

PREM 19/218



PART 6

**SECRET**

Confidential Filing

Common Agricultural Policy - CAP.

EUROPEAN POLICY

Part 1: May 1979

Part 6: July 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>20.7.80</del>		<del>12.11.80</del>					
<del>28.7.80</del>							
<del>30.7.80</del>		<del>18.11.80</del>					
<del>1.8.80</del>		<del>20.11.80</del>					
<del>4.8.80</del>		<del>21.11.80</del>					
<del>2.9.80</del>		<del>25.11.80</del>					
<del>4.9.80</del>		27.11.80					
<del>9.9.80</del>		<del>ends</del>					
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PREM 19/218



● PART 6 ends:-

C(80)42nd Conso : Item 3 27.11.80

PART 7 begins:-

Ch Ex to M/G MAFF 2.12.80







27

Deal with

Prime Minister's

CONFIDENTIAL

You may wish to discuss at tomorrow's briefing meeting.

MR. ALEXANDER

Hand 27/11

Ceiling on Agricultural Expenditure

The brief for the European Council raises the possibility of joining with the Germans in pressing for Finance Ministers to explore the idea of a ceiling on agricultural expenditure in 1981. This builds on the stringent line taken by Chancellor Schmidt in Bonn last week which included the intention that the Federal Government "would insist on the 1 per cent VAT ceiling and would assume that the ceiling would be reached in 1981. Thereafter, resources would only be placed at the disposal of the CAP at half the rate of the growth in the overall revenues of the European Community".

2. Although United Kingdom Ministers have agreed that we should seek an effective ceiling to agriculture expenditure under the CAP, the Chancellor of the Exchequer and the Minister of Agriculture have not been able to agree on the appropriate figure for 1981.

3. The Chancellor's minute of 12th November suggests that the 1981 Budget should be regarded as a cash limit beyond which no supplementary estimate should be applied. That approach would be in line with the Budget resolution of the European Parliament and would require that there were no CAP price increases next year or that they be funded by savings or new funds such as co-responsibility levies.

4. The Minister of Agriculture, in his minute of 13th November, argues instead for an arrangement enabling the CAP budget to be further increased by the same proportion of what is left within the 1 per cent VAT ceiling ("headroom") as agriculture represents in the total 1981 Budget once it is established. This would provide an additional 542 meua and be consistent with a price increase of about 11 per cent.

5. Since then, Chancellor Schmidt has told the Prime Minister that increases in agricultural expenditure should be held to half the increase in own resources; but he was careful not to apply it to 1981, which indeed would not be feasible since it would involve a reduction in the provision already

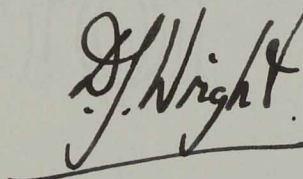


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made for agriculture in the 1981 Budget. Nevertheless it would be possible to follow the same general approach and argue that, for 1981, the increase should at least not be greater than the growth of own resources. The Prime Minister has already explained to Chancellor Schmidt that in order to make 1981 comparable to 1980 for this approach, the Greek contribution would have to be excluded. On this basis - a compromise between the Chancellor and Mr. Walker - there would be about 280 meua "available" to the Agriculture Ministers. This would be compatible with a price increase of about 5 per cent.

6. If the Prime Minister decided to raise the question of a financial ceiling at the European Council - or to try to persuade Chancellor Schmidt to do so - it would not be necessary or desirable to go into detail. All she need ask for would be that the Finance Ministers should examine the question.

7. Depending on the outcome of the European Council, the Prime Minister might wish to respond to the earlier minutes, by suggesting to the Chancellor and Mr. Walker that in any such examination our aim should be agreement on the basis of the formula which yields an increase in agricultural expenditure of only about 280 meua.



(D. J. Wright)

27th November 1980



CONFIDENTIAL



cc 720  
T-1  
JS

10 DOWNING STREET

*From the Private Secretary*

26 November 1980

CAP REFORM AND THE 1981 PRICE FIXING

The Prime Minister has seen and taken note of the Minister of Agriculture's letter to her of 24 November on this subject.

I am sending copies of this letter to Paul Lever (FCO) and John Wiggins (HM Treasury).

M. O'D. B. ALEXANDER

Miss Kate Timms,  
Ministry of Agriculture, Fisheries and Food.

QB





MS  
enter Ingham

10 DOWNING STREET

*From the Private Secretary*

25 November 1980

Thank you for your letter of 24 November, reporting your Minister's proposed arranged PQ on the Hops Marketing Board.

As I told you on the telephone, the Prime Minister is content that Mr. Walker should answer as in the draft you enclosed.

I am sending copies of this letter to Robin Burch (Chancellor of the Duchy of Lancaster's Office), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

M. A. PATTISON

David Jones Esq  
Ministry of Agriculture, Fisheries and Food.

GB



pwp

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON S.W.1



From the Minister

✓ 2

The Rt Hon Sir Geoffrey Howe  
Chancellor of the Exchequer  
Treasury  
Parliament Street  
London SW1P 3HE

CH/EXCHEQUER	
REC.	24 NOV 1980
ACTION	Mr Roberts
COPIES TO	CST
	FST
	Sir A Watt
	Sir K Couzens

24/11  
24 November 1980

- Mr Edwards
- Mr Thomas
- Mr Anderson
- Mr Cropper
- Mr Hancock

*R. Seafford*

- Mr Byrne
- Mr Hedley-Miller
- Mr Lovell
- Mr Gilmore

Thank you for your letter concerning my Brussels speech on the question of the CAP.

I wish to make it perfectly clear that I am in total agreement with every paragraph of Peter Carrington's Hamburg speech on the CAP, a speech in which I am pleased that he made it clear that Britain supports the CAP and is not there to destroy it, and in which he stated that it was a policy that had prevented Europe suffering from shortages over these past years and given us an important security of supplies.

He and I both made it clear that the major problem facing the CAP was the problem of surpluses. The very first paragraph of my speech states categorically that the Common Agricultural Policy has resulted in expensive and unwanted surpluses, a policy that has increasingly dominated the European budget and has placed an unfair cost on the British taxpayer. The last paragraph of my speech makes it clear that the British Presidency will be involved in tackling the fundamental problems of surpluses.

As to your point involving the myth that the CAP has deprived other European policies, I agree it would have been better if I had repeated in this context the point I made in the opening paragraph of my speech as to the expensive cost of unwanted surpluses. The objective of the paragraph was to eradicate what is a myth, ie that Europe spends a great deal on agriculture and hardly anything on matters like industry and energy, when in fact Europe spends at the national level vast amounts of public money on both industry and energy. If industrial investment and pricing and energy investment and pricing were operated on a Community basis, then it would be these sectors which would be dominating



what would, of course, be a vastly increased European budget. There is also the point that the proportion of the budget taken by the CAP has remained constant over the years, or if anything has slightly fallen. It follows that expenditure on other policies, even though we may regard this as too small in absolute terms, has at least been growing at much the same rate as CAP expenditure.

As you know, during the period in which I have had responsibility for CAP negotiations, we achieved in the first price fixing the lowest common price increase since accession. In the second price fixing, in spite of a very high inflation rate, we not only achieved a price fixing significantly below the inflation rate but actually negotiated in such a way as to put the Prime Minister in the strongest possible position to achieve the budget changes.

You will know that perhaps the biggest single contribution in the battle against inflation has been the low increases in food prices compared with the increases in prices over the rest of the economy.

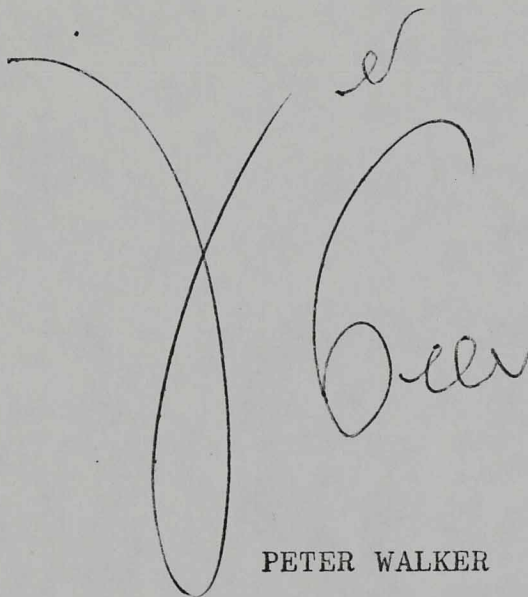
The food price performance has not been achieved by a fall in either retailers' or food manufacturers' profits but by the very substantial fall in farm incomes, a fall that cannot continue much longer without endangering the future of British agriculture. We must not tackle the surpluses of Europe by inflicting lasting damage on our own agriculture, an agriculture that makes no contribution to the European surpluses. We also must take note that after three years of extreme price restraint as far as milk is concerned, production has increased, perhaps partly due to national aid but also due to the fact that the desperate dairy farmer tries to increase production and not reduce it. That is why I am determined during the period of our Presidency to try and agree a formula for reducing milk production that would be politically feasible and actually achieve its objective.

That is why I am anxious to create a tolerable atmosphere of trust to negotiate what we all require - a CAP genuinely eradicating the worst surpluses.

This will mean some very considerable sacrifices by other Community nations of a nature that can be achieved only over a period of a few years. But if other Member States are to be persuaded to do this it is vital that they believe that we genuinely wish the CAP to continue. I warmly welcomed Peter Carrington's speech in this regard and I believe we are now in an enhanced position to negotiate arrangements that will bring greater sanity into the problems of surpluses.

It was wrong that you did not have copies of my speech prior to its delivery. I had presumed that copies would immediately be sent after I had cleared the draft of the speech over the course of the weekend.

As I told you when we dined at No 10, I do not believe there is any disagreement in our objectives and I am very happy to accept the text of Peter Carrington's Hamburg speech as a good summary of our position.

A handwritten signature in dark ink, appearing to read 'Peter Walker'. The signature is highly stylized, with a large, sweeping initial 'P' that loops around and crosses itself. The name 'Walker' is written in a cursive script to the right of the initial.

PETER WALKER





*File 16*

10 DOWNING STREET

*From the Private Secretary*

24 November 1980

Thank you for your letter of 19 November, in which you commented on issues raised with the Prime Minister by the Royal Highland and Agricultural Society of Scotland and the Scottish NFU.

The Prime Minister has noted the explanations you have set out.

She has also noted the possible role of a statutory Scottish Seed Potato Development Council, and has commented that she would much prefer to see a voluntary potato seed marketing organisation.

I am sending copies of this letter to Kate Timms (Ministry of Agriculture, Fisheries and Food) and Jim Buckley (Lord President's Office).

Godfrey Robson, Esq.,  
Scottish Office.

~~CAROLINE STEPHENS~~

M. A. PATTISON



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON S.W.1

From the Minister

24 November 1980

(2)

*Bennie Minister*

PRIME MINISTER

*ht*  
*Bennie Minister*

*Ant*  
*24/11*

CAP REFORM AND THE 1981 PRICE FIXING

I have read the very interesting account, circulated by your Private Secretary on 18 November, of your talk with Chancellor Schmidt on the CAP.

The principles worked out by the coalition parties on the future development of the CAP have a good deal in common with our own thinking. But there are a number of points on the record of your talks which leave me uncertain about what precise approach the German Government will adopt in discussions over the coming months and, particularly, on the 1981 price fixing. The Chancellor did not, for example, disclose his thinking about the price increase on which the Germans would be ready to settle next year. This in itself is not surprising since we were not ready to do so either. But it is significant that the coalition's principles do not envisage any ceiling on the cost of the 1981 price settlement. Indeed, it is clear that the Germans expect the ceiling set by the 1 per cent VAT to be reached next year. In the parallel discussions which Mr Franklin had with German officials it was stated that a cash ceiling on the 1981 price settlement would not be acceptable to the French, though they are, apparently, ready to envisage the setting of "financial guidelines".

The coalition principles refer to the need for producers to bear greater responsibility "eg through super levies for the financing of surpluses". But it is clear that the Germans and we interpret the term "super levies" rather differently. In our own discussions with German officials, they have suggested that super levies might simply mean higher charges on the larger farmers. When you taxed Chancellor Schmidt about what would happen if there was insufficient money for funding the CAP he referred to holding agricultural prices "to the point where there was sufficient money to cover their cost". But, if the Germans are proposing to go for a wider use of general co-responsibility levies and for economies in expenditure in areas which would disadvantage us, this statement would not prevent them going along with price increases sufficient to meet the French needs and to shift the cost of doing so off the German exchequer.



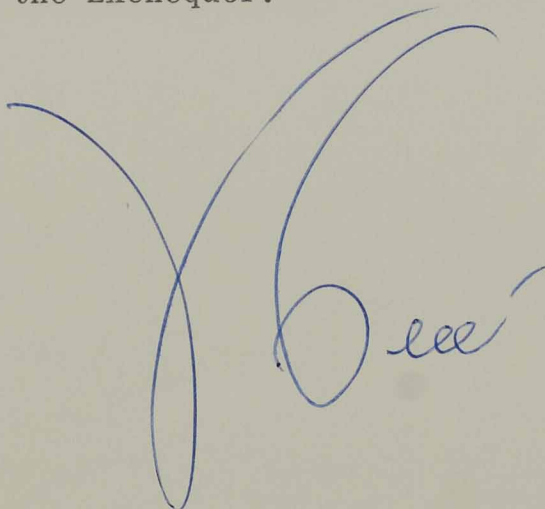
Looked at in purely agricultural terms, they would find it much easier than us to accept a price increase which would on the one hand meet the French but, at the same time, be offset in part by increased co-responsibility charges and revaluation of green rates. Moreover, they go along with the French in favouring differentiated co-responsibility levies which favour the smaller or family farmers, thus further disadvantaging our industry. I was glad, therefore, to see that you left Chancellor Schmidt in no doubt about our objections to co-responsibility levies, other than of the super levy type.

Despite the doubts about where the Germans will stand when the chips are down, we must, of course, take every opportunity to develop a common position with the Germans on the CAP and, indeed, on restructuring more generally. I am proposing myself to have a discussion with Herr Ertl before we get locked into the price fixing negotiations. But I am concerned that, where there are differences between us and the Germans, we should recognise these and develop our policy accordingly.

Despite very real worries about the income needs of our agricultural industry, I fully accept the need for a careful approach on prices. But we must not underestimate the severe pressures in all member countries after three years of price restraint far more severe than in most other sectors of the European economy.

We shall need to give further careful thought to how we approach the 1981 price negotiations and I shall want to consult colleagues early in the New Year. Meanwhile, I shall take every opportunity in discussion with Mr Gundelach to press him to recognise the need to come forward with very moderate price proposals and to avoid proposals for economies which would be contrary to our interests.

I am copying this minute to the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer.



PETER WALKER

24 NOV 1980







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

Prime Minister

Mr Walker intends to announce, by  
written PQ, the setting up of a  
voluntary producer's cooperative  
which will eventually take over

24 November 1980

the role of the Hops Marketing Board.

This will meet EC requirements.

Dear Nick

HOPS MARKETING BOARD

I attach a copy of a statement which my Minister proposes to  
make in answer to an arranged Parliamentary Question. I should  
be grateful for your immediate clearance.

You will wish to note that we propose to table the Question  
tomorrow, and answer on Wednesday.

I am copying this letter to Mr Ingham; Mr <sup>Birch</sup> Stevens (Leader  
of the House's Office); Mr Maclean (Whip's Office, Commons);  
Mr Pownall (Whip's Office, Lords); Mr Wright (Cabinet Office)  
and to Private Secretaries of the other Agricultural Ministers  
and members of the E(EA).

Yours sincerely

David Jones

D E JONES  
Assistant Private Secretary

Content?

Yes no

MA 24/XI

STATEMENT BY THE MINISTER

My Department has been engaged in discussions with the Hops Marketing Board, the National Farmers' Union, and the European Commission about the changes which need to be made in the existing arrangements for the marketing of hops in the UK to ensure that they conform to Community rules in the light of a recent decision of the European Court. Our aim in making the changes necessary to take full account of our obligations under Community law is to do so in a way which preserves the stability enjoyed by the English hops market since the formation of the Board in 1932. I am glad to be able to announce that agreement has been reached with all the interests concerned on new arrangements which will avoid any disruption of the market and maintain the confidence of producers and buyers alike in the marketing arrangements. I understand that representatives of hops producers have already set in motion the action necessary to establish a voluntary producers' co-operative. The rules of the new group are being drawn up and will soon be sent to all registered producers who will be given adequate time to decide whether they wish to join or to market independently.

Legislation will be introduced when time permits to enable the assets and liabilities of the Hops Marketing Board to be transferred to a voluntary producer group constituted under the Industrial and Provident Societies Act. The legislation



will aim to preserve the maximum degree of continuity between the Board and the new group which will undertake the responsibility of fulfilling existing commitments entered into by the Board. Forward commitments by growers to supply hops to the Board under the Board's Forward Contract Plan will remain in force whether or not they decide to join the group.

As the Board has already made arrangements for marketing some or all of the 1981, 1982 and 1983 crops, and will shortly be making arrangements for the 1984 crop, the legislation will provide for the transfer to the new group of such contracts as will have been made under these marketing arrangements.

It is my belief that the proposals I have outlined will provide a suitable basis for the continued development of the English hops market. The proposals have the support of all sections of the industry.

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CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

Sir Robert Armstrong

Anglo-German Consultations: Dr. Dieter Hiss

The Prime Minister has seen your minute to me of 20 November about Mr. Franklin's talks with Dr. Hiss. The Prime Minister has decided that Mr. Walker should be informed about our contacts with the Germans on a "wholly confidential" basis.

She will take an early opportunity to speak to Mr. Walker.

M. C. D. B. ALEXANDER

24 November, 1980.

CONFIDENTIAL



EurPd



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

21 November 1980

The Rt. Hon. Peter Walker, MBE MP  
Minister of State,  
Ministry of Agriculture, Fisheries & Food

*mb*

②

*Dr Peter*

*Prime Minister*

*Notes 21/11*

FARM INCOMES

(attached)

Your minute to the Prime Minister of 5 November commented further on the table of comparative profit and income statistics which you first circulated at the OD Meeting on 3 November.

My first comment is that I do not accept your implicit conclusion that the income experience of different sectors of the economy necessarily offers automatic guidance on policy. No-one, as I'm sure you would agree, can believe that they have some pre-emptive claim to maintain a previous level of real income, nor regard themselves as entitled to a traditional relativity with other sectors of the economy. Moreover, as between agriculture and industry the comparison is doubtful because the two sectors respond differently to the impact of recession and inflation.

Against that general background I have some particular comments on the statistics. I accept that the figures for net farming income, manufacturing profits and net income for other sole traders and partnerships all adopt the same treatment for depreciation, stock appreciation and interest. But there are various other points to note.

First I was interested to see that you adopted a "pre-interest" presentation for the three measures of business income. In earlier papers - including your paper OD(8)62 which we were in fact discussing on 3 November - you have quoted figures for net farming income which were after

/deductions





deduction of nominal interest costs but did not make the offsetting "gearing" adjustment to allow for the real gains from borrowing during a period of inflation. This earlier treatment of interest has been one of my reservations about the farm income figures you have been using, and it is of relevance to note that on the pre-interest basis the fall in farmers' "real" income seems to have been substantially less than the 50 per cent figure you quoted in OD(80)62. I am pleased that you have now adopted the different presentation.

But in addition I have doubts about the convention in the present net farming income definition of deducting an imputed cost for the labour of members of the farm family other than the farmer himself and his spouse. Arguably the returns to this family labour should not be treated as a cost but as part of farm income - and on that basis I understand that the implied "real" fall in recent years would again be reduced.

Turning to the comparisons in your table, your conclusion that farming has fared relatively poorly seems to depend heavily on the base date chosen and on the forecasts for 1980. Profits in manufacturing for instance are more cyclical than in agriculture, and your base date of 1975 was a very poor year for manufacturing, but broadly average for agriculture. Taking a base date in the early 1970s would significantly alter the apparent trends in the two sectors.

But more important is the status of the 1980 figures. I recognise that for net farming income your own statisticians are now making the initial 1980 estimates. But for the other business sectors you quoted the position is far less advanced, and the forecasts for manufacturing and for other sold traders and partnerships can be little more than guesses at this stage - particularly bearing in mind that the construction of both these unpublished series necessitates a good deal of assumption and approximation even for past years. That said, your apparent assumption that net manufacturing profits will be broadly maintained in money terms in 1980 (you showed a real terms fall of some 20 per cent) is perhaps rather surprising in the light of the trend of recent company reports.

Given the uncertainties I suggest your contention that farming income has declined seriously compared to other business sectors is at best premature and certainly not proven.

/As far as





As far as the farming sector itself is concerned I hope our officials will be able quickly to make further progress in their discussions on the various income measurements. The figures for net farm income - whatever the precise definition used - are only one source of information about incomes in agriculture. An important issue to be resolved is whether this series gives a reliable guide to what has really been happening to farmers' financial position.

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

Handwritten signature and initials, including a large 'L' and a horizontal line above the signature.

GEOFFREY HOWE

21 NOV 1980





COMPARATIVE INCOME TRENDS  
INDICES 1975=100 REAL TERMS

	(a) Aggregate Net Farming Income	Net Trading (a) Profits of Manufacturing Companies	Net Income of (a) Other Sole Traders and Partnerships	Total Personal Income per head	Earnings in GB Manufact- uring ( all employees)	Salaries in GB Manufact- uring (non manual employees)
1970	105	158	89	84	88	93
1971	105	165	97	85	90	95
1972	104	182	115	90	94	98
1973	133	194	94	96	98	100
1974	102	86	111	99	99	97
1975	100	100	100	100	100	100
1976	109	107	99	99	100	102
1977	94	142	102	95	95	97
1978	89	154	115	102	101	103
1979	81	112	118	105	103	104
1980 (forecast)	65	90	115	105	103	103

(a) Excluding stock appreciation, before charging depreciation (at current cost) and before charging interest.

October 1980

Table B

RATES OF INFLATION AND PERCENTAGE CHANGES IN REAL INCOME PER HEAD IN  
 AGRICULTURE AND IN THE ECONOMY 1973 to 1979

		Percentage changes 1973-1979 as a whole
Germany	Inflation	+ 32.5
	Real income per head in agriculture	- 16.1
	Real income per head in economy	+ 19.3
France	Inflation	+ 80.6
	Real income per head in agriculture	- 8.8
	Real income per head in economy	+ 17.1
<u>Italy</u>	Inflation	+151.1
	Real income per head in agriculture	+ 13.3
	Real income per head in economy	+ 9.2
Netherlands	Inflation	+ 53.6
	Real income per head in agriculture	- 13.2
	Real income per head in economy	+ 16.8
Belgium	Inflation	+ 57.1
	Real income per head in agriculture	- 18.1
	Real income per head in economy	+ 15.3
Luxembourg	Inflation	+ 46.8
	Real income per head in agriculture	- 16.4
	Real income per head in economy	+ 8.3
UK	Inflation	+137.9
	Real income per head in agriculture	- 22.1
	Real income per head in economy	+ 2.6
Ireland	Inflation	+124.1
	Real income per head in agriculture	+ 12.4
	Real income per head in economy	+ 31.9
Denmark	Inflation	+ 74.0
	Real income per head in agriculture	- 7.9
	Real income per head in economy	+ 5.9
EC9	Inflation	+ 97.7
	Real income per head in agriculture	- 6.4
	Real income per head in economy	+ 14.3



Table E

BANK ADVANCES TO AGRICULTURE, UK

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	Total Agriculture and Forestry	Agriculture for current farming purposes and buildings and works <sup>(1)</sup>
1978 February	1558	1387
May	1609	1432
August	1804	1606
November	1918	1707
1979 February	1949	1735
May	2133	1898
August	2400	2136
November	2541	2261
1980 February	2604	2318
May	2774	2469
August	3059	2723

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(1) Excludes estimated advances for land purchase, and other adjustments.

October 1980

CONFIDENTIAL

Ref. A03607

MR. ALEXANDER

Prime Minister

I would have favoured one more round with  
Mr. Hiss before informing Mr. Walker. Agree?  
I really think Mr. Walker should know  
on a wholly confidential basis

Anglo-German Consultations: Dr. Dieter Hiss

ms. - 28 x 1

You had a copy of Mr. Franklin's report of his talks early this month with Dr. Hiss about reform of the CAP and budget restructuring. I do not know whether any specific reference was made to these contacts during the Prime Minister's recent talks with Chancellor Schmidt, but the thinking of the German Government on the CAP is obviously encouraging and needs to be followed up.

2. When they met, Mr. Franklin and Dr. Hiss arranged a further meeting in London on 9th-10th December. Dr. Hiss was anxious to pursue detailed discussions about the CAP arrangements for individual commodities. Mr. Franklin suggested that they should decide their agenda after the Prime Minister's talks in Bonn. While I think we should continue to draw the Germans on other aspects of budget restructuring e.g. their ideas for restricting both net contributions and net benefits, it is clear that the main emphasis is to be on the CAP.

3. This raises the question of whether the Minister of Agriculture should be aware of this contact, which is already known to the Foreign Secretary and the Chancellor of the Exchequer. Mr. Franklin is naturally concerned that there could be difficulty if knowledge of these discussions were to get back to Mr. Walker through the Germans. On the substance, he does of course have access to the papers which MAFF have prepared for interdepartmental discussion, and can draw on his own knowledge and experience; but if he is to have detailed briefing, the MAFF would need to be brought in. On the other hand, the Prime Minister and the Chancellor agreed that these should be private contacts, and the Germans clearly do not want them to get to the ears of the FDP in general and Herr Ertl in particular.

4. I should be glad to know whether the Prime Minister is content that Mr. Franklin should proceed on the present basis - at least for the time being - or whether she would wish to have a word with Mr. Walker.

RA

(Robert Armstrong)





Prime Minister

2

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 20 November 1980

Paul

The Rt Hon Peter Walker MBE MP  
Minister of Agriculture

MS

Dear Peter

PUBLIC STATEMENTS ABOUT THE GOVERNMENT'S POLICY TOWARDS  
THE CAP

I have been reading the speech you made in Brussels on Monday, 17 November about the CAP. Whilst, from time to time, we all use different ways of presenting the arguments - if only for the sake of variety - I must say that there were a number of points in your speech which I would have preferred to have been expressed differently, particularly since it received very considerable press coverage.

For example, I wonder whether you did not exaggerate the importance of the reduction in the size of the intervention stocks: the reduced stockpiles have been achieved, as I understand it, more by subsidising exports than by matching Community production more closely with demand. On the question of CAP prices, we must be very careful not to bring into question the firmness of our resolve to restrain increases, both to improve the balance of agriculture and contain the cost of the CAP. Again, although I accept that Europe could not expect to buy unlimited amounts of food on the residual world market at something like present prices, your discussion of this topic could well be seen as implying we no longer believed that the CAP involved a substantial resource cost to the UK - surely a most damaging inference from the standpoint of our position on the structure of the Community Budget.

The point which worries me most, however, is your argument that it is a myth that the CAP has deprived European policies of funds. I cannot accept that this is the case.

/The constant upward



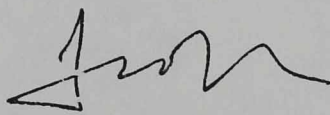
The constant upward pressure of CAP costs must have been a factor constraining the willingness of other countries to make money available for the regional and social funds. Indeed, this year the French and Germans have been fighting against the Commission's proposals for these funds in order to leave headroom for agricultural prices next year.

My concern is that your presentation of these points undermined the Foreign Secretary's balanced statement of our policies towards the Community and may have weakened our negotiating position. Clearly, this is water under the bridge though, if I may say so, had you shown your statement to the Treasury in advance - as the Foreign Secretary did and as I cleared my Isle of Ely speech with you, making several changes in the process - these consequences could well have been avoided. More importantly, and for the future, I do think that we should take steps to resolve any differences of substance which there may be between us, lest we cast any further doubts about our intentions.

I am sending copies of this letter to the Prime Minister and Peter Carrington.

*We had a word about this  
at dinner last night - and both underlines  
the importance of getting this right*

GEOFFREY HOWE

*As*  
  
*—*



20 NOV 1960

1 2 3  
4 5 6  
7 8 9

FILE

VLLB

*Enfold  
CJP*

20 November 1980

Thank you for your letter of 19 November  
and for the original text which you enclosed  
of Mr. Muldoon's message to the Prime  
Minister.

MICHAEL ALEXANDER

Mr. C. J. Elder

*[Handwritten initials]*





Mike Pattison Esq  
Private Secretary  
10 Downing Street  
LONDON

*Tell them to form a voluntary  
potato seed marketing organisation  
Prime Minister*

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

*You asked what had gone wrong with  
EC arrangements on sheep + seed  
potatoes, raised with you by Scottish  
farmers.*

19 November 1980

*Dear Mike,*

*See A+B below - Mr Younger  
does not miss the opportunity to press  
his case for a new quango on B. MAF 20/1*

On 3 November you sent me a copy of a letter from the Royal Highland and Agricultural Society of Scotland and of a telegram from the President of the Scottish NFU about the current position of Scottish agriculture. Copies of the letter and telegram had also been sent to Scottish Ministers.

I attach a copy of the reply which my Secretary of State has sent to the Royal Highland and Agricultural Society's letter. The Prime Minister expressed particular interest in the claims that the sheep regime is in confusion and that seed potatoes are unsaleable and you asked for some background information on these matters.

*A* | The settlement of the EC sheep regime has helped UK sheep producers (and consumers of lamb) but my Secretary of State accepts that exporters have a valid concern about the operation of the mechanism for "clawing back" the variable premium paid on lambs exported. This mechanism is necessary to avoid subsidised exports going on to the French market in circumstances where this would increase intervention buying, but its operation has cut down exports sharply while continental prices remain well above the intervention level. Lamb producers collectively are not adversely affected, because they are assured of a target return by the payment of the Community-financed variable premium. However, the small but (particularly in Scotland) important lamb exporting industry is facing severe difficulties and the check to exports has helped to produce the present very low market prices for lamb.

My Secretary of State and the other Agricultural Ministers are in close contact on this question; they very much hope that circumstances will improve with the passing of the initial uncertainty which is bound to face traders at the start of a new system such as this; they have a firm undertaking from Mr Gundelach that these arrangements will be kept under review, and that it is not the Commission's intention to hinder the development of the export trade. The Minister of Agriculture and officials of the UK delegation (including an official from the Department of Agriculture and Fisheries for Scotland) had further discussions with the Commission, during the Agriculture Council on 10/11 November, to explain and emphasise the current export difficulties, and to seek remedies.

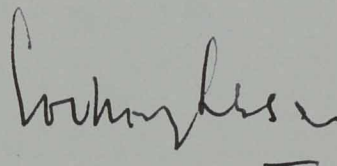
B

As regards seed potatoes, prices for the ware crop are now recovering from the effects of the undisciplined marketing of second earlies and this improvement should work its way through to the seed crop in due course. However, the marketing of Scottish seed potatoes does not match the high quality of the product and is nothing like as well organised or aggressive as that of our overseas competitors. There is undoubtedly a good case for strengthening the currently fragmented marketing of Scottish seed, both to exploit opportunities, and to combat the competition from Dutch and other overseas seed on the UK home market, in which the traditional domination of Scottish seed is being challenged. To this end the industry has proposed the formation of a statutory Scottish Seed Potato Development Council, and Ministers are currently considering this initiative in the light of the Prime Minister's comment and against the background of the Government's attitude generally to a body which, though organised and financed entirely by the industry itself, might be regarded as having some of the features of a quango.

My Secretary of State has discussed the content of the telegram from the National Farmers' Union of Scotland with their President on 24 October and again on the morning of 29 October. No further reply is expected by the Union.

I am copying this letter and enclosure to Kate Timms in MAFF.

Yours truly,



GODFREY ROBSON  
Private Secretary





SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

John Forbes Esq  
Chairman  
The Royal Highland and Agricultural Society  
of Scotland  
PO Box 1  
Ingliston  
Newbridge  
Midlothian  
EH28 8NF

19 November 1980

The Prime Minister has asked me to thank you for your letter of 29 October in which you report the views of your Board of Directors on the current economic position of Scottish agriculture. I am also replying to your letter to Lord Mansfield of the same date.

I acknowledge that many sectors of the agricultural industry are experiencing difficulties at present. There can be no doubt that the root cause of these problems is the high rate of inflation which is causing substantial increases in farmers' input costs and is also affecting consumers' ability to pay reasonable prices for their food. The Government is determined to bring inflation under control as quickly as possible. I recognise, and very much regret, that in the short terms some of the measures we have had to take are having an adverse effect on our industries, and I know that the high cost of borrowing is causing serious problems for many farmers. There are some encouraging signs that our policies are now beginning to bear fruit and I hope that it will be possible to provide some relief from the burden of high interest rates before very long.

I share the concern of your Board of Directors about the current low market prices for cattle. A number of factors have been responsible for this, notably the depressing effect on the beef market of the large number of low-priced lambs now moving into consumption and the current world-wide depression in the hide market. But the substantial support given this year to the beef sector should not be forgotten; the support price for beef was raised by about 4% at this year's CAP price fixing; intervention buying has been continuous since that time; and large sums have been injected into the beef sector through beef premium payments. Farmers will also benefit from the Suckler Cow Premium Scheme which is of particular importance to the specialist beef rearer who forms the backbone of the Scottish industry.

Sheep producers have this year benefited from two large increases in the guaranteed price: in April we announced an increase of 11% in the fat sheep guarantee and, following the introduction of the sheep regime on 20 October, support prices moved on to a new scale which represents a further increase of around 16%. I do not agree that the sheep regime is in confusion. The operation of the clawback of variable premium paid on our exported lambs and sheep is certainly giving rise to some



difficulties and has contributed to a lowering of market prices, but some of the problems are the inevitable teething troubles which attend the introduction of any new system and producers are protected from adverse effects by the open-ended variable premiums. I am well aware of the current problems faced by our lamb exporters; we have secured a firm undertaking from the European Commission that both the clawback arrangements and the trend of UK sheep exports will be kept under review because they accept that it is not the intention of the clawback system to hinder the development of our overseas trade. We are keeping Vice-President Gundelach fully informed of our difficulties and have pressed him to take measures to improve matters. We intend to hold him to his undertaking.

As regards the current difficulties of the dairy industry, we have undertaken to examine the milk pricing arrangements and to review the needs of producers and distributors before the end of the year.

We will not have a clear idea of yields and production of cereals in Scotland until late November. Grain producers do, of course, benefit from the Community support system and they are therefore cushioned to some extent against the fall in market prices which reflects the supply and demand situation.

Ware potato prices have been disappointingly low this year, largely because of undisciplined marketing of second earlies, and this has depressed the seed potato prices. To some extent the market has been "talked down" because of an apparent small domestic surplus, although the stockfeed programme which has been constituted should help to remove this. For the rest of the season a return of confidence seems likely, with smaller crops reported from West Germany, Eastern Europe and North America; there are already signs of an improvement in home price trends, international futures markets and exports, and this improvement should work its way through to the seed trade.

Lord Mansfield will be meeting representatives of the National Farmers' Union of Scotland on 1 December to discuss the difficulties in the horticultural sector, particularly those of glasshouse growers.

I cannot agree that pig returns are not encouraging. Scottish pigmeat prices are above those of last year and the substantial move from negative to positive mcas has considerably improved trading conditions for our producers. The UK pigmeat reference price currently compares very favourably with that of other Member States and is above the Community average.

The eggs and poultrymeat industries are undoubtedly encountering difficult market conditions. As there is a free market for eggs and poultrymeat throughout the Community it is essential that producers in this country are enabled to compete on fair and equal terms with their counterparts in Europe. We are therefore making enquiries to satisfy ourselves that the current high level of Community imports, which is having an effect on market prices, is not due to any breach of the competition rules in the Treaty of Rome in other Member States.



I can assure you that it is the Government's firm intention to create and maintain a viable agricultural industry in this country which will satisfy a growing share of our food requirements, enable our farmers to compete on level terms with those elsewhere in the Community, and ensure that farmers achieve a reasonable standard of living. Despite the difficult situation we inherited, we have taken a number of important steps in that direction over the past year, but it is necessary to get the economy moving along the right lines in order to provide lasting improvements, and that must be our first priority.

GEORGE YOUNGER



T 217/80  
New Zealand High Commission

Reference

19 November 1980

New Zealand House  
Haymarket  
London SW1Y4TQ  
Telephone: 01-930 8422 Ext:  
Telex: 24368

Mr M O B Alexander  
Private Secretary to the Prime Minister  
No. 10 Downing Street  
LONDON SW1

Dear Mr Alexander

On 4 November the New Zealand High Commissioner,  
H.E. the Hon L W Gandar, wrote to Mrs Thatcher to pass  
to her the text of a message from the Prime Minister of  
New Zealand, the Rt Hon R D Muldoon.

... We have now received from Wellington the original letter,  
which is enclosed.

Yours sincerely

C J Elder  
First Secretary (Economic)

Encl.



New Zealand High Commission

New Zealand High Commission  
Wellington  
P.O. Box 104  
Wellington  
New Zealand

10 NOV 1980

Dear Sir,  
Reference is made to the letter of the 27th October 1980.

On 10 November 1980 the New Zealand High Commission, Wellington, New Zealand, was advised by the New Zealand High Commission, Wellington, New Zealand, that the New Zealand High Commission, Wellington, New Zealand, had received a letter from the New Zealand High Commission, Wellington, New Zealand, dated 10 November 1980.

The letter from the New Zealand High Commission, Wellington, New Zealand, dated 10 November 1980, is enclosed.

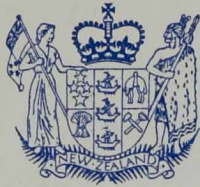
Yours faithfully,  
[Signature]

John [Name]  
[Title]



10 NOV 1980

SUBJECT



T 217/80  
**PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 217/80**

Prime Minister  
Wellington  
New Zealand

3 November 1980

Dear Margaret,

Now that Brian Talboys has returned from Europe, I thought I should let you have our assessment of the position on the one remaining New Zealand question, post-1980 butter access, that awaits the Community's decision.

It is clear from the conversations which Brian Talboys had with Foreign and Agriculture Ministers throughout Europe that only one Member State, France, is strongly opposed to the Commission's proposal for New Zealand's butter access to the Community after the end of this year. Among some other Member States there is a certain unease about the Community entering into what may be seen as an indefinite arrangement with New Zealand, though I fail to see how any arrangement which contains four separate review options (as the Commission's proposal does) could be regarded as committing the Community indefinitely. Be that as it may, apart from some doubt on this score and some lingering misgivings in Ireland over quantities, in all other Community capitals there is a willingness to support the Commission's proposal as it stands.

Not so in Paris. France objects to virtually every aspect of the Commission's proposal. The focus of its opposition is the duration of the arrangement. The French say they are not prepared to contemplate any "long-term" arrangement with a third country when French farmers face an uncertain future with tightening budgetary constraints and a review of the CAP scheduled for next year. They will give their approval, they say, only to a one-year arrangement. Such an argument overlooks entirely the fact that while, in the case of the French farmers, there may be a degree of uncertainty about whether the Community

/can

Right Honourable Margaret Thatcher, M.P.,  
Prime Minister,  
10 Downing Street,  
London,  
UNITED KINGDOM.



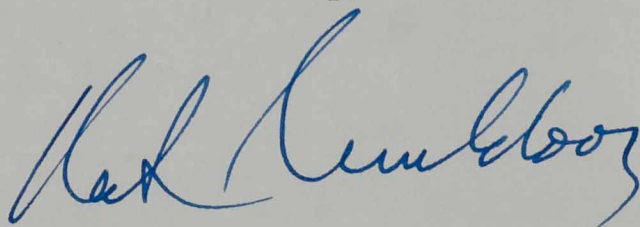
can go on encouraging the production of surpluses at current levels, in New Zealand's case the uncertainty is about the future of its major butter market, which in turn underpins the viability of the whole dairy industry.

Despite our efforts to persuade the French of the importance to New Zealand of renewing access for a reasonable period at reasonable levels, their position so far remains unchanged. I have decided therefore to write to President Giscard d'Estaing, on whom I called in June this year, setting out New Zealand's case and urging a reconsideration of France's position. I shall send you a copy of my letter.

I have come to the conclusion that if the French position - which is based more on political than on economic considerations - is to change, it will only be in response to representations at the highest level from France's Community partners. Because you know the importance of the butter question to New Zealand, you will, I am sure, understand when I say that any views you were able to express directly to the French President on this question would be absolutely invaluable. Such a move could well provide the key which unlocks what seems to be a firmly closed door. I and my colleagues would be more than grateful if you felt able to speak in this way on New Zealand's behalf.

With kindest regards,

Sincerely,

A handwritten signature in blue ink, appearing to read "Peter Newbould". The signature is fluid and cursive, with a large, sweeping initial "P".







10 DOWNING STREET

*From the Private Secretary*

18 November, 1980.

New Zealand Butter: Post-1980 Access

I enclose the text of a message which the Prime Minister sent to President Giscard this afternoon about post-1980 access for New Zealand butter.

I am sending copies of this letter and its enclosure to Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

SECRET

J



RECEIVED IN PARIS 1909Z.

T225/80

SUB 527

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T.225/80

00 181600Z  
PARIS FROM LONDON  
SECRET GOVERNMENTAL 0025  
BT

MY DEAR PRESIDENT,

I SHOULD LIKE TO DRAW YOUR ATTENTION TO THE DIFFICULT SITUATION WHICH WILL FACE THE COMMUNITY UNLESS AN EARLY SOLUTION CAN BE FOUND TO THE QUESTION OF POST-1980 ACCESS FOR NEW ZEALAND BUTTER.

NEW ZEALAND HAS PROVED HERSELF A GOOD FRIEND TO EUROPE IN PEACE-TIME AND IN WAR. SHE IS A FACTOR FOR STABILITY IN AN UNSTABLE WORLD AND PLAYS A PARTICULARLY VALUABLE ROLE IN THE SOUTH PACIFIC REGION, WHERE FRANCE ALSO OF COURSE HAS IMPORTANT INTERESTS. IT HAS ALWAYS BEEN ACCEPTED IN THE COMMUNITY THAT THE ESSENTIAL INTERESTS OF NEW ZEALAND SHOULD NOT BE DAMAGED AS A RESULT OF BRITISH MEMBERSHIP. THIS WAS AN IMPORTANT PART OF THE BARGAIN STRUCK IN OUR TREATY OF ACCESSION. IT WAS CONFIRMED IN THE 1975 DUBLIN DECLARATION WHICH STATES THAT THE COMMUNITY 'SHOULD NOT DEPRIVE NEW ZEALAND OF OUTLETS WHICH ARE ECONOMICALLY ESSENTIAL FOR IT.'

UNLESS AGREEMENT CAN BE REACHED SOON ON SATISFACTORY PROVISIONS FOR POST-1980 ACCESS FOR NEW ZEALAND'S BUTTER I FEAR THAT WE RISK PLACING OURSELVES IN BREACH OF THIS COMMITMENT. THE NEW ZEALAND ECONOMY REMAINS HEAVILY DEPENDENT ON THE DAIRY SECTOR. A MAJOR AND SUCCESSFUL EFFORT TO DIVERSIFY EXPORT MARKETS HAS ALREADY BEEN UNDERTAKEN IN RESPONSE TO THE REDUCTION IN ACCESS FOR DAIRY PRODUCTS TO THE UK. THIS IS NOW LESS THAN HALF THE TRADITIONAL LEVEL. BUT THERE IS A LIMIT TO WHAT CAN BE ACHIEVED. MOREOVER NEW ZEALAND IS SUFFERING GRIEVOUSLY FROM UNFAVOURABLE TRENDS IN THE TERMS OF TRADE. TOGETHER THESE ARE FACTORS WHICH HAVE LED TO A DEPRECIATING CURRENCY, HIGH INFLATION AND REAL ECONOMIC DIFFICULTY FOR NEW ZEALAND.

THE KEY ISSUES OUTSTANDING IN THE NEGOTIATIONS WHICH HAVE TAKEN PLACE IN THE AGRICULTURE COUNCIL CONCERN THE QUANTITIES TO BE EXPORTED TO THE COMMUNITY POST 1980 AND THE DURATION OF THE ARRANGEMENTS. THESE QUESTIONS HAVE BEEN REFERRED TO THE 24/25 NOVEMBER MEETING OF THE FOREIGN AFFAIRS COUNCIL. I VERY MUCH HOPE THAT DECISIONS CAN BE TAKEN ON THAT OCCASION.

I AM SURE THAT I CAN COUNT ON YOUR UNDERSTANDING IN SEEKING AN EARLY SOLUTION TO A QUESTION WHICH, DESPITE ITS APPARENTLY TECHNICAL NATURE, IS IN FACT OF THE HIGHEST POLITICAL IMPORTANCE TO THE BRITISH GOVERNMENT AND, I BELIEVE, ENGAGES THE INTERESTS OF THE COMMUNITY AS A WHOLE.

YOURS SINCERELY  
MARGARET THATCHER

BT



SECRET.

MISC217

R1620/18

7225/80

MESSAGE FROM THE PRIME MINISTER TO GO ON THE DIRECT LINE

TO PRESIDENT GISCARD

*My dear President,*

I should like to draw your attention to the difficult situation which will face the Community unless an early solution can be found to the question of post-1980 access for New Zealand butter.

New Zealand has proved herself a good friend to Europe in peace-time and in war. She is a factor for stability in an unstable world and plays a particularly valuable role in the South Pacific region, where France also of course has important interests. It has always been accepted in the Community that the essential interests of New Zealand should not be damaged as a result of British membership. This was an important part of the bargain struck in our Treaty of Accession. It was confirmed in the 1975 Dublin Declaration which states that the Community 'should not deprive New Zealand of outlets which are economically essential for it.'

Unless agreement can be reached soon on satisfactory provisions for post-1980 access for New Zealand's butter I fear that we risk placing ourselves in breach of this commitment. The New Zealand economy remains heavily dependent on the dairy sector. A major and successful effort to diversify export markets has already been undertaken in response to the reduction in access for dairy products to the UK. This is

/now

now less than half the traditional level. But there is a limit to what can be achieved. Moreover New Zealand is suffering grievously from unfavourable trends in the terms of trade. Together these are factors which have led to a depreciating currency, high inflation and real economic difficulty for New Zealand.

The key issues outstanding in the negotiations which have taken place in the Agriculture Council concern the quantities to be exported to the Community post 1980 and the duration of the arrangements. These questions have been referred to the 24/25 November meeting of the Foreign Affairs Council. I very much hope that decisions can be taken on that occasion.

I am sure that I can count on your understanding in seeking an early solution to a question which, despite its apparently technical nature, is in fact of the highest political importance to the British Government, and, I believe, engages the interests of the Community as a whole.

Yours sincerely

Margaret Thatcher

AmA  
- 18/X



DRAFT: ~~minute/letter/teletype/letter/despatch/note~~

TYPE: Draft/Final 1+

FROM: Private Secretary

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO: M D O'B Alexander  
10 Downing Street  
LONDON SW1

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

*Type message for transmission on the direct line.*

PRIVACY MARKING

SUBJECT: NEW ZEALAND BUTTER: POST 1980 ACCESS

.....In Confidence

CAVEAT.....

*I understand that this has been sent today  
4/11 }*

1. In my earlier letter of 14 November I said that I would be sending you a draft message from the Prime Minister to President Giscard. I now enclose such a draft.
2. In accordance with the terms of our suggested reply to Mr Muldoon, this has been drafted on the assumption that the Prime Minister will not actually want to despatch the message ~~until~~ <sup>to President Giscard</sup> after she has had an opportunity to discuss the question of New Zealand butter with Chancellor Schmidt on 16/17 November. But to give the French plenty of time to consider their position before the 24/25 November Foreign Affairs Council any message should be sent as soon as possible after the Prime Minister has spoken to the Chancellor. <sup>3.</sup> It is clear that the French are going to prove a tough nut to crack. At COREPER on 13 November they were intransigent, stating that their insistence on ~~a~~ one-year duration would not change, and seeming to link the question of New Zealand butter with the restructuring exercise by saying that 'it would be wrong to extend a special arrangement for New Zealand beyond the timetable for the CAP/Budget restructuring'.
4. You ~~will~~ <sup>may</sup> again ~~no doubt~~ want to check with Kate Timms (to whom I am sending a copy of this letter and enclosure) that her Minister is content with what we propose. I am also sending copies to David Wright.

Enclosures—flag(s).....



DRAFT MESSAGE FROM THE PRIME MINISTER TO PRESIDENT GISCARD

I should like to draw your attention to the difficult situation which will face the Community unless an early ~~and satisfactory~~ solution can be found to the question of post-1980 access for New Zealand butter. [I have just had an opportunity to discuss this with Chancellor Schmidt and I believe that I should let you also know my views on this subject.]

New Zealand has proved herself a good friend to Europe in peace-time and in war. She is a factor for stability in an unstable world and plays a particularly valuable role in the South Pacific region, where France also of course has important interests. It has always been accepted in the Community that the essential interests of New Zealand should not be damaged as a result of British membership. This was an important part of the bargain struck in our Treaty of Accession. It was confirmed in the 1975 Dublin Declaration which states unequivocally that the Community 'should not deprive New Zealand of outlets which are economically essential for it'.

Unless agreement can be reached ~~very~~ soon on satisfactory provisions for post-1980 access for New Zealand's butter I fear that we risk placing ourselves in breach of this commitment. The New Zealand economy remains heavily dependent on the dairy sector. A major and successful effort to diversify export markets has already been undertaken in response to the ~~reduction~~ reduction in access for dairy products to the UK, <sup>This</sup> which is now less than half the traditional level. But there is a limit to what can be achieved. ~~And~~ moreover New Zealand is suffering grievously from unfavourable trends in the terms of trade. Together these are factors which have led to a depreciating currency, high inflation and real economic difficulty for New Zealand. The key issues outstanding in the negotiations which have taken place in the Agriculture Council concern the quantities to be exported to the Community post 1980 and the duration of the arrangements. These questions have ~~now~~ been referred to the 24/25 November meeting of the Foreign Affairs Council. I very much hope that decisions can be

/taken



taken on that occasion. ~~I should be most reluctant to see <sup>the</sup> technical issues of this sort referred to the European Council on 1/2 December, but I fear there may be no alternative unless a solution can be found before then.~~

~~As I say, I have discussed this issue with Chancellor Schmidt and I believe that he shares my concern. I hope ~~very much~~ that I can count on your understanding also in seeking an early solution to a question which, despite its apparently technical nature, is in fact of the highest political importance to the British Government and, I believe, engages the interests of the Community as a whole.~~

*I am sure*

Buro Pol.

File

ds



10 DOWNING STREET

*From the Private Secretary*

18 November 1980

New Zealand Butter: Post-1980 Access

This is to record that, as you are already aware, the message from the Prime Minister to Mr. Muldoon enclosed with your letter to me of 14 November was despatched to Wellington on Sunday 16 November.

I am sending copies of this letter to Kate Timms (MAFF) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

ds



SUBJECT  
PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T224A/80

GR 215

CONFIDENTIAL

CONFIDENTIAL  
DESKBY 162100Z

FM F C O 161145Z NOV 80

TO IMMEDIATE WELLINGTON  
TELNO 209 OF 16 NOVEMBER.

NEW ZEALAND BUTTER: POST 1980 ACCESS.

1. PLEASE ARRANGE FOR THE FOLLOWING MESSAGE FROM THE PRIME MINISTER  
TO BE SENT TO MR MULDOON:

"THANK YOU FOR YOUR MESSAGE OF 4 NOVEMBER ABOUT POST-1980  
ACCESS FOR NEW ZEALAND BUTTER.

AS YOU WILL KNOW THE AGRICULTURE COUNCIL ON 10-11 NOVEMBER  
WAS NOT IN THE EVENT ABLE TO RESOLVE THE ISSUE, MUCH TO MY REGRET  
AND TO PETER WALKER'S. IT IS IRRITATING THAT THE FRENCH REMAIN  
INTRANSIGENT DESPITE YOUR EFFORTS, CHANCELLOR SCHMIDT'S INTEREST,  
OUR OWN LOBBYING AND PRESSURE BY THE COMMISSION. THEY ARE HOWEVER  
NOW PRETTY ISOLATED.

AS YOU WILL HAVE HEARD, THE AGRICULTURE COUNCIL CONCLUDED  
(AND THE FRENCH DID NOT DISSENT) THAT THE KEY QUESTIONS OF DURATION  
AND QUANTITY SHOULD BE REFERRED FOR DECISION TO THE MEETING OF THE  
FOREIGN AFFAIRS COUNCIL ON 24-25 NOVEMBER. WE ARE NOW ACTIVELY  
ENGAGED IN ENSURING THAT THE FOREIGN MINISTERS' MEETING IS PROPERLY  
PREPARED SO THAT A DECISION CAN BE TAKEN AND MAKING CLEAR THAT IT  
WILL HAVE TO BE ONE WHICH NEW ZEALAND CAN ACCEPT. I SHALL RAISE  
THE MATTER WITH CHANCELLOR SCHMIDT WHEN I VISIT BONN ON 16-17  
NOVEMBER AND I ALSO INTEND TO SEND A MESSAGE TO PRESIDENT GISCARD  
EXPLAINING OUR CONCERN TO GET THIS MATTER SETTLED AT THE FOREIGN  
AFFAIRS COUNCIL ON 24-25 NOVEMBER."

CARRINGTON  
MINIMAL  
E.C.D. (E)

CONFIDENTIAL

COPIES SENT TO  
No. 10 DOWNING STREET





Foreign and Commonwealth Office

London SW1A 2AH

14 November 1980

*Prime Minister  
This should wine  
K. mmmw (15 Nov). The  
Anty (Cleric) has a copy.*

*Dear Michael,*

*Paul 14/x1*

*Anne drell*

*not  
Message Despatches*

*16/x1*

New Zealand Butter: Post-1980 Access

The Prime Minister decided in the event not to send the message to Mr Muldoon which I enclosed with my letter of 7 November.

I now enclose a revised draft, which takes account of developments in the Agriculture Council on 10-11 November. You will see that the draft suggests that the Prime Minister will raise New Zealand with Chancellor Schmidt when she visits Bonn on 16-17 November and that she will then send a message to President Giscard (which is what Mr Muldoon has specifically requested). We intend to let you have a draft of such a message before the Prime Minister sees the Chancellor. The text can then be modified if necessary in the light of that discussion. This will still leave time for the message to be received and digested in Paris before the French prepare their final position for the 24-25 November Foreign Affairs Council.

You may want to check with Kate Timms (to whom I am sending a copy of this letter and enclosure) that her Minister is content with the line in the draft. I am also sending copies to David Wright.

*Yours etc*

*Paul*

(P. Lever)  
Private Secretary

M O'D B Alexander Esq  
10 Downing Street



DSR 11 (Revised)

**DRAFT:** minute/letter/teleletter/despatch/note

**TYPE:** Draft/Final 1+

**FROM:**

Prime Minister

Reference

**DEPARTMENT:**

**TEL. NO:**

SECURITY CLASSIFICATION

**TO:**

The Rt Hon R D Muldoon  
Prime Minister of New  
Zealand

Your Reference

Top Secret

Secret

Confidential

Restricted

Unclassified

Copies to:

PRIVACY MARKING

**SUBJECT:**

.....In Confidence

Thank you for your message of 4 November about post-1980 access for New Zealand butter.

CAVEAT.....

As you will know the Agriculture Council on 10-11 November was not in the event able to resolve the issue, much to my regret and to Peter Walker's. It is irritating that the French remain intransigent despite your efforts, Chancellor Schmidt's interest, our own lobbying and pressure by the Commission. They are however now pretty isolated.

As you will have heard, the Agriculture Council concluded (and the French did not dissent) that the key questions of duration and quantity should be referred for decision to the meeting of the Foreign Affairs Council on 24-25 November. We are now actively engaged in ensuring that the Foreign Ministers' meeting is properly prepared so that a decision can be taken and making clear that

Enclosures—flag(s).....

/it will

it will have to be one which New Zealand can accept. I shall raise the matter with Chancellor Schmidt when I visit Bonn on 16-17 November and I also intend to send a message to President Giscard explaining our concern to get this matter settled at the Foreign Affairs Council on 24-25 November.

14 NOV 1980





CONFIDENTIAL

*Handwritten signature*

Ref. A03548

MR. ALEXANDER

A Ceiling on Community Agricultural Expenditure

The Chancellor of the Exchequer's minute of 12th November raises the question of what would be an effective ceiling on agricultural expenditure in 1981. This is relevant to the Prime Minister's forthcoming talks with Chancellor Schmidt. The conclusion of OD on 3rd November on this issue was that there should be no increase in the proportion of the Budget spent on agriculture. But OD did not establish a point of reference for calculating this proportion.

2. The Chancellor lists three possible formulations:-

(a) No increase in the proportion of the Budget spent on agriculture

- but because the draft Budget for 1981 already shows a substantial drop as compared with 1980 (mainly because of our Budget refund) this would not be at all restrictive. Even if this formulation were applied to any supplementary Budget it would leave too much scope for price increases.

(b) Restrict the rate of growth of CAP expenditure to the growth of the Community's own resources

- This is basically what the German Government proposed in June (copy attached) and depending on how you define it (given the entry of Greece) could leave scope for price increases of about 5 per cent.

(c) Treat the provision in the draft 1981 Budget for agriculture as a cash limit beyond which no supplementary provision would be possible

- this would be in line with the recent resolution of the European Parliament but would seem to rule out any CAP price increases unless they were funded by savings or co-responsibility levies which we would not like.

3. The Chancellor favours (c), but, in his letter of 13th November, the Minister of Agriculture rejects it for the reasons given and proposes a variant of (a):-

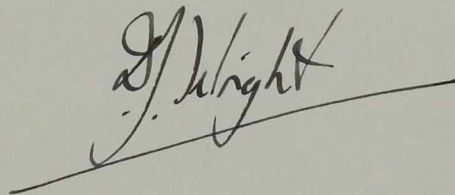
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Expenditure on the CAP could only be increased by the same proportion of what is left within the 1 per cent ceiling ("headroom") as agriculture represents in the total 1981 Budget once it is established. This would leave room to spend about 540 meua more in 1981 compared with 280 meua under formula (b).

4. It is unlikely that Chancellor Schmidt will want to get into detail and he will be conscious of the problem for Giscard if he takes too tough a line on financial constraints (or on prices). The French have been very active in ensuring that the Budget arrangements for 1981 leave the maximum room for doing what they want on prices. On the other hand, Schmidt will not be insensitive to the value of putting financial constraints on Agriculture Ministers and will see that the European Parliament's resolution gives him a useful weapon. The trouble is the Germans are prepared to square the circle by increasing the milk co-responsibility across the board and we are not.

5. The best thing would probably be for the Prime Minister to sound out Schmidt on the lines of (c) but be ready to accept something like (b) if she can get Schmidt to put his name to it, although this means going further than Mr. Walker is prepared to agree.



(D.J. Wright)

13th November 1980



EXTRACT FROM GERMAN CABINET STATEMENT OF 5 JUNE 1980

The Federal Government emphatically agrees with the necessity expressed in the EC decision to correct existing imbalances in the budget of the Community by structural changes. It underlines in this connection the necessity that the EC Commission should in the suggestions which it has to put forward by 1 June 1981 provide effective means for inter alia the elimination of agricultural surpluses: the increase in agricultural expenditure should be held below the increase in own resources of the EC. Other changes in the Community's expenditure structure must be made in good time (in the budget proposal for 1982), so that they can become effective from 1982 at the latest.

The Federal Republic believes that these measures bring about a sharing of the burdens in the Community in such a way that burdens are not put unilaterally upon a few members, while at the same time states in just as good an economic position receive net contributions from the Community. In this connection the question must be put and discussed, whether a maximum limit should be arranged for the net contribution of any individual Member State and whether a similar principle should be applied to Member States that are net beneficiaries.

The Federal Government addressed itself with these expectations to the Council, European Parliament and the Commission.

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON S.W.1



*From the Minister*

13 November 1980

PRIME MINISTER

A CEILING ON COMMUNITY AGRICULTURAL EXPENDITURE

I have seen the minute which Geoffrey Howe has sent you about a ceiling on CAP expenditure. He proposes that, contrary to your summing up of last week's discussion in OD, you should urge Schmidt to agree that the figure in the 1981 Budget should constitute a ceiling on CAP expenditure for next year.

This figure is the Commission's forecast, made in about April of this year, of the cost of the CAP in 1981 on the basis of unchanged support prices but including the increased revenue from milk levies which the Council agreed at the 1980 price-fixing to raise in 1981-82 if production continued to increase. Since CAP expenditure cannot be accurately predicted, this forecast could be considerably out in either direction. But, as Geoffrey says in paragraph 5 of his minute, the only assumption we can make at this stage is that a ceiling at that level would permit no increase at all in support prices for 1981-82 unless offsetting savings could be found or unless revenue could be raised in ways which would not offend against the ceiling.

We agreed at OD that, given the known views of other Member States, the imminence of the French elections and the needs of our own farmers, it was unrealistic to think in terms of a price freeze; and Geoffrey himself did not advocate one. The question therefore is how the savings or increased revenue necessary to finance a price increase would be secured.

Geoffrey suggests that the ceiling would "force the Community into national financing before 1981 was out". National financing means a reform whereby the Community would fund only a proportion of CAP expenditure, leaving the balance to be met from the national funds of the Member in which the expenditure occurred. This would be to our advantage; and I agree that the Community might be forced into it if it ran out of money towards the end of a year. But what it might do in those circumstances is irrelevant to what would be proposed at the price-fixing itself to accommodate price increases.



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I see no chance of national financing being introduced at the price-fixing. The Germans, in particular, seem adamantly opposed to it. They fear that other Member States would send their surpluses into Germany, so that the German Exchequer would have to pick up that part of the bill for dealing with them that was no longer met by the Community itself.

We know from our talks with them that the Germans are thinking of various alternative savings and, above all, of raising more money through co-responsibility levies. Unfortunately a number of savings they have in mind would hit the UK. They have mentioned in particular the ending of full Community financing for the UK's special consumer subsidy on butter, for the provision of school milk and for the premiums payable under the new sheepmeat régime. They would also like to abolish or curtail the suckler cow subsidy introduced at the last price-fixing. From all of these we get a net benefit: and your conclusion at the OD discussion was that we should aim to safeguard our present net benefits.

We are also all agreed, I think, that across-the-board co-responsibility levies offset by price increases are very much against our interest. They are nothing more than a way of raising extra funds by a tax on consumers: and they give rise to demands for exemptions which would discriminate against our own farmers. It is not surprising that the Germans favour them: their share of farm output is a good deal less than their share of the normal budget contribution.

I therefore cannot agree that it would be wise to press for a ceiling on 1981 CAP expenditure equal to the figure in the Budget. But I could go along with the alternative formula whereby the CAP's share of the remaining headroom within the Own Resources ceiling would be limited to the proportion of the adopted Budget which is represented by the FEOGA Guarantee Section (paragraphs 13-14 of the note attached to Geoffrey's minute).

It may be objected that the European Parliament have now stated their intention of rejecting any supplementary budget in 1981 to cater for increased farm support prices, so that we will have to live with the FEOGA figure in the 1981 Budget as adopted, whether we like it or not. If they keep to this, we shall have to accept the consequences which, as I have pointed out, could well be adverse.

Whether they will keep to it is another matter. You will recall that, this time last year, the Parliament rejected the 1980 Budget because too much of it went on the CAP. But they later adopted a Budget containing a higher figure; and in the meantime they had passed a resolution on the price-fixing which rejected most of the Commission's proposals for CAP economies, called for numerous additional items of agricultural expenditure, and

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contained wording on prices which many of its members interpreted as endorsing the price increases being demanded by the farmers' organisations. On this evidence, the Parliament cannot be relied upon to take any consistent line on the CAP; and, in addition, there is the formal point that the majority required to reject a supplementary Budget is higher than the simple majority needed to pass the recent resolution.

I am copying this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and the Secretary to the Cabinet.

*Kate Timmins*

*for*

PETER WALKER

Approved by the Minister  
and signed in his absence





13 NOV 1980

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Prime Minister

(2)



I doubt whether you will want to get into detailed discussion of these issues with Schmidt. But the cash limit approach is certainly simple. For discussion at your

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

briefing meeting  
tomorrow.

PRIME MINISTER

Handwritten initials and date: 12/11

A CEILING ON COMMUNITY AGRICULTURAL EXPENDITURE

Paragraph 15 of your brief for your talks with Schmidt about restructuring and CAP prices (PMVE(80)2(b)) suggests that you should say that we favour an effective ceiling to agricultural expenditure in 1981. I think that it would be advisable for you to put to Schmidt a definite proposal - i.e. specify how the ceiling should be defined in 1981. There is reason to believe that Schmidt's thinking is dominated by his desire to see Giscard re-elected and Giscard is thought to regard a price increase of the order of 10 per cent as necessary to protect his position. Your objective should, I suggest, be to subject Schmidt to countervailing pressures. He may well prove to be susceptible. He has on a number of occasions told you that he hoped that the UK would take an initiative on CAP reform. He is known to be very worried about the escalating cost of the CAP. And he presided over the meeting of the German Cabinet in June which called for a limitation on increases in agricultural expenditure below the rate of increase in own resources.

2. The question arises which formula would provide the ..... most effective proposal for the purpose in hand. I attach to this minute a note on this subject prepared by the Treasury after discussion with officials in the other departments concerned. It identifies three alternatives:-

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(i) A limit on the proportion of the Budget spent on agriculture.

(ii) A limit on the rate of growth of CAP expenditure relative to that of own resources.

(iii) Treating the provision for the CAP in the 1981 Budget as a cash limit.

3. I think we should rule out the first of these on the simple grounds that it does not have the effect we want. According to the various assumptions made and the latest ready reckoners, such a rule could leave enough money available in 1981 to finance a higher price increase than the one Giscard is thought to be seeking.

4. In a normal year the second of the three options would be attractive - especially as it is the one incorporated in the German Cabinet decision. But as paragraphs 16-18 of the attached paper show, its application in 1981 is complicated by the accession of Greece. I doubt whether it would have the effect of obliging Schmidt to reconsider his attitude to price increases. There is a risk that it would simply lead to an argument about what it meant.

5. The third option has the advantages of simplicity and topicality. It is what the Parliament have suggested in their resolution about the 1981 Draft Budget. Formally, it would, on present estimates, allow no money for a price increase in 1981 at all. In practice, if it were rigorously applied, it would be likely to mean that the Community would be forced into national financing before 1981 was out. National financing does not provide a means of securing fundamental reform of the CAP and could have difficult public expenditure implications. But that is



not in my view an argument against putting the idea forward as a proposal for Schmidt to consider. Our purpose, at this point in the negotiations, must be to do everything we can to gain support for a low price settlement next year and an endorsement of the Parliament's suggestion by two Member States who jointly have the ability to block a Supplementary Budget in 1981 would serve that purpose very well.

I am sending copies of this minute to the Foreign & Commonwealth Secretary, the Minister of Agriculture and the Secretary of the Cabinet.

*M. G. H.*

for (G.H.)

12 November 1980

(Approved by the Chancellor & signed in his absence)



CONFIDENTIAL

A CEILING ON COMMUNITY AGRICULTURAL EXPENDITURE

At OD on 13 October and 3 November Ministers discussed the possibility of imposing a financial ceiling on Community agricultural expenditure. Paragraph 15 of the Prime Minister's brief for her meeting with Chancellor Schmidt on 16-17 November recommends that she should say to him that "we favour an effective ceiling to agricultural expenditure in 1981". This note explores some of the problems involved in defining and implementing such a ceiling.

The difficulty of forecasting agricultural expenditure

2. The major determinants of the level of CAP expenditure - as of expenditure under most types of agricultural support policy - are uncontrollable and unpredictable factors such as the weather, the harvest and market conditions. Because of these influences forecasts of the underlying trend of expenditure are subject to wide margins of error. It follows that assessments of both the price increases and other policy measures that can be contained within, or are necessary to sustain, a financial ceiling fixed in advance are inevitably imprecise.

Implications of a cash ceiling

3. The purpose of a financial ceiling would be to restrain the rate of growth of CAP expenditure, which in recent years has been rising by about 23% per year - two thirds as fast again as general government expenditure in the Member States of the Community. In seeking Chancellor Schmidt's support for such a ceiling, the aim would be to increase the UK's leverage over policy decisions in the agricultural field and in particular to establish broad financial guidelines for the 1981 price-fixing.

4. Because of the uncertainties described in paragraph 2 above, even price decisions which at the time appeared consistent with a particular financial ceiling would not necessarily prove to be so in practice. The expenditure needed to give effect to them might either exceed or fall short of the ceiling. In the former event, the Community would find it difficult, politically, to refuse the additional provision required to implement its pricing decisions so long as headroom remained



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available within the 1% VAT ceiling. But/in those circumstances <sup>even</sup> some flexibility in the interpretation of the ceiling would not necessarily be inconsistent with the original objective of influencing policy.

5. If it were decided to treat the ceiling as a rigid cash limit, the Community would have to find some way of dealing with an overspend should one occur. There may be some scope for economies or for postponement in CAP expenditure, but this is unlikely to deal with more than a part of the problem. Other countries will favour coresponsibility levies which we are likely to oppose. In the absence of either of these solutions, the Community would be forced to resort to national financing. This could happen in either of two ways:-

- (i) A decision taken before the exhaustion of own resources to finance the overspend nationally;  
or
- (ii) Unplanned national financing occurring as a response to FEOGA running out of money.

The expenditure consequences of agricultural price increases

6. For the reasons summarised in paragraph 2, it is not possible to give precise assessments of the effect on the Budget of any particular price increase. However, the latest available ready reckoners (which may be revised before the 1981 Price Review) suggest that a 1% increase in all support prices will increase CAP expenditure by some 150 MEUA in a full year and by some 50MEUA during the calendar year in which the increase takes effect.

7. These estimates, however, only measure the "first round" effects of a price increase - i.e. they assume that production and consumption volumes remain unchanged. In the longer term there will be volume changes, since production will be higher and consumption lower than they would otherwise have been. The eventual budgetary effects of a price change could be very different from those in the short-term. For example, a small increase in production resulting from an increase in support prices is likely to result in a substantial increase in surpluses - and it is surpluses that generate the bulk of the CAP expenditure.



8. The impact of price increases on the headroom within a financial ceiling will also depend on the nature of any other agricultural measures which accompany them. Without any offset, the headroom would be directly reduced. Genuine economy measures would provide offsetting savings in agricultural expenditure, but some of the measures which other Member States might wish to propose could be financially disadvantageous to the UK. General coresponsibility levies, which score as "negative expenditure", would also provide an offset, but without reducing the true cost of the policy, since they are in effect a means of raising additional revenue through a tax on consumers.

Possible forms of ceiling

9. The following paragraphs of this note examine three possible ways in which a ceiling might be defined:-

- (i) As a proportion of the total Budget.
- (ii) As a given percentage increase on the provision for the CAP in 1980.
- (iii) As the amount of money for the CAP inscribed in the 1981 Budget when finally adopted, as suggested by the European Parliament.

(i) A limit on the proportion of the Budget spent on agriculture

10. At OD the Prime Minister concluded that "the UK should seek to reach agreement with the Germans in particular that the 1981 price settlement should not increase the proportion of the Community Budget spent on agriculture."

11. The problem in defining a ceiling of this type lies in establishing the point of reference. This is illustrated in the table in the Annex. As column (i) of that Table shows, in 1980 the CAP Guarantee Section accounted for over 73% of total Community expenditure. In the Commission's initial proposals for 1981, this proportion had fallen to 64%, and even in the Draft Budget established at the September Budget Council the figure remains just above 67%. The main reason for this fall is the provision in the 1981 Budget for special refunds to the UK - 11% of total budgeted expenditure. Other factors include favourable trends in world prices for some



commodities and some overdue economies in the CAP. Finally, the 1981 Budget makes no provision for increased expenditure consequent upon the CAP price fixing. The formal arrangement is to provide for this in a supplementary Budget.

12. To insist that the proportion of the Budget devoted to agriculture in 1981 should not exceed that in the 1980 Budget would not therefore impose an effective ceiling on CAP expenditure. Indeed, a 73% CAP share could only be accommodated within the 1% ceiling if non-agricultural expenditure were reduced below the provision in the Draft Budget - itself less than the European Parliament are likely to accept.

13. Alternatively, it would be possible to relate the ceiling to the proportion of agricultural spending in the 1981 Budget as adopted. As col (iv) of the table in the annex (which is based on a guess about the outcome of negotiations between the Council and the European Parliament) shows, this might be a figure such as 65.4%. Assuming headroom within the 1% VAT ceiling of about 834 MEUA, this interpretation would provide scope for an additional 542 MEUA of agricultural expenditure.

14. The main objection to this approach is that adhering to it would involve approving almost 300 MEUA of additional non-agricultural expenditure merely to preserve the established ratio. It would not be sensible for the UK to advocate such an increase simply in order to impose a limit on agricultural spending. For this reason, it would seem that the only practicable way of interpreting this rule would be to lay down that only 65.4% of the headroom (or whatever the proportion turns out to be) should be available to finance additional Guarantee Section expenditure i.e. that the Guarantee Section's share of the available headroom should be no higher than its share of the Budget as adopted.

15. Applying the ready reckoner described in paragraph 5 above to agricultural headroom of 542 MEUA would be consistent with a price increase of about 11% in 1981.

(ii) A limit on the rate of growth of CAP expenditure relative to that of Community own resources

16. This was the idea embraced by the German Cabinet in their



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decision of 4 June, which stressed the necessity that "the increase in agricultural expenditure should be held below the increase in the own resources of the European Community". This is different from the OD formula discussed above, and, as the figures in the table in paragraph 17 show, it would place a tighter curb on additional CAP spending than a limit related to budget shares.

17. The relevant calculations are complicated by the fact that Greece accedes to the Community in 1981, so augmenting the Community's revenues and increasing CAP expenditure. The table below makes explicit allowance for these effects and shows the amount of additional agricultural spending which would be consistent with the application of a ceiling of the type advocated by the Germans to the underlying rate of growth in own resources.

INCREASE IN OWN RESOURCES AND CAP EXPENDITURE 1980-81					
	(i)	(ii)	(iii)	(iv)	(v)
	Increase in total own resources		Increase in budgeted Guarantee Section expenditure		Maximum increase - i.e. 12.73% - in Guarantee Section within the ceiling
	Meua	%	Meua	%	Meua
Existing Community	2,289	12.74	1,189	10.4	273
Greece	377	n.a.	245	n.a	(5)*
<b>Total</b>	<b>2,666</b>	<b>14.8</b>	<b>1,434</b>	<b>12.5</b>	<b>278</b>

NOTE: \* assumes Greek Guarantee Section receipts increased by same percentage as those of other Member States.

18. In this case applying the ready reckoner in paragraph 5 would be consistent with a price increase of about 5½% in 1981.

(iii) Treating 12,920 MEUA as a cash limit.

19. In its resolution on the 1981 draft Budget, the European Parliament has announced its intention of rejecting any proposal (supplementary or amending Budget or transfer) submitted during the financial year 1981 for an increase in total agricultural

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expenditure. Although there is some ambiguity in the wording of the resolution, it implies that the Parliament wishes to treat the figure for the CAP in the Draft Budget, namely 12,920 MEUA, as a cash limit. That figure makes no allowance for any price increase in 1981. This means that, if the Parliament's suggestion were adopted, the Community would have to take special steps to deal with the financial consequences of a price increase unless the underlying uncertainties described in paragraph 2 above made 12,920 MEUA an over-estimate of the cost of the CAP on present policies.



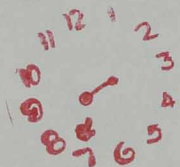
CAP PRICE SUPPORT EXPENDITURE AS A PROPORTION OF TOTAL BUDGET

	MEUA				
	<u>1980</u>	<u>1981</u>	<u>1981</u>	<u>1981</u>	<u>1981</u>
	<u>Budget</u>	<u>Preliminary draft budget</u>	<u>Draft budget</u>	<u>Assumed final budget</u>	<u>Final budget plus supplementary</u>
	(i)	(ii)	(iii)	(iv)	(v)
a. Total budget	15,683	20,051	19,240	19,750	20,584
b. CAP					
Guarantee section (Titles 6 and 7)	11,486	12,802	12,920	12,920	13,754
c. b. as % of a.	73.2	63.8	67.2	65.4	66.8

NOTES TO TABLE 1:

- Column (iv), row a. : Assumes that, on the European Parliament's insistence, total provision in the budget as eventually adopted will be 500 meua (rounded) higher than in the draft budget and that all the extra expenditure will be non-obligatory.
- Column (v), row a. : Maximum expenditure that could be financed within the 1% VAT ceiling (forecast of own resources yield taken from draft budget).
- Column (v), row b. : Assumes that all the headroom available within the 1% VAT ceiling is used for additional Guarantee Section expenditure.

172 NOV 1980







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

European  
Policy

From the Minister's  
Private Office

N Sanders Esq  
Prime Minister's Office  
10 Downing Street  
London  
SW1A

✓  
PA  
MS

12 November 1980

Dear Nick

COUNCIL OF AGRICULTURE MINISTERS: 10 + 11 NOVEMBER  
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 Mr Ingham; Mr Stevens  
(Leader of the House's Office); Mr Maclean  
(Whip's Office, Commons) Mr Pownall (Whip's  
Office, Lords); Mr Wright (Cabinet Office) and  
to private secretaries of the other Agricultural  
Ministers and members of the OD(E).

Yours sincerely  
Kate

Miss V K Timms  
Principal Private  
Secretary

COUNCIL OF AGRICULTURE MINISTERS' MEETING: 10/11 NOVEMBER 1980

STATEMENT

With permission, I shall report to the House on the outcome of the Agriculture Council on 10 and 11 November at which my Hon Friend, the Minister of State, and I represented the Government.

On New Zealand butter, I emphasised the Community's obligation to remove the uncertainties and settle this matter urgently on the basis of the Commission's proposals. The Council accepted the political and economic importance to the Community and New Zealand of reaching agreement. The main point of discussion was over the duration of a new agreement. With one exception all other Member States expressed a preference for an arrangement covering 3 to 4 years; France made it clear that she could accept only a short extension. I expect this matter to be discussed further during the Foreign Ministers' Council later this month.

The Council discussed the Commission's proposals for a revised sugar régime. The Government supports the need for action to limit excess production in the Community to keep down the cost of surplus disposal and as a necessary step towards membership of the International Sugar Agreement. I told the Council, however, that the Government could not accept in their present form the Commission's proposals on quotas and on levies for the financing of the surplus disposal because they



discriminate against beet producers in the UK. This subject will be on the agenda for December.

The Council also had before it a package of animal health measures. After some 7 hours of detailed discussion yesterday, I am glad to be able to tell the House that an agreement was reached which fully protects the high health standards in our pig herd.

We drew attention to the serious problems over the implementation of the Council Directive on poultry meat hygiene. The Commission's report has confirmed that there is distortion of competition because of differences between Member States in the way the provisions of the Directive are being applied. The Commissioner agreed that there is a need for detailed rules to achieve uniformity and to harmonise the arrangements for meeting the costs involved. He confirmed that he would wish to move quickly to deal with these problems, and I hope that proposals will be made at the December meeting of the Council.

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THE NEW YORK



*Euro Pol.*



*fa. Paul*

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

11 November 1980

The Rt. Hon. Peter Walker MBE MP  
Minister of Agriculture

*In Pet.*

NEW ZEALAND: POST 1980 ACCESS

I have seen a copy of your letter of 6 November to Peter Carrington and agree that if you cannot secure an indefinite agreement you should proceed on the lines you propose.

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

*[Handwritten flourish]*

GEOFFREY HOWE

*[Handwritten signature]*



NOV 11 1961





A03503

MR ALEXANDER

*La. Ant - 18/11*

*Prime Minister.*

*A. Agree line at para 5 below.  
B. Agree Smith message to Mr Muldoon  
(Flag A)*

New Zealand Butter: Post 1980 Access

*Flag B.* The Agriculture Council next week will be discussing the Commission's proposals for Community access for New Zealand butter after 1980. One of the fundamental issues to be decided is the duration of any new arrangement. The Minister of Agriculture's letter of 6 November to the Foreign Secretary sets out the present position in the negotiations. The Commission have proposed degressive imports leading to permanent access for 90,000 tonnes per year in 1984 and thereafter. Member states are unwilling to agree to permanency (even with provision for a review) but generally could settle for a 3 or 4 year extension. France, however, argues that there is no legal basis for access and wants a 1 or 2 year arrangement. The Minister of Agriculture recommends that we should be prepared to settle on a 3 year agreement provided that there is a firm commitment to extension thereafter and provided that New Zealand can accept.

*Flag C.* 2. When the Prime Minister saw Mr Talboys on 2 October, she assured him that the Government would back the Commission's proposal. Mr Muldoon, the New Zealand Prime Minister, has now written to her asking for support in persuading Giscard d'Estaing to change his position. You have asked the FCO for advice on a reply, but since Mr Muldoon's letter to Giscard asks him to join other member states in a 3 to 5 year arrangement it seems *Flag D.* reasonable to conclude that the New Zealanders would be content with what the Minister of Agriculture proposes.

3. Holding out for a longer term arrangement is unlikely to change other member states' views and would risk getting the discussions linked to the next agricultural price fixing. A one year 'interim' solution would have a similar disadvantage in relation to the restructuring exercise. A two year solution would be extremely difficult to sell to Parliament in the light of the resolution accepted by the Government referring to permanent access for not less than 90,000 tonnes and carries some risk of linkage with budget restructuring as well. A 3 or 4 year arrangement could be defended in the House provided that it included some continuing commitment.



4. The Minister of Agriculture's letter does not discuss what quantities we might settle for. In view of the Prime Minister's undertaking to Mr Talboys and the Commons resolution, any arrangement leading to a provision for the import of less than 90,000 tonnes in any year would be open to severe criticism unless other elements of the agreement (unexpectedly) provided offsetting advantages.

5. The Prime Minister might indicate to the Minister of Agriculture that she agrees with the line he proposes to take next week, subject to confirmation from New Zealand that this is acceptable and on the understanding that the figure for quantities does not go below 90,000 tonnes. If, as seems likely, agreement cannot be reached in the Agriculture Council, we shall need to consider whether or not this is a matter which the Prime Minister should be advised to raise at the European Council on 1 and 2 December.

ROBERT ARMSTRONG

7 November 1980





Foreign and Commonwealth Office

London SW1A 2AH

7 November 1980

*Dear Michael,*

New Zealand Butter: Post 1980 Access

Thank you for your letter of 5 November with which you enclosed a message to the Prime Minister from the Prime Minister of New Zealand.

I attach a draft reply. This draft has been prepared on the assumption that the Prime Minister will want it to issue before the start of next Monday's Agriculture Council at which we shall be pressing for settlement of the question of post-1980 access for New Zealand butter.

The text of the reply has been shown to MAFF officials. But you may wish to check with Kate Timms that Mr Walker is content with it before you submit the draft to the Prime Minister for her approval. The message will have to be telegraphed to our High Commission in Wellington by the evening of Sunday 9 November at the latest in order to reach Mr Muldoon before the Agriculture Council meets. The Foreign Office Resident Clerk has been warned that action will be required, if the Prime Minister approves the proposed message.

I am sending copies of this letter and enclosure to Kate Timms and David Wright.

*Yours etc*

*Paul*

(P Lever)

Private Secretary

Michael Alexander Esq  
10 Downing Street  
London SW1

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1+

FROM: PM

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO: The Rt Hon R D Muldoon  
Prime Minister of New Zealand

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your message of 4 October about post-1980 access for butter. Your assessment of the situation within the Community is very much in line with our own. While other member states may have reservations about particular aspects of the Commission's proposals France has taken an extreme position and clearly French opposition is the biggest obstacle we shall have to overcome.

CAVEAT.....

In the circumstances your message to President Giscard was timely and, if I may say so, couched in exactly the right sort of terms. We too have taken action on a bilateral basis with all our Community partners, including the French, and have made clear the importance we attach to a satisfactory agreement being reached at the Agriculture Council on 10/11 November. At that Council Peter Walker will of course press for the best possible terms he can secure. Your officials and mine have already discussed tactics and they will need to remain in close contact during the Council session.

Enclosures—flag(s).....

/As



CONFIDENTIAL

As you know, I firmly believe that it is essential for the Community to treat New Zealand fairly. We shall continue to do all we can to secure an early and satisfactory settlement.

7 NOV 1980



6 November 1980

I am replying on the Prime Minister's behalf to your letter to her of 5 November. I have arranged for the enclosed copy of a letter from Mr. Muldoon to President Giscard to be brought to the Prime Minister's attention.

MICHAEL ALEXANDER

His Excellency The Hon. L.W. Gandar



Enso Pad

file

ds



10 DOWNING STREET

*From the Private Secretary*

6 November 1980

Further to my letter to you of 5 November enclosing the text of a letter to the Prime Minister from the Prime Minister of New Zealand, I enclose a further letter from the New Zealand High Commissioner covering a copy of a letter from Mr. Muldoon to President Giscard. You will no doubt wish to take this into consideration in considering the text of a reply for the Prime Minister to Mr. Muldoon's letter to her.

I am sending copies of this letter and its enclosure to Kate Timms (MAFF) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

9B

010  
MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON S.W.1



From the Minister

**CONFIDENTIAL**

The Rt Hon the Lord Carrington PC KCMG MC  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1

6 November 1980

NEW ZEALAND BUTTER: POST 1980 ACCESS

You will recall my letter of 23 January and subsequent correspondence, in which we agreed our broad negotiating aims on access for New Zealand butter after the end of this year. As you know, the Commission's proposals are very much in line with what we had expected at the time and, since they meet our broad aims and are acceptable to the New Zealanders, we have tried to preserve them intact in the lead up to the discussion in the next Agriculture Council on 10 and 11 November.

Due partly to the delays in reaching a settlement for the remainder of 1980, time is now short for agreement on post-1980 access, and I believe that we must do everything possible to secure an agreement at the next Agriculture Council. The main difficulty is likely to be on the duration of the arrangements. An attractive feature for New Zealand of the Commission proposals in the element of permanency they would give in providing access for 90,000 tonnes in 1984 and thereafter, even though the arrangements would be subject to review before the end of 1984. It is fairly certain, however, that other Member States will not be prepared to settle on this basis. Apart from France, however, they do appear to be ready to agree on quantities for the next 3 or 4 years with provision for subsequent extension. The French maintain that there is no legal basis for access after 1980 and have said that the most they would agree to would be a 1 or 2 year arrangement with quantities and levy arrangements less favourable to New Zealand than in the Commission proposals.

In view of the French attitude, the prospects for a settlement at the November Council are not bright but they are not completely negligible and I think we need to take a view now on whether a 3 or 4 year agreement would be acceptable in case, contrary to expectations, the French are prepared to settle for 3 years and on reasonable terms. My view is that, subject of course to

/the New Zealanders'.....



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the New Zealanders' agreement and to the other elements of the arrangements being acceptable, we should be prepared to settle on the basis of specified quantities for three years (four if possible) and the firm commitment of an extension after that.

Although this would mean going back to some extent on one of our important negotiating aims, I am sure it would be better to settle on these terms now, if we can, than to let the negotiations drag on until the next price fixing, especially since it is unlikely that the attitude of other Member States will change. I am fairly confident that such an arrangement would be acceptable to New Zealand at least as a second best. The New Zealanders are well aware of the opposition to permanent arrangements, following Mr Talboys' visits to Community capitals, and will be letting me know before the November Council whether a three or four year agreement is acceptable.

One problem in accepting a three or four year arrangement is the terms of the Commons resolution as it came out after the Government accepted an Opposition amendment. The resolution read as follows, the Opposition amendment begins 'so long as':-

"That this House takes note of European Community Documents 8832/79 and 8476/80 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, so long as these arrangements include the principle of permanent access with a quota for 1984 of not less than 90,000 tonnes".

I think, however, that we can justify to the House accepting a shorter term arrangement on the following grounds:-

- (a) the arrangements have a continuing commitment to import New Zealand butter after the three or four years for which specific quantities will be laid down;
- (b) it would have been more damaging to New Zealand to have no arrangements at all and the deal is in the terms that were the most favourable that could be obtained for New Zealand at the time.

If you and other colleagues agree, I intend at the November Council to maintain our existing line but to settle on the

/terms I.....

CONFIDENTIAL

terms I have set out if it becomes clear that the French and others will do so and provided the New Zealanders also agree.

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

PETER WALKER



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*Gws Pd*

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

*67* November 1980

Rt. Hon. Peter Walker MBE MP  
Minister of Agriculture, Fisheries  
and Food

*NBPA*

*Print - 6/11*

*Dear Peter*

THE GREEN POUND

Thank you for your further letter of 29 October.

Press speculation seems to have been re-kindled in the last few days and I note that, as you had anticipated, Roy Mason challenged you on this issue at Question Time on 30 October. I am pleased to note that you responded broadly on the lines suggested in my 23 October letter, and I can confirm that I will respond in a similar way if I am pressed at Question Time this week.

The renewed speculation does of course follow the further large increases in our positive MCAs over the last two weeks. This underlines the importance of keeping the green pound position closely under review during the run-up to the EC price-fixing.

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

*2*

GEOFFREY HOWE

*John*





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original filed on: - Germany: Anglo/German relations : July 79.

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SIR ROBERT ARMSTRONG

cc Mr Alexander

ANGLO-GERMAN SUMMIT: MEETING WITH DR. DIETER HISS

I met Dr Hiss in Berlin. We had talks lasting in all about five hours. It is clear that on the German side this contact is known to very few people; but I suspect this is not the only occasion on which Chancellor Schmidt has used an unorthodox channel (Hiss having been Schlumann's predecessor in the Chancellor's office is now the Bundesbank representative) <sup>in Berlin</sup> in order to by-pass the coalition. He saw the contact as limited to ways of reforming the CAP. I said this was only part, though an important one, of the Budget restructuring exercise to which we attached great importance.

2. Hiss said that, by the time of the Prime Minister's visit on 16th November, Chancellor Schmidt would know the outline of the new coalition Government's programme. As regards the CAP, it would not be as ambitious or as detailed as the recent report by the working party of the SPD (chaired by Apel) but it would nevertheless show some determination to get the CAP under control. In particular, in order to stay within the financial ceiling, the possibility of national financed income aids for selected groups of farmers was not ruled out. Chancellor Schmidt was only prepared to accept a high German contribution to the Community Budget provided there was real prospect of relief within a few years. The FDP had moved somewhat closer to the position of the SPD and, within the FDP, Herr Ertl's position was no longer as strong as it had been. The threat of resignation, which Ertl had used effectively in the past was no longer such a credible weapon and he was aware of it.

3. As regards next year's price fixing, I said there were two constraints: financial possibilities within the 1 per cent ceiling (which we both agreed was a basic assumption in our discussions) and the need to be seen to take a first step in the direction of restructuring the Budget. 1981 could not be another "stand off" year. The problem was how to reconcile these requirements with the income needs of farmers (which were greater in our case than in theirs



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because of our higher inflation rate) and the French Presidential election. We felt the first need was a tough line on prices. We realised that a price freeze was not acceptable but some people thought prices should not go up by more than 4-5 per cent (although I made it clear that the Prime Minister was not committed to these figures). Secondly there needed to be a financial limit on agricultural expenditure in 1981; and thirdly additional measures especially to control milk production. He said price increases of this order would present no difficulty for Germany but would not be enough for the rest of the Community. There would be no objection from the German side if we wanted to advocate it. So far as Germany was concerned, they knew that they could moderate the effect of a ten per cent price increase by re-valuing the DM, although Herr Ertl would not like to do it alone. Would the British Government be willing to re-value the Green £? I said our position on the Green £ had not been decided but I thought it was dangerous for both of us to be talking in terms of re-valuation since this would take the pressure off other member states to limit the increase in common prices. Higher common prices put the budget up. (1.5 billion direct effect eua in a full year for a ten per cent price increase) After further discussion he thought it might be possible that at the forthcoming meeting Chancellor Schmidt could agree to:-

- i) a qualitative statement about the need for price restraint for products in surplus
- ii) a re-affirmation of the 1 per cent VAT ceiling
- iii) restricting the share of the Community Budget to be absorbed by agriculture in conformity with the German Government's statement of 4th June
- iv) an indication that the Chancellor (and the Prime Minister) intended to keep a close eye on the forthcoming agricultural price negotiations (this to show that "agricultural prices were too important to be left to the Agriculture Ministers").

4. He attached considerable importance to the institutional arrangements for handling agricultural matters in Brussels. Chancellor Schmidt had on several occasions been unsuccessful in holding the line in the German Cabinet because the Agriculture Minister was able to report back that, unless he agreed, there would be a crisis in the Community. Even when the Chancellor agreed with the Finance Minister and the Economic Minister they could not control expenditure decisions which were taken in Brussels. Hiss was sceptical about applying



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effective cash limits to the CAP; the Agriculture Ministers could always find ways of appearing to comply with them. I said experience of joint Council meetings of Ministers of Agriculture and Finance had not been encouraging. Getting the Finance or Budget Council to set financial limits might at least have some influence. Increasing the power of the Budget Commissioner over the Agriculture Commissioner would also help. We discussed the possibility of getting the European Council to endorse something like the four points mentioned in paragraph 3 but were conscious of the political difficulties which President Giscard would have before his election.

5. We discussed individual commodities as follows:-

a) Milk

I explained our support for the supplementary levy on excess output and our objections to straight increases in the co-responsibility levy. Dr. Hiss said our approach was fundamentally different from that of the French who wanted to discriminate in favour of smaller producers and against milk producers who depended on imported feed stuffs. The German position lay somewhere between the two but probably closer to French than British thinking. We discussed the practicality of operating income aids in the milk sector as part of a tough price policy. The difficulties of devising a workable scheme for supplementing farm incomes on a generalised basis might be less if it applied to only one sector of production. Each member country would have to be free to decide what kind of income transfers it wanted to go in for. I suggested it might be possible to build in a disincentive to production.

b) Cereals

I suggested adjusting the level of the intervention price according to the size of the Community surplus. In any case cereal prices were too high. Hiss recognised that Germany was vulnerable on this point and that a rigorous price policy for cereals would attract some support in France. We could, he said, "test our political will to reform the CAP in this way". He suggested that the investment decision of cereals (and perhaps other) producers could be influenced by being given medium term price targets.

c) Sugar:

We agreed that, through the quota system, it would be reasonable to get producer to bear all financial responsibility (apart from ACP sugar) for surplus production

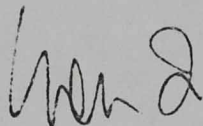


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d) Beef

I tried out the idea of replacing intervention with a deficiency payment system, or, as with sheepmeat, giving member states the choice. He plainly thought all this too ambitious and that the most that could be done was to reduce intervention. I said the Dutch were keen on the latter.

6. We agreed to resume discussion on these and other commodities in early December.



M D M Franklin

Cabinet Office

5th November 1980



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON S.W.1

②

From the Minister

PRIME MINISTER

*Prime Minister*

*Mr. [unclear]*

*Mr. [unclear]*

*MS*

5 November 1980

*Robbie [unclear]*

FARM INCOMES

When we discussed the sharp decline in real farming income yesterday in OD, it was argued that the table (enclosed) which I circulated gave a distorted picture because the indices for manufacturing profits and for other sole traders' net income were on a different basis from that for net farming income. Just to put the record straight, I think I ought to make it clear that the footnote on methodology applies to all the first three columns - to farm income as well as the other two. All three indices relate to income after charging depreciation at current cost but before charging interest; and all three exclude stock appreciation.

The comparison is therefore a completely fair one. It shows very strikingly how seriously farming income has declined by comparison with profits and incomes in other sectors of the economy.

I am sending copies of this minute to the other members of OD and to Sir Robert Armstrong.

*[Handwritten signature]*

PETER WALKER



COMPARATIVE INCOME TRENDS  
INDICES 1975=100 REAL TERMS

	(a) Aggregate Net Farming Income	Net Trading Profits of Manufacturing Companies (a)	Net Income of Other Sole Traders and Partnerships (a)	Total Personal Income per head	Earnings in GB Manufact- uring ( all employees)	Salaries in GB Manufact- uring (non manual employees)
1970	105	158	89	84	88	93
1971	105	165	97	85	90	95
1972	104	182	115	90	94	98
1973	133	194	94	96	98	100
1974	102	86	111	99	99	97
1975	100	100	100	100	100	100
1976	109	107	99	99	100	102
1977	94	142	102	95	95	97
1978	89	154	115	102	101	103
1979	81	112	118	105	103	104
1980 (forecast)	65	90	115	105	103	103

(a) Excluding stock appreciation, after charging depreciation (at current cost) but before charging interest.

October 1980

15 NOV 1980

15 NOV 1980







## 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

5 November 1980

The Rt Hon. Margaret Thatcher, MP,  
No. 10 Downing Street,  
LONDON SW1.

*Dear Prime Minister,*

The Prime Minister of New Zealand, Rt Hon. R.D. Muldoon, on 4 November wrote to President Giscard d'Estaing of France, seeking his support for an early and satisfactory decision on the question of New Zealand butter exports to the European Community after 1980.

... Mr Muldoon has asked me to pass to you a copy of that letter. I am enclosing the text with this note.

*Yours sincerely  
Leslie Gandar*

Enclosure

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TEXT OF A LETTER FROM THE PRIME MINISTER OF NEW ZEALAND,  
RT HON. R.D. MULDOON, TO THE PRESIDENT OF FRANCE,  
M. GISCARD D'ESTAING, 4 NOVEMBER 1980

---

Mr President,

I recall with pleasure our meeting in June, when I had the opportunity to discuss with you a number of matters of mutual interest and concern. Among them was the question of continuing access to the Community for two of New Zealand's key agricultural products, butter and sheepmeat.

You will know that the sheepmeat question has since been satisfactorily and amicably resolved. I believe that New Zealand showed itself to be a responsible and cooperative trading partner of the Community, and of France in particular, in working out measures to meet the concerns of domestic producers of sheepmeat.

The other question, continuing access for New Zealand butter after 1980, awaits urgent Community decision. It was the subject of a Commission report in 1979 and of specific Commission proposals in July of this year. I am sure I need not labour a point of which you will be well aware, but the dairy industry is one of the pillars of the New Zealand economy. In providing over 16 per cent of our export earnings it may be compared in its significance for New Zealand's balance of trade with the contribution to France's balance of trade made by the motor vehicle, aircraft and transport equipment industries combined. Butter contributes nearly half of the dairy sector's export earnings and, in turn, over half our butter in the latest trading year went to Great Britain under the Protocol 18 arrangement.

As these figures reveal, access to the Community for the present quantities of butter underpins the viability of the New Zealand dairy industry as a whole. Were the Community to block or diminish this access, the effect on the New Zealand dairy industry, and therefore on the New Zealand economy as a whole, would be serious indeed. New Zealand has made every effort in the past two decades to diversify its markets and its products and has achieved a considerable measure of success. It has not, however, proved possible to diminish our reliance on the British market for butter sales because the international market is so small and holds out few opportunities for disposal of significant amounts. Where opportunities do exist, these are further limited by the increased exports of highly subsidised Community butter.

Taking these factors into account, the Commission has put forward a proposal for continued access for New Zealand butter after the end of this year. Following the recent visit by the Deputy Prime Minister, Mr Talboys, to Community capitals, there is general acceptance among Member States of the Commission's proposal except for the indefinite duration aspect, where some

/ members

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members have expressed a preference for a specific period of between three and five years, with provision for review towards the end of the period. The exception to this near-unanimity is France, which appears to oppose virtually every aspect of the Commission's proposal. In particular, France had advocated an extension of access for one year only, and appears to favour deeper cuts in the quantities than the Commission has recommended or other states regard as justified.

A short extension of the arrangement, as contemplated by France, would subject the New Zealand dairy industry to further very great strain, in the form of uncertainty about its future, at a critical stage in its development. Even under the Commission's proposal, New Zealand's butter exports to Britain will be reduced from their pre-Community traditional level of around 180,000 tonnes to only 90,000 tonnes in 1984. This will represent a greater measure of sacrifice than any Community producer has been called upon to bear. It would be hard for the New Zealand public to understand why France seeks to impose even greater burdens on our small and vulnerable economy.

I understand that the reasons put forward for the French position are related to the domestic affairs of the Community. It is not my place to comment on those affairs, although I can appreciate that the French Government will be concerned to safeguard its citizens' welfare. I do not, however, subscribe to the view that French and New Zealand interests in this area are in conflict. The resolution of problems which may have arisen in Community affairs will in no respect be furthered by the imposition of yet more uncertainty on the New Zealand dairy industry or by diminishing its ability to earn a living. Rather, the proposals of France would inevitably serve to undermine the high degree of dairy cooperation which has been built up by New Zealand and the Community with respect to the international dairy market. Mutual interests may thereby suffer.

I believe, on the other hand, that France and New Zealand have developed a sufficiently mature bilateral relationship for matters of concern and importance to one party to attract the sympathetic consideration of the other. It is in the spirit of this bilateral relationship that I am writing to you to set out New Zealand's position and to appeal for a reconsideration of France's attitude. Stated simply, we need France's support on an issue of vital importance to New Zealand's economy and, indeed, its whole future.

With great respect,

Sincerely,

(Signed) R.D. Muldoon

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5 NOV 1980



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Members have expressed a widespread concern... between three and five years... the end of the period... in France... the Commission's proposal... an extension of... deeper cuts in the quantities than the Council has recommended... on other areas...

A short extension of the arrangement... would suggest the low... great extent... at a critical stage... Commission's proposal... will be reduced from... around 100,000 tonnes... represent a greater measure... producer has been called... the low level... even greater burdens...

I understand that the reasons... are related to the domestic... my place to comment... that the French Government... of... that French and New Zealand... conflict... in Community... imposition of... industry or by... the proposals of... with a degree of... Zealand and the Community... matter...

I believe, on the other hand... developed a sufficiently... matters of concern... the sympathetic... spirit of this bilateral... you to set out... re-examination of France's... France's support on an issue of vital importance to New Zealand's... economy and, indeed, its whole future.

With great respect,

Sincerely,

(Signed) E. D. Gibson

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MB.

10 DOWNING STREET

From the Private Secretary

5 November 1980

Dear Paul,

BF 12-11-80

I enclose a copy of a letter which the Prime Minister has received from the New Zealand High Commissioner, setting out the terms of the message to her from Mr. Muldoon. I have acknowledged Mr. Gandar's letter, but clearly the Prime Minister will have to reply to Mr. Muldoon. I should be grateful if you would let me have in due course a draft text for such a reply.

I am sending copies of this letter and its enclosure to Kate Timms (MAFF) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

B.

FILE

VLB

5 November 1980

I am replying on the Prime Minister's behalf to your letter to her of 4 November enclosing a message from Mr. Muldoon. I have, of course, placed your letter before the Prime Minister.

MICHAEL ALEXANDER

His Excellency the Hon. L. W. Gardar



SUBJECT



PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T 217/80

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

4 November 1980

*Prime Minister*  
*I will seek advice*

The Rt Hon Margaret Thatcher, MP  
10 Downing Street  
LONDON SW1

*mt*  
*mt*

*Dear Prime Minister,*

The Prime Minister of New Zealand, the Rt Hon R D Muldoon, has asked me to pass to you the following letter:-

"Dear Margaret

Now that Brian Talboys has returned from Europe, I thought I should let you have our assessment of the position on the one remaining New Zealand question, post-1980 butter access, that awaits the Community's decision.

It is clear from the conversations which Brian Talboys had with Foreign and Agriculture Ministers throughout Europe that only one member state, France, is strongly opposed to the Commission's proposal for New Zealand's butter access to the Community after the end of this year. Among some other member states there is a certain unease about the Community entering into what may be seen as an indefinite arrangement with New Zealand, though I fail to see how any arrangement which contains four separate review options (as the Commission's proposal does) could be regarded as committing the Community indefinitely. Be that as it may, apart from some doubt on this score and some lingering misgivings

"in Ireland over quantities, in all other Community capitals there is a willingness to support the Commission's proposal as it stands.

Not so in Paris. France objects to virtually every aspect of the Commission's proposal. The focus of its opposition is the duration of the arrangement. The French say they are not prepared to contemplate any 'long-term' arrangement with a third country when French farmers face an uncertain future with tightening budgetary constraints and a review of the CAP scheduled for next year. They will give their approval, they say, only to a one-year arrangement. Such an argument overlooks entirely the fact that while, in the case of the French farmers, there may be a degree of uncertainty about whether the Community can go on encouraging the production of surpluses at current levels, in New Zealand's case the uncertainty is about the future of its major butter market, which in turn underpins the viability of the whole dairy industry.

Despite our efforts to persuade the French of the importance to New Zealand of renewing access for a reasonable period at reasonable levels, their position so far remains unchanged. I have decided therefore to write to President Giscard d'Estaing, on whom I called in June this year, setting out New Zealand's case and urging a reconsideration of France's position. I shall send you a copy of my letter.

I have come to the conclusion that if the French position - which is based more on political than on economic considerations - is to change, it will only be in response to representations at the highest level from France's Community partners. Because you know the importance of the butter question to New Zealand, you will, I am sure, understand when I say that any views you were able to express directly to the French President on this question would be absolutely invaluable. Such a move could well provide the key which unlocks what seems to be a firmly closed door. I and my colleagues would be more than grateful if you felt able to speak in this way on New Zealand's behalf.

With kindest regards

Sincerely

(Signed) Rob Muldoon"

*Yours sincerely  
Keris Lambert*



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PRIME MINISTER  
MS

CONFIDENTIAL

PAC (80) 7

3/11

AGRICULTURAL DEBATE

Monday 3rd November 1980

Motion: "This House takes note of European Document 9280/80 concerning proposals for Council regulations restricting investment aids for milk and pig production and whilst welcoming the objective of the proposals to institute useful measures to reduce the cost of the CAP, particularly in the dairy sector, supports the Government's intention to safeguard the essential interest of United Kingdom producers."

I N D E X

1. General
2. Aid to Dairying
3. Aid to Pig Producers
4. Implications
5. Conclusion

Conservative Research Department,  
32, Smith Square,  
London S.W.1

31st October 1980  
RBC/ALL

## 1. General

The issue of surpluses in the European Community has been banded about the Council of Ministers for several years now, with the European Commission drafting new proposals at regular intervals. Co-responsibility levies, super levies, conversion schemes, non-marketing schemes etc have all been tried and to some extent been successful, particularly the latter as far as the UK is concerned.

In March 1979, the Commission produced a new package of proposals aimed at making the Community's Agricultural Structures Directives more effective. It included proposals to restrict aid to investment in dairying as well as proposals to restrict aid to investment in pig production in order to safeguard against any upsurge in these enterprises.

The proposals were then referred to technical experts who modified them extensively. At the Agricultural Council meetings in May 1980, Ministers agreed in outline the following proposals:

### 2. Aid to Dairying

- a) Investment aid should be limited to farmers undertaking a farm development programme or farm improvement plans under common measures.
- b) Investment aid in these cases should be limited to that part of a completed programme which permits the applicant to reach the comparable income level for a maximum of  $1\frac{1}{2}$  labour units. This is to be measured at the choice of the applicant, either as a maximum of 40 cows per labour unit by the end of the development programme, or as a maximum increase of 15 per cent in the dairy herd by the end of the development programme.

(Note: there seems to a discrepancy between the document and the explanatory memorandum as to the upper limit in cow numbers 40 or 60)

### 3. Aid to Pig Producers

Investment aid in pig production would be limited to the volume required to reach 550 pig places per farm in order to ensure the comparable earned income for  $1\frac{1}{2}$  labour units.

### 4. Implications

First, the limiting of EEC aid to small producers is again blatant discrimination against UK and other large continental producers. It seems in many cases that the European Commission would like to see more small producers and fewer big producers in the Community. This to my mind could lead to further surpluses by increasing the productivity of the marginal farmer of which there are many in the Southern parts of the Community. In the UK's situation, aid for investment in milk production would no longer be available under the Agriculture and Horticulture Grant Scheme (AHGS) and would be limited under the Agriculture and Horticulture Development Scheme (AHDS). Second, the recent cuts in the level of aid in Farm and Horticulture Capital Grant Scheme to the industries mentioned in



this document, will have the supposed desired effect on expansion and could in fact reduce the existing levels of production. Third, the two schemes to get dairy farmers out of milk production, have already reduced the number of milk producers in the United Kingdom by over 3,500 between March 1979 and March 1980 (MMB Annual Report). The premium scheme for the non-marketing of milk, started in 1977, ended on the 15th September 1980. The premium scheme for the conversion of dairy herds to beef production or other enterprises is scheduled to end at the beginning of the next marketing year (March 31st, 1981).

Last, the United Kingdom is not self sufficient in either milk products or pig meat in general. The collapse of the pig industry in 1976-77 which led the then Minister of Agriculture, Mr. John Silkin, to subsidize producers to the tune of 50p per score, subsequently removed at the behest of the European Court, should be remembered particularly as the industry has not fully recovered yet.

#### 5. Conclusion

This proposal gives succour to the small and inefficient producers of milk and pig meat, whilst inhibiting the potential expansion of the efficient and larger producers. Is this a valid method of reducing surplus production when compared with the other methods mentioned earlier on in this brief or indeed the ideas that are being banded about in Europe? The fact that the cost of the Common Agricultural Policy (Guidance Section of EAGGF) would be reduced is a small point to be considered, during this debate.

*Buro Pol.*

Ref A05408

PRIME MINISTERCap Price Fixing 1981

When OD discussed our general strategy for the budget restructuring exercise on 13 October, it was agreed that the committee needed a further paper from the Minister of Agriculture on the approach to next year's agricultural price fixing (OD(80) 20th Meeting). Mr Walker's paper (OD(80) 62) says that we shall need to bear in mind the forthcoming French election, the wishes of most other Member States for substantial price increases (at least as expressed by Agriculture Ministers), the Commission's objectives, and the interests of our own agricultural industry. On the last point, the Chancellor of the Exchequer's paper (OD(80) 63) argues that the CAP tends to insulate the farming industry from the disciplines of the market and that we cannot unduly protect one section of the economy when others are suffering. He is therefore firing a warning shot (paragraph 9) on support for agriculture, although he does not dispute the need for some price increases. There is no need for the Committee to decide now what level of price increase might ultimately be acceptable to us, or what we should do about the green pound. Officials have to agree (before the end of the year) on what the true income position of British agriculture is; and any decisions on the green pound will be affected the movement in sterling between now and next spring. The immediate decision to be taken is what indication we should give, before the Commission makes its proposals about our attitude on prices for next year. The question then arises: if we are prepared to agree to some increase, can we extract some quid pro quo. The Minister of Agriculture proposes that for this purpose we should press the Commission to bring forward, at the same time as its price proposals, suggestions for reforming the system (including a penal levy on extra milk production). The Chancellor and other Ministers, while agreeing with this, will also attach importance to getting a financial ceiling put on agricultural expenditure, first for 1981 and subsequently in the form of a limit on the proportion of the budget devoted to agriculture.

2. The immediate focus of the discussion is your forthcoming meeting with the federal Chancellor and the prospect of being able to reach some understanding



with him on CAP which, without ignoring President Giscard's political needs, will nevertheless prevent the French from blocking all real progress towards reducing surpluses and the cost of the CAP next year. The Treasury and FCO are more sanguine than MAFF, but all take the view that nothing would be lost by the attempt, given the Federal Chancellor's constant pleas to us to shoulder the burden of CAP reform. In this connection, you will recall your agreement with the Federal Chancellor that personal representatives should explore how we could work together with the Germans on CAP reform and other means to restructure the Community Budget. Mr Franklin is having a first meeting with the Chancellor's representative, Dr Dieter Hiss, on the evening of Monday 5 November, and would be able to follow up in the light of the Committee's discussion (only you, the Foreign Secretary and the Chancellor are aware of this contact). You can decide how you should handle the meeting with the Federal Chancellor in the light of these soundings. We must obviously, as Mr Walker said in Cabinet last Thursday, show our awareness of French political problems, but not at the expense of our real interests. It would be premature to decide now that in all circumstances we want to settle prices before the French elections.

#### HANDLING

3. You will wish to invite the Minister of Agriculture to introduce his paper, and then let the Chancellor of the Exchequer speak to his. It will probably be better to discuss the two papers together. You might remind the Committee that it has already agreed (OD(80) 20th Meeting) that cutting the cost of the CAP was an essential part of our budget restructuring strategy; that we should use price restraint as a weapon; try to get financial responsibility for surplus shifted to those who produce them; and go for a ceiling on financial expenditure on the CAP. Since the meeting, officials have agreed on a line to take in bilateral discussions (the relevant extract on the CAP is attached).

4. You might then see if the Lord Privy Seal wishes to make any general comment before focussing the discussion on -

- (i) our attitude to prices for 1981;
- (ii) additional measures to cut the cost of the CAP and reduce surpluses;
- (iii) the nature of any financial ceiling on CAP expenditure;
- (iv) tactics with the Germans.

(i) Prices

The Committee will probably agree that, in spite of the Manifesto commitment to freeze the prices of products in structural surplus, it would be unrealistic to take this line for 1981. If so, should we use Mr Walker's phrase of 'severe price restraint' or, because the French figure of 10% is already being widely bandied about, we should be more specific and say eg. "5% with less for products in surplus". A precise figure of that kind, if it became generally known (as we must assume it would) could no doubt be more difficult for the French, and might force the French government into naming a precise (and considerably higher) figure for its objective.

(ii) Other Reforms

The Committee can probably agree that we should press eg. for the super levy on milk (but resist a straight increase in the levy on existing output) and the other change detailed in the MAFF paper (paragraph 20); and that the Commission should be encouraged to put proposals forward soon.

(iii) Financial ceiling

You might ask the Chancellor to put the case for a strict ceiling based on the Commission's estimate for 1981 (12.92 billion eua) which contains no allowance for price increases and the Minister of Agriculture to explain why he thinks this is unrealistic. A 5% price increase would put only 200 meua on the 1981 budget (but much more for a full year); so it seems reasonable to insist at least at this stage on the Commission figure and looking for economies to offset the cost of higher prices.

(iv) Tactics

You will want to hear the views of the Lord Privy Seal and the Lord President. Is it agreed that we should explore the scope for agreement with the Germans (and perhaps subsequently with the French), before deciding finally how we handle the price-fixing negotiations themselves?

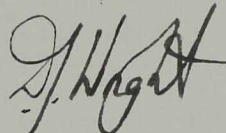
## CONCLUSIONS

5. The points to cover in your summing up might be -

- (a) the formulation agreed for our attitude on prices;



- (b) endorsement of the other proposals for reform in the MAFF paper which we should seek to get included in the price package;
- (c) the financial ceiling for agriculture in the 1981 Budget; and how to impose such a ceiling in future years
- (d) we should seek to make common cause with the Germans on these lines while assuaging French susceptibilities.



ROBERT ARMSTRONG

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

31 October 1980

Agriculture

6. An essential element in restructuring of Community expenditure must be cutting the cost of the CAP. In recent years expenditure on agriculture has been growing far faster than own resources (roughly 23 per cent per annum against 10-12 per cent per annum and the latter figure in future more likely to be 8-9 per cent per annum). At same time massive structural surpluses in certain sectors have undermined political support for CAP and impose resource costs on Community economy which already faces hard times. So we must look for measures which will improve the agricultural policy so as to reduce the surpluses and the costs.

7. We do not question the basic objectives and principles of the CAP. But the founders of the CAP never envisaged that it would create structural surpluses. The problems of the CAP as it has developed are evident and must be tackled. To do that is the best way to sustain the policy; to refuse to do it is to condemn it to eventual collapse.

8. In our view the broad objectives of CAP reform should be -

- a. to eliminate structural surpluses especially in the milk sector;
- b. to reduce agricultural expenditure as a proportion of the total budget;
- c. to move towards prices for agricultural products which will not generate structural surpluses. This will benefit consumers and reduce the resource costs and inflationary effects of the present system;
- d. to preserve a healthy European agricultural industry.

9. A central element in our approach must be to continue a policy of severe restraint on prices. Over time this should lead towards a price level which does not encourage the production of surpluses. We would not exclude making price restraint more acceptable by combining it with direct aids not related to production which would augment the income of those categories of farmers on whom restraint would bear most heavily.



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10. But a policy of restraint on institutional prices is unlikely to be sufficient by itself to produce adequate improvement within a reasonable time-scale. Need therefore to consider how it can be supplemented by other measures which would bear directly on the surpluses. Council are already committed to implementing a supplementary levy (the "super levy") on milk. This must operate so as to penalise those producers who are continuing to add to the dairy surplus. For cereals, measures relating intervention prices to the volume of production might be envisaged. For beef the amount of intervention should be reduced. For other commodities including Mediterranean products limitations on the volume of produce to which support applies should be considered particularly in relation to enlargement.

11. Critical of any further development of the across the board co-responsibility levy principle as an instrument for CAP reform. Simply a means of producing more funds without tackling the central problems. Indeed, tends in our view to generate demands for larger price increases to offset the impact of the levy. Thus the outcome is to add to the resource costs of the CAP without tackling the surplus problems.

12. We noted with interest the statement by the German cabinet on 5 June that the increase in agricultural expenditure should be held below the increase in own resources of the EC. We believe the Community should go further and set an ambitious medium term target for the reduction of the proportion of the overall budget which goes to agriculture. If that is to mean anything we will need to make progress year by year on the cost of agriculture to be borne on the budget, with no supplementary budget loopholes. Finance Ministers should be asked to consider this approach urgently; it has relevance for 1981. At the minimum, should hold FEOGA expenditure to levels agreed in 1981 draft budget. The implementation of this approach might be helped by synchronising the decisions of the Agriculture Ministers on prices and those of the Budget Ministers on available funds.

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON S.W.1



From the Minister

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

*Revised at O.D. (2/11/80)*

*Le. Pmt.*

29 October 1980

*3/11*

*Geoffrey*  
THE GREEN POUND

Thank you for your letter of 23 October. I am glad you can agree that the question of a revaluation of the green pound can be held over until the price-fixing. We shall shortly be having a preliminary discussion of our approach to the price-fixing in OD.

I am inclined not to make any special public announcement to ward off speculation, for two reasons. First, while I agree that the article in the Guardian was unfortunate, there is no sign that either this article or the one that appeared at the time of your earlier letter have led to a rush of offers into intervention; and there is always a risk that statements of this sort will have the opposite effect to the one intended, as people try to read hidden meanings into them.

Second, it is difficult to frame a statement which avoids indicating that we are considering a revaluation at the price-fixing. This could lead other Member States to think that our opposition to increases in common prices is lessened: they might well reason that we will need a bigger increase to offset the effect of a revaluation on farmers; or alternatively that we will not be concerned about the inflationary effects of increases because we will offset them by whatever degree of revaluation we think appropriate. I imagine you would agree that it would be unfortunate if they drew this conclusion.

I am quite likely, of course, to be asked about a revaluation - for example during question time in the House on Thursday. If so, I will try to make it clear that there are no plans for a revaluation.

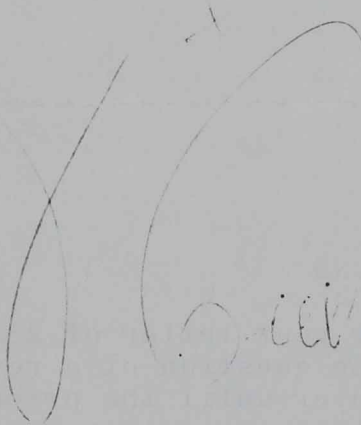
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You mention the figures for net farm income. The estimates for 1980 are, of course, still preliminary and I understand that there are some accounting issues being considered by our officials. Even so, it must be recognised that they point to the continuation of an ominous trend.

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



29 OCT 1980



PETER WALKER

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RESTRICTED

*file*

*285*

29 October 1980

CAP PRICES

As I told you on the telephone, the Prime Minister has seen the Chancellor of the Exchequer's minute to her of 28 October, and has agreed that the paper attached to that minute may be circulated.

I am sending a copy of this letter to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

John Wiggins, Esq.,  
H.M. Treasury.

RESTRICTED

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MR. ALEXANDER

Prime Minister  
Agree that the Chancellor  
should circulate his paper?  
yes not  
Print 29/x

CAP Prices

In his minute of 28th October to the Prime Minister the Chancellor of the Exchequer suggested that he might circulate the paper attached to his minute for discussion at OD on 3rd November. As agreed by OD on 13th October, that meeting is due to take a paper from the Minister of Agriculture on our tactics for the 1981 CAP price fixing and their relationship to our wider objectives for CAP reform, as a basis for your forthcoming discussions with Chancellor Schmidt.

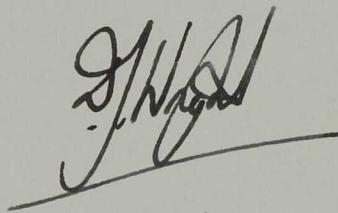
2. The essential purpose of the Chancellor's draft paper is to set the problem discussed in Mr. Walker's paper firmly in the context of the Government's general economic strategy. In particular he argues that the farming industry, which is already protected by the mechanisms of the CAP from price competition, should not alone be shielded from the economic hardships which the rest of industry is now facing and that our policy on farm incomes for British agriculture should not be determined by expectations based on past inflation. He concludes that the Government should aim to secure very modest price increases at the next CAP price review.

3. Most members of the Committee are likely to accept the Chancellor's analysis, and the Minister of Agriculture's paper is itself expected to argue for severe price restraint. There is therefore unlikely to be any major difference of view between the Chancellor and the Minister of Agriculture on the main points for decision by the Committee at this stage. It is unfortunately the case that there is as yet no agreed basis between the Treasury and the Ministry of Agriculture for an assessment of the relative income position of British farmers, but this is not an issue that needs to be resolved on Monday.

4. Given that on the one hand the Chancellor is not arguing for a price freeze and on the other the Minister of Agriculture is likely to propose a form of price restraint very close to that recommended in the Chancellor's draft paper, there is some risk that this broad agreement on substance may be clouded by argument about the role of agriculture in the economy if the paper is

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circulated. At the same time the Chancellor's analysis provides a backcloth against which decisions on farm prices must inevitably be taken. On the whole, I think that the Chancellor should circulate his paper; the alternative is to ask him not to circulate it but to draw on it in the discussion.



(Robert Armstrong)

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

28th October 1980

CONFIDENTIAL





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

PRIME MINISTER

CAP PRICES

OD is scheduled to meet on Monday, 3 November to consider our tactics in the 1981 CAP price review and how they might be aligned with wider objectives for CAP reform.

2. I feel it essential that at this discussion our colleagues consider the problem in the context of our general economic policies. As I mentioned to you last night, I have prepared for this purpose a paper, draft attached, which I was thinking of circulating for discussion along with the paper that you commissioned from Peter Walker. Before circulating it, I am sending it to you in draft with the suggestion that we might have a word about how it would fit in with your plans for handling the meeting.

.....

3. I am copying this minute to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.'.

(G.H.)

28 October 1980

CONFIDENTIAL

DRAFT OD PAPER

OUR ECONOMIC STRATEGY AND PRICE POLICY FOR AGRICULTURE

Note by the Chancellor of the Exchequer

At OD on 13 October we discussed agriculture prices in the context of the need for CAP reform, Community Budget restructuring and the situation of our own agricultural industry. We ought also to relate our approach to these managed agricultural prices to our basic economic strategy.

2. We are determined to adhere to our medium term financial strategy, to gear down the growth of the money supply and to achieve a progressive and permanent reduction in the rate of inflation. The inevitable transmission mechanisms of this policy mean incomes rising more slowly than the rate of inflation, a squeeze on profits producing a squeeze on costs, and the squeeze on costs leading in turn to limitation of wage increases. In time, as price increases slow down, employment and living standards will benefit.

3. Given our targets, if one section of the economy is protected from this painful mechanism, their share of the burden has to be added to the burden of the unprotected sectors. We have been all too well aware of the imbalances in the economy created by the personal sector helping itself to excessive wage increases and thus transferring all the burden to the corporate sector; and by the public sector insulating its pay and its programmes and transferring the burden to the private sector.

We have also been conscious of the insulation enjoyed



by those on indexed state benefits. For good reasons of economic pricing, elimination of subsidies and long term fuel management we have had to allow the nationalised fuel industries to raise their prices as fast or faster than the general inflation. The effect of all this is that the private corporate sector, especially private manufacturing, is the residual legatee of economic hardship. It is thus forced into heavy bank lending which adds to its problems and which could put our policy at risk. We hope to see these imbalances redressed by much lower pay increases, especially in the public sector; by better productivity and reduction of costs generally; by reducing the demands of the public sector; and by reviewing indexation of benefits.

4. The very nature of the CAP protects agriculture from price competition and the discipline of the market. This has two major implications:

(i) It has helped to foster the idea that the Government is under some sort of obligation to maintain living standards of farmers regardless of what is happening in the rest of the economy. As a result the underlying basis for price increases is determined by production costs - wages, fertilisers and other inputs, interest rates and so on - irrespective of the demand for the final products.

(ii) As a result farm output tends to rise from one year to the other producing unwanted surpluses. This is in contrast to manufacturing companies

who are able to pass on high costs only so long as they can maintain a market for their output.

If a firm faces a declining market it is compelled to contract or to find cheaper methods of production.

5. To some degree an industry which has monopoly powers may be able to escape these consequences - the nationalised industries may be in this situation for example. Agriculture tends to be treated like a nationalised industry and to have built a traditional claim on public expenditure, as they have done. But we have taken the view that traditional claims for special protection must be subordinated to our basic strategy. In particular it is not acceptable to regard the maintenance of a defined level of real income as a legitimate policy objective for the farming sector alone, and to adopt the 'cost-plus' pricing system for farmers I describe above as the means of achieving this. Moreover the evidence of recent years is that the aim is self-defeating. While the level of agricultural prices in real terms has been broadly maintained, this has not prevented some fall in real incomes. Instead costs have been allowed to rise until they erode the benefits. There is, no doubt, a case to be made for seeking, within reason, to maximise agricultural output in the UK in the interest, for example, of increased self-sufficiency. But, so far as they are valid, objectives of that kind must not be allowed to imperil or override our more fundamental objectives.

6. All this reinforces the need for agriculture to be exposed to, rather than uniquely shielded from, pressures



encouraging cost reduction and improved efficiency. Other sectors are having to face price restraint through the operation of market pressures, and the consequences of exchange rate movements. We should start from an intention that agriculture should take a reasonable share of the burden. Currently, for example, agriculture is shielded from the recent appreciation of sterling; the green pound is now undervalued by over 8%.

7. Another aspect of CAP price determination on which I suggest we should hammer away in the Community, especially in discussions with the Germans, is the effect on inflation. Prices which are set too high add to inflation through the price level, through national budgets and through costs and prices: and they are too high to allow markets to be "cleared". Hence surpluses - and all that.

8. We cannot, of course, ignore the effect of CAP pricing policies on the incomes of farmers in this country. But when studying such figures we must be on our guard against drawing false conclusions. Officials are now examining the ways of estimating farm incomes and their discussions have revealed differences of view on the proper method of measurement. In any case, we cannot draw conclusions about policy on the basis of temporal comparisons confined to the agricultural sector alone. We must also have regard to the general state of the economy. In other areas of our policy, we have rejected the idea that incomes should be determined so as to preserve some past standard of real consumption. Past inflation should not be material to what incomes should be in the future. This should depend essentially on productivity and ability to find markets.

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9. To sum up, considerations of general economic policy require us to dedicate our collective efforts to securing very modest price increases at the next CAP price review. If we were half-hearted in our pursuit of this objective, there would be a real risk that we should finish up with a very bad deal indeed for the United Kingdom - namely, a common price increase which was excessive when judged by the considerations set out in this paper and, in addition, an undervalued green pound which increased the protection of the UK farmer still further at the expense of our consumers and our price level. In fighting to avoid such a damaging outcome, we must not under-estimate our chances of success. We shall be able to call in aid the political need, now acknowledged in other Member States, to reduce agricultural surpluses, and also the agreed objective of restructuring the Community Budget which will not be possible without a strict check on the growth of agricultural expenditure.



28 OCT 1980

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CONFIDENTIAL

cc: Chief Secretary  
Financial Secretary  
S. Kenneth Couzens  
S. Anthony Rawlinson  
Mr. Ryrle  
Mr. Burns  
Mr. Middleton  
Mr. Hancock  
Mr. Lovell  
Mr. Roberts



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

23 October 1980

The Rt. Hon. Peter Walker, MP  
Minister of Agriculture, Fisheries  
and Food

*Dear Minister*

THE GREEN POUND

Thank you for your letter of 14 October.

I recognise that there are difficulties in revaluing the green pound in the course of a marketing year which is why I made clear in my previous letter that I was prepared to leave a change until the price fixing. If all colleagues are content with this decision I would see advantages in making clear publicly that, whilst the case for changing the green pound is kept under review in the light of developments in the exchange rate, a revaluation in the course of the marketing year is unprecedented and that no immediate change is contemplated.

The purpose of this would be to avoid speculation about a possible green pound revaluation provoked by the recent increase in MCAs leading to a rush of products into intervention at a heavy cost to public expenditure. The risk of such speculation is underlined by the story which has appeared in today's Guardian.

On the longer term question of what is to be done about the green pound at the price fixing itself, my view remains that it would be indefensible to accept an increase in UK prices and the maintenance of positive MCAs. I recognise, however, that you will wish to view this question in the context of the current farm net income situation and I trust that the discussions on the measurement of net incomes which have been taking place of official level since last year's report by the CPRS can be rapidly concluded. It would not be surprising if, in the current situation when profits throughout the economy are being depressed, farming profitability was also falling. But the extent of the fall which is thrown up by the current method of measuring net incomes does seem to me to be suspect.

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

*Yours sincerely,  
Peter Jenkins*

pp GEOFFREY HOWE

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Approved by the Chancellor and signed in his absence.





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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON S.W.1



From the Minister

*Robin Austin* (2)

*Paul*

The Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury  
Parliament Street  
London SW1P 3HE

14 October 1980

*kg*  
*Paul*

*MS*

*W. L. Goffin*

THE GREEN POUND

You wrote to me on 7 October advocating a revaluation of the green pound, either immediately or at the next price-fixing.

No country has ever yet revalued its green rate outside the price-fixing because they regard it as politically impossible to reduce, in terms of national currency, the level of support for their farmers. I would similarly regard this as out of the question, especially in view of the present state of the industry and our announced policy towards it. In any case it would be tactically strange, to concede in advance something which, assuming the pound remains strong, we may be pressed to do as part of the overall deal struck at the price fixing.

Discussions are shortly to take place at official level on the attitude we should adopt at the next price-fixing and I suggest that the question of the level of the green pound should be considered in that context.

I feel bound to add, however, that the income situation of the industry has not improved since the question was last considered. On the contrary it is now clear that net farm income will fall in real terms in 1980 for the fourth year in succession, perhaps by 15% or more, adding up to a cut of almost 50% compared with 1976; and not surprisingly the volume of investment is sharply down: hardly the picture of a "sheltered" industry.

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You may also wish to bear in mind that, given the terms of the settlement on our budget contribution, a green pound revaluation increases both public expenditure and the PSBR.

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

114 OCT 1980



PETER WALKER

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*L. Amundson Pol.*

TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND THE FOREIGN  
AND COMMONWEALTH SECRETARY ON MONDAY 13 OCTOBER 1980 AT 0830 HOURS

PM: Hello Peter, how are you?

FCS: Hello, I'm sorry to bother you. I was wondering whether you would excuse me this morning, because I spent Saturday at <sup>St Thomas</sup> ~~Tollaces~~ (?) where they found a stone and hooked it out and

PM: Of course we'll excuse you. Thank goodness they've got it out.

FCS: Yes, but I had another go last night and they think there's still a bit there so I should stay where I am for the moment. But I'm perfectly all right. Anyway, they found the stone so they can analyse it.

PM: Yes, to see what it's being formed.

FCS: So I don't think I'm much good this morning and I ...

PM: Oh, Peter you positively mustn't come.

FCS: Well the only reason I'm ringing you up was that I do feel it's a terribly important subject this morning. Could I just say one thing about it. That paper is of course quite right. That the only way you can somehow or other limit the Budget and get it adjusted is by holding down agricultural prices. But the real truth of the matter is that if you look at the figures it's really politically impossible to do it that way. And I mean of course it's right but I don't see how you could do it. You could do a bit no doubt and in the end I'm absolutely convinced that if we're going to manage to do that Budget it's got to be a sort of Budget override of some kind which I accept that we ourselves can't propose because it looks anti Communautaire. But Peter Walker's idea of quotas, I'm blessed if I would see how that would work. I don't know how you'd do it.

PM: Yes, it's like the sugar beet isn't it.

FCS: How do you allocate it? Unless he's got a very good idea I don't know how it would work. So I would have thought that we

/ really out



really ought, I mean let's by all means propose holding down prices, in the knowledge that I don't believe that our farmers, still less the Irish and the Belgians and the French, so on, would wear it. But we really ought to think rather carefully at other ways of doing it which might be national financing.

PM: Oh, very much so. That's not excluded.

FCS: No, again that's non-Community isn't it.

PM: Yes but Peter that's the only way to get round the CAP.

FCS: Yes, that's right. But I just think that politically, although it's perfectly reasonable as the paper says, that farmers shouldn't get away with everything while nobody else does. I think that to screw them down to the point when they go out of business and are having a really rough time is not something we can do politically either. So those are very unhelpful thoughts.

PM: Message received and understood, Peter. You've got to stick to 1% VAT.

FCS: And we shall be 8-1 you see when it turns out that agriculture is the only way of doing it, I'm afraid.

PM: Well I don't know. I hope not. Well Peter I've ..... those views. Are you going to be able to go tomorrow?

FCS: Unless I get another attack I shall go. Luckily The Queen's doctor is coming on this trip with us and he's a specialist in kidneys.

PM: Well that's marvellous. You'll be better there than here. It's not too painful, Peter, is it.

(Conversation then continued on generalities)

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2

Michael  
Prime Minister

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

7 October 1980

The Rt. Hon. Peter Walker MBE MP  
Minister of Agriculture

Handwritten notes: "Hand 8/10"

Handwritten initials: "mt."

Handwritten signature: "Peter"

Handwritten initials: "TW 8/10"

Handwritten note: "See Part 5"

THE GREEN POUND

Following your letter of 27 May the Prime Minister agreed to rule out a revaluation of the green pound for the time being. We did not, at the time, discuss in any detail the circumstances in which a green pound revaluation would be appropriate, but my understanding, based on your original letter of this subject of 18 April was that you would envisage such a change being made if the green rate diverged from the market rate by a significant amount and for a reasonable period. In the meantime, in view of the current and prospective income situation for UK farmers, you opposed the suggestion that there should be a revaluation in the context of the price fixing to remove a gap of only 2½ per cent between the market and green rate.

As you know, the market rate for sterling has remained above the green rate since the price fixing. The gap has now been about 5 per cent for some weeks. This means that UK support prices, measured at market exchange rates, have been almost the highest in the Community, second only to those in Germany. In my view the German reluctance to revalue the green DM is unjustified and difficult to reconcile with their declared commitment to permanent reform of the CAP. In any event I see no reason why German policy on this issue should be regarded as a model for this country to pursue.

In short I do not believe that we should allow the present divergence between the green pound and market rates to continue indefinitely. While other sectors of industry all feeling the effects of the strong pound, I do not see how we can justify sheltering agriculture alone, and at the same time denying the benefits to British consumers. And it underlines our criticisms of the CAP for us voluntarily to apply higher food prices than the common price level.



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As I see it therefore the choice lies between making an immediate revaluation or revaluing in the context of the next CAP price fixing, unless, of course, the market exchange rate has fallen by then.

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

GEOFFREY HOWE

A handwritten signature in black ink, appearing to read "Geoffrey Howe", with a horizontal line underneath.







26

Buro Pol

10, DOWNING STREET

From the Private Secretary

7 October, 1980.

Dear Rodent,

I enclose a copy of a letter to the Prime Minister from the Acting High Commissioner at the New Zealand High Commission containing a message from Mr. Muldoon. I have acknowledged Mr. Lynch's letter. Subject to your views, I do not think any further reply is required.

Yours ever

Michael Alexander

R.M.J. Lyne, Esq.,  
Foreign and Commonwealth Office.

AP



10. DOWNING STREET

*From the Private Secretary*

7 October, 1980.

*Dear Brian,*

I am replying on the Prime Minister's behalf to your letter to her of 6 October. The message to the Prime Minister from Mr. Muldoon in your letter has been brought to the Prime Minister's immediate attention.

*Yours truly*

*Michael Alexander*

B.J. Lynch, Esq.





**SUBJECT**  
**PRIME MINISTER'S**  
**PERSONAL MESSAGE**  
**SERIAL No. T197/80**

New Zealand High Commission

Reference

New Zealand House  
 Haymarket  
 London SW1Y4TQ  
 Telephone: 01-930 8422 Ext:  
 Telex: 24368

6 October 1980

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

*MS*  
*Prime Minister* (2)  
*And*

*My dear Prime Minister,*  
 I have been asked to pass to you, the following message  
 from Mr Muldoon:

"Dear Margaret,

I am writing to thank you for your strong support for  
 New Zealand in the period of negotiations leading up to  
 last week's agreement on the EEC sheepmeats regime and  
 the settlement of the question of New Zealand's 1980  
 butter sendings to the Community.

Your personal backing and understanding, which was translated  
 into practical cooperation by Peter Walker and his officials,  
 was crucial to maintaining a reasonable approach by the  
 other parties to New Zealand's position in the negotiations.

I am sure Brian Talboys will have told you that we now face  
 a third issue, that of post-1980 access arrangements for  
 our butter exports to the Community. We had hoped - with  
 good reason I believe - that this vital issue of long-term  
 significance for our entire dairy industry might have been  
 resolved at the same time as the other matters. Since that  
 proved not to be the case we must return to the negotiating  
 table once more.

If the clear and helpful appreciation of New Zealand's  
 competitive abilities as a food exporter which determined  
 your stance on the sheepmeat question is again available to  
 us, we will be well served indeed.

With warm personal regards,

Rob Muldoon."

*Your sincerely,*  
*Brian Lynch.*  
 (B.J. Lynch)  
 Acting High Commissioner

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL NO. 1117/80

08 OCT 1980

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File



cc: MAFF

CO

Subject filed on  
New Zealand  
November 1979

2 October 1980

Visit of Talboys

10 DOWNING STREET

From the Private Secretary

CALL BY MR. TALBOYS

The Deputy Prime Minister of New Zealand, Mr. Brian Talboys, called on the Prime Minister this morning. The appointment had been arranged before the meeting of the Agriculture Council earlier this week. Since agreement was reached on a sheepmeat regime and on imports of butter from New Zealand for this year at the Agriculture Council, much of the original purpose of Mr. Talboys' call had disappeared.

As it was, the only point of substance raised by Mr. Talboys was a request for confirmation that the British Government would back the Commission's proposal for tackling the question of access for New Zealand butter from 1981 onwards. The Prime Minister gave that assurance. Mr. Talboys said that his Government welcomed the move to fixed levies achieved in the butter agreement for this year. If in addition agreement could be reached for future years on quantities and on the duration of the agreement, the basis would have been laid for a broader trading relationship between New Zealand and the Community. This was something the New Zealand Government were very anxious to see.

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

M. O'D. B. ALEXANDER

Roderic Lyne, Esq.,  
Foreign and Commonwealth Office.

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**CONFIDENTIAL**EXTRACT FROM MEETING NOTE PM & PM FRANCE AT THE MATIGNON  
19 SEPT 198030 May Budgetary Agreement

M. Barre said that although agreement had not yet been reached on the regulations to implement the agreement on 30 May, he thought it should be possible to find a solution without difficulty.

The Prime Minister said that if the budget agreement was not being implemented by the end of 1980, this would cause major problems within the Community.

Sheepmeat

M. Barre said that France was ready to accept the European Commission's proposals on sheepmeat which Mr. Gundelach thought would deal satisfactorily with all the outstanding problems. France's concern was to avoid a diversion of trade between Great Britain and France in favour of New Zealand. Such a diversion of trade would occur if Britain sold on the continental market New Zealand sheepmeat in a way which was "independent of the normal currents of trade". The Commission were ready to propose the implementation of Article 115 of the Treaty of Rome to prevent such a diversion of trade. For the rest France fully accepted the result of the negotiations between New Zealand and the Community on tariffs and quantities.

The Prime Minister said that she did not understand how New Zealand sheepmeat might distort the normal patterns of trade within the Community since it normally arrived when there were few British lambs on the market. She too saw no reason why the problem of New Zealand sheepmeat should not be finally settled now that the Commission had obtained the agreement of most Members of the Community on the tariff.

Zimbabwe and the Lome Convention

The Prime Minister said that Rhodesia had originally had an annual quota of 25,000 tonnes of sugar under the Commonwealth Sugar Agreement. Zimbabwe was now seeking a

**CONFIDENTIAL** / similar





Foreign and Commonwealth Office  
London SW1A 2AH

European  
P. Sheehy

15 September 1980

(2)

Dear Michael

for  
MM

Prime Minister  
to France,

Printed 15/9

LORD PRIVY SEAL'S MEETING WITH M. GALLEY, 11 SEPTEMBER: COCOA

When the French Government asked the Prime Minister to receive M. Galley to hear the French case on the forthcoming cocoa negotiations, we agreed that the Lord Privy Seal should see him and that the Prime Minister would be informed of their discussion.

I now enclose a report of that discussion. Its main points were also included in the Prime Minister's brief on cocoa for the Anglo/French Summit.

M. Galley emphasised again President Giscard's personal concern with the issue. The French believe that developments in the cocoa market have brought West African cocoa producing countries to the brink of an economic and social breakdown. They fear that any such instability presents opportunities for communist exploitation; and that the failure of the cocoa negotiations would seriously weaken the West's position in the Global Negotiations. The French blame the steady decline in cocoa prices in recent years and increasing competition from new and more efficient producers, such as Malaysia and Brazil. M. Galley, therefore, stressed the importance of achieving a third International Cocoa Agreement, which in particular stabilised prices but also controlled production and the exports of new producers.

/In

M O'D B Alexander Esq  
10 Downing Street



In reply, the Lord Privy Seal recognised the political significance of the cocoa negotiations, but emphasised that other issues in the negotiations were just as important as price.

Sir Ian Gilmour also drew a parallel with Zimbabwe's accession to the Lomé Convention and, in particular, with the quota for its sugar exports to the EC. This too was an economic issue with far-reaching political implications. M. Galley recognised the importance of this point and promised to pass on the Lord Privy Seal's comments to M. François-Poncet and the President.


I am sending copies of this letter, with the report of the meeting, to Garth Waters in MAFF and Stuart Hampton in DOT.

*Yours ever*

*Michael Arthur*

M A Arthur





REPORT OF THE LORD PRIVY SEAL'S MEETING ON 11 SEPTEMBER WITH  
M. GALLEY, FRENCH MINISTER OF COOPERATION, TO DISCUSS FORTHCOMING  
COCOA NEGOTIATIONS.

Present:	Lord Privy Seal	M. Galley
	Lord Bridges	M. Paye
	Mr Wilson, ERD	M. Grenier
	Mr MacRae, WAD	
	Mr Gomersall	
	Mr Arthur	

The Lord Privy Seal welcomed M. Galley and regretted that the Prime Minister was unable to receive him because of her busy programme. He undertook to inform the Prime Minister of their discussion.

2. M. Galley emphasised President Giscard's personal concern about the real possibility of a disaster for cooperation between the Community and Africa, arising over cocoa. There were two elements which could cause this in the French view: first, the steady decline in cocoa prices, since 1977, from 172 c lb down to the current level of 97 c lb; and secondly, the impact of increased production in new producing countries, such as Brazil and Malaysia, coming onto the market in 1983 and 1984. This latter development could bring prices down to 80 c lb.

3. In the French view, such a price collapse would hit African producers- the Ivory Coast, Cameroon and Ghana - particularly hard. Malaysia and Brazil could probably survive at 100 c lb, but the French considered that African producers were already on the brink of disaster. As African production, particularly in the Ivory Coast, had been geared to small-holders, and a price collapse would bring severe economic and social problems, with implications for the political stability of the countries concerned. This risked increased communist influence. The issue had also to be seen in a wider political framework. The West did not want to bail

/out

out these countries when they ran into difficulty: our approach to economic development had been that developing countries should produce goods and crops for sale on world markets instead of relying on aid. This position was in danger of being undermined by the collapse of cocoa prices. The forthcoming Global Negotiations made this particularly sensitive. In conclusion, M. Galley observed that in taking a decision on cocoa the Community should bear in mind that the price of cocoa, which represented a small proportion of the cost of chocolate, was of relatively little significance for economies of developed countries; on the other hand, it was vital for producer countries, particularly the Africans, whose economies were heavily dependent on cocoa.

4. The Lord Privy Seal said that the Government accepted the force of M. Galley's political argument. Ghana and Nigeria were important for the UK, as the Ivory Coast was for the French. The threat of Soviet destabilisation in the area was also of concern to us and he understood the social and political significance of small holders in that context. He agreed that it was important to encourage developing countries to produce and market goods rather than rely on aid.

5. The central issue in the negotiations had been prices, but that was not the only important one in the UK's view. On the lower intervention price, economic considerations would not justify more than 100 c lbs, but the UK was prepared to show some small flexibility in view of the political implications. But there were a number of other important issues that consumers would have to secure, such as the semi-automatic price adjustment mechanism proposed by the Germans, satisfactory levy financing arrangements to ensure that there was no call for Government contributions and agreement on the disposal of buffer stock funds at the end of any new agreement to prevent producers using them to set up another cartel.

6. The Lord Privy Seal said we were confident that Ghana wanted an agreement; and asked were the French convinced that the Ivory Coast did too? M. Paye's impression was that the Ivory Coast would

/probably




probably accept an agreement, but not at any price. On the lower intervention price, they now seemed ready to move towards 110 c lbs. Producers were also beginning to accept the idea of a semi-automatic price adjustment mechanism.

7. M. Galley added that it would be important to find a mechanism to prevent the expansion of production by new producers, which might be at the expense of the traditional African producers. For example, estimates of world production in 1985 were 1.9 m tonnes, against forecast world consumption of 1.7m. He suggested this might be pursued after negotiation of a new international agreement, but M. Paye thought that such a mechanism would need to be part of a new agreement. Lord Bridges asked how the French envisaged controlling world production. M. Paye indicated that it would be through export quotas, which had been included in previous cocoa agreements. Since some producers, such as Malaysia, might not join the agreement, consumers might have to take special measures with respect to their exports.

8. The Lord Privy Seal pointed out that there was another economic issue on the Community's agenda which had similar political overtones. This was Zimbabwe's accession to the Lomé Convention. There had been particular difficulty over agreeing a quota for their exports of sugar and beef. Mr Mugabe attached importance to having a firm figure for this and was showing signs of becoming impatient with the delay in the Community on agreeing its negotiating mandate. We now had a chance to keep Zimbabwe in the Western orbit. Mr Mugabe had made a good start. It was important to give him every encouragement, and to see the political as well as economic dimension of this issue.

9. M. Galley explained that this issue was not his direct responsibility, but he would pass on the Lord Privy Seal's comments to M. François-Poncet and President Giscard. He appreciated the importance to the UK of rounding off its great success on Zimbabwe. It was also crucial for the whole future of Southern Africa. This point had been made strongly to him by

/Nguza



Nguza Karl-I-Bond, the Prime Minister of Zaire, who was very attentive to the problems of Zimbabwe. M. Paye added that the French position for the Foreign Affairs Council on 15 September had been discussed at a meeting in the French Prime Minister's Office, the previous Thursday. As a result, the French position was now more open. Despite the legal difficulties he thought it would be possible to do something on the basis of a unilateral decision by the Community, but perhaps not as much as the UK was seeking.

Economic Relations Dept

Distribution:

PS/Mr Hurd  
PS/PUS  
Lord Bridges  
Sir L Allinson  
Mr Evans  
Mr Hannay  
Mr Bayne  
Mr Thomas  
Mr Dimond  
Mr MacRae





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MINISTER'S DINNER WITH MR GUNDELACH - 9 SEPTEMBER 1980

Thank you for providing the brief about imports of New Zealand butter in 1980. The issue did not arise specifically during dinner with Mr Gundelach. The Minister noted that Mr Gundelach was due to see the French Prime Minister on 16 September and tacitly accepted that we would not make headway until after that meeting.

In general, there is little to report from the dinner, the talks on fisheries having taken place beforehand. Miss Rabagliati will be circulating a record of those. Besides the Minister and Mr Gundelach, Mr Buchanan-Smith MP, Mr Mason, Mr Laidlaw (DAFS) and I were present at dinner.

Thinking aloud, the Minister said that he would find it difficult to refrain from taking retaliatory action against the French if they continued in their intransigent behaviour. It was intolerable that France should first have defied the European Court, and should now renege on an agreement made to rescue her from a position of illegality. Worse still, she was now reneging on a Council agreement on New Zealand butter imports. Mr Gundelach replied that he agreed that the Community must take some action and that he had been giving thought to what form it might take. It should come from the Community as a whole rather than from the United Kingdom. His purpose in seeing M. Barre was to get him to take a pragmatic attitude towards the solution of outstanding difficulties. M. Barre was inclined that way himself, but there was a faction in France which wanted to bring all the difficulties together to improve the negotiating position against the British. They would link fisheries and New Zealand questions with the budget settlement.

In passing, Mr Gundelach said that the Community was now exporting 500,000 tonnes of butter per year, apart from its sales to Russia. That was some measure of the difficulties that it faced from continuing increases in milk production. On Community trade policy generally, Mr Gundelach said that it was judged by its attitude to small countries like New Zealand. He mentioned that Mr Anthony, the Australian Minister, would be visiting Brussels soon, as would Mr Talboys.

On the negotiations with the Danes over the Pout Box, Mr Gundelach agreed that there was the prospect of a decent agreement but warned that these prospects had too often receded at the last moment in the past. The Danes, he counselled, would be tempted to seek further concessions from the United Kingdom which could wreck the embryonic agreement.



On access, Mr Gundelach thought that it would be easier to limit historic rights to those that were vitally needed by foreign fishermen than to start with the bible of historic rights that such treaties as the London Agreement catalogued. He would be proposing a new TAC at the October Council to provide a new basis on which the division of shares should be based.

*G R Waters*

G R WATERS  
Principal Private Secretary  
10 September 1980

Mr Dixon + 1

cc Miss Rabagliati  
Mr Steel  
Mr Sadowski  
Mrs Brock  
Mr J H V Davies  
Mr Kelsey  
Mr Andrews  
Mr Parkhouse  
Mr Mason  
Mrs Archer  
Mr Edwards  
Mr Laidlaw - DAFS  
Mr Alexander - No 10  
PS/Lord Privy Seal  
PS/SS Scotland  
PS/SS Wales  
PS/SS Northern Ireland  
PS/Cabinet Secretary  
PS/SS Trade  
Mr Pooley - UKREP Brussels  
Mr Dawes

*Envo P.9.*



Foreign and Commonwealth Office  
London SW1A 2AH

4 September 1980

*Dear Michael,*

*Discussed with P.O. Chancellor  
Schmidt has also declined to see  
A. Galley. P.O. Pind 5/9*

COCOA: FRENCH DEMARCHE

As you know, the French Ambassador has written to Sir Michael Palliser requesting that the Prime Minister receive a personal representative of President Giscard, M. Galley, French Minister of Cooperation, to discuss the Community's position in the forthcoming negotiations for a third International Cocoa Agreement.

The French are concerned that the Community will be prevented from playing a constructive part in the negotiations because of differences between the Germans and ourselves, on one side, and the French and Commission on the other. The French interest derives from their close political and economic links with the Ivory Coast, which is a major cocoa producer, as well as concern about the implications for West Africa generally of a sharply declining cocoa price. While the French are no doubt genuine in their desire for a new agreement, they may also wish to lay elsewhere the blame for any breakdown in the negotiations.

These cocoa negotiations are taking on an increasingly political dimension and are spilling over into our bilateral relations not only with the French but also with the cocoa producers. Nevertheless,  
/we

M O'D B Alexander Esq  
10 Downing Street





we doubt whether it would be appropriate for the Prime Minister to see such a junior French Minister on this matter. (We understand that Chancellor Schmidt has not yet replied but that his staff believe that he would find it difficult to accede to a similar request.)

Our view is that Sir Michael Palliser should explain tactfully to the French Ambassador when he sees him next Friday that, because of her many absences from London during this period, the Prime Minister would find it difficult to see M. Galley but has asked the Lord Privy Seal to see him on her behalf. Our Ambassador in Paris sees no difficulty in explaining this to the French. In view of our telephone conversation I will assume, unless I hear from you, that the Prime Minister is content with this.

I am sending copies of this letter to Garth Waters in the MAFF and Stuart Hampson in the DOT.

Yours ever  
Stephen Gomersall

S J Gomersall

GRS 270

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FM BONN 031055Z SEP 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 655 OF 3 SEPTEMBER

INFO PARIS UKREP BRUSSELS

YOUR TELNO 349 TO PARIS

COCOA

1. THIELE, FEDERAL CHANCELLOR'S OFFICE, HAS NOT YET HEARD OF A FRENCH REQUEST FOR SCHMIDT TO RECEIVE M. GALLEY. HE CONSIDERS THAT, EVEN WITHOUT THE PRESSURES OF A FEDERAL CAMPAIGN, SUCH A PROPOSAL WOULD BE REJECTED. IT WAS NOT FOR THE CHANCELLOR TO TALK TO THE FRENCH MINISTER OF COOPERATION.
2. THE FRENCH HAVE, HOWEVER, BEEN ACTIVE IN PROMOTING THE PRODUCERS' CASE IN BONN. WE UNDERSTAND THAT THE HEAD OF THE ELYSEE ASKED SCHUELER, STATE SECRETARY AT THE FEDERAL CHANCELLOR'S OFFICE, TO USE HIS GOOD OFFICES IN BRINGING ABOUT A MEETING EARLY LAST MONTH WHICH ECONOMIC MINISTERS FROM GHANA, NIGERIA, MAURETANIA AND THE IVORY COAST HAD SOUGHT WITH A VERY RELUCTANT GENSCHER. THEY HAD INSISTED ON CALLING ON THE FOREIGN MINISTER INSTEAD OF ERTL, WHOSE FEDERAL MINISTRY OF AGRICULTURE LEADS ON THIS MATTER BECAUSE THEY WISHED TO PUT POLITICAL, RATHER THAN TECHNICAL ARGUMENTS. THE AFRICAN APPROACH WAS FOLLOWED UP BY A LETTER TO GENSCHER FROM CHEYSSON.
3. WE UNDERSTAND FROM THE FEDERAL FOREIGN MINISTRY (SULIMMA) THAT GENSCHER GAVE NO CONCESSION TO THE AFRICANS NOR TO CHEYSSON. THE FEDERAL GOVERNMENT STRONGLY MAINTAIN THE VIEW THAT THERE SHOULD BE NO TRANSFER OF RESOURCES BY MEANS OF EXCESSIVE MINIMUM PRICES. THE FEDERAL MINISTRIES OF THE ECONOMY, FINANCE AND AGRICULTURE ARE SOLIDLY AGAINST A MINIMUM PRICE ABOVE THE MARKET LEVEL AND WE UNDERSTAND FROM THIELE THAT THIS IS ALSO THE POSITION OF THE FEDERAL CHANCELLOR'S OFFICE.
4. SULIMMA ASKED IF THE UK HAD DECIDED TO ACCEPT A MINIMUM PRICE OF 1.05 DOLLARS. THE IVORY COAST AMBASSADOR SAID THIS WAS THE CASE DURING A RECENT CALL ON STATE SECRETARY LAUTENSCHLAGER.

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TO IMMEDIATE FCO

TELEGRAM NUMBER 768 OF 3 SEPTEMBER 1980

INFO ROUTINE UKREP BRUSSELS AND BONN

YOUR TEL NO 349: COCOA

1. ARBUTHNOTT CALLED ON CHESNEAU, DIPLOMATIC ADVISER IN GALLEY'S CABINET, THIS AFTERNOON TO OBTAIN FURTHER INFORMATION ABOUT THE FRENCH AMBASSADOR'S REQUEST. CHESNEAU WAS ACCOMPANIED BY TWO EXPERTS FROM DEPARTMENTS IN THE MINISTRY.

2. CHESNEAU AND HIS COLLEAGUES SAID THAT THE PRESIDENT WAS PERSONALLY WORRIED ABOUT THE LIKELY POLITICAL CONSEQUENCES IF THE ECONOMIC SITUATION OF THE WEST AFRICAN COCOA PRODUCING COUNTRIES DETERIORATED FURTHER. THE PRESIDENT WAS NOT SIMPLY RESPONDING TO PRESSURE FROM HOUPHOUET-BOIGNY OR ANY OF THE OTHER AFRICAN HEADS OF STATE CONCERNED. M. GALLEY HAD BEEN ASKED TO GO TO LONDON SINCE HE WAS CLOSEST TO THE PROBLEM AND TO THE HEADS OF STATE CONCERNED.

3. CHESNEAU SAID THAT GALLEY'S MISSION WAS NOT SO MUCH TO NEGOTIATE ON THE DETAIL AS TO EXPLAIN THE POLITICAL PROBLEMS AS THE FRENCH SAW THEM. THE SMALL WEST AFRICAN COCOA PLANTERS PROVIDED A FACTOR OF STABILITY IN THEIR COUNTRIES. IF THEY ALL WENT BROKE, THERE WOULD BE GRAVE POLITICAL PROBLEMS. THIS APPLIED NOT ONLY IN THE IVORY COAST, BUT ALSO IN GHANA AND EVEN TO A CERTAIN EXTENT IN NIGERIA. SENSIBLE ECONOMIC PLANNING IN THESE COUNTRIES WAS DIFFICULT IF NO ACCURATE FORECAST OF REVENUES FROM PRODUCTS LIKE COCOA COULD BE MADE. A VIOLENT FALL IN COCOA REVENUES SHOULD ALSO BE LOOKED AT AGAINST THE BACKGROUND OF THE RISE IN OIL PRICES. IF THE DEVELOPED COUNTRIES ALLOWED SUCH A VIOLENT FALL TO TAKE PLACE, IT WOULD EITHER COST THEM MORE IN THE END (IN AID) OR THE PRODUCERS WOULD TURN TO OTHERS IE THE COMMUNISTS. GALLEY WOULD BE ARGUING THAT THE PROBLEM COULD ONLY BECOME MORE DIFFICULT IF IT DRAGGED ON. IT WAS ESSENTIAL FOR IT TO BE SOLVED QUICKLY. THIS WOULD BE MORE LIKELY IF THE THREE MOST IMPORTANT COMMUNITY COUNTRIES WERE ALL AGREED ON THE FUNDAMENTAL ISSUES AT STAKE. GALLEY WOULD TRY TO CONVEY FRANCE'S UNDERSTANDING OF THESE. HE WOULD URGE THAT THE MOST IMPORTANT CONSUMER COUNTRIES SHOULD AGREE ON A PRICE AND STICK TO IT.

4. ARBUTHNOTT SAID THAT IT WAS NECESSARY TO LOOK AT THE ECONOMIC AS WELL AS THE POLITICAL REALITIES. THE MAIN ISSUE IN THE COMMUNITY WAS THAT OF PRICE. IF THE PRICE WERE SET TOO HIGH, CONSUMPTION IN DEVELOPED COUNTRIES WOULD FALL, AS WAS ALREADY HAPPENING IN THE UK,

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WITH EQUALLY SERIOUS CONSEQUENCES FOR PRODUCERS' REVENUES. WAS M. GALLEY GOING TO MAKE NEW PRICE PROPOSALS? CHESNEAU SAID THIS WAS NOT THE CASE, BUT M. GALLEY WOULD EXPECT THAT HIS CONVERSATIONS WOULD BE FOLLOWED UP BY DISCUSSIONS ON PRICE. CHESNEAU'S COLLEAGUES THOUGHT THAT A PRICE AROUND 110 C PER LB MIGHT BE THE RIGHT LEVEL. AS FOR THE DIFFICULTIES OF CHOCOLATE MANUFACTURERS IN THE UK, IT SEEMED THAT THEIR COSTS WERE STILL REFLECTING THOSE OF IMPORTS DURING THE FIRST QUARTER OF THE YEAR WHICH WERE AT PRICES CONSIDERABLY HIGHER THAN NOW.

5. THE PROBLEM HAS ALSO BEEN DISCUSSED TODAY WITH KIRSCH, THE PRESIDENT'S ADVISER ON AFRICA, WHO MADE THE SAME POINTS AS CHESNEAU, IN PARTICULAR UNDERLINING THE POLITICAL NATURE OF M. GALLEY'S MISSION. HE CONFIRMED THAT THE PRESIDENT WAS PERSONALLY PRE-OCCUPIED BY THIS QUESTION, AND THAT GALLEY WOULD THEREFORE BE UNDERTAKING A SPECIAL MISSION ON THE PRESIDENT'S BEHALF.

6. THE PRESIDENT'S INTEREST THEREFORE SEEMS REAL ENOUGH, WHICH MAKES THE PROBLEM SLIGHTLY MORE AWKWARD. BUT I WOULD HAVE NO DIFFICULTY IN EXPLAINING A DECISION THAT M. GALLEY WAS GOING TO BE RECEIVED BY THE LORD PRIVY SEAL.

HIBBERT.

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TO IMMEDIATE FCO  
TELEGRAM NUMBER 661 OF 05 SEPTEMBER  
AND TO INFO ROUTINE PARIS UKREP BRUSSELS

OUR TELNO 657  
COCOA

1. THE FRENCH AMBASSADOR HAS BEEN INFORMED THAT THE FEDERAL CHANCELLOR CANNOT RECEIVE M. GALLEY. ERTL, FEDERAL MINISTER OF AGRICULTURE WHO LEADS ON THIS MATTER, IS, HOWEVER, READY TO SEE HIM. WE UNDERSTAND THAT THIS DECISION WAS TAKEN AGAINST THE STRONG ADVICE OF THE FEDERAL FOREIGN MINISTRY.

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Assumed with the PA PA.  
would prefer not to see M Galley. In  
any case her programme is already  
fully full. FCO informed.

*[Handwritten signature]*

Tg 0729

NOTE FOR THE RECORD

COCOA: PROPOSED VISIT OF FRENCH MINISTER OF CO-OPERATION

1. The French Ambassador telephoned me this morning (having I believe first tried to contact Sir M Palliser.) He said that President Giscard was concerned about the impending negotiations on cocoa and wished to send M Robert Galley, the French Minister for Co-operation, to London and Bonn before the 15/16 September Foreign Affairs Council with the aim of meeting the Prime Minister and Chancellor Schmidt in order to draw their attention to the political importance of the cocoa producers and the need to agree on a satisfactory price level. He sought advice on the best means of proceeding.
2. I said that his normal channel to the Foreign and Commonwealth Office was likely to be the most expeditious, and that he could be sure that any letter or approach to Sir M Palliser's office would receive immediate treatment. I could not of course say whether it would in the event be possible for the Prime Minister to receive M Galley. M Sauvagnargue agreed to follow this course.
3. I subsequently telephoned Mr Thomas (ECD(E)), Mr Wilson (ERD), Miss Waghorn (APS/Sir M Palliser) and Mr Parkhouse (MAFF) to warn them of this approach.

*[Handwritten signature]*

D M ELLIOTT

2 September 1980

CABINET OFFICE SW1

cc Mr Alexander No. 10  
PS/Foreign and Commonwealth Secretary  
PS/Lord Privy Seal  
APS/Sir M Palliser  
Mr Hannay  
Mr Wilson (ERD)  
Mr Thomas (ECD(E))  
Mr Parkhouse MAFF  
Mr Brecknell CRE1 DoT  
Mr Wright Cabinet Office

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10 DOWNING STREET

THE PRIME MINISTER

4 August 1980

*Dear John.*

Thank you for your letter of 30 July.

I would view with very real concern any possibility that the House of Lords should delay the Orders concerning the administration of farm capital grants.

These sensible proposals arose from the examination of the administration of capital grants by Sir Derek Rayner and his report shows quite clearly that unnecessary administration could be reduced and the causes of both farming and conservation enhanced.

I know that Peter Walker has taken a great deal of trouble in consultation and talks have taken place with the organisations concerned over the past three to four months. The Government's final conclusions have been affected by those consultations and I gather from the minute I have received of the meeting that you had with Peter Walker that you agreed these were a substantial improvement.

To delay staff savings of 400 staff for more than three months when proper consultations have already taken place would, in my view, show a lack of regard for saving public expenditure that would be intolerable.

I trust you will do all in your power to see that the Orders are agreed to this week.

*Yours ever*  
*Raymond*

The Reverend and Rt. Hon. Lord Sandford, D.S.C.

*Envo PAR*  
*c MAPP*  
*LPO*

*JS*



URGENT



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

From the Minister's  
Private Office

Nick Sanders Esq  
Private Secretary  
10 Downing Street  
London SW1

*dealt with - PA*

*MS 4/8*

4 August 1980

*Dear Nick,*

Thank you for sending a copy of the letter received from Lord Sandford. My Minister feels it is vital that you reply to this letter today because it is Lord Sandford who is trying to organise the opposition to these important measures.

--- I attach a draft of a letter which perhaps the Prime Minister could send with a copy to ourselves and Lord Soames.

*G R Waters*

G R WATERS  
Principal Private  
Secretary

DRAFT LETTER TO LORD SANDFORD FOR THE PRIME MINISTER'S SIGNATURE

The Rev and Rt Hon Lord Sandford DSC  
House of Lords  
Westminster

Thank you for your letter of 30 July.

I would view with very real concern any possibility that the House of Lords should delay the Orders concerning the administration of farm capital grants.

The sensible proposals arose from the examination of the administration of capital grants by Sir Derek Rayner and his report show quite clearly that unnecessary administration could be reduced and the causes of both farming and conservation enhanced.

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To delay staff savings of 400 staff for more than three months when proper consultations have already taken place would, in



my view, show a lack of regard for saving public expenditure that would be intolerable.

I trust you will do all in your power to see that the Orders are agreed to this week.



10 DOWNING STREET

PM.

The French are being even  
more impossible than usual -  
this time about N.Z. butter.

I hope the problem will be  
sorted out shortly before your  
visit to Paris in September.  
But it may not be.

---

And

pm.

1.8.80.



RR ROME

RR DUBLIN

RR BONN

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ADVANCE COPY

(13x)

Mr. ECD (1)(2),

Mr. Faulkner, ECD (1),

Mr. Walsh, Cabinet Office,

Mr. VINALL, DOT,

Ps/min

Ps/lb

Mr Davies

Mr Andrews

MAFF

Mr. Archer

Mr. J. Dixon

Mr. Roberts, H.M. Treasury,

Mr. Alexander, No. 10, Downing St

CONFIDENTIAL

FRAME AGRICULTURE

FRAME EXTERNAL

DESKBY 011500Z

FM UKREP BRUSSELS 011145Z AUG 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 3743 OF 1 AUGUST

INFO PRIORITY PARIS LUXEMBOURG WELLINGTON ROUTINE COPENHAGEN

THE HAGUE ROME DUBLIN BONN

NEW ZEALAND 1980 BUTTER

1. I INFORMED MR WALKER'S PRIVATE OFFICE (HEATHORN) THIS MORNING OF THE PROCEDURAL AND SUBSTANTIAL OBJECTIONS MAINTAINED BY FRENCH OFFICIALS IN THEIR CONTACTS WITH THE LUXEMBOURGERS (HARPES). THESE REPRESENT AN ELABORATION UPON THEIR PREVIOUS REASONING, AND ALTHOUGH THEY DO NOT CONVINCED THEY ILLUSTRATE FRENCH DETERMINATION TO HANG ON UNTIL SEPTEMBER. I GATHER MR WALKER WILL NOT PRESS THE (HOPELESS) CASE FOR AN AUGUST COUNCIL, BUT WILL WRITE NEXT WEEK TO MEY ABOUT THE CONSEQUENCES, INCLUDING THOSE FOR SEPTEMBER'S MEETING SCHEDULE. HARPES IS WARNING NATIONAL REPRESENTATIONS THAT AN SCA IS LIKELY ON 2 SEPTEMBER, AND THAT (DEPENDENT ON OUTCOME) A COUNCIL MAY BE REQUIRED ON 8 OR 15 SEPTEMBER.

2. NEW ZEALAND MISSION (BENNETT) EXPRESS THEMSELVES AS BAFFLED AND DISTURBED BY ALL THIS: AND ARE APPRECIATIVE OF MR WALKER'S EFFORTS. IMPLICATIONS OF THE POSSIBLE CHANGE OF TIMETABLE FOR MUTTON NEED CONSIDERATION. OBVIOUSLY IT WOULD BE HELPFUL TO HAVE AN EARLY SCA AND COUNCIL DISCUSS MUTTON TOO, BUT A COUNCIL DEVOTED LARGELY TO NEW ZEALAND ISSUES, CALLED TOGETHER AT COST OF INCONVENIENCE TO MINISTERS, MIGHT NOT BE DESIREABLE. GRATEFUL FOR INSTRUCTIONS WHICH WAY I SHOULD PRESS.

3. WE HAVE REPORTS THAT GUNDELACH'S LAST ACTION BEFORE GOING ON LEAVE WAS TO LOOSE OFF A FURIOUS TELEPRINT TO MEHAIGNARIE ACCUSING HIM OF UNBECOMING CONDUCT ON THIS ISSUE, ON MUTTON IMPORT BARRIERS, AND ON STATE AIDS (ESPECIALLY COMPENSATION FOR DELAYED PRICE SETTLEMENT).



10 DOWNING STREET

*From the Private Secretary*

31 July 1980

I attach a copy of a letter the Prime Minister has received from Lord Sandford about the Capital Grants Orders. This matter was mentioned in Cabinet this morning.

I should be grateful if you could let me have a draft reply for the Prime Minister to send to Lord Sandford, to reach us here by the end of next week (Friday 8 August).

I am copying this letter and its enclosure to David Edmonds (Department of the Environment), and Michael Pownall (Government Whips' Office, House of Lords).

N. J. SANDERS

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

ds



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FRAME AGRICULTURE

.....XEROX COPIES

FCO

P.S.  
PS/LORD PRIVY SEAL

MR BULLARD  
MR HANNAM  
LORD BRIDGES

**IMMEDIATE**

RESIDENT CLERK

HD/EID/(1)(4)  
HD/NEWS  
HD/PS/ED  
HD/..SPD  
HD/.....  
HD/.....

PLUS FCO

*G. Faulkner, ECDC*

CABINET OFFICE

MR M D M FRANKLIN  
MR D M ELLIOTT  
MR N.C.R. WILLIAMS

D.O.T.

PLUS OGDS

*G. Alexander, No 10.*

H.M. TREASURY

SIR K COUZENS  
MR ASHFORD

PS/Min  
PS/PS M.A.F.F.  
Sir MR B D HAYES

RESTRICTED

FM PARIS 311633Z JUL 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 657 OF 31 JULY 1980

INFO IMMEDIATE UKREP BRUSSELS AND LUXEMBOURG

INFO ROUTINE BONN BRUSSELS COPENHAGEN DUBLIN ROME THE HAGUE

YOUR TELNO 94 TO LUXEMBOURG: NEW ZEALAND BUTTER

1. WE TOLD MEHAIGNERIE'S CABINET ON 30 JULY THAT MR WALKER HAD WRITTEN TO THE PRESIDENCY. BUT SINCE THE MEMBER OF THE CABINET TO WHOM WE SPOKE WAS UNBRIEFED ON THE PROBLEM, WE ASKED MURET-LABARTHE (THE MOST SENIOR MINISTRY OF AGRICULTURE OFFICIAL ON THE COMMUNITY SIDE) IF HE COULD TELL US ABOUT THE FRENCH POSITION.

2. MURET-LABARTHE ADMITTED THAT THERE MIGHT BE A DISCREPANCY BETWEEN FRANCE'S PRESENT BLOCKING ACTION AND WHAT HAD APPARENTLY BEEN AGREED AT THE COUNCIL. NEVERTHELESS HE CLAIMED THERE WAS A LARGE GAP BETWEEN THE TRADE CONDITIONS WORKED OUT AT THE MEETING

OF JURISTS/LINGUISTS AND M. MEHAIGNERIE'S DECLARED POSITION AT THE COUNCIL, PARTICULARLY ON THE RATE OF LEVY TO WHICH HE COULD AGREE (51¢ ECUS PER TONNE). FRENCH OFFICIALS COULD NOT ALLOW SUCH IMPORTANT ARRANGEMENTS TO BE FINALISED WITHOUT A MORE PROFOUND DISCUSSION. IT MIGHT WELL BE THAT IN THE END MEHAIGNERIE WOULD FALL IN LINE WITH GUNDELACH'S REQUIREMENTS. BUT, HE SAID, THERE WAS NO HURRY AND THE COMMUNITY DISCUSSION COULD BE CONTINUED IN EARLY SEPTEMBER.

3. COMMENT. IT SEEMS PROBABLE FROM MURET-LABARTHE'S REMARKS THAT HE HIMSELF WAS THE INSTIGATOR OF THE LATEST FRENCH ACTION. THIS WOULD BE IN CHARACTER. HE HAS NEVER TRIED TO HIDE HIS PERSONAL OPPOSITION TO SPECIAL ARRANGEMENTS FOR NEW ZEALAND. HE POSSIBLY DID IT WITHOUT THE AUTHORITY OF M. MEHAIGNERIE WHO HAS BEEN ABSENT ON AN OFFICIAL VISIT TO CANADA FOR THE PAST FEW DAYS BUT IS DUE BACK LATE TODAY BEFORE GOING ON HOLIDAY ON THE EVENING OF 1 AUGUST.

HIBBERT

NNNN

SENT/E RECD AT 311720Z CDC/HD





10 DOWNING STREET

PRIME MINISTER

Peter Walker mentioned in Cabinet this morning the possible difficulty over the Capital Grants Orders. Here is a letter from Lord Sandford on this subject. We will let you have a draft reply.

Ms

31 July 1980

31 July 1980

I am writing on behalf of the Prime Minister to thank you for your letter of 30 July which I will place before her at once. You will be sent a reply as soon as possible.

N J SANDERS

The Rev. and Rt. Hon. Lord Sandford, D.S.C.

Rd



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GRS 230

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[FRAME EXTERNAL  
FRAME AGRICULTURE]

DESKBY 301130Z

FM FCO 301005Z JULY

TO IMMEDIATE LUXEMBOURG

TELEGRAM NUMBER 94 OF 30 JULY 1980

AND TO IMMEDIATE UKREP BRUSSELS COPENHAGEN THE HAGUE BONN

PARIS ROME DUBLIN BRUSSELS

INFO PRIORITY WELLINGTON

TELECONS HARRISON/KINCHEN AND HARRISON/MOORE

NEW ZEALAND BUTTER

1. A LETTER FROM THE FRENCH PERMANENT REPRESENTATION (COPY BY BAG) WAS CIRCULATED IN BRUSSELS ON 29 JULY CLAIMING A FRENCH RESERVE ON THE DECISION TAKEN AT THE AGRICULTURE COUNCIL LAST WEEK ON NEW ZEALAND BUTTER ACCESS FOR 1980 (YOUR TELNO 232).
2. THE MINISTER OF AGRICULTURE WISHES TO SEND A MESSAGE (TEXT IN MIFT) TO M NEY IN HIS CAPACITY AS PRESIDENT OF THE AGRICULTURE COUNCIL. GRATEFUL IF YOU WOULD TRANSMIT THIS AS SOON AS POSSIBLE.
3. UKREP BRUSSELS SHOULD DELIVER A COPY OF MR WALKER'S MESSAGE TO GUNDELACH AND INFORM DONDELINGER OF ITS CONTENTS.
4. BONN SHOULD SIMILARLY INFORM THE FRG AUTHORITIES AS THE OTHER PRINCIPAL ADVOCATES OF NEW ZEALAND IN THE COMMUNITY AND ENCOURAGE THEM TO TAKE PARALLEL ACTION IF POSSIBLE WITH THE FRENCH AS WELL AS WITH THE PRESIDENCY. OTHER EC POSTS MAY ALSO, AT THEIR DISCRETION, APPROACH THE GOVERNMENTS TO WHICH THEY ARE ACCREDITED TO INFORM THEM OF THE ACTION WE ARE TAKING.

CARRINGTON

NNNN

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CONFIDENTIAL

[FRAME AGRICULTURE]

DESKBY 301130Z

FM FCO 300950Z JUL 80

TO IMMEDIATE LUXEMBOURG

TELEGRAM NUMBER 95 OF 30 JULY

AND TO IMMEDIATE UKREP BRUSSELS

INFO IMMEDIATE COPENHAGEN, THE HAGUE, BONN, PARIS, ROME,

DUBLIN, BRUSSELS PRIORITY WELLINGTON

MIPT FOLLOWING IS TEXT OF MR WALKER'S MESSAGE:

COUNCIL DECISION ON 1980 ARRANGEMENTS FOR NEW ZEALAND BUTTER

1. I UNDERSTAND THAT THE FRENCH DEPUTY PERMANENT REPRESENTATIVE HAS WRITTEN TO THE SECRETARY GENERAL OF THE COUNCIL SAYING THAT HIS GOVERNMENT'S AGREEMENT TO THE 1980 ARRANGEMENTS ON NEW ZEALAND BUTTER WHICH WE AGREED AT THE COUNCIL ON 22 JULY WAS SUBJECT TO THE LEVY NOT BEING REDUCED BELOW 510 ECUS PER TONNE.
2. I AM SURE THAT WHEN YOU SUMMED UP OUR AGREEMENT YOU CLEARLY SAID THAT THE HIGHER PRICE FOR NEW ZEALAND WAS ACCEPTED IN RETURN FOR THE LOWER QUANTITY. YOU NATURALLY DID NOT MENTION THE SIZE OF THE LEVY. THE FRENCH MINISTER WANTED A REFERENCE IN THE MINUTES TO THE 1980 ARRANGEMENTS NOT BEING A PRECEDENT FOR FUTURE ARRANGEMENTS WITH NEW ZEALAND, BUT THAT WAS THE ONLY FRENCH RESERVATION. IT MUST, IN ANY CASE, HAVE BEEN CLEAR TO ALL THAT WITH THE CIF PRICE AT 75 OF THE INTERVENTION LEVEL, THE LEVY WOULD HAVE TO BE MUCH LOWER THAN 510 ECU PER TONNE.
3. THERE IS NO DOUBT THAT THE FRENCH MINISTER ACCEPTED THE PROPOSAL PUT BEFORE THE COUNCIL AND YOUR SUMMING UP WITHOUT RESERVATION AND INDEED WITHOUT ANY REFERENCE TO THE SIZE OF THE LEVY. THE FRENCH GOVERNMENT HAVE NO POSSIBLE RIGHT TO RESERVE THEIR POSITION NOW. IT WOULD CLEARLY PUT THE NEW ZEALANDERS IN AN INTOLERABLE POSITION IF THEY HAD TO WAIT UNTIL THE SEPTEMBER COUNCIL MEETING FOR THE ISSUE TO BE RESOLVED. IT WOULD BE VERY DIFFICULT INDEED AND MOST INCONVENIENT TO ALL CONCERNED TO ASK YOU TO ARRANGE ANOTHER COUNCIL MEETING NOW BUT THIS MAY

1

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CONFIDENTIAL

37466 - 2

BE THE ONLY COURSE AVAILABLE TO ME. I MUST THEREFORE APPEAL TO YOU TO EXERCISE THE RIGHTS OF THE PRESIDENCY TO MAINTAIN THE DECISION ENSHRINED IN YOUR SUMMING UP AND UNANIMOUSLY ACCEPTED BY THE COUNCIL. I HOPE YOU WILL FEEL ABLE TO EXERT THE STRONGEST PRESSURE ON THE FRENCH GOVERNMENT TO LIFT ITS RESERVE AT ONCE.

4. I AM SENDING A COPY OF THIS LETTER TO VICE PRESIDENT GUNDELACH.

CARRINGTON

NNNN

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FRAME AGRICULTURE

ECD(E)





House of Lords · Westminster

30 July 1980

The Rt. Hon. Mrs. Margaret Thatcher, MP  
The Prime Minister,  
10 Downing Street,  
London, S.W.1.

Dear Margaret -

Many congratulations on your triumph in the Commons yesterday. It is sad that the Government should suffer defeats in the Lords.

The last important defeat in the Lords concerned the right of the elderly to buy their Council house. I believe I was the only Tory peer to speak in support of the Government. More support might well have been articulated if my advice to issue notes on clauses to back benchers had been taken. I am glad to know that it will be heeded when we take on the Local Government Bill.

I fear there is another hazard close ahead - an Order concerning the administration of farm capital grants. Peter Walker is very properly seeking staff economies, but his Ministry has set about it the wrong way. Since March I have been warning of trouble ahead. This advice had not been heeded when the Orders were laid. But it was last week when DoE and MAFF Ministers at last met and an improved package may now emerge, but I have not yet seen it.

I have told Peter Walker and Christopher Soames that I doubt very much whether the Lords will agree to approve such a last-minute change before we rise. I hope very much the risk of a further defeat will be avoided by re-laying the Orders in October.

Yours sincerely,  
John.

The Rev. and Rt.Hon. Lord Sandford, DSC





10 DOWNING STREET

cc HMT  
LPO  
LPS  
PLAFF  
DIT  
Att Gen  
CO

HS  
Euro pd

*From the Private Secretary*

28 July 1980

New Zealand Sheepmeat

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute to her of 25 July on this subject. She has agreed the text of the message from her to Mr. Muldoon enclosed with the Foreign and Commonwealth Secretary's minute. I will forward the signed text to you shortly but you may, in the meantime, wish to arrange for the text to be sent to Wellington by telegram for delivery by the High Commissioner.

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

M. O'D. B. ALEXANDER

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

SUBJECT



cc FCO  
HMT  
LPO  
LPSO  
MAFF  
TRADE  
LAD  
CO

HS

10 DOWNING STREET

THE PRIME MINISTER

25 July 1980

PRIME MINISTER'S  
PERSONAL MESSAGE  
SERIAL No. T151<sup>A</sup>/80

Dear Rob

Thank you very much for your message bringing me up-to-date on the outcome of your talks with Commissioner Gundelach. I must say I greatly admire what you have already been able to secure for New Zealand. The language on export restitutions is explicit and particularly helpful. You have managed to achieve something quite unprecedented in negotiations with the Community on agricultural trade.

No doubt you will have heard that at the Agriculture Council on 22 July France and Ireland opposed the package which the Commission were prepared to recommend.

There will be further discussion in the Special Committee for Agriculture, possibly next week. We shall, of course, continue to take the line which Peter Walker took at the Council, arguing that your demand for an 8% tariff is reasonable and that in no circumstances would an agreement be acceptable to the UK unless it was acceptable to New Zealand. But at the

/ Council

272



Council we had no support whatever for a reduction below 10%. The Commission will doubtless put their package, including a 10% tariff, to you again if the French and Irish can finally be persuaded to drop their objections. I do hope we can all secure a satisfactory agreement soon.

SIGNED

MT

The Rt. Hon. R.D. Muldoon, C.H., M.P.

Emo PD  
jfh

30 July 1980

New Zealand Sheepmeat

Further to my letter to you of  
28 July on this subject, I enclose the  
signed text of the Prime Minister's  
letter to Mr. Muldoon.

MA

Paul Lever, Esq.,  
Foreign and Commonwealth Office.

NM

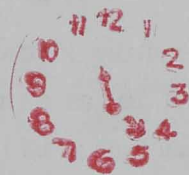


*Em PD.**NRPA**Phms*FCS/80/126MINISTER FOR AGRICULTURE, FISHERIES AND FOODNew Zealand Butter

1. Thank you for your letter of 11 July in which you proposed that there should be a scrutiny debate on the Commission's proposals before the summer recess. I understand that this has now been fixed for 9.30 am on Friday, 25 July.
  
2. We now know that the New Zealanders are prepared to agree to the arrangements proposed by the Commission without substantial modification. I understand that if a critical note is to be sounded at all during the debate in the House it is likely to come from members reflecting the UK producers' view that, if anything, the arrangements are too generous. I agree therefore that Alick Buchanan Smith should both open and wind up the debate, arguing that more restrictive terms would be economically damaging and unacceptable to New Zealand.
  
3. I am sending copies of this minute to the Prime Minister, to the other members of OD(E) and of the Legislation Committee, to the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robert Armstrong.

*P*  
*✓*  
*✓*  
(CARRINGTON)Foreign and Commonwealth Office  
25 July 1980

25 JUL 1980







PM/80/61

PRIME MINISTERNew Zealand Sheepmeat

Prime Minister (1)  
 Would you be unlikely with  
 something on these lines?  
 Yes me [unclear]

1. When Peter Walker and I minuted at the end of last week you commented that the UK should accept nothing that would not be acceptable to New Zealand. At the Agriculture Council on 22 July Peter Walker argued strongly for the 8% tariff which Mr Muldoon says he needs. He received no support, though all Member States except France and Ireland were prepared to accept the terms negotiated by Gundelach in Wellington, subject only to insisting on a 10% tariff rate.

2. It is not yet clear whether the French will be ready to continue to block the Commission proposal (and I was struck by Peter Walker's pessimism on this point in Cabinet on 24 July) but if the French do after all give way I am sure that it would then be in our interest (and that of New Zealand) for the Commission to go back to the New Zealanders with a formal offer to conclude an agreement on the terms proposed by Gundelach. We should, of course, protect the New Zealand position by emphasising that we cannot agree to anything unacceptable to the New Zealanders. But I think it would be wrong to deny them the opportunity to weigh the balance of advantage and decide whether or not to settle quickly on the basis of the Community's offer. If you agree I recommend you should reply to Mr Muldoon along these lines. / I attach a draft which Peter Walker has seen and agreed.

3. I am sending a copy of this minute to other Members of OD(E) and to Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office

25 July 1980

**DRAFT:** minute/letter/teleletter/despach/note

**TYPE:** Draft/Final 1+

**FROM:**  
PRIME MINISTER

Reference

**DEPARTMENT:** **TEL. NO:**

**SECURITY CLASSIFICATION**

**TO:**

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

The Rt Hon R D Muldoon  
Prime Minister of New Zealand

**Copies to:**

**PRIVACY MARKING**

**SUBJECT:**

.....In Confidence

**CAVEAT**.....

Thank you very much for your message bringing me up to date on the outcome of your talks with Commissioner Gundelach. I must say I greatly admire what you have already been able to secure for New Zealand. The language on export restitutions is explicit and particularly helpful. You have managed to achieve something quite unprecedented in negotiations with the Community on agricultural trade.

No doubt you will have heard that at the Agriculture Council on 22 July France and Ireland opposed the package which the Commission were prepared to recommend.

There will be further discussion in the Special Committee for Agriculture, possibly next week. We shall, of course, continue to take the line which Peter Walker took at the Council, arguing that your demand for an 8% tariff is reasonable and that in no circumstances would an agreement be acceptable to the UK unless it was acceptable to New Zealand. But at the Council we had no support whatever for a reduction below 10%. The Commission will doubtless put their package, including a 10% tariff, to you again if the French and Irish can finally be persuaded to drop their objections. I do hope we can all secure a satisfactory agreement soon.

**Enclosures—flag(s)**.....



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25 JUL 1980



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FRAME AGRICULTURE

FRAME EXTERNAL

DESKBY 230800Z

FM LUXEMBOURG 221900Z JUL 80

TO IMMEDIATE FCO

TELEGRAM NUMBER 231 OF 22 JULY

INFO IMMEDIATE UKREP BRUSSELS PARIS WELLINGTON PRIORITY CANBERRA

INFO SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN BONN

FOLLOWING FROM UKREP BRUSSELS

COUNCIL OF MINISTERS (AGRICULTURE) 22 JULY 1980

SHEEPMEAT

SUMMARY

1. GUNDELACH PRESENTED HIS REPORT IN TERMS OF AN AGREEMENT ALREADY CONCLUDED BUT WITH A FOOTNOTE ON THE TARIFF LEVEL. THE UK ALONE ARGUED FOR 8 PER CENT. THE COMMISSION COULD NOT RECOMMEND A FIGURE BELOW 10 PER CENT. FRANCE ALONE MAINTAINED SUBSTANTIAL RESERVES, INCLUDING 15 PER CENT TARIFF. THE UK DEMONSTRATED THAT FRANCE COULD AFFORD DELAY BY CONTINUING ILLEGAL PRODUCER PROTECTION. REPEATED CHALLENGES TO FRANCE TO STOP DELAYING OR LIFT ILLEGAL BARRIERS WENT UNANSWERED, BUT THE TACTIC GREATLY REDUCED CREDIBILITY OF THEIR ARGUMENTS FOR DELAY, AND THE OUTCOME REDUCED THEIR CAPACITY TO IMPOSE IT. FRANCE OFFERED NO CHALLENGE TO A CHAIRMAN'S SUMMARY THAT 1 OCTOBER SHOULD BE THE DATE ON WHICH THE REGIME SHOULD BE IMPLEMENTED, COUNCIL TAKING NOTE THAT THE COMMISSION RECOMMENDED THE DATE AND EXPRESSED TOTAL CONFIDENCE THAT THEY COULD BY THEN COMPLETE VRA NEGOTIATIONS.

2. TERMS OF NEW ZEALAND AGREEMENT ARE TO BE EXAMINED URGENTLY BY THE SPECIAL COMMITTEE, REPORTING TO THE COUNCIL ON 29 SEPTEMBER. IF FRANCE HOLD OUT, THEY SHOULD BE ISOLATED. BEST OUTCOME IS COMMISSION MANDATE TO CONFIRME TERMS OF AGREEMENT TO NEW ZEALAND BUT WITH 10 PER CENT TARIFF. THEN UP TO NEW ZEALAND WHETHER TO ACCEPT.

DETAIL

3. COMMISSION(GUNDELACH) OUTLINED THE AGREEMENT REACHED WITH NEW ZEALAND. HE WAS "TOTALLY CONVINCED" THAT IT WAS WITHIN THE COUNCIL MANDATE ON VRAS. HE DESCRIBED THE DETAILS. ALTHOUGH MR MULDOON HAD STUCK AT AN 8 PER CENT DUTY AND GUNDELACH AT 10 PER CENT, GUNDELACH DID NOT THINK THIS WOULD BE A BREAKING POINT FOR NEW ZEALAND. AFTER YESTERDAY'S DISCUSSION IN THE 113 GROUP HE HAD TOLD NEW ZEALAND THAT AGREEMENT BELOW 10 PER CENT WAS IMPOSSIBLE.

RESTRICTED

/ THE TEXT



THE TEXT ON EXPORT REFUNDS FULLY ACCORDED WITH THE MAY COUNCIL DECISION.

4. GUNDELACH SPOKE ELOQUENTLY ABOUT THE POLITICAL SIGNIFICANCE OF NEW ZEALAND TO THE COMMUNITY, THE STRATEGIC IMPORTANCE OF MAINTAINING "THE PRESENCE OF WESTERN EUROPE IN THE SOUTH PACIFIC" AND THE VERY REAL CONCESSIONS SHE HAD MADE IN THESE NEGOTIATIONS.

5. THE AGREEMENT WAS WARMLY WELCOMED BY ITALY, GERMANY, DENMARK AND THE BENELUX. IRELAND (MCSHARRY) CALLED FOR EXPERT CONSIDERATION AND NETHERLANDS (BRAKS) HAD SOME HESITATION ON THE PROPOSED LEVEL OF DUTY. BUT, PREDICTABLY, THE MAJOR OBJECTIONS CAME FROM FRANCE (MEHAIGNERIE) WHO CALLED FOR A TOTALLY UNREALISTIC DUTY OF 15 PER CENT, OBJECTED TO THE FORMULATION ON EXPORT REFUNDS AND WANTED MORE DETAIL ON MEASURES TO PREVENT SWITCHING FROM FROZEN TO CHILLED, AND ON HOW IMPORTS OF NEW ZEALAND LAMB IN FRANCE AND IRELAND WOULD BE RESTRICTED. THEY ALSO REPEATEDLY EMPHASISED THAT THERE COULD BE NO IMPLEMENTATION OF THE INTERNAL REGIME UNTIL SATISFACTORY VRAS WERE CONCLUDED WITH ALL SUPPLIERS.

6. MR WALKER (UK) SAID THAT NO AGREEMENT WAS ACCEPTABLE TO UK UNLESS IT WAS ACCEPTABLE TO NEW ZEALAND. HE CONGRATULATED GUNDELACH ON A VERY SUCCESSFUL NEGOTIATION BUT ARGUED STRONGLY FOR AN 8 PER CENT DUTY. NEW ZEALAND HAD NO OTHER STABLE MARKETS FOR ITS LAMB EXPORTS BUT WOULD IN FUTURE BE UNABLE TO INCREASE ITS SENDINGS TO THE COMMUNITY. SHE ALSO FACED THE PROSPECT OF LOWER PRICES IN THE COMMUNITY WHEN THE SHEEPMEAT REGIME WAS IN OPERATION, AND HEAVILY BUREAUCRATIC PROCEDURES. SUCH A COUNTERPART CONCESSION WAS IN THESE CIRCUMSTANCES VERY FULLY JUSTIFIED.

7. HE THEN VIGOROUSLY EXPOSED THE CREDIBILITY OF THE FRENCH OBJECTIONS TO THE AGREEMENT, WHICH GAVE THEM A VETO OVER THE INTRODUCTION OF A REGIME WHICH IT APPEARED THEY NOW SAW AS LESS FAVOURABLE TO THEM THAN THEIR EXISTING ILLEGAL CONTROLS; WHILST THEY MAINTAINED THESE THEIR PRODUCERS WERE SHIELDED FROM THE UNCERTAINTY FACED BY ALL OTHERS ABOUT WHETHER THE NEW REGIME WOULD BE IN OPERATION IN TIME FOR THE AUTUMN LAMB SALES. REPEATED CHALLENGES TO MEHAIGNERIE TO DEMONSTRATE THE GENUINENESS OF HIS OBJECTIONS TO THE NEW ZEALAND AGREEMENT BY DISMANTLING HIS ILLEGAL CONTROLS, AND PUTTING HIS OWN PRODUCERS ON A PAR WITH OTHERS, WHILE HE CONSIDERED IT FURTHER ELICITED NO RESPONSE.

8. MR WALKER'S SUGGESTION THAT THE COUNCIL SHOULD NOW AGREE FIRMLY AND FINALLY ON 1 OCTOBER AS THE STARTING DATE FOR THE NEW REGIME, THOUGH PICKED UP AND DEVELOPED VIGOROUSLY BY GUNDELACH, WAS INADEQUATELY PRESSED BY THE CHAIR (NEY). THERE WAS VERY USEFUL SUPPORT FROM ITALY AND DENMARK; GERMANY (ROHR) QUIBBLED UNHELPFULLY. MR WALKER STRESSED THAT IT WAS INTOLERABLE THAT THE UK



RESTRICTED

PRODUCERS SHOULD FACE CONTINUING AND VERY DAMAGING UNCERTAINTY ABOUT THE START OF THE REGIME WHEN FRENCH PRODUCERS WERE SHIELDED FROM ALL UNCERTAINTY THROUGH ILLEGAL CONTROLS. GUNDELACH AFFIRMED IN UNEQUIVOCAL TERMS THAT THERE WAS NO DIFFICULTY ENVISAGED IN COMPLETING AGREEMENT ON VRAS IN SEPTEMBER, THUS ENABLING INTERNAL AND EXTERNAL REGIMES TO BE IMPLEMENTED TOGETHER AS ENVISAGED IN THE DRAFT REGULATION.

9. SUMMING UP, THE CHAIR (NEY) SAID THAT THE SCA WOULD CONSIDER URGENTLY THE DETAIL OF THE AGREEMENT WHILE THE COMMISSION COMPLETED ITS OUTSTANDING VRA NEGOTIATIONS AS QUICKLY AS POSSIBLE IN THE EXPECTATION OF AGREEMENT BY COUNCIL ON 29 SEPTEMBER ON ALL INTERNAL AND EXTERNAL ASPECTS OF THE REGIME AND ITS ENTRY INTO FORCE ON 1 OCTOBER. NO CHALLENGE FROM FRANCE.

10. DECISION ON WHETHER SCA WILL MEET NEXT WEEK TO BE TAKEN ON FRIDAY, FOLLOWING BILATERAL CONTACTS. COMMISSION HOPEFUL OF CONCESSIONS BY FRANCE BEFORE THEN.

FCO ADVANCE TO:

FCO - PS/SOFS, PS/LPS, PS/PUS, HANNAY FITZHERBERT SPRECKLEY  
FAULKNER BUDD

CAB - FRANKLIN WALSH

DOT - VINALL

MAFF - PS/MIN, PS/PS DAVIES ANDREWS MRS PICKERING G WILSON EDWARDS  
MISS S BROWN HADLEY

TSY - ROBERTS

DAFS - GRAMOND

DANI - JACK

WOAD (CARDIFF) - J I DAVIES

WOAD (ABERYSTWYTH) - RICHARDS

FCO PASS SAVING BRUSSELS COPENHAGEN THE HAGUE ROME DUBLIN BONN

HARRISON

[ADVANCED AND REPEATED AS REQUESTED]

FRAME AGRICULTURE  
FRAME EXTERNAL

ECD (E)



Europa

NOTE FOR THE RECORD

New Zealand Sheepmeat

The Minister for Agriculture rang me from Luxembourg this morning to describe the present state of play in the discussions on the Sheepmeat Agreement negotiated between Mr. Gundelach and the New Zealand Prime Minister, Mr. Muldoon. Mr. Walker told me that Mr. Gundelach had spoken on the telephone to Mr. Muldoon and that Mr. Muldoon had indicated that if the Council were not prepared to modify the Community's position, New Zealand would go along with it under protest. Mr. Gundelach intended to report accordingly to the Council.

Mr. Walker said that this put him in a difficult position since HMG would no doubt be accused by the New Zealand Government of having failed to defend New Zealand's interests. He had therefore seen the New Zealand Ambassador and had told him that he (Mr. Walker) intended to argue in favour of an 8 per cent tariff and to say that HMG would only go along with a 10 per cent tariff if the New Zealand Government were prepared to accept it. The New Zealand Ambassador, according to Mr. Walker, regarded this position as entirely reasonable.

I reported accordingly to the Prime Minister. The Prime Minister agreed that Mr. Walker should act as he proposed. I have relayed this message to Mr. Waters.

*Paul*

22 July 1980



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

*MB.* *Prime Minister* (2)  
*L.S.* *Prime Minister* 22/7  
*Prime Minister* - 24/7

PRIME MINISTER

SHEEPMEAT

I have seen Mr Muldoon's latest message to you about the outcome of his negotiations with Mr Gundelach on sheepmeat, and am very concerned at its implications. To be offered a halving of the tariff and the continuation of their sendings up to recent levels really is a very good deal for New Zealand.

If agreement is not reached because New Zealand, supported by the UK, insists on holding out for an 8% tariff this will seem quite inexplicable to Scottish sheep farmers. It will throw into doubt the implementation of the excellent EC regime we negotiated last May. Our farmers will lose heavily from the inevitable depression of prices at the autumn lamb sales. We shall be under great pressure to compensate through increased national support for our failure to achieve the early implementation of the Community regime which all our farmers are expecting.

I am copying this minute to Peter Carrington and to Peter Walker.

*David Reid*

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

21 July 1980





121 JUL 1980

11 12 1  
2 3 4  
5 6 7  
8 9

*[Faint handwritten text]*



CONFIDENTIAL

*H. Am*

*Prime Minister*

(2)

*Am*

*ms.*

FCS/80/123

MINISTER FOR AGRICULTURE, FISHERIES AND FOOD

New Zealand Butter

1. New Zealand butter is on the agenda for your Agriculture Council on 22 July. But in response to prompting from us and Gundelach, Haferkamp has said that he too will raise the subject over our lunch or at the Foreign Affairs Council the same day.
2. The detailed discussion will, of course, take place in the Agriculture Council. But as I have suggested in earlier correspondence it may be easier to persuade Foreign Ministers to take full account of the broader political and economic considerations and that is why I intend to weigh in strongly when the subject comes up.
3. My basic point will be that fair treatment for New Zealand is strongly in the interest of the Community as a whole. This is the argument which will carry weight with at least some of our partners (and even the French, with their important interests in the South Pacific, are not entirely immune to it) and it is the argument which the Commission and the Germans will use. I shall lay less emphasis on the particular United Kingdom interest in New Zealand because although this is well known to our partners, it is not an argument which particularly counts with them. I shall at the same time, of course, stress the great political importance which the United Kingdom attaches to a satisfactory Community position.
4. Since we shall both perhaps find ourselves talking about this subject at the same time, I thought that it would be useful

/to set out

CONFIDENTIAL





CONFIDENTIAL

to set out how I propose to proceed on the broad political front so that we do not find ourselves saying different things.

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

A handwritten signature, appearing to be 'C', written in dark ink.

(CARRINGTON)

Foreign and Commonwealth Office  
21 July 1980

CONFIDENTIAL





Euro PA

Reference.....

~~MR ALEXANDER~~

<sup>Ms.</sup> Mutton and Lamb - New Zealand

Mr Franklin has asked me to let you have the attached copy of a letter from the NAFF.

Sir Brian Hayes told Mr Muldoon at Chequers on 31<sup>st</sup> May that we did not think that the introduction of a Community regime for mutton and lamb would depress the prices obtained by New Zealand at Smithfield (pages 3-4 of Mr Whitmore's record of that meeting). This letter gives our reasons more fully.

R.D. Home

European Secy

21/7/80.

Mr Hadley  
Mr Barker  
Miss Neville-Rolfe  
Mr Horne - Cabinet Office  
Mr Kinchen - FCO

4970

CONFIDENTIAL

R G Haines Esq NDA  
First Secretary  
Ministry of Agriculture,  
Fisheries & Food  
British High Commission  
PO Box 1812  
Wellington  
New Zealand

11 July 1980

SIR HAROLD SMEDLEY'S FAREWELL CALL ON THE NEW ZEALAND  
PRIME MINISTER

1. The Foreign and Commonwealth Office have kindly forwarded a copy of Sir Harold Smedley's record of his farewell call on Mr Muldoon on 18 June.
2. Mr Muldoon apparently reported that at his discussions at Chequers with the Prime Minister and Sir Brian Hayes on 31 May he had understood that there had been agreement that the regime could cause a reduction of perhaps 5-10% in the prices of New Zealand lamb at Smithfield to the damage of New Zealand producers. Apparently he saw this as stemming from increased production in the UK in response to the higher guaranteed price. We feel it should be stressed that any price dampening effect from this source will be long term and will depend on the levels set for intervention and variable premium in future years. Moreover, it should be counteracted by the effect of increased UK exports to France. Indeed, we expect UK prices to rise initially when the UK secures access to the French market, although the use of the variable premium as our means of producer support and its recovery on exports can be expected to moderate the increase.
3. Sir Brian Hayes put this point to Mr Muldoon at Chequers. As I understand it, 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, and wondered whether the impact of the movement of reference prices over four years would lead the British producer to increase his production. If there was more lamb on the British market, the price to the British housewife would go down, which 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. He said that New Zealand might be able to accept this, provided the Community was ready, in view of these difficulties, to abolish the 20% tariff. 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



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.

4. I have set out what was said for your background information but I suggest that when a suitable opportunity arises the new High Commissioner might like to put the record straight about our view of likely price movements.

5. I am copying this letter to Bill Barker here, Robert Horne in Cabinet Office and Richard Kinchen (FCO).

J C Edwards

*Envo PR.*

*for Muld. 22/7*

*Am very strongly of the opinion that we support Mr. Muldoon all the way*

PRIME MINISTER

NEW ZEALAND SHEEPMEAT: MR MULDOON'S MESSAGE OF 18 JULY

1 I have seen Peter Walker's minute on this subject and agree with him about the risks which we and the New Zealanders will both face if we make a reduction in the tariff to 8% a sticking point at the 22 July Agriculture Council. This does not mean we should make no attempt to give the New Zealanders satisfaction on this point. We should clearly argue as hard as we appropriately can that it is reasonable of them to seek 8%. But I hope nonetheless you can agree to give Peter Walker discretion not to make this a sticking point if it becomes clear that the Agriculture Council is prepared to endorse the terms negotiated by Gundelach during his visit to New Zealand subject only to insistence on a 10% tariff.

*Remember what Mr Walker said about N.Z. having a veto when you all returned from the Council. Ministers meeting not.*

2 If you accept this recommendation you may like to send Mr Muldoon a reply to his message in advance of the Council Meeting. I attach a draft which because of the time difference with New Zealand would have to be despatched during the course of Monday, 21 July, at the very latest.

3 I am sending copies of this minute to the other members of CD(E) and to Sir Robert Armstrong.

*[Handwritten signature]*

20 July 1980

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



DSR 11 (revised)

DRAFT: ~~TELEX~~ ~~letter~~ ~~MEMO~~ ~~REPORT~~ ~~NOTE~~

TYPE: Draft/Final 1+

FROM:

Reference

The Prime Minister

DEPARTMENT:

TEL NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

Mr Muldoon  
(Prime Minister of New Zealand)

Copies to:

Secret

Confidential

Restricted

Unclassified

PRIVACY MARKING

SUBJECT:

In Confidence

CAVEAT

Thank you very much for your message bringing me up-to-date on the outcome of your talks with Commissioner Gundelach. I greatly admire what you have been able to secure for New Zealand. The language on export restitutions is explicit and particularly helpful. You have managed to achieve something quite unprecedented in negotiations with the Community on agricultural trade.

Naturally I regret that Gundelach was not able to meet you on your request for an 8% tariff. When he reports to the Agriculture Council, Peter Walker will make it plain that we regard an 8% tariff as entirely reasonable.

I should not conceal from you that I do not however think the chances of getting agreement on that basis are at all good. We shall inevitably face opposition not least from the French who made it clear at the beginning that they thought an 18% tariff would be appropriate. And I am sure you will appreciate the danger that prolonged argument on this point may make it easier for France to question other aspects of the package which have been agreed.

Enclosures - bag(s)

I agree very much with your objective of a rapid and satisfactory resolution of this matter. I hope we shall be able to achieve this.

Unfaxed to

Reference.....

Chequers

Duty Clerk

NR sent

to [unclear] ref  
kindly

We spoke and you  
agreed to draw this minute and  
draft to the Prime Minister's attention  
during the course of to-day. (Span  
copy attached a tonnes fins utiles.  
Thank you.

[Signature]

Resident Clerk

FCO

20/7/80



PRIME MINISTER

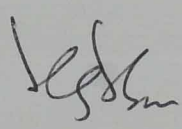
NEW ZEALAND SHEEPMEAT: MR MULDOON'S MESSAGE OF 18 JULY

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2 If you accept this recommendation you may like to send Mr Muldoon a reply to his message in advance of the Council Meeting. I attach a draft which because of the time difference with New Zealand would have to be despatched during the course of Monday, 21 July, at the very latest.

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

20 July 1980

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

DSR 1 (Revised)

DRAFT: ~~XXXX~~ minute/letter/~~XXXXXXXXXXXXXXXXXX~~ teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:

The Prime Minister

Reference

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

Mr Muldoon  
(Prime Minister of New Zealand)

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

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Naturally I regret that Gundelach was not able to meet you on your request for an 8% tariff. When he reports to the Agriculture Council, Peter Walker will make it plain that we regard an 8% tariff as entirely reasonable.

I should not conceal from you that I do not however think the chances of getting agreement on that basis are at all good. We shall inevitably face opposition not least from the French who made it clear at the beginning that they thought an 18% tariff would be appropriate. And I am sure you will appreciate the danger that prolonged argument on this point may make it easier for France to question other aspects of the package which have been agreed.

Enclosures—flag(s).....

I agree very much with your objective of a rapid and satisfactory resolution of this matter. I hope we shall be able to achieve this.



FILE

RH

BF 25.7.80

18 July, 1980

Sheepmeat

I attach a copy of a message which the Prime Minister has received from the Prime Minister of New Zealand about the current negotiations between New Zealand and the Commission on a sheepmeat regime.

I should be grateful to receive in due course a draft reply which the Prime Minister might send to Mr Muldoon.

I am sending copies of this letter and its enclosure to Paul Lever (FCO) and David Wright (Cabinet Office).

**M. O'D. B. ALEXANDER**

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

NW

FILE

RH

18 July, 1980

I am replying on the Prime Minister's behalf to your letter to her of 18 July containing a message from the Prime Minister of New Zealand. Mr Muldoon's message has, of course, been brought to the Prime Minister's immediate attention.

M. O'D. B. ALEXANDER

His Excellency The Hon. L W Gandar

NW





Please tell Mr. Walker <sup>2</sup>  
T146/80  
that we must support  
Mr. Muldoon totally on 45  
f 2

NEW ZEALAND HIGH COMMISSION

NEW ZEALAND HOUSE · HAYMARKET · LONDON SW1Y 4TQ

Telephone: 01-930 8422 Telex: 24368

**PRIME MINISTER'S**

**PERSONAL MESSAGE** 18 July 1980

**SERIAL No.** T146/80

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

Rt. Hon. Margaret Thatcher,  
Prime Minister,  
10 Downing Street,  
LONDON.

Prime Minister

(MABF are drafting a  
reply)

18/7

Dear Prime Minister,

The Prime Minister, The Rt. Hon. R.D. Muldoon, has asked me to pass urgently to you the following message:

"Dear Margaret,

Commissioner Gundelach's brief visit to New Zealand has just concluded. He returns today to Brussels where he will report to the Council of Agriculture Ministers next Tuesday. My purpose in this letter is to inform you of my current position on the sheepmeats question with a view to the Council meeting.

Gundelach and I were able to reach agreement on all aspects of a voluntary restraint agreement except one. To arrive at this position we made a number of concessions which limit our freedom of marketing within the Community. Despite these concessions Commissioner Gundelach was unable to make a satisfactory offer on the tariff. Gundelach's best offer, which he said took him well beyond his mandate from the Agriculture Ministers Council, was a reduction from the present 20 percent to 10 percent. I was obliged to tell Gundelach, after consulting with our farmer organisations, that I saw a reduction to 8 percent as essential. In the end he agreed to report that to the Council on 22 July.

As you know I began from the position that under the new voluntary restraint concept there was no need for a protective tariff. It becomes an unjustified tax on the New Zealand producer making him a contributor to the Community budget. However, I was persuaded by Gundelach's arguments to move away from my previous insistence upon complete removal of the tariff. Instead I judged that our interests could be safeguarded by a reduction to 8 percent.

Cont'd...

I am concerned now that at the 22 July Council meeting, in explaining the sole remaining area of difference between us, Gundelach should give full weight to the distance New Zealand has come to meet both the legal and political concerns Gundelach felt would be expressed in the Council, particularly by the French Government.

Our attitude to tariff reduction must be seen by the Council as reasonable, not only because it is a conciliatory movement in itself, but also because it constitutes the one area in the entire package where New Zealand can be seen to be receiving compensation from the Community for the considerable trading restrictions we stand prepared to accept.

I believe that, with a further small movement by the Community on the tariff, the package negotiated with Gundelach is a fair and reasonable balance, meeting the essential concerns of both sides.

May I, therefore, ask you to exert your influence, through Peter Walker, to bring about a rapid and satisfactory resolution of this matter at next week's Council meeting.

With warm regards,

Yours sincerely

Rob Muldoon"

*Yours sincerely,  
Herrie Cauder*





From the Minister

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

Prime Minister.

Mr Walker's Comments  
on Mr Muldoon's

letter.

*[Handwritten signature]*

P.A. has seen

La.

*[Handwritten signature]*

Duty  
check  
18/7

PRIME MINISTER

I know you have received a letter from Mr Muldoon concerning the agreement on sheepmeat.

I do think that, by any standards, the New Zealanders have been offered a very good deal in terms of trade off between quantities and tariff cut. And while we have not yet seen all the details of the rest of the package, Mr Muldoon describes it as fair and reasonable. The very tough negotiating stance which he adopted, on your advice, has contributed to this outcome.

The New Zealand Government had informed me earlier in the year that they would probably, in the coming years, be sending less lamb to Britain than in the past because of their development of other markets. They have however now obtained an agreement which gives them a guarantee of their recent volume of sendings accompanied by a halving of their tariff.

I think Mr Gundelach will have considerable difficulty in persuading some other member countries of the justification for halving the tariff whilst retaining the volume of exports. The French made it clear at the beginning of the negotiations that they thought a reduction in the tariff from 20% to 18% would be appropriate in return for a guarantee of keeping to existing quantities. Whilst I am quite prepared to repeat the New Zealand arguments to the Council of Ministers for having a further reduction down to 8%. I am concerned that argument on this point will make it easier for the French to obstruct other aspects of the package which have been agreed. I think it would be totally wrong for us not to support the agreement made by Mr Gundelach and to try to persuade all the other member countries to do so.

As Sir Brian Hayes pointed out to Mr Muldoon at your meeting at Chequers on 31 May, during the main marketing season for New Zealand lamb in the United Kingdom there is likely under the Community regime to be an incentive for British producers to sell in the French market to which they will have access. This would strengthen United Kingdom prices in such periods and so give New Zealand a price advantage. There are therefore no grounds on this count for a greater tariff reduction and if the present tariff is balanced I consider, as I have indicated above, that what is proposed would be a very good deal for New Zealand.

I hasten to add that if we threw away the whole of the benefits to our sheep farmers of the sheepmeat regime because the New Zealand Government were not happy to agree to a halving of their

/tariff in return for ...

tariff in return for restraining their exports to recent levels, British farmers would be totally outraged and become very anti-New Zealand in their attitudes.

The other fact is that if, as a result of the sticking to the 8% position on behalf of New Zealand, the sheepmeat regime did not come into operation, the position for New Zealand would be that she would have to continue with the 20% tariff and we would have to throw away a substantial benefit from the Community to an important part of British agriculture. In fact both of us would be substantial losers.

I am copying this to the Foreign Secretary, Chancellor of the Exchequer, Secretary of State for Trade and Michael Franklin.

*Peter Walker*  
*for*

PETER WALKER  
18 July 1980

Approved by the Minister  
and signed in his absence



PART 5 ends:-

CDL to 2d Change 16/7

PART 6 begins:-

MAFF to PM 18/7/80.



