per tonne and 94 ECU (£61) per tonne.

vi. Private storage is unlikely to be made use of as currently proposed and no estimate is therefore included.

vii. A tariff cut as envisaged under VRAs of say 10%, could save the UK some £20m a year in gross payments to Brussels and some £15m a year in public expenditure.

10 DOWNING STREET

From the Private Secretary

21 May 1980

Mutton Regulation: New Zealand

As you know the Prime Minister has seen your letter to me of 19 May on this subject and has approved the enclosed text of a message from Mr. Walker to Mr. Gundelach subject to the inclusion of a question about the Commission's proposals for the disposal of intervention stock.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

G.R. Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.

PM/80/41

PRIME MINISTER

Sheepmeat Regime

I did not put this into you since I knew that you would be concerned about the outcome of OD(E)

1. The Sub-Committee on European Questions of the Defence and Oversea Policy Committee discussed this morning the proposals in the Minister of Agriculture's letter to me of 20 May, which you have seen. (minutes attached.) We also considered the related letters of 19 and 20 May respectively from the Chancellor of the Exchequer and the Secretary of State for Scotland. Throughout our discussion we had very much in mind the need on the one hand to settle a sheepmeat regime as an indispensable element in a final solution to our budget problem and on the other the need to safeguard both our own interests as the largest lamb producers in the Community and the interests of New Zealand about which, with your agreement, the Minister of Agriculture has now written to Commissioner Gundelach. We also had to take account of the attitudes of the other member states, all of whom are likely to support the main features of the revised Commission proposals including the use of intervention. (I attach an annex in which these main features are set out.)

2. The Sub-Committee concluded that these conflicting objectives might best be reconciled if the Minister of Agriculture sought a contingent agreement on sheepmeat in the 28/29 May Agriculture Council on the following basis. First we should reluctantly accept that intervention in France is unavoidable, but we should strive to get the basic price for sheepmeat - which in turn determines the intervention price - down to as low a level as possible. Second we should propose a system of variable premia for the United Kingdom and Ireland instead of intervention. This would operate much like our present deficiency payment scheme, except that it would be wholly financed by the Community. When the United Kingdom market price fell below a target price (below the French

/intervention

intervention price by the approximate equivalent of the transport costs), the Community would pay a variable premium to the producer to make up the gap. This premium would be clawed back on export sales, so that there would be little or no incentive for British farmers to sell into intervention abroad.

3. If these objectives can be secured, the worst features of the Commission's proposals will have been removed so far as the United Kingdom is concerned. There would be no intervention in the United Kingdom. Lamb prices on the United Kingdom market will not be forced up to French levels, so that the consumer will be better off and demand will be sustained (thus helping access for New Zealand lamb). There will be no incentive to expand production solely for intervention although some increased exports are likely. We shall be getting support for our producers from Community funds, with an estimated reduction in our net contribution to the Community budget rising to £66 million a year.

4. If you agree with this line, I think it important that we should make our position known immediately to the Commission and the other member states with the aim of reaching agreement at next week's Agriculture Council, conditional of course on a solution to our budget problem.

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

C

(CARRINGTON)

Foreign and Commonwealth Office
21 May 1980

ANNEX

MAIN FEATURES OF THE COMMISSION'S REVISED PROPOSAL

i. A basic price for sheepmeat should be set annually. For 1980 the Commission propose 345 ECU/100 kg (about the current French market price).

ii. An intervention price should be set at 85 per cent of the basic price (ie for France in 1980, 293 ECU/100 kg, but for the UK and Ireland alone a lower intervention price of 268 ECU/100 kg would be set).

iii. Reference prices should be fixed for five 'regions' within the Community (for France the Commission propose 345 ECU/100 kg, for the UK 265 ECU/100 kg).

iv. If the market price is below the reference price, a premium should be paid to the producer to make up the difference. The maximum premium payable is the difference between the reference and the intervention price.

v. As already agreed, third country suppliers of sheep-meat would be invited to agree to voluntary restraint on their exports to the Community in return for a tariff cut.

vi. There should be a review of the regime not later than 30 September 1983.

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Original on:
EURO POL
Budget: Pt 8

PM/80/40

PRIME MINISTER

Community Budget

1. As you know the Naples meeting of Community Foreign Ministers last weekend made little or no progress towards a solution of the budget problem. The French and Germans continued to say that their Luxembourg offers are no longer available, the others had no constructive ideas to contribute and the Italian Presidency are noticeably flagging in their efforts to find a solution acceptable to all.

2. Next week there will be meetings of the Finance Council and the Agriculture Council. None of these meetings will be easy for us and none are likely to get us any closer to a solution. The Finance Council has not hitherto proved an effective negotiating forum on the budget and the presence of Matthoefer and Monory is hardly likely to be conducive to flexibility. The latest Commission figures the Finance Council will be considering, while they may help to reassure the Germans that there is room to solve our problem within the 1% ceiling in 1980 and 1981 will be less helpful for 1982; and they will show more clearly than before just how large a refund we need to bring our net contribution down to acceptable levels. In the Agriculture Council Peter Walker will have to maintain our reserve on the price package and to fight our corner on sheepmeat. On the latter his chances will to a large extent depend on whether there is a general feeling that a budget settlement is in the offing, in which case I think he has a reasonable chance of making progress.

3. Since Luxembourg the main factors at work are as follows. First the irritation of Schmidt and Giscard at the way things

/went

went there has poisoned the atmosphere and impeded progress at a lower level; but at the same time their own proclaimed refusal to negotiate further at Venice, and thus to be seen personally to be making concessions, is to be taken seriously and makes the prospects for a solution if left to that meeting dubious to put it mildly. Second the realisation of how big the concessions we extracted at Luxembourg were has been borne in on all governments and has caused trouble with hard-pressed Finance Ministers. This has bred a strong feeling that any further concession on duration will have to be balanced by smaller refunds to us in 1980 and above all that any further concessions at all to us can only be made in the context of a decisive negotiating meeting, so that we cannot again refuse them and then carry on negotiating from there. Thirdly the problem of the agricultural price settlement, taken in conjunction with impending elections in Germany and France, has become more and more of a preoccupation to our partners, with the French demonstrating a clear intention to take national measures and others likely to follow suit with the connivance, and probably the approval, of the Commission.

4. Does this mean that time is on our side? I do not believe so. We can of course stand pat on the budget position as we put it at Luxembourg, use the Luxembourg Compromise to block agricultural prices and the 1980 (and the 1981) budget, and consider again the pros and cons of withholding. With or without the last point, the Community will then find itself in a major crisis, with much bitterness and an increasingly firm 8:1 line-up against us. A negotiated solution will eventually have to be found; but in the confusion created and with the French presidential election not until March 1981 that could take a considerable time. If, at the end of it, we were to get a substantially better deal on the budget than we can get now, that might not matter too much. But in my view that is not the case. The closer we get to the 1% ceiling the more difficult it will be to get the

/special

special arrangements for the UK we have been fighting for. And the longer the crisis goes on the greater the number of extraneous issues others will link to the concessions we want on the budget. To take fish as only one example (New Zealand butter is another), linkage with the substantive issues of access and quotas would be far more difficult for us to handle than the present argument over a list of carefully drafted principles.

5. But can we get an acceptable deal now, before Venice? I think we can, although obviously I cannot be sure. For one thing I believe we can capitalise on Giscard and Schmidt's evident unwillingness to get personally involved again. They and our other partners know that, if the matter is not settled before Venice, they cannot evade either another attempt to settle or the prospect of a major Community crisis. And, although I am convinced that domestic politics will mean that national measures on agriculture will be taken and that Community politics mean that the Commission will not throw the rule-book at those who take them, I am also sure that there is no Member State which does not regard a settlement on the basis of the price increases proposed in Luxembourg as an infinitely preferable alternative.

6. If you agree, I would like therefore now to signal firmly to the Italian Presidency and to the other Member States that we are prepared to participate in a decisive negotiation in the Foreign Affairs Council either at the end of next week or early the following one. I do not think we have anything to lose from doing this. Even if it fails to produce a solution we shall have improved our position tactically. The Community will in any case face a financial crisis at some point during the next eighteen months or so. I believe our chances of exploiting that situation to our advantage would be strengthened if we had succeeded in getting a budget deal, albeit for a limited period; and conversely would be jeopardised if we had not.

/I am

6. I am copying this minute to the Chancellor of the Exchequer, the Lord President of the Council, the Lord Privy Seal, the Minister of Agriculture and Sir R Armstrong in the Cabinet Office.

C

(CARRINGTON)

Foreign and Commonwealth Office

21 May 1980

Euro Pol
Copied to: Budget : Pt 8

5

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

ECO(1)
c PS
PS/CPS
PS/PUS
Lord Bridges
Mr Hannay

Mr Fretwell
MJ 21/5

SECRET

G R Waters Esq
Private Secretary
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1A 2HH

20 May 1980

Reg
pn (Sheepmeat)
8 21/5

Dear Garth,

Cc as for X

COMMUNITY BUDGET: THE NEXT STEPS: LAMB

X Your letter of 9 May to Michael Alexander enclosed two papers on the items which are becoming closely linked with the Budget negotiations ie fisheries and lamb. This letter is concerned with that on lamb.

Intervention

My Secretary of State fully endorses the line which your Minister is proposing. In the present climate, we cannot expect to be able to block all intervention; we should therefore aim to make it less expensive and less of a nonsense. To that end, he agrees that our prime objective on the internal regime should be to negotiate reductions in the basic and intervention prices from the very high levels at present proposed by the Commission.

Resource Gain

The previous aim of permitting nationally-financed premiums to compensate Continental producers for loss of income is, in my Secretary of State's view, not now sustainable. The alternative objective of seeking FEOGA benefits for the UK in proportion to our production levels is in his view the one to be pursued, as your Minister proposes.

Premiums

The Secretary of State is intrigued by the ingenious suggestion in paragraph 12 of your Minister's paper for the creation of a premium - or a kind of deficiency payments scheme - to bridge the gap between UK market prices (at the level they would settle under conditions of free trade) and the level at which the market would be supported by intervention, by direct income payments to producers. The difficulty in practice, however, is that the market price is an average composed of widely varying prices, not all related to quality of product.

SECRET

Accordingly, in areas where market prices rarely reached the average level upon which premiums would be based, these market price levels plus the premium might not provide a total return to producers as attractive as intervention. For example, in Scotland we are over 300 per cent self-sufficient in lamb, and at a significant distance from the main centres of consumption. Our market prices are, as a result normally below, and frequently well below the national average. While therefore your Minister's proposal might reduce intervention in some parts of the country, it might prove in other parts a positive incentive to its increase.

My Secretary of State is concerned not only at the wasteful effects of such a situation, important though that is, but also at the effects on production patterns if we were to create a system of 'producing for intervention'. The high returns thus generated could well lead to a considerable leap in production levels. Such an increase, together with falling home demand for lamb, could yet further increase the need for intervention.

Before therefore Ministers take a collective view on the options, my Secretary of State suggests that officials of the relevant Departments should meet quickly to explore further the implications for production and trade in different parts of the UK of a combined premium/intervention scheme. If that exploration bears out his fear that the scheme might actually increase intervention in some parts of the country, he is inclined to think that it might be best to apply intervention in the UK with the same trigger prices as elsewhere in the Community. Despite its admitted difficulties, this course would avoid both distortions of trade and the considerable administrative complexity and large numbers of officials required, for example, to claw back premiums on our considerable volume of live and carcase exports. We should of course first try to get the proposed level of support lowered, but if we failed initially to get it set low enough we could keep up pressure each year to reduce the support level in real terms.

I am copying this letter to the recipients of yours.

Yours sincerely,

[signature]

4

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

20 May 1980

SHEEPMEAT REGIME

1. You will have seen my note to the Prime Minister of 9 May in which I reported on the developments in the regulations on sheepmeat. I am writing to you as Chairman of OD(E) in the light of further official discussions in Brussels for authority to go firmly for a FEOGA financed variable premium in the UK in exchange for any concession on intervention.

2. The Commission has now tabled a revised formal proposal for a common organisation for sheepmeat, replacing the 1978 formal proposal (with its emphasis on a light, market-related regime) which has been the basis of discussion so far. The revised proposal incorporates the "compromise" put forward by the Commission in Luxembourg and therefore provides for intervention on the Continent at a price level (293 ECU/100 kg) which is above the Community weighted average market price and, if maintained in real terms, will, in our view, lead in the longer term to very substantial quantities of meat going into intervention. For the UK and Ireland the Commission propose an intervention price 25 ECU lower than on the Continent; this differential is roughly five times the additional cost of exporting to the Continent and it would effectively remove the likelihood of intervention here but would result in larger quantities of our meat being drawn into the higher-priced French market and in greater intervention in France.

3. The fact that the proposal formally covers intervention only in the period July - December does not imply much restriction on intervention, since this is the main marketing period and there is also provision for intervention to be decided on at other times of the year if market conditions are difficult. Nor is there much hope from the proposal, adopted at working level in Brussels last week, to leave it open to Member States to request intervention when their price was below the requisite level, since, if France carried out intervention at the high level proposed, meat would be drawn in from other non-intervening Member States. If intervention were adopted, the price level would be vital in determining the extent of its use. It is therefore essential to have a lower intervention price. The Germans, Danes and Dutch are also worried about the price level, but they are under strong pressure to hold to the package agreed in Luxembourg and it will be very difficult to get a majority for a lower price.

4. Where premiums are concerned the Commission have repeated their earlier informal proposals, thus giving us a reference price which is unlikely to produce any significant premium receipts in the first year and which provides no mechanism or timescale for aligning reference prices to a common level.

5. The only encouraging feature of the proposal is that it includes no provision for export refunds and Mr Gundelach has said he does not intend to include them. However, when Commission officials were pressed about the possibility of export refunds being brought into use at a later stage their replies were ambiguous.

6. We are therefore faced with a package which offers nothing to any of our interests and would mean that, with no effective support mechanism for the United Kingdom, prices would be forced up by intervention on the Continent and consumption would go down; perfectly good lamb would be frozen, creating a disposal problem when there would be a strong but frustrated demand for fresh meat at reasonable prices. Our producers would lose their existing seasonalised guaranteed price. Even if export refunds are excluded, the New Zealanders are desperately worried about the trade implications of large-scale intervention. So there would be opposition by Parliament and public, producers and consumers. In my opinion a package on these lines is unacceptable in any circumstances.

7. It is clear that, as I have said, we cannot accept the price level for intervention. We must also make it clear that the proposed differential between our price and the Continental price is wholly unjustifiable; on this point (if no other) we shall have the support of the Irish. We shall continue to argue for a premium system that gives us a reasonable share of receipts from the start and moves rapidly to a common reference price and a common premium. We have to recognise, however, that at the next Council of Agriculture Ministers there is going to be an eight-to-one majority in favour of an intervention system and a premium system on the lines proposed by the Commission and a majority in favour of the intervention price they propose. We have, therefore, to consider how this unacceptable package could be made acceptable if it is essential to settle sheepmeat at or before the next European Council.

8. If we accept that we cannot avoid intervention taking place in France, the only possible means of offsetting the effects in the UK of a higher intervention price there while getting a reasonable level of support for our producers would be to operate a FEOGA financed variable premium in the UK based on a seasonalised target price at a level comparable with the seasonalised intervention price in France (after allowing for the geniune extra costs of exportation). Thus if the French intervention price were set at 293 ECU/100kg our target price would have to be 288 ECU/100kg. Under the alternative, in any week when the UK average market price was below the seasonalised target price a premium equal to the gap between the two prices would be paid. The return to the producer would be maintained without any adverse effect on consumption and, if the premium were recovered on export this would remove the risk of heavy exports building up French intervention stocks.

9. I therefore propose to negotiate for a variable premium on these lines. Provision for such an alternative was included in working proposals circulated by the Commission last year but operating at a much lower price level which would have virtually excluded premiums. It is essential for our purposes that a target price for variable premiums has the relationship to the Continental intervention price I have described above. It will be difficult to get agreement to this alternative, but several other Member States want to avoid heavy intervention (even the French profess a desire to keep it to a minimum) and they are all committed to 100% FEOGA funding of whatever measures are agreed. If we secure it, it is quite likely that Ireland will want a similar arrangement, but we cannot count on their support in negotiations.

10. Our latest estimate of the cost of the Commission's proposals is set out at Annex I and our estimate of the cost if the variable premium alternative were applied in the UK and Ireland is at Annex II. The long-term costs assume that the production and consumption response to changes in prices and support levels have fully worked through. This would take several years; we cannot say precisely how long. The cost of intervention and of variable premiums in the second year of a regime under the system I propose would probably not be significantly different from the first year. Costs would rise therafter as the production response became evident. The cost under the Commission's proposal would rise more steeply in the second year because the consumption response to the price effect of intervention would be relatively rapid.

11. A regime with variable premiums on the lines I have described should exert a greater discipline on the annual price fixing because the pressures for a higher intervention price would be balanced by a desire to keep down premium expenditure in the UK and Ireland. We have not allowed for this in the costing at Annex II. We should, of course, have to insist that the differential between intervention and premium support prices should not be widened.

12. In addition to the public expenditure considerations the variable premiums would produce savings on the balance of trade and on consumer expenditure. The lower consumer price is the UK would reduce the cost of New Zealand imports and the consequent saving in the balance of trade would outweigh the loss of exports to France compared with those under the Commission proposal.

13. If we were to get a regime with variable premiums on these lines it would neither be negotiable nor sensible to pay both compensatory premiums and variable premiums in this country. On the basis proposed by the Commission, the compensatory premium offers us little. Tactically I would propose to continue to press for the improvements we are seeking in compensatory premiums while recognising that these would become irrelevant if we got a variable premium.

14. The timing of an initiative on these lines requires careful consideration. We cannot rely on the Commission to present a satisfactory proposal on these lines, even though they might be prepared to consider a variable premium option of some kind if it would settle the package. In preparing for the next Agriculture Council we have to make it clear that the present proposals are not acceptable and that a different combination of premiums and intervention will be needed. I would like authority to put forward a specific variable premium proposal at the price level I have indicated (that is, 5 ECU below the Continental intervention price) at the Council if it becomes clear (as I think it will) that we cannot get an acceptable package on any other basis.

15. I am copying this to the Prime Minister and to members of OD(E).

Yours sincerely
Peter Waters
for

PETER WALKER

(Approved by the Minister
and signed in his absence)

ANNEX I

COMMISSION PROPOSALS[1]

Year One (current prices)

	MECU	£M
Compensatory Premia	108	70
Intervention costs(2)	45	29
Total EC Expenditure	153	99
UK Gross Contribution	28	18
UK Receipts	-	-
UK Net Contribution (Cost)	28	18

Long-term (at 1979 real prices)

	MECU	£M
Intervention Costs/EC Expenditure (3)	171	110
UK Gross Contribution	30	19
UK Receipts	-	-
UK Net Contribution (Cost)	30	19

NOTES:

(1) A support level of 293 ECU/100kg on the Continent and 268 ECU/100kg in the UK and Ireland. The support mechanism to be intervention only; no measures to alleviate trade distortions arising from different intervention levels.

(2) Includes initial national outlay on purchase costs.

(3) Excludes costs of disposal.

ANNEX II

UK VARIABLE PREMIUM PROPOSAL[1]

Year One (current prices)

	MECU	£M
Compensatory Premia	94	61
Intervention Costs (2)	7	4
Variable Premia (3)	40	26
Total EC Expenditure	141	91
UK Gross Contribution	25	16
UK Receipts (3)	33	21
UK Net Contribution (Benefit)	8	5

Long-term (at real prices)

	MECU	£M
Intervention Costs (4)	74	48
Variable Premia (3)	172	111
Total EC Expenditure	246	159
UK Gross Contribution	43	28
UK Receipts (3)	145	94
UK Net Contribution (Benefit)	102	66

NOTES:

(1) A support level of 293 ECU/100kg using intervention on the continent and a support level of 288 ECU/100kg in the UK and Ireland using variable premia.

(2) Includes initial national outlay on purchase costs.

(3) Variable premia receipts less clawback on exports.

(4) Excludes costs of disposal.

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

From the Minister

CONFIDENTIAL

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

19 May 1980

Dear Geoffrey

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

I am sorry not to have replied earlier to your letter of 17 March. Our economists have, however, been in touch on the subject meanwhile.

I am aware of the criticisms of the earlier estimates of the cost of the CAP produced by officials here, but I think they were largely misplaced. Those calculations measured the resource flows between Member States arising from the distinctive features of the CAP, namely its operation by a number of countries acting as a group and the common financing of its budgetary costs, but without assuming any change in farm support levels. I still consider that it is important to have these figures, and that they are more likely than others to be of practical use in discussions in the Community.

However, I agree to work being done on the lines you suggest, incorporating assumptions on lower levels of support and hence lower output. The methodology would allow an assumption of no support at all, if this were felt relevant. The economists here have already started work on this, and will liaise with the Deputy Chief Economic Adviser in the production of a note which can be submitted to us jointly.

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

Yours

PETER WALKER

Copied to: Euro Pol, Budget: Part 8

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

19 May 1980

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

Dear Peter

SHEEPMEAT AND THE BUDGET

We are to discuss in OD(E) on Wednesday the way in which we should deal with the next stage in the discussions on sheepmeat. I have yet to see your proposals but I thought that it would be helpful if I gave you an advance indication of the main considerations as I see them.

Clearly, our first objective must be to convince the rest of the Community that a heavy intervention regime leading to a new sheep mountain would be a disaster, not just for this country but for the Community as a whole. I note that the Foreign and Commonwealth Secretary made this point very forcibly when he saw Colombo in Brussels on 14 May (UKDEL Nato telegram No.230, paragraph 2). There is some evidence that we are beginning to make an impression on the Commission. For example, I note from your 13th May discussion that the Commission are preparing a sheepmeat regulation "based on very limited intervention and no export rebates". If in the event a settlement on the Budget turns on our accepting a sheepmeat regime we must keep them up to that.

Even supposing, however, that we succeed in severely limiting the scope of intervention in the other member states, I share your view that we must avoid applying it in the UK and I am prepared to accept that if our producers are not to have recourse to intervention here, we should continue to underpin their returns by some kind of deficiency payment system. The proposals made by the

/Commission

Commission at an earlier stage in the sheepmeat negotiations that the regime should include the option for member states to operate variable premia provide an opening for you to argue for such a system in the UK, and I understand that you have already raised this possibility with Commissioner Gundelach.

If the Commission are prepared to renew this variable premia proposal and the other member states, including France, accept in principle that we should have the option of operating it as an alternative to intervention, the key question will be the level of the target price.

In determining our objectives for the UK target price we need to take account of our general view that the CAP should not encourage more production than can be absorbed by the market, and of the interests of New Zealand in continuing her traditional supplies to the UK. We also have to avoid a price level which will provoke excessive expenditure both because of our general views on the need to limit CAP spending and for the particular reason that if we achieve a settlement of the problem of the UK contribution to the EEC budget which sets a ceiling to our net contributions, expenditure on premia in the UK will reduce the public expenditure advantages of the budget settlement itself.

Against this background, I consider that we should apply to the decision on the UK target price the same considerations that were applied to the recent decision determining the guaranteed price for fat sheep for 1980-81. This suggests that the target price should be at or close to the present guaranteed price of 155p per kg. To choose a significantly higher price would, in my view, risk stimulating more production than could be disposed of at the target price level. This would be a recipe for escalating expenditure and depressed market prices, which would be almost as damaging to our general CAP objectives and to the interests of New Zealand, as an intervention system.

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

GEOFFREY HOWE

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

From the Minister's Private Office

Prime Minister (1)

Agree?

Michael Alexander Esq
10 Downing Street
London SW1

19 May 1980

Dear Michael,

MUTTON REGULATION: NEW ZEALAND

In my minute recording the conversation that took place between Mr Talboys and my Minister last Friday I noted that Mr Walker intended to write to Mr Gundelach seeking specific assurances from him about the character of the proposed CAP mutton régime.

--- I attach the draft of the letter which my Minister is intending to send to Mr Gundelach. As you can see, it asks for his written confirmation that there would be no export refunds in the CAP mutton régime. It also seeks his written confirmation that New Zealand would be given firm assurances on certain other features of the régime that would be of particular interest to her.

Before my Minister writes, he would be grateful for your assurance that the Prime Minister is content with the terms of his letter.

I am sending a copy of my letter and its enclosure to Paul Lever (FCO), John Wiggins (Treasury) and David Wright (Cabinet Office).

Yours sincerely,

G R WATERS
Principal Private Secretary

Could we also ask how the proposes to dispose of intervention stocks?

M.

DRAFT LETTER FOR THE MINISTER TO SEND TO MR GUNDELACH

Mr F O Gundelach
Vice President
Commission of the European Communities
Rue de la Loi 200
1040 Brussels

When we met ~~earlier this~~ last week, I said I would write to you about certain points on the proposed sheepmeat regime. First, you said that you had no intention of introducing any provision for export restitutions into the regime and that, if you did not do so, there was no way through a horizontal regulation or by any other means that export restitutions could be paid for sheepmeat. I should be glad if you would confirm this.

Secondly, on New Zealand, you said you were sure that an agreement could be made with the New Zealand authorities which would fully satisfy them and that you would not finalise a sheepmeat regulation until you were assured of New Zealand's agreement. I think the New Zealanders would need assurances of access, any agreement on quantities to be balanced by a reduction of the tariff and an assurance that any intervention would be limited in scope and quantity and that any Community export of sheepmeat would also be limited. I am sure that the New Zealanders would also need written assurance that any major changes in the regime once established should be the subject of consultation with New Zealand. I should like you to confirm that this statement corresponds with your view of the situation.

I should be most grateful to have your written confirmation ~~[in writing]~~ before the next Council.

CONFIDENTIAL

Copy

Original filed on New Zealand: Visits by Mr Talboys. Nov 1979. Copy to Euro Pol: CAP: Pt 5.

RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE DEPUTY PRIME MINISTER OF NEW ZEALAND, MR. BRIAN TALBOYS, AT 10 DOWNING STREET ON 16 MAY 1980 AT 1230

Present: Prime Minister
Minister of Agriculture
Mr. Michael Franklin
Mr. Michael Alexander

Mr. Brian Talboys
H.E. The Hon. L.W. Gandar
Mr. I.L.G. Stewart

* * * * * * * * * *

After Mr. Talboys had referred to his earlier discussions with Mr. Gundelach, Herr Haferkamp and Herr Ertl, Mr. Walker described the present position. He said that the Germans had agreed to back a sheep meat regime including intervention and all the other members of the Community had accepted a regime including intervention as inevitable although they were well aware of the defects of such a regime. However German officials were supporting British officials in their efforts to secure improvements in the new proposals made by the Commission at Luxembourg. The crucial period of negotiation would be in the following week, at the end of which Mr. Gundelach would have to put forward proposals for consideration by the Agricultural Council. It would be essential for Mr. Talboys to apply maximum pressure to Mr. Gundelach in this period. British officials would, of course, be doing the same. Both the Commission and the French Government were extremely anxious to secure agreement on the outstanding agricultural issues, including the price package, by the end of the month. They might therefore be prepared to make concessions to the UK view point in this period. Mr. Walker said that he believed it would be possible to secure agreement on a regime which would represent an acceptable deal for both New Zealand and the United Kingdom. However judgement would have to be reserved until the end of the month when the place of the sheep meat agreement in the overall package of agreements could be seen.

Mr. Talboys underlined the importance of the sheep meat regime in the New Zealand economy. At present it produced 40% of/all New Zealand's foreign exchange. The industry had been developed to serve the British market. The New Zealand Government had made strenous efforts to find alternative markets but the psychology and economics of the operation were still based on full access to the UK market.

CONFIDENTIAL

/ The New Zealand

The New Zealand Government was concerned lest the introduction of intervention should create a "creature" which would grow and grow. Herr Ertl had admitted that this was a danger. However Herr Ertl had also said, when asked point blank, that the Federal Republic would not oppose the establishment of a sheep meat regime which included intervention. Mr. Walker agreed about the lunacy of intervention. However he thought it possible to envisage a scheme under which there would be intervention in only one particular region, for a limited period in the year and for specific grades of sheep meat. In the UK there would be a scheme based on variable premia designed to prevent UK lamb going/into intervention elsewhere and intended to maintain a viable market. The political reality was that it would be impossible to persuade the French to abandon intervention. There was no certainty that whatever regime was negotiated would be acceptable. But clearly the British Government would be in difficulty if other aspects of the/total package were reasonable and the only obstacle was the introduction of localised intervention in one product.

The Prime Minister asked why the French were so insistent on intervention. Surely the interests of the French sheep farmer could be safeguarded in other ways. Mr. Walker said that the French Government were publicly committed to intervention and could not now escape from the commitment. He had himself tried repeatedly to get across the drawbacks of intervention. But the issue was very sensitive politically in France. The Government had to take account of the views of M. Chirac and the Gaullists. Mr. Franklin said that there was a deep-rooted objection among French farmers to subsidies. Subsidies were likened to charity. The farmers wished to get the price out of the market.

Mr. Talboys said that this was also a sensitive issue in New Zealand. The introduction of a sheep meat regime including intervention would have enormous psychological implications in the country. A considerable political investment had been made in the assurances that New Zealand had received in the past about UK opposition to such a regime. The Prime Minister recalled that she and Mr. Walker had opposed such a system from the beginning. Mr. Talboys acknowledged the point and said there was a tremendous

/ feeling

feeling of gratitude in New Zealand for the line taken by HMG. He asked whether the negotiation of a sheep meat regime was inseparable from the other issues at present under discussion in the Community. The Prime Minister said that she did not know the answer. But she knew that the pressures on her to reach agreement would be enormous.

The Prime Minister asked whether more could not be done to bring home to the other members of the Community the disadvantages of the present proposal. How should the New Zealand Government best get across its case? Mr. Walker said that he had personally taken every member of the Community through the Commission's proposal in order to demonstrate to them how unsatisfactory it was. All except the French and the Irish had taken the point. He intended to maintain the pressure during the following week. The Prime Minister said that Mr. Talboys should play the political card as hard as possible. He should stress the contribution which New Zealand had made to the defence of Europe in the past. He should also stress the importance of New Zealand's position in the Pacific at present. He should continue to underline the absurdity of intervention while making the point that he had no desire to deny the French sheep farmer a decent standard of living. Mr. Talboys indicated that he would act as the Prime Minister proposed. He suggested that the problems of New Zealand butter and lamb might be discussed in the Council of Foreign Ministers at some stage. Taken together the two products represented virtually the entire New Zealand economy.

Mr. Walker repeated that the following week would be crucial. By Tuesday more would be known about the Commission's detailed position. Mr. Gundelach would probably decide what new proposals to put forward on Thursday. Pressure on him should be maintained. Mr. Talboys, taking note, said that his mandate from his Government was to express New Zealand's total opposition to a regime of the kind at present under discussion. He had no mandate to accept the sort of regime outlined earlier by Mr. Walker. The Prime Minister wondered whether the other members of the Community were so desperate to secure agreement on the agricultural prices package that they would be prepared to treat sheep meat separately. Her own position was that she was not prepared to sacrifice the interests of the fishing industry or to accept a permanently damaging sheep meat regime in order to resolve the budget problem. But this was of course a matter on which the Government as a whole would have to reach a judgement. Referring to the question of Mr. Talboy's mandate, Mr. Walker suggested that it did not prevent Mr. Talboys from listening to what the Commission had to propose even if his own position was one of total opposition. The Prime Minister agreeing with Mr. Walker said that Mr. Talboys should be careful to avoid any suggestion that ~~the~~ proposals including intervention could satisfy New Zealand's interests. He should make his position plain publicly.

The discussion ended at 1310.

16 May 1980

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File with MODBA

Foreign and Commonwealth Office
London SW1

Telephone 01- 233 4672

Garth Waters Esq,
PS/Minister of Agriculture
MAFF
Whitehall Place
London SW1

Your reference

Our reference

Date 14 May 1980

Dear Garth,

SHEEPMEAT

1. I understand that you would like to see a draft of the telegram we propose to send to posts regarding the meeting between your Minister and Mr Gundelach on 13 May. I attach a draft and would be grateful for your comments as soon as possible.

Yours ever,

Greg Faulkner

L G Faulkner
European Community
Department (Internal)

CONFIDENTIAL

9112(H) M85 107858 400M 2/78 A.G.3840/4

File No.

Department ECD(I)

Drafted by (Block Capitals) L G FAULKNER

Tel. Extn. 233 4672

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MR D ROBERTS, TREASURY

[TEXT]

SHEEPMEAT

1. At his meeting yesterday with Mr Walker, Gundelach said that it was essential for France to have some form of intervention. The Commission was preparing a Regulation based on very limited intervention and with no (repeat no) export rebates. (This was presumably a reference to the draft Regulation presented to the Special Committee for Agricultur as reported in UKREP Brussels tel no 2395). Mr Walker outlined the reasons behind our opposition to the Commission's proposals. Gundelach suggested that the UK would obviously like to have premium ~~rates~~ returns from a Regulation as well as free access to the French market. The Minister of State (who was also present) took the opportunity to outline our ideas for a variable premium to operate in the UK instead of intervention. The advantage of this would be to ensure a fair return to UK farmers whilst keeping the market price at a reasonable level and thereby maintaining consumption. Setting the target price for the premium close to the floor

/price

price operating in France would prevent the diversion of British lamb for sale into intervention in France. Gundelach promised to discuss this idea with our partners.

2. Gundelach also said that he would not finalise a regime until he was assured that it was acceptable to the New Zealand authorities.

3. Mr Walker intends to write to Mr Gundelach after his own meeting with Mr Tallboys on 16 May with a view to securing in writing from Mr Gundelach assurances both about safeguarding New Zealand interests and excluding export rebates.

4. We understand that the Prime Minister, who is concerned that no agreement on sheepmeat should damage New Zealand interests, would like to see Mr Tallboys during his visit to London this week.

5. The whole of this telegram is for your own information only.

CONFIDENTIAL

FILE

JS

10 DOWNING STREET

From the Private Secretary

13 May 1980

subject copy filed on:- Euro Pol: Community Budget Pt 8.

Dear Garth,

SHEEPMEAT, FISHERIES AND THE COMMUNITY BUDGET

As you know, the Minister of Agriculture came to see the Prime Minister briefly this afternoon to report on the outcome of his meeting with Mr. Gundelach earlier in the day.

Mr. Walker said that, according to Mr. Gundelach, the Commission as a whole were optimistic that a solution could be reached to the problem of our budgetary contribution. The only member of the Commission who was gloomy was Mr. Jenkins. Mr. Walker said that he had made it plain to Mr. Gundelach that HMG would not be prepared to settle the question of our budgetary contribution unless the solution covered a three-year period. He had added that it was his personal judgement that for the third year it would not be necessary to settle a precise figure provided there was an agreed principle from which the figure for our contribution could be deduced. Mr. Gundelach had said that he thought that a third year was obtainable.

Sheepmeat

On sheepmeat, Mr. Gundelach had said that it would be essential for France to have some form of intervention. The Commission was preparing a sheepmeat regulation based on very limited intervention and no export rebates. Mr. Gundelach had admitted that the line he had taken in Luxembourg on the necessary connection between intervention and export rebates was wrong. He would be willing to confirm in writing that the proposed regulation would not involve export rebates. Mr. Walker told the Prime Minister that it would be possible to set up a sheepmeat regime in which there was some intervention in France but none in this country. Here there would be a premium system wholly financed by the Community. In effect, this would mean that in this country we had a deficiency payment system.

As regards the attitude of New Zealand, Mr. Gundelach had said that he would not finalise a sheepmeat regulation until

/he was

24

he was assured of the agreement of the New Zealand authorities. When seeing Mr. Talboys yesterday, Mr. Gundelach had promised that he would negotiate a detailed agreement with New Zealand. Mr. Walker said that he intended to write to Mr. Gundelach after his own meeting with Mr. Talboys, with a view to securing from Mr. Gundelach, in writing, assurances both about New Zealand and export rebates. The Prime Minister made it clear that she would wish to be certain that the interests of New Zealand were not damaged by any sheepmeat agreement. She said that she would like to see Mr. Talboys during his visit to London at the end of this week.

Fish

Mr. Walker said that Mr. Gundelach had made it clear that he was opposed to a meeting of the Fisheries Council before the end of the month. He disagreed with his deputy, Mr. Gallagher, who had been seeking a meeting both to discuss the guidelines text, which had been under negotiation in Luxembourg, and quotas. The German officials dealing with fisheries problems were also doubtful about the utility of a meeting of the Fisheries Council but Chancellor Schmidt was insisting on a meeting in order that a text on fish could be agreed. Mr. Walker said that he agreed with the Commission in thinking that an unsuccessful meeting of the Fisheries Council would have a very damaging effect on the prospects for the European Council a fortnight later.

Mr. Walker said that he therefore saw advantage in trying to arrange a bilateral meeting between the UK and the Federal Republic in order to agree a guidelines text. He suggested that the Prime Minister should propose to Chancellor Schmidt that Mr. Buchanan-Smith should visit Bonn tomorrow or the day after to try to work out a test with his opposite number, Mr. Rohr. Once a text was agreed, much of the reason for holding a Fisheries Council would disappear. Mr. Gundelach had made it plain that he would be delighted to see it cancelled. The Danes did not want one. As regards the prospects for agreeing a text with the Germans, Mr. Walker said that German fishing interests were not in conflict with ours. They were mainly interested in distant water fishing and were not seeking access to our coastal waters.

The Prime Minister agreed that an attempt should be made to set up such a meeting. But she said that she would prefer the arrangements to be made between her Private Office and that of Chancellor Schmidt. She laid down no precise guidelines for Mr. Buchanan-Smith's negotiation but she will of course wish to approve whatever text emerges. She was prepared to see in any such text a general reference to the principles on which a common fisheries policy should be based. However, she did not wish there to be any explicit reference to "equal access". The right of British fishermen to have preferential access had to be preserved.

/ After Mr. Walker's

After Mr. Walker's departure, I spoke to Herr von Staden in Bonn. I told him that we were concerned about the state of preparations for the Fisheries Council. There would be considerable risks in holding such a meeting if it was inadequately prepared. One of the principal subjects at such a meeting was likely to be the guidelines text for the negotiation of a common fisheries policy. The principal difficulties in the text seemed, at present, to lie between London and Bonn. The Prime Minister therefore considered it might be helpful for Mr. Buchanan-Smith to come to the Federal Republic tomorrow or the next day in order to see whether he and Mr. Rohr could agree on a guidelines text. If the meeting was successful, the need for a Fisheries Council at the end of the month could be reviewed. If there was an agreed text, it might be shown to other colleagues at the Foreign Ministers' meeting in Naples at the weekend.

As you know, Herr von Staden rang back to say that Mr. Rohr thought that a meeting would be a good idea. Subject to the views of Mr. Ertl, he would be getting in touch with Mr. Buchanan-Smith tonight or tomorrow morning to make the arrangements for a meeting. You agreed that we should not seek publicity for the meeting. You also agreed that Mr. Michael Franklin should be included in Mr. Buchanan-Smith's party.

I am sending copies of this letter to George Walden (FCO), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Garth Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.

Reference ....

Pr - Rnt

CONFIDENTIAL

SHEEPMEAT: MINISTER'S CONVERSATION WITH MR TALBOYS - 13 MAY 1980

Mr Talboys, the New Zealand Deputy Prime Minister, rang the Minister from Brussels this morning. The Minister told him that the Commission had made new proposals for a Community régime for sheepmeat which would make the Management Committee responsible for deciding where and when intervention should be applied. He had not seen the text of the draft Regulation, nor did he know what level of prices had been proposed. The document did not contain provision for export restitutions, but it was not clear whether this would prevent them from being made available.

Mr Talboys said that he had spoken to Mr Gundelach yesterday. (An account of this conversation is given in UKREP telegram no. 2376). When Mr Gundelach had asked the New Zealanders to talk about voluntary restraint he said that such restraint would be a condition of a light régime. Mr Talboys said that he had stated to Mr Gundelach the very strong opposition towards intervention and export restitutions which was felt in New Zealand; Mr Gundelach knew full well the degree of this opposition and Mr Talboys had made clear that unless the threat was removed he could not enter into negotiations on voluntary restraint. Mr Talboys said that Mr Gundelach had insisted on the need for some intervention and he had been told that the Germans had accepted it. He had thought that Germany found the idea of intervention as distasteful as New Zealand did.

The Minister said that he had sent in all his Agricultural Attachès in Europe last week to discover the views of the countries to which they were accredited. Nearly all of them had been told that the idea of intervention was distasteful but that it would have to be incorporated in the régime to solve the political problems associated with the budget.

Mr Talboys said that his officials would be briefed by the Commission on the proposals before they left Brussels. He was going to Bonn tomorrow before coming to London. He would be grateful if his officials could have talks with their counterparts in the UK before he met the Minister on Friday. I understand that you will not be in London on Thursday, but I should be grateful if arrangements could be made for these discussions to take place on Thursday; no doubt the New Zealand High Commission here will contact us to make arrangements.

D.E. Jones

D E JONES
13 May 1980

Mr Wilson + 1

cc Miss Rabagliati
Mr Steel
Mr Sadowski
Mrs Brock
Mr J H V Davies
Mr Parkhouse
Mr Andrews

Mr Wilkes
PS Lord Privy Seal
PS SS Scotland
PS SS Wales
Mr Alexander - 10 Downing Street
PS SS Northern Ireland
PS Cabinet Secretary

Mr Edwards
Mr Hadley

CODE 18-77
SS 8/78

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3pps

Ref. A02151

MR. ALEXANDER

I understand that the Prime Minister would like a note on the legal possibilities for other member states to circumvent our veto on CAP price increases. I attach a note which has been prepared here in consultation with MAFF, FCO and Treasury.

D.J. Wright

D.J. WRIGHT

12th May, 1980

Weekend Box

Prime Minister

Could the Eight circumvent our Veto on CAP Price Increases?

Since the European Council, the French President and the French Minister of Agriculture have made various statements to the effect that, despite our insistence that there will be no settlement on CAP prices until our budget problem is also settled, they will ensure that French farmers do not suffer through any delay. A statement issued by the Elysee on 7th May following this ? week's Agriculture Council stated that "the President of the Republic has invited the Prime Minister to study and prepare to implement measures to compensate agricultural incomes for the results of this delay, while respecting the Community principles and keeping strictly to the terms agreed by the Eight Member States". This note considers how the Eight might try to circumvent our veto or protect their farmers from its effects.

2. The three main areas in which there are possibilities of doing this are:

(a) Implementation of CAP price increases against our wishes.

(b) Green rate changes.

(c) National aids.

IMPLEMENTATION OF PRICE INCREASES

3. Commission proposals to raise agricultural prices are made under provisions in the Treaty of Rome which allow qualified majority voting. However, the practice of requiring common consent to the price-fixing is firmly established and so far in the Council there has been no pressure for price decisions to be forced through by a majority vote. The French have canvassed support for this and have failed to get it from other Member States. But if discussions in the Council were to reach a point at which it was impossible to avoid the price proposals being put to a vote, we would invoke the Luxembourg compromise on the grounds that very important interests were at stake and that therefore discussion should continue until unanimity is achieved. In theory others might seek to get the compromise suspended to allow a vote to be taken. But even if the French were ready to propose such an unprecedented break with the Gaullist convention, other Member States like the Dutch, who dislike the Luxembourg compromise, have told us that they would then insist on its permanent abandonment rather than agreeing to a temporary suspension.

4. As alternatives to a common price increase for the Nine, the Eight might conceivably go for a price increase within the framework of the CAP, with Britain left "in parenthesis", or for a Gentleman's Agreement among themselves to raise national prices. But in the former case we could still invoke the Luxembourg compromise and in the latter it is difficult to see what legal basis could be found for setting new prices or drawing Community funds to support them.

GREEN RATE DEVALUATIONS

5. A Member State with a negative MCA may request a devaluation of its green rate so as to raise its farm prices in national currency terms. But, following the green franc and green lira devaluations agreed at the 6th-7th May Agriculture Council, no Member State has an appreciable negative MCA. There remain two other theoretical possibilities to which they might have recourse:-

(i) Devaluation of green currencies to above parity, which would have the effect of introducing positive MCAs;

(ii) Adjust the value of the European Currency Unit (ECU) to reflect the increased value of sterling since the last EMS realignment. This would allow up to 1 per cent price increases for Member States with green rates above the central rate, i.e. France, Italy and the Irish Republic (but not Germany, Denmark or the Benelux).

(iii) To alter the composition of the ECU.

The first of these possibilities would be contrary to the principles of price unity; the legal basis for such a change is highly questionable; and the Commission have themselves said that it would be contrary to the very principles of the CAP. The second would be legitimate and could be implemented under qualified majority voting without our agreement. It would be difficult for us to justify blocking this. The third would have fundamental and far-reaching implications for the EMS. It would require a unanimous decision.

NATIONAL AIDS

6. In the absence of a common price increase or green rate change, the Eight might seek to maintain the standard of living of their farmers by introducing national aids, either by topping up price revenue with national premia or by concessions on tax, social security, etc. Premia would normally have to be notified to the Commission and could not in theory be introduced until either the Commission had indicated that it had no objections to them or a two-month interval had elapsed. However, there are provisions in the Treaty under which the French could bypass the Commission and go directly to the Council. If the other Member States and the Commission were prepared to co-operate, the French could continue with national aids for three months before the Commission were required to give a decision. A tax or social security concession conferring a specific advantage would also be regarded as a state aid (although it might be harder in this case to prove infringement of the Community's competition rules). Other Member States as well as ourselves might press the Commission to take action if an aid was introduced which would distort competition. Nevertheless individual member states might reckon on getting a price settlement before European Court action compelled them to abolish illegal aids.

FUTURE TIMETABLE

7. The French have said that agricultural prices must be settled by 31st May and, in summing up the Foreign Affairs Council's discussion on 6th May, Signor Colombo gave credence to this date as a deadline for fixing agricultural prices. There will probably be concurrent Agriculture and Foreign Affairs Councils on 28th-29th May. It is hard to see how other Member States could force a decision at that time if we were to continue to block on the grounds that there was no Budget settlement and they were unwilling to suspend the Luxembourg compromise. The marketing years for milk and beef, which have already been extended, are due to expire at the end of May. Our partners could refuse to extend them again. The resulting legal vacuum would have some unpleasant consequences, including the loss of our 12p per lb butter subsidy.

In this event, the Commission would presumably claim that they had to fill the legal vacuum. The normal thing for them to do would be to preserve the status quo, but the precise action they would take in these circumstances would no doubt depend in part upon the attitude adopted at the time by other Member States.

Cabinet Office

12th May 1980

Foreign and Commonwealth Office

London SW1A 2AH

9 May 1980

Dear Michael,

EC/NEW ZEALAND

Thank you for sending me a copy of your letter of 2 May to Garth Waters, enclosing a message from Mr Muldoon.

The Foreign and Commonwealth Secretary has seen the draft reply enclosed with Garth Waters' reply of 8 May. Lord Carrington's own preference would be not to send Mr Muldoon a substantive reply at this stage since before the end of May there will be opportunities for talks both with Mr Talboys, who will be in London on 16 May, and possibly Mr Muldoon (who will be passing through London on 30/31 May and could see the Prime Minister then if the Prime Minister agrees). Also I understand that Mr Talboys and the Prime Minister met in Belgrade on the occasion of Tito's funeral.

Lord Carrington suggests, therefore, that a simple acknowledgement might be sent to Mr Muldoon in this sense. It would of course be particularly helpful if the Prime Minister could say that she hoped that it would be possible to arrange a meeting with Mr Muldoon when he is here at the end of the month.

I am sending copies of this letter to John Wiggins (HM Treasury), Godfrey Robson (Scottish Office), George Craig (Welsh Office) and David Wright (Cabinet Office).

Yours ever

Paul

(P Lever)

M O'D B Alexander Esq
10 Downing Street

10 DOWNING STREET

Michael

FCO ~~were~~ wanted to ensure that Ld C got a look at this before it goes to PM. I asked Paul Lever to get it cleared tomorrow

MP
8/6

CONFIDENTIAL

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

(See letter to Paul Lever of 27 May).
f.a. Paul

From the Minister's
Private Office

Michael Alexander Esq
Private Secretary
10 Downing Street
London SW1

8 May 1980

Dear Michael,

MUTTON: MESSAGE FROM THE PRIME MINISTER OF NEW ZEALAND

Thank you for your letter of 2 May enclosing the text of the message which the Prime Minister had received from the Prime Minister of New Zealand.

--- I attach a draft reply that the Prime Minister might send to Mr Muldoon. The text has been approved by my Minister.

I am sending copies of this letter and its enclosure to George Walden (Foreign and Commonwealth Office), John Wiggins (HM Treasury), Godfrey Robson (Scottish Office), John Craig (Welsh Office) and David Wright (Cabinet Office).

Yours sincerely,
Garth Waters

G R WATERS
Principal Private Secretary

CONFIDENTIAL

DRAFT

TEXT OF MESSAGE FROM PRIME MINISTER TO NEW ZEALAND PRIME MINISTER

Thank you for your letter of 2 May about the problems we face over sheepmeat.

I entirely share your concern about the way matters have developed in Brussels. It is, as you say, extremely worrying that other Member States and the Commission have been prepared to go so far in meeting French demands for a regime based upon intervention. It is particularly disappointing that Member States such as Germany and Denmark, who hitherto supported us in opposing intervention, have been prepared to set aside their recognition of the problems this sort of market management is likely to cause in order to placate the French, who have persisted in excluding our exports in defiance of the European Court.

I fully agree with your remark about the damage that can be caused by coupling intervention with a high internal price structure. We consider that intervention is quite unsuitable for sheepmeat and we are particularly concerned about the implications of the price level at which the Commission are suggesting intervention should take place. I am told that if intervention continued at this level in real terms the resultant increase in production and decline in consumption would probably produce a quantity approaching 100,000 tonnes going into intervention each year. Clearly this would be economic nonsense and we are trying to bring this home to our colleagues in Brussels. Peter Walker succeeded this week in getting the Council of Agriculture Ministers to agree that the detail of the Commission's proposals should be fully studied in the Special Committee for Agriculture before decisions are taken by Ministers.

I have particularly noted your remarks about export refunds. We have made it clear that we are opposed to their use in this sector, pointing out that it would represent a serious threat to your efforts to diversify and be totally inconsistent with the attempts to negotiate agreements with you and other third countries to achieve voluntary restraint on the quantities you export to the Community.

I am glad to know that, despite these difficulties, you remain willing to explore with the Commission the possibility of voluntary restraint arrangements. I am sure that it is in both your and our interests that you should demonstrate your willingness to consider these and to negotiate for acceptable terms. To refuse would be to add strength to those on the French side who would like to re-open the question of unbinding the tariff. I know that you will not give way in these negotiations on any of your major concerns. The Community has undertaken a GATT commitment to maintain open access for sheepmeat at a tariff of 20% and it will have to understand that if it wants you to accept voluntary restraint on your sendings it must offer reasonably attractive terms.

I am grateful to you for letting me have such a clear and reasoned statement of your concerns. I am certain that we must keep in close touch as the negotiations proceed.

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

From the Minister's
Private Office

PA

NS

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

8 May 1980

Dear Nick,

COUNCIL OF MINISTERS (AGRICULTURE): 6-7 MAY 1980

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

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

Yours sincerely

Garth Waters

G R Waters
Principal Private Secretary

MEETING OF COUNCIL OF MINISTERS (AGRICULTURE) 6/7 MAY 1980

STATEMENT

With permission, Mr Speaker, I should like to make a statement about the meeting of the Council of Ministers (Agriculture) in Brussels on 6/7 May, at which I represented the UK together with my Hon Friend the Minister of State.

I confirmed to the Council my opposition to the price increases that were discussed at Luxembourg and agreed to by the other Eight, and opposed the level of price increases of the order of 5% that were being proposed on the various commodities that were discussed at this Council meeting.

I made clear our strong objections to the proposals which the Commission had produced at Luxembourg on mutton and lamb and demanded that these proposals should be examined by the Special Committee in order to expose the many problems that would arise if they were adopted. I obtained agreement that this should be done and further discussions on mutton and lamb will only take place after the Special Committee has reported.

I resisted a suggestion from the Commission that the Council should agree to adopt immediately a regulation applying a common classification system to beef. It was accepted that there should be further detailed technical discussions before a decision is taken in time for the beginning of the 1981/82 marketing year.

I also pressed for the package of measures to include a commitment that the refunds of levies on imported cereals used in the production of spirit drinks (mainly whisky) would be paid. Although provided for in the Treaty of Accession this has still not been implemented after a lapse of 8 years. I said that I could not accept any further delay. I obtained ~~agreement that the~~ a Council ~~should accept a~~ commitment to adopt a regulation this year providing for the refunds to be paid. These payments will be of substantial benefit to the whisky industry.

The Council agreed to a request from the French and Italian Governments for devaluations in their green currency rates of 1.3% in the case of France and 3.5% in the case of Italy.

The Council will resume its discussions on the CAP prices package and other items upon which as yet there is no agreement on 28 May, at the same time as a meeting of the Council of the Foreign Ministers at which the budget question will be discussed.

CONFIDENTIAL

Originals on:—
For Pol: May 1980

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE DEPUTY PRIME MINISTER OF NEW ZEALAND, MR. TALBOYS, AT THE INTERCONTINENTAL HOTEL, BELGRADE, AT 0905, ON 8 MAY 1980

Present

The Prime Minister	Mr. Talboys
Mr. M.O'D.B. Alexander	Mr. I. Stewart

* * * * * *

Sheepmeat

The Prime Minister said that she had wanted to have a word with Mr. Talboys about the progress of the negotiation on a Community sheepmeat regime. She had been told by the Commission during the meeting of the European Council in Luxembourg that they were in close touch with the New Zealand authorities and knew what they could accept. She had wanted to be reassured on this point by Mr. Talboys himself. Mr. Talboys said that his Government was immensely grateful to the Prime Minister for the stand she had made on New Zealand's behalf. It was vitally important that Mrs. Thatcher should maintain her position and thereby give New Zealand's negotiators a chance to persuade the other Members of the Community of the merits of their case. He himself had visited every Member State of the Community and had seen all the Ministers of Agriculture. With the exception of the French and the Irish, they had all expressed their opposition to a system based on intervention and export restitutions. But once the sheepmeat regime got caught up in the wider debate about the Community's future, they tended to throw their hands in the air.

The Prime Minister said the time was approaching when the other Members of the Community would have to make their views plain. She had seen from the overnight telegrams that Britain's criticism of the Luxembourg proposal was making some impact. (The Prime Minister read to Mr. Talboys most of UKREP Brussels Tel No. 2323.) It was now of great importance that the New Zealand authorities should bring home

/their views

their views to the Commission. Mr. Talboys said that he was going to Rome from Belgrade and hoped to see Mr. Marcora there. He would then go on to Brussels where he had appointments with Mr. Gundelach on Monday 12 May and with Mr. Jenkins on Tuesday 13 May. He had spoken to the Dutch Foreign Minister, Mr. van der Klaauw, immediately before coming to see the Prime Minister and had been told that the Dutch Government was opposed to the suggested regime. It was, of course, ridiculous that the Community should be thinking of putting in place a regime designed to produce a surplus in a product when they were at present importing 40 per cent of their requirements. The paper submitted earlier by the British Government set out views which the New Zealand Government could accept wholeheartedly.

The Prime Minister said that she hoped Mr. Talboys could let her have a note of the progress made by New Zealand in its discussions. Mr. Talboys said that he would be seeing Mr. Walker soon.

The discussion ended at 0915.

8 May 1980

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LVO NR 052/07

LFDW G 044/07

OO BELGRADE DESKBY 071100Z

GR 1010
CONFIDENTIAL
FRAME AGRICULTURE
FRAME ECONOMIC
DESKBY 071100Z (BELGRADE AND FCO)
FM UKREP BRUSSELS 070944Z MAY 80
TO IMMEDIATE F C O
TELEGRAM NUMBER 2306 OF 7 MAY.
INFO IMMEDIATE BELGRADE (FOR PS/PRIME MINISTER)
INFO SAVING COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN
CANBERRA AND WELLINGTON.

COUNCIL OF MINISTERS (AGRICULTURE) 6/7 MAY 1980.

MUTTON AND LAMB

1. THIS TELEGRAM REPORTS THE DETAIL OF TUESDAY AFTERNOON'S DISCUSSION ON MUTTON (MY TELNO 2296).

2. THE CHAIR (MARCORA) REFERRED TO AGREEMENT BY THE OTHER 8 MEMBER STATES ON THE COMPROMISE TABLED IN LUXEMBOURG, AND ASKED THE UK FOR COMMENT.

3. FOR THE UK, MR BUCHANAN-SMITH PRESSED THE COMMISSION HARD TO JUSTIFY THEIR VOLTE-FACE AND TO COME CLEAN ABOUT THE LIKELY IMPLICATIONS. SPECIFICALLY HE ASKED :

- ON WHAT GROUNDS THE COMMISSION RECOMMENDED UNLIMITED INTERVENTION FROM MID-JULY TO MID-DECEMBER, THE MAIN MARKETING SEASON, WITH THE POSSIBILITY OF FURTHER INTERVENTION AT OTHER TIMES OF THE YEAR?

- HOW DID GUNDELACH JUSTIFY A BASIC PRICE LEVEL OF 345 ECU PER 100 KG - THE CURRENT FRENCH MARKET PRICE AND THE HIGHEST PRICE IN THE COMMUNITY - WHEN THE CURRENT WEIGHTED AVERAGE MARKET PRICE IN THE COMMUNITY IS ABOUT 280 ECU (FOR 1980)?

- HOW DID HE JUSTIFY AN INTERVENTION PRICE ABOVE THE CURRENT WEIGHTED AVERAGE MARKET PRICE, IE 293 ECU PER 100 KG ? HAD HE ESTIMATED THE VOLUME OF INTERVENTION BUYING IT WOULD CREATE IN YEAR ONE OR WHEN COMMUNITY PRODUCTION AND CONSUMPTION HAD ADJUSTED TO THE PRICE LEVELS HE PROPOSED? UK ESTIMATED THAT THE LONG-TERM FIGURE COULD BE 100,000 TONNES A YEAR, OF WHICH 65,000 TONNES WOULD BE IN THE UK. HOW WOULD BE PROPOSE TO DISPOSE OF MOUNTAINS OF THAT SIZE? AND AT WHAT COST?

- WHAT EFFECT DID HE THINK AN INTERVENTION REGIME OF THIS KIND WOULD HFQE ON THE WILLINGNESS OF THIRD COUNTRIES TO NEGOTIATE VOLUNTARY RESTRAINT AGREEMENTS?

- HOW DID HE JUSTIFY REFERENCE PRICE AND PREMIUM PROPOSALS WHICH RESULT AT THE OUTSET IN HEAVY PAYMENTS TO FRENCH PRODUCERS AND VIRTUALLY NONE TO BRITISH?

- THE COMMISSION'S PAPER SAYS THAT A SINGLE REFERENCE PRICE WOULD BE IN EFFECT AFTER FIVE YEARS. HOW WOULD THIS BE ACHIEVED?

- WHAT ARRANGEMENTS WERE PROPOSED FOR SUBJECTING THESE PROPOSALS TO DETAILED SCRUTINY?

4. GUNDELACH GAVE A LONG DEFENCE, ARGUING: THAT THE ORIGINAL PROPOSAL PUT TOO MUCH WEIGHT ON COSTLY PREMIUM ARRANGEMENTS.

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- WHAT ARRANGEMENTS WERE PROPOSED FOR SUBJECTING THESE PROPOSALS TO DETAILED SCRUTINY?

4. GUNDELACH GAVE A LONG DEFENCE, ARGUING: THAT THE ORIGINAL PROPOSAL PUT TOO MUCH WEIGHT ON COSTLY PREMIUM ARRANGEMENTS: THAT THE COMMISSION HAD TENTATIVELY SUGGESTED A MIXED PREMIUM/ INTERVENTION SYSTEM AS LONG AGO AS THE AUTUMN: THAT THE REGIME NOW PROPOSED WAS NOT A FULL ''HEAVY'' INTERVENTION SYSTEM, SINCE IT WOULD BE LIMITED BY TIME, REGION AND QUALITY AS HAD ALWAYS BEEN FORESEEN: THAT IT WOULD NOT BE DIFFICULT TO DISPOSE OF THE MODEST STOCKS: THAT THE EXISTENCE OF INTERVENTION PER SE WOULD NOT AFFECT THE POSITION ON THIRD COUNTRY SUPPLY AND SHOULD NOT MAKE VOLUNTARY RESTRAINT AGREEMENTS HARDER TO NEGOTIATE, EG WITH NEW ZEALAND, AND THAT THIRD COUNTRIES NEED NOT FEAR FOR THE OTHER MARKETS, SINCE EXPORT REFUNDS WERE NOT PROPOSED (ALTHOUGH THERE WAS A POSSIBILITY OF INTRODUCING THEM SUBSEQUENTLY, IN CONSULTATION WITH THIRD COUNTRIES AND IN CONFORMITY WITH GATT RULES). GUNDELACH READILY AGREED TO EXPERT CONSIDERATION OF THE DETAILS.

5. MR WALKER UNDERLINED THE NEED FOR CONCLUSIONS TO BE REACHED ON THE BASIS OF THE RESULTS OF THIS DETAILED EXAMINATION WHICH, HE SUSPECTED, WOULD LEAD TO OTHERS SHARING OUR CONCERNS. IN ANY EVENT, FINAL DECISIONS COULD NOT BE TAKEN UNTIL THE COUNCIL KNEW WHETHER VOLUNTARY RESTRAINT AGREEMENTS COULD BE REACHED WITH THIRD COUNTRY SUPPLIERS. THEY WERE BOUND TO BE WORRIED ABOUT THE POSSIBILITIES OF SUBSIDISED EXPORTS BY THE COMMUNITY, PARTICULARLY IN THE LIGHT OF THEIR EXPERIENCE OVER DAIRY PRODUCTS. IT MIGHT BE BETTER T THINK OF DISPOSIND OF THE FRESH PRODUCT BY INTERNAL MARKET PROMOTION SCHEMES. THE UK ALSO INSISTED THAT MOVEMENT TO A COMMON PRICE LEVEL MUST BE PREDETERMINED OVER A SET NUMBER OF YEARS.

6. FRANCE (MEHAIGNERIE) REMARKED THAT THE PACKAGE AGREED IN LUXEMBOURG BY THE 8 SHOULD NOT BE REOPENED. TO UNDERLINE THAT THIS WAS THE POINT OF DEPARTURE, THE COMMISSION SHOULD NOW TURN IT INTO A FORMAL DRAFT REGULATION.

7. OFFICIALS, PROBABLY THE SCA INITIALLY, WILL LOOK AT THE DETAIL, AND REPORT BACK TO ANOTHER COUNCIL TOWARDS THE END OF MAY WHEN THE CHAIR HOPES FOR AGREEMENT ON THE SHEEPMEAT REGIME.

FCO ADVANCE TO:-
FCO - PS/SOFS, PS/LPS, PS /PUS, FAULKNER
CAB - FRANKLIN, WALSH
DOT - VINALL
MAFF - PS/MIN, PS/PS, MRS PICKERING, EDWARDS.
TSY - ROBERTS
NO 10 - ALEXANDER

FCO PASS SAVING TO COPENHAGEN, ROME, PARIS, DUBLIN, BONN, CANBERRA AND WELLINGTON.

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Original in G/R

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JD

10 DOWNING STREET

THE PRIME MINISTER

3 May 1980

Dear John,

You sent my Private Secretary on 16 April a letter from your constituent, Mr. Garrett, complaining about continuing membership of the European Community.

The Government are in no doubt of the value of British membership of the Community.

Certainly there are some problems. Much the most important is, of course, the unacceptable position that has arisen on UK net budget contributions. But there can be absolutely no doubt about the Government's determination to secure an equitable and durable settlement of this, in agreement with our European partners. On this we have had two hard rounds of negotiation at the European Council meetings in Dublin and Luxembourg: I propose to pursue our objective vigorously over the next few weeks.

We are also working actively to secure a modified Common Fisheries Policy, mentioned by your constituent, and have already made useful progress with agreement on total catches allowable in the waters of Britain and other Member States.

There is no question of 'handing over oil on a plate' as suggested by your constituent. The Community has recognised and clearly stated on a number of occasions that decisions on

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the development and exploitation of our North Sea oil and gas resources are solely for the UK Government to take. The oil which is sold to our partners is sold at the commercial rate. North Sea oil, as a light crude, does not yield all the products we require; its export therefore enables us to import cheaper, heavier crude for our refineries.

Although there are problems to be settled - and in an evolving Community there are bound to have to be continuing negotiations - the political case for our membership is stronger than ever. The Community, which in the first half of the century was the scene of two world wars, is now an area of peace and co-operation in a volatile and dangerous world. Increasingly the Community is playing a coherent and stabilising role on major world problems. We demonstrated this at Luxembourg with our agreement on Iran and Afghanistan. It is essential that Britain should take a strong and active part in this process and not simply stand on the sidelines. We are of far more value to our friends in the Commonwealth, in the United States and elsewhere as a member of the Community than we were outside it.

Economically, the Community offers Britain broad opportunities not available to us elsewhere: a home market of 250 million people; great strength in international economic negotiations. These complement our efforts to put our own house in order, to regenerate British industry and revitalise the British economy.

Generally, we have repeatedly made it clear that we believe Britain can make a success of Community membership. We cannot blame the Community for problems which arise for other reasons, such as changing conditions in the world economy and the failure

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of parts of our economy to adjust and to become more competitive. We must instead ensure that we are in a position to benefit from what it has to offer.

Yours sincerely

Margaret Thatcher

John Wheeler, Esq., J.P., M.P.

<u>CONFIDENTIAL</u>

Euro Pol.

10 DOWNING STREET

From the Private Secretary

2 May, 1980.

BF 8/5/80

<u>Sheepmeat: Message from the Prime Minister of New Zealand</u>

I attach the text of a message which the Prime Minister has received today from the Prime Minister of New Zealand about our negotiations with the European Community on a sheepmeat regime. I should be grateful if you could let me have a draft reply which the Prime Minister might send to Mr. Muldoon by close of play on Thursday, 8 May.

I am sending copies of this letter and its enclosure to George Walden (Foreign and Commonwealth Office) John Wiggins (HM Treasury) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

G.R. Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.

<u>CONFIDENTIAL</u>

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RH

2 May 1980

I am replying on the Prime Minister's behalf to your letter to her of 2 May enclosing a message from the Prime Minister of New Zealand. I have, of course, brought Mr Muldoon's message to the Prime Minister's immediate attention.

M. O'D. B. ALEXANDER

His Excellency The Hon L W Gandar

Oc.

cc Franklin Cab Off

NEW ZEALAND HIGH COMMISSION

NEW ZEALAND HOUSE · HAYMARKET · LONDON SW1Y 4TQ
Telephone: 01-930 8422 Telex: 24368

From the High Commissioner
H.E. The Hon L.W. Gandar

2 May 1980

The Rt Hon. Margaret Thatcher, MP,
Prime Minister,
No. 10 Downing Street,
LONDON.

Dear Prime Minister

I have been asked by Rob Muldoon to convey the attached message to you, as a matter of urgency.

Yours sincerely

Leslie Gandar

Enclosure

SUBJECT.

CONFIDENTIAL

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T100/80.

TEXT OF MESSAGE FROM NEW ZEALAND PRIME MINISTER
TO BRITISH PRIME MINISTER

My dear Prime Minister,

We have not as yet been able to piece together and review all the developments at Luxembourg on sheepmeats but I want to convey to you without delay how very serious these appear to be from our point of view. I wanted also to express my appreciation for your staunch refusal to agree to a Community regime that, as we understand it, effectively includes all the market distorting elements we have both feared. It is extremely worrying that other Community member states and the Commission could have been prepared to contemplate - under any circumstances and contrary to indications we have had - a regime which would include not only an unsatisfactory premium and price structure but also a commitment to intervention and even export rebates.

If the shift in the attitudes of your Community partners were translated into an approved regime, the New Zealand sheep industry - our major export earner with sheepmeats alone accounting for 15 per cent of total overseas earnings - would undoubtedly be faced with grave difficulties and could indeed in time be placed in jeopardy. The sheepmeat sector of the industry is of tremendous importance to the whole economy and, with well over 60 per cent of our lamb exports going to Britain alone, the consequences of a regime along such lines (as experience with the beef regime shows) would be little short of disastrous. I know you will share our concern at the effect it would have moreover in the market place, on consumers and on a trade which has existed for 100 years or so simply because the British people then, as they do now, want the product.

I am bound to say that what was put to you at the instigation of France to protect one small and somewhat inefficient sector appears quite disproportionate even in terms of the highest conceivable expectations of their producers. According to our estimates sheepmeats accounts for only about 1.3 per cent of total Community agricultural revenue and only some 4 per cent of total meat and offal consumption.

Against this background there appears to have been a surprising insensitivity in Community circles to the effects of such a regime where they count - on yourselves as the major lamb market in the Community and as a consequence on New Zealand. You well know our views on intervention. As we see it this is a dangerous and quite unnecessary element even were it to be restricted by regions and over certain periods of the year only. We know well from previous experience what intervention, coupled with a high internal price structure, can lead to. Moreover the suggestion to incorporate export rebates in a regime for a product in which the Community is only 65 per cent self-sufficient would be bordering on the ridiculous were it not for the threat that this presents to our efforts to trade around the world. We should quickly be confronted with a new and extremely worrying world trade situation in lamb. For the Community to move in this direction would make a nonsense of claims to operate outward-looking trade policies.

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As you know we have reluctantly agreed to enter into negotiations with the Commission on a voluntary restraint arrangement to govern our access to Britain and the rest of the Community so that, as we have understood it, a reasonable (by definition "light") regime to govern the internal market can be introduced. I cannot foresee that we shall be able to reconcile this preparedness with the suggested regime put to you at Luxembourg, although we shall certainly not decline in the first instance to explore the position with the Commission. Meantime, however, I wanted urgently to convey to you our preliminary reaction together with our thanks to you and Peter Walker for your refusal to go along with an approach on sheepmeats that manifestly ignores the eminently reasonable and justifiable interests of both Britain as well as New Zealand.

With warm regards,

R.D. Muldoon.

Reference ....

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COUNCIL OF AGRICULTURE MINISTERS, 6-7 MAY 1980

The Minister spoke to Mr Gundelach at his home in Brussels this morning. Unfortunately, the line was so weak that I was unable to overhear the conversation, but the Minister told me afterwards that the Commissioner and the Presidency intended to confine the discussion to items not included in the package settled by the Eight in Luxembourg. That package would be put on one side to await a political settlement of related issues.

I should record too that I spoke to Mr Lyrtoft-Petersen earlier about the status of the proposals agreed by the other eight at Luxembourg and the Commission's intentions on sheepmeat. He assured me categorically that the Commission at its meeting on Wednesday had adopted the agreement of the Eight in Luxembourg as the Commission's own proposals for CAP prices. On mutton, the Commission proposal annexed to the document recording the areas of agreement and disagreement at the end of the Luxembourg Agriculture Council was still current. I believe that Mr Gundelach confirmed these points in his conversation with the Minister.

G R Waters

G R WATERS
2 May 1980

Mr Andrews + 1

cc Miss Rabagliati
Mr Steel
Mr Sadowski
Mrs Brock
Mr J H V Davies
Mr Wilson
Mr Richardson - Office of the Lord Privy Seal
Mr Alexander - Office of the Prime Minister
Mr Franklin - Cabinet Office
Mr Dawes

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MINISTER OF AGRICULTURE, FISHERIES AND FOOD

CAP Prices and Related Measures

1. Thank you for your letter of 1 May about next week's Agriculture Council. This meeting could be crucial to our attempt to find a solution to the budget problem.

2. I agree in general with the line you propose to take on the various outstanding items in the package. In particular, I agree that on sheepmeat your efforts should be directed to limiting the intervention element in any regime on seasonal and other grounds and to pressing for premiums at levels of benefit to UK as well as French and other farmers. I understand that you have heard from the Commission that they intend to table a new proposal at the Council which will not include export rebates. This is welcome and you will obviously wish to support exclusion in both our own and New Zealand's interests.

3. As far as our partners are concerned, we have already instructed HM Ambassador in Rome to tell Cossiga that it would be very damaging if any attempt were made to force through a decision on prices, on which I agree you must stand firm. I understand that you yourself have spoken to Gundelach and that you have it in mind to speak or send a message to Marcora in the same sense. I think that we ought to see what the outcome of these contacts is before considering any more general lobbying exercise. If the reaction is unsatisfactory, we may want to warn all our partners of the negative consequences of trying to force through a decision.

/4. ..

4. Turning to the meeting itself, you should, I suggest, while firmly maintaining our general reserve, show that you are ready to negotiate seriously within the framework of the Commission's proposals with a view to having an agreement ready for approval when our reserve can be lifted. This will give the best chance of avoiding a confrontation. If our partners begin to doubt whether we would be prepared to reach an agreement even in the context of a budget settlement, there will be much greater likelihood of their trying to force through a decision now.

5. The French may of course press for an immediate decision, although my reading of what Francois-Poncet said to the National Assembly is that they do not expect to get one. If so, I think we need to avoid overreacting. The French will want to pin the blame for deadlock on us and you will have to put up with a good deal of flak. But for your own part, you will be able to argue strongly that the new Commission compromise has only been given limited Council discussion, that prices were not settled until June last year and that the Council should not be being rushed into hasty decisions. It is important, however, that you should not force any issues by refusing discussion or leaving the meeting.

6. If, nonetheless, an attempt is made to take a decision - and I am sceptical about whether the French will press it that far at this meeting - you will need to make clear that you are invoking the Luxembourg Compromise. You may want to use the words of the Compromise itself to say that this is a case where very important UK interests are at stake and that in these circumstances we believe that 'where very important interests are at stake the discussion must be continued until unanimous agreement is reached.' This point should be illustrated by reference not simply to the link with the budget settlement but by explaining that the agricultural prices decision will in itself seriously worsen the UK's budgetary problem which is already recognised by the Member States as an unacceptable one.

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7. If this is not sufficient to deter a decision then you may need to insist that your statement be recorded formally in the minutes. And it could help to ask the French (not the others, who have never accepted the legal force of the Compromise) whether they accept the implications.

8. Finally, if, despite all this, a decision is taken, you might say that it has very serious consequences and implications which go far beyond the agricultural field, and that you will have to report to your colleagues in the Government.

9. I do not think however that it would be appropriate or helpful to our case at this stage to threaten withholding or any other specific action. Threats would, I believe, only tend to provoke those who might otherwise back away from a confrontation to feel that they have no alternative but to press for the decision.

10. I am sending copies of this minute to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office
2 May 1980

CONFIDENTIAL

FILE

TOP Copy/ filed.
Euro Pol : Budget Pt 8.

10 DOWNING STREET

From the Private Secretary

2 May 1980

~~BF 9/5/80~~

Dear George,

Community Budget: the Next Steps

As you know, the Foreign and Commonwealth Secretary discussed with the Prime Minister this afternoon his minute to her of 1 May on this subject. It was agreed that an attempt to reach a suitable agreement with the other members of the Community on the problems covered in Lord Carrington's minute should continue. It was also agreed that it would be desirable that an agreement should be finalised as soon as possible i.e. preferably before but certainly at the Venice meeting of the European Council. However, the Prime Minister stressed that improvements would have to be secured in the overall package which was on offer in Luxembourg.

As regards the period immediately ahead, it was agreed that it would be wrong for United Kingdom representatives to appear over eager in the search for a settlement. No bilateral activity was to be initiated by us in the next few days.

Foreign Affairs Council

The Lord Privy Seal should encourage Signor Colombo to pursue a settlement and should be prepared to discuss with him procedural proposals. However, it would be too early to get into questions of substance in relation to the budget.

The Lord Privy Seal will however wish to be aware of the Prime Minister's view that the figure of 538 meua proposed in Luxembourg for the United Kingdom's new contribution for 1980 is acceptable; that it provides a suitable base line for our contribution in subsequent years; and that any agreement will have to be for a period of at least three years "subject to review" at the end of that time.

/Agricultural Council

CONFIDENTIAL

Agricultural Council

It was agreed that at next week's Agricultural Council the Minister of Agriculture should not attempt to re-open the terms of the farm price package agreed in Luxembourg. However he should, of course, make it clear that the United Kingdom maintained its reserve on the package. Mr Walker should be prepared to pursue the detailed points summarised in paragraph 2 of his letter of 1 May to the Foreign and Commonwealth Secretary. He should continue to seek improvements in the text on mutton and lamb and to make it clear that the present text is unacceptable. If an attempt is made to force through the farm price package, Mr Walker should make it plain that we are ready to invoke the Luxembourg compromise and that "very serious consequences" would follow any attempt to frustrate our invocation of the compromise.

Mr Walker need not oppose adjustments in the Green Rate for the franc and the lira.

The Prime Minister wishes to have new papers prepared on the handling of the negotiations on fish and on sheepmeat. These should be available by Friday, 9 May. I should be grateful if Garth Waters (MAFF), to whom I am sending a copy of this letter, would put this work in hand and ensure that the other interested Departments are consulted. The Prime Minister would also be grateful for a paper discussing whether or not the impact of the farm price package on the housewife could not be moderated by an adjustment in the Green Rate of the pound.

I am also sending copies of this letter to Michael Richardson (FCO), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

G G H Walden, Esq
Foreign and Commonwealth Office

CMP

(2.) Top Copy filed Euro Pol: Budget Pt 8.

Ref. A02080

MR ALEXANDER

COMMUNITY BUDGET: THE NEXT STEPS

1. The Prime Minister has called a meeting to discuss the Foreign and Commonwealth Secretary's minute of 1 May. Mr Walker's minute of 1 May to the Foreign and Commonwealth Secretary is also relevant. You may feel that the Prime Minister hardly needs a brief from me on something with which she is so closely familiar; but I submit this in case it may be useful.

2. The aftermath of Luxembourg carries both dangers and opportunities for us. As noted in the Cabinet this morning, there is a risk that President Giscard and Chancellor Schmidt will seek to draw back from the offers they made in Luxembourg on the budget. The smaller but richer member states are also going to be very reluctant to follow the Franco-German proposals if they are coupled with the idea of a future limit on the net benefits they gain from the budget. The opportunity lies in the considerable advance made in Luxembourg and the general wish to settle this matter given the international situation.

3. To minimise the risks and make the most of the opportunities, we need to give early indications of our readiness to help the Presidency take matters forward. But there is probably not much room for manoeuvre; and the more we seek to improve the offer on the budget, the more difficult it will be to secure an ideal settlement on fisheries and sheepmeat and vice versa. Those who have to carry the process forward will need to be clear as to our precise negotiating limits in all three areas.

4. The Foreign and Commonwealth Secretary's minute is convenient as the basis for discussion (referring to Mr Walker's minute as necessary). The Prime Minister may like to invite him to introduce it. Then take substance - budget, CAP prices, sheepmeat and fisheries; then procedure.

5. On the budget, the Foreign and Commonwealth Secretary suggests we should explore two options. Officials have tried to estimate the difference between our approach and the French for 1981. Mr Jenkins said it was about 150 meua. He was about right on the last published Commission figures. But it is clear that the outturn will be substantially higher and up to the 1 per cent ceiling. On this basis, our net contribution would be 680 meua if it rose in proportion to the Budget but about 1150 meua by the Giscard method. The difference would be even greater in 1982, for which it is impossible to produce realistic forecasts. It points to the advantage of sticking to a limit on the net contribution even if we had to concede a slightly higher figure, rather than switching to a flat rate-refund.

6. On CAP prices, Mr Walker suggests that at the Agriculture Council next week he should maintain his general reserve but take part in the discussion on all the questions which were left unresolved in the Luxembourg document. The Foreign Secretary concurs. Mr Walker also suggests that he should not block devaluations of the French franc and the Italian lire. If we take this line, it looks as though the French will not press at this stage for action by the Eight. The crucial date is 31 May when the present regulations expire. But it is clear that, if any attempt to vote were made, we should have to vote against, and if necessary to invoke the Luxembourg compromise. If they nevertheless insisted, Mr Walker would have to report back.

7. On Sheepmeat (paragraph 5 III), the Minister of Agriculture might be invited to set out more fully our final fallback position in relation to its negotiability with the French. Could we in the last resort accept export refunds on condition that they were only introduced after prior consultation with the New Zealanders?

8. On fisheries, the Prime Minister will want to ask the views of the Minister of Agriculture. Up to the Luxembourg European Council we took the view that discussion on fisheries was premature. This will no longer be tenable after the discussion which took place there. The French and the Germans are now more likely to insist that we make some commitment. On the other hand, no one

realistically expects a fisheries settlement until later in the year. The Commission has been slow in coming forward with revised proposals and the bilateral talks with the French (and the Danes) are still going on. Should we press for early Commission proposals and for a Fisheries Council before the end of May? Would it be possible to find an agreed set of guidelines for the future work which would not prejudice our position on access? To answer these procedural questions we really need a paper from Mr Walker on where he has got to in his own thinking, and in consultations with the industry and how the complex of quotas and access can best be handled. This is crucial. Questions like restructuring the fleet, third country agreements and enforcement, while important, are secondary.

9. On procedure, there is the question of a message to Signor Cossiga. Then, does the meeting agree to the series of bilateral meetings proposed in paragraphs 6-12? Paragraph 14, summarising the line to take in the Council meetings in the next few weeks, should pose no difficulty. The Finance Council on 12 May is likely to be cancelled.

10. In paragraph 15, the Foreign Secretary suggests a possible settlement at the 2/3 June Foreign Affairs Council. This may be too late in view of the 31 May deadline for agriculture prices. Mr Jenkins appears to have in mind an earlier date eg the informal meeting of Foreign Ministers scheduled for mid-May.

CONCLUSIONS

11. The Prime Minister may be able to conclude that the proposals in the Foreign and Commonwealth Secretary's minute of 1 May are agreed, subject to the discussion, and should form the basis for our negotiating posture in the weeks ahead. The Minister of Agriculture should circulate as soon as possible a paper on fisheries, suggesting how this issue should be handled, especially on quota and access, in the next few weeks.

D J Wright

ROBERT ARMSTRONG

(approved by Sir R Armstrong and signed on his behalf)

1 May 1980

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

From the Minister

1.

S E C R E T

The Rt Hon the Lord Carrington KCMG MC
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

1 May 1980

My Lord,

CAP PRICES AND RELATED MEASURES

1. In the light of our discussion at Cabinet today, I am writing to set out my views on the handling of next week's discussions in the Agriculture Council.

2. The President's conclusions on CAP prices and sheepmeat from the European Council refer to discussions being resumed in the Agriculture Council "with the aim of reaching agreement as soon as possible". I shall, of course, have to maintain our firm reserve on the text to which the other Eight were prepared to agree. I shall refuse to accept in particular, the price increases and the statement on mutton and lamb. While maintaining this general overall reserve, I shall have to be ready to discuss those points which are still open on the text on CAP prices. On these, I would propose to take the following position:-

a) On the lower rate of co-responsibility levy in less favoured areas I shall maintain my objection of principle to differential rates and argue against reducing the 1.5 per cent to any lower figure. The French indicated that they would want 0.5 per cent;

b) on the supplementary levy I shall resist the Irish demand for the removal of the words in square brackets which would result in the additional levy being charged on producers who do not increase production;

c) on the suckler cow subsidy I shall want to resist any element of national financing but support any move to secure a rate higher than 20 ECU per cow;

d) on milk sector aids, I shall want to argue against the maximum of 40 cows per farm for the Community's financial participation in a development programme.

In discussion of other points not covered in the present text I shall obviously want to seek improvements on the basis of our agreed negotiating aims.

3. On mutton and lamb, I shall continue to argue strongly for amendments to the text on premiums and intervention, though it is clearly unlikely that I shall make much headway.

4. The above sets out the line I should propose to take on the assumption that the meeting goes ahead without our being faced with a concerted demand to settle the CAP prices package. We cannot, however, rule out that I may be faced with attempts to find a formula for pushing through the package. The French Government have made statements to the effect that their farmers will be given the price increases as soon as possible and there is no doubt that they are under some pressure from their producers. The French and the Italians will be seeking green rate adjustments next week which I shall not oppose and which will presumably to some extent take the heat off in these two countries. However, the French Minister has referred to a number of possible ways of giving his producers the full increases they are looking for, including quick agreement on a common price settlement; an agreement among the Eight without the UK; and the possibility of national aids.

5. I think it unlikely that the French Government will want to resort to national aids which would be costly and contrary to the principle of common financing. There would be serious legal and financial difficulties also about any attempt to proceed by agreement among the Eight alone.

6. However, I could find myself faced with attempts to produce a formula which I might accept and the threat to force through a decision by qualified majority. I should clearly have to reject any blandishments and stick to our fundamental reserve on the package as a whole. I think it important that we take steps in more friendly capitals to find out how others will be approaching next week's meeting and to leave them in no doubt about the seriousness of the situation which would arise if we were put under unacceptable pressures in the Agriculture Council.

7. In case we reach this sort of crunch, however, I need to be clear how we would respond. I should, of course, do my best to avoid the issue coming to a vote by calling into question the status of the documents (though we could not rely on the Commission not to confirm that they have the status of "proposals" which could under the Treaty be passed by majority vote). If necessary, I should make it clear that "very important interests" were involved so that they would know that I should be ready to invoke the Luxembourg Compromise.

8. But I think we also have to be ready to indicate, if necessary, how we would respond if an agricultural package was forced through in advance of a budget settlement. We have stated clearly and publicly that we shall not accept an agriculture settlement unless and until the budget problem is resolved. It would seem to me that we should need, therefore, to react firmly if other Member States

SECRET

The Rt Hon the Lord Carrington KCMG MC

were to push through a prices package. In my view we should then be justified in proceeding to withhold. My own immediate thoughts are that the appropriate step would be to announce a decision to withhold at the figure for 1980 offered in Luxembourg, and to consider also withholding a further amount to reflect the additional cost to us of a price settlement to which we had not agreed.

9. The precise basis upon which we might withhold in these circumstances does, of course, need to be carefully considered. However, for next week's meeting, I need to be clear what I could say in the Council and in the margins, about our response if a package were forced through. It might greatly help to avoid this happening if I was able to indicate clearly that we should then have no real alternative but to withhold.

10. I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer and Sir Robert Armstrong.

Cant W. [illegible]

PETER WALKER
(Approved by the Minister
and signed in his absence)

PART 4. ends:-

April 1980

PART 5 begins:-

May 1980.