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PREM 19/229

Confidential Filing

Sales of butter to the Soviet Union.

EEC Agricultural Exports to the
Soviet Union

EUROPEAN
POLICY

September 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PREM 19/229



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10 DOWNING STREET

THE PRIME MINISTER

30 July 1980

Dear Mr. Dixon,

Thank you for your letter of 9 July about the sale of European Community produce to the Soviet Union.

The Government has consistently opposed all sales of subsidised agricultural products to the Soviet Union. But a decision to stop them would need the unanimous agreement of all Member States of the European Community, and we have not been able to achieve this. However on 15 January the Foreign Affairs Council agreed that the Community would not replace sales of agricultural products to the Soviet Union which had been suspended by the US. It was also agreed that exports of other agricultural products should not exceed traditional levels of trade. With effect from 21 June, for instance, no more export refund commitments are to be made on beef exports to the Soviet Union this year because, according to the European Commission's calculations, the traditional level of trade has now been reached. As regards wheat, it was decided on 10 January to exclude the Soviet Union from the list of countries eligible for export refunds under the tender system. Wheat which has been exported to the Soviet Union this year has been exported under export refund commitments made before 10 January.

We have welcomed these decisions although our own view, which we continue to press, is that all subsidised food exports to the Soviet Union should be stopped in view of the events in Afghanistan.

/I cannot

SW

I cannot accept your accusation of Government hypocrisy. I see nothing inconsistent or hypocritical in our opposition to the sale of subsidised agricultural produce from the Community of the Soviet Union and our advice to British athletes not to go to the Moscow Olympics. In both cases we have acted in response to Soviet aggression; but, alas, in both cases not everyone concerned has followed our advice.

Yours sincerely,

MT

Don Dixon, Esq., MP.

CONFIDENTIAL

Euro pd.



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

From the Minister's Private Office

Paul Lever Esq
Private Secretary to the
Secretary of State for Foreign Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

N.B.A.

Paul

14 July 1980

Dear Paul,

SALES OF SUBSIDISED FOOD TO RUSSIA

As you may know, Dr Brian Mawhinney, MP, has put down an oral question to my Minister for 17 July asking him to place on the agenda of the next Agriculture Council the sale of subsidised foods to Russia.

You will remember that in his minute of 15 February Lord Carrington asked my Minister to withdraw the question of such sales from the agenda of the Agriculture Council. Mr Walker did so and it was subsequently agreed that high level discussion of the issue should continue to be confined to the Foreign Affairs Council and COREPER. The short answer, therefore, to Dr Mawhinney is that the question is one for the Foreign Affairs Council and not for the Agriculture Council. As, however, I understand that the FCO see difficulty in the reply taking this form, my Minister is proposing to answer as follows:

"It is for the Presidency and not for me to decide on the agenda of Agriculture Councils. As a result of continued United Kingdom pressure, the Community's restrictions on subsidised exports to Russia have been tightened. We continue to be totally opposed to such sales and we will raise the issue at every suitable opportunity".

If pressed to raise the matter at the Agriculture Council of 22 July Mr Walker will say, as agreed between our Departments, that the proper forum in which to pursue the question is the Foreign Affairs Council.

I am sending a copy of this letter to the Private Secretaries to the Prime Minister and to Sir Robert Armstrong.

G R Waters
G R Waters

G R WATERS
Principal Private Secretary

CONFIDENTIAL

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10 DOWNING STREET

THE PRIME MINISTER

27 May 1980

Dear Mr. Cunningham.

Thank you for your letter of 9 May enclosing this one from Mr. A. G. Thomas of 25 Hycemoor Way, Bootle Station, Cumbria about the sale of butter to Russia.

I fully agree with Mr. Thomas that there is no justification for selling butter cheaply to the U.S.S.R.. The Government have consistently made clear that they are totally opposed to such sales. As I told the House, the United Kingdom representative therefore voted against the recent sale of 20,900 tonnes of heavily subsidised butter to Russia, but we did not receive sufficient support from other Member States to prevent it.

The Government will continue to attempt to persuade our partners in the European Community that subsidised sales of butter to the U.S.S.R. represent a wholly unjustified transfer of resources from the Community, which is entirely inappropriate in the light of the Russian invasion of Afghanistan.

Yours sincerely,

Margaret Thatcher

Dr. J. A. Cunningham, M.P.

Original in GR



cc 11/177

10 DOWNING STREET

THE PRIME MINISTER

27 May 1980

Dear Mr. Kilfedder,

Thank you for your letter of 3 May enclosing this one from Miss R. McMullan of "Rosetta", 27 Newtownards Road, Bangor, Co. Down about the sale of butter to Russia.

I fully agree with Miss McMullan that there is no justification for selling butter cheaply to the USSR. The Government has consistently made clear that it is totally opposed to such sales. As I told the House, the United Kingdom representative therefore voted against the recent sale of 20,900 tonnes of heavily subsidised butter to Russia, but we did not receive sufficient support from other Member States to prevent it.

The Government will continue to attempt to persuade our partners in the European Community that subsidised sales of butter to the USSR represent a wholly unjustified transfer of resources from the Community, which is entirely inappropriate in the light of the Russian invasion of Afghanistan.

*Yours sincerely
James Thatcher*

J.A. Kilfedder, Esq, MP.



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10 DOWNING STREET

From the Private Secretary

14 May 1980

Dear Ganth,

EEC Food Exports to the Soviet Union

The Prime Minister has seen your Minister's letter to her of 9 May on this subject together with the Foreign and Commonwealth Secretary's minute of 13 May. She is content that action should be taken along the lines proposed by Mr. Walker as elaborated by Lord Carrington.

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

Yours sincerely

Richard Alexander

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



FCS/80/88

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

EC Food Exports to the Soviet Union

- ②
Prime Minister
Rush
TPM
1. Thank you for sending me a copy of your letter of 9 May to the Prime Minister.
 2. The difficulty over this issue, as your letter makes clear, is that we cannot count on the political support we would need in order to strengthen, or even to prevent erosion of, the Council decisions of 15 January. We have to contend with a formidable combination of self interest on the part of those who have butter to sell to the Soviet Union (especially the French and Irish, but also the Dutch and Belgians), and diminishing political pressure for action against the Soviet Union over Afghanistan, a tendency which is encouraged by reports from Washington of increasing doubts there about the usefulness of the US embargo on food exports to the Soviet Union. We shall not easily make headway against this combination of factors.
 3. That said, we shall do our best. I understand that the Commission, prodded further by our people at UKREP, have now said that they will indeed be making a full report to COREPER on 14 May. We shall make very plain in the discussion our view that subsidised food exports to the Soviet Union are not appropriate in present political circumstances. We shall want in particular to concentrate our fire on deterring the Commission from making proposals which would jeopardise the 15 January decisions, for example, proposals to loosen the monitoring arrangements now in force and thus open the way to resumed large-scale sales of fresh butter. I understand that ideas of this kind were put forward by the Commission at the Milk Management Committee meeting last week.
 4. Thereafter we shall need to consider whether and how the



issue might be raised at the 2/3 June Foreign Affairs Council.

5. I am sending copies of this minute to the recipients of your letter of 9 May.

C
/

(CARRINGTON)

Foreign and Commonwealth Office

13 May 1980



From the Minister

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

①

Prime Minister

The difficulty is that we shall not get sufficient support from the other members to make our proposal effective. But clearly we should continue to make our views plain. A few lines proposed in Mr. Walker's final para?

9 May 1980

Yes Mr

Amby 12/5

The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

Handwritten signature: Mrs. Thatcher

EEC EXPORTS TO RUSSIA

You were tackled during Prime Minister's questions last week about the Dairy Management Committee's recent decision to approve tenders for the sale of 20,900 tonnes of heavily subsidised butter to Russia. As you told the House, my officials had made it quite clear that we were totally opposed to this but, as the majority of the Member States continue to favour such sales, it went through. We have now learned that the Commission will next week be proposing changes that will make it easier to sell butter to Russia.

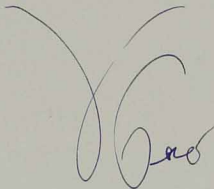
Because of the voting procedures of the Management Committees, it is just not possible - as the recent butter case shows - for us to block subsidised sales to the USSR at that stage. There is therefore no chance of achieving our objective unless there is a fresh political directive from the Foreign Affairs Council. Unfortunately the Foreign Office assessment - to which I can but defer - is that there is no prospect of the Foreign Affairs Council being persuaded to toughen up its decision of 15 January.

I myself have made several approaches to Gundelach about the butter situation but they have had little effect. This is not perhaps surprising because the Commission takes its cue from the majority of Member States who are keen for trade to take place and they are certainly not prepared to go beyond what they see as necessary to honour the Council Directive of 15 January - which brings us back to the fact that, unless the Council changes its attitude, we have no chance of attaining our objective.

The question of the recent butter sales has not yet been raised either in COREPER or in the Foreign Affairs Council, but the Lord Privy Seal got an undertaking from Haferkamp in the margins

of this week's Council that the Commission will make a full report to COREPER on 14 May. I think it important that, before that meeting, our Ambassador to the Community should make strong representations to Gundelach, to try to bring home to him the political significance of the whole issue and the unsatisfactory nature of the Commission's attitude, as evidenced by their recent and proposed actions on butter. This could then be followed up vigorously in COREPER and Peter Carrington could then consider whether to raise the question at the next Foreign Affairs Council.

I am sending a copy of this letter to members of OD(E) and to Sir Robert Armstrong.

A handwritten signature in blue ink, appearing to be 'Peter Walker', written in a cursive style.

PETER WALKER



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

Euro Pol.

From the Minister

Sir Ian Gilmour Bt MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
London SW1

NB 87
Am

29 April 1980

EC AGRICULTURAL EXPORTS TO THE SOVIET UNION

Thank you for your letter of 18 April. I note that you came to the conclusion that it would not have been wise to raise this issue at the Foreign Affairs Council this week.

will request if required

There are, as you appreciate, very real limitations on what can be done at the technical level to pursue our aim of restricting subsidised sales to Russia. We are of course continuing to do all we can in the meetings of the Management Committees and bilaterally with the Commission, but the effectiveness of these efforts depends on the pressure being kept up at the political level which Peter Carrington has said - and I have agreed - should be in the Foreign Affairs Council and COREPER.

I therefore welcome your proposal that Sir Michael Butler should ask the Commission for a full report on progress at the first COREPER meeting following the European Council. We shall need to consider what further action to maintain the momentum should be taken in the Foreign Affairs Council and in COREPER when we have the Commission's progress report.

As regards butter, while there have not been any bulk exports to the USSR recently, it is only a question of time before these are resumed under the tendering system. A tender was submitted to the last Management Committee on 17 April but was rejected because the price was too low. This was almost certainly only a first stab and subsequent tenders are likely to be at higher prices.

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

PETER WALKER

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SECRET

29 APR 1958



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Euro 80.



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

From the Minister

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

2 pps
for Rms

15 April 1980

Bob Sew

As I explained in my letter to you of 2 April, I wrote to Finn Gundelach about the various outstanding points on Russian butter as I had not been able to speak to him at the Agriculture Council.

-- We have now had wind of a relevant development on packeted butter and I have accordingly written a supplementary letter to him, as attached. I am suggesting in a separate letter to you that it might be opportune for you to raise the general question of exports to Russia at the 22 April Council, and I will therefore arrange for your officials to be kept up-to-date with all developments on the packeted butter question.

Copies of this letter go to the Prime Minister, members of OD(E) and Sir Robert Armstrong.

[Signature]
eed
PETER WALKER

75 APR 1960





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

From the Minister

Mr Finn Gundelach
Vice-President of the Commission
of the European Communities
200 Rue de la Loi
Brussels 1040
BELGIUM

15 April 1980

DL Finn

In my letter to you of 2 April, I yet again expressed my concern that the Russians could obtain packeted butter with the benefit of full export restitution.

We have now heard from our trade that the Russians are indeed interested in such trade and are actively making enquiries. I believe that, if trade of this nature occurred - thus exposing the loopholes in the Commission's control arrangements to which we have repeatedly drawn your attention - public opinion would be outraged and confidence in the Commission undermined. I do hope therefore that you will now act swiftly to bring packeted butter (and butter-oil, the other possible alternative product) under full control.

PETER WALKER

15 APR 1980

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



From the Minister

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

15 April 1980

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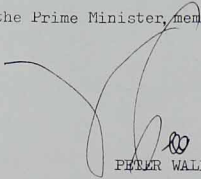
As you are aware from my correspondence with Finn Gundelach the position regarding subsidised exports on butter to the USSR remains unsatisfactory from the United Kingdom's point of view. My most recent letter, of 2 April, drew attention to the inadequacies and inconsistencies of the present restrictions, the Commission's failure to come up with any justifiable concept of 'traditional' trade and their failure to supply firm estimates of actual exports to the USSR of butter, butter-oil and packet butter since 1 January.

While we have, for good reasons, concentrated on butter, similar issues arise for every other agricultural commodity which could be exported, with subsidy, to the USSR. As we have agreed, my officials take every opportunity in Management Committees for these other commodities to press for the extension of restrictions on exports to the USSR and for better export monitoring arrangements.

I am sure you will agree that we should not let this exercise lose its impetus and in this connection I note that the Commission took no steps to report to the Foreign Affairs Council in March on how it is discharging its remit from the Councils of 15 January and 5 February. Nor is there any indication that the Commission will make a progress report to the forthcoming Council on 22 April.

It seems to me, therefore, that it would be very desirable for the UK to take steps to see that the matter is discussed at the forthcoming Council. This would seem particularly apposite if, as reported, President Carter is renewing the pressure on his allies to firm up their attitude on Afghanistan.

Copies of this letter go to the Prime Minister, members of OD(E) and Sir Robert Armstrong.


PETER WALKER

15 APR 1964

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From the Minister

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

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

2 April 1980

PLS Grew

Thank you for your minute of 20 March.

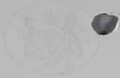
I had hoped to be able to speak to Finn Gundelach about this question at last week's Agriculture Council, but unfortunately no suitable opportunity arose. I have therefore written to him and attach a copy of my letter. Your people will no doubt be following this up.

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

PETER WALKER



2 APR 1960



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

From the Minister

Mr Finn Gundelach
Vice-President of the
Commission of the European Communities
200 Rue de la Loi
Brussels 1040
Belgium

2 April 1980

*will request
if required*

I had hoped to be able to discuss with you during last week's Council your letter to me of 13 March about exports of butter to Russia but unfortunately there was no suitable opportunity.

You say that the Commission is acting fully in line with the Foreign Affairs Council's 15 January decision - but we feel that some of the important underlying points have not yet been settled.

On the level of trade, for instance, I am aware that a 3-year base period produces different results for different commodities, but I cannot accept that this is the right period to adopt in the case of butter. Since there was no trade at all in three of the last six years, it seems quite wrong to argue that the volume of trade in the other three years is the "traditional" level.

As to the rules on prefixing and licensing butter exports, the product which seems now most likely to go to the USSR is packet butter, to which the full refund still applies. And any trader wishing to prefix refunds with a view to a sale of this product to the USSR is not bound to state the proposed destination in his application, nor to answer any query as to its actual destination.

I was glad to learn that no decisions have yet been taken about sending butter to Russia under tendering arrangements. In my view, we must clear up all the outstanding points before any steps are taken to resume sales. One of these concerns the quantities likely to be sent in 1980 under other and earlier arrangements.

In this connection, the Commission have not yet given the Management Committee firm estimates of the level of trade in the first few months of this year in bulk butter, packet butter and butteroil. But one must suspect that one of the reasons the USSR has so far shown no interest in the proposed tendering system is that the high level of sendings of bulk butter at the end of last year (and probably also in the early months of this year with the benefit of 1979 prefixation certifications) mean that they are well supplied with this for the time being; and, as I have pointed out, they still have free access to packet butter.

Finally, you did not comment on my point concerning the need to secure agreement on what level of subsidy - if any - should be paid in respect of any further sales to Russia. As I told you, we attach considerable importance to this point and do not ourselves consider that any degree of subsidisation can be justified, especially bearing in mind the price actually charged to the Russian consumer for EEC butter.

A handwritten signature in dark ink, appearing to read 'Peter Walker', is written over a large, faint, stylized outline of a signature or a large letter 'P'.

PETER WALKER

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

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From the Minister

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

Prime Minister
Lg. Pmt
Pmt

21 March 1980

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See

There have been a number of reports in the press and elsewhere suggesting that the US grains embargo against Russia is proving a good deal less effective than the Americans had expected. These reports are to a large extent based on USDA's latest estimates of Soviet grain imports for 1979/80 which are now put at 30.5m tonnes against a pre-embargo estimated import demand of some 34m tonnes. This suggests that, although the USA has cut its projected exports to the USSR by 17m tonnes, the Russians have been able to reduce the gap in their import needs to something of the order of 4m through 'leakages', transshipments, switches, increased purchases from Argentina and accelerated purchases from Canada.

It seems clear that there is now a fair amount of disenchantment in the USA about the embargo and a recent report from our Embassy in Washington indicated that it is difficult to find much support for the original decision to use grain exports as a weapon of foreign policy. The Soviets, it is thought, are not likely to be seriously hurt, in the short term at any rate, and the greater damage could be to the US taxpayer and farmer.

It is possible that in these circumstances some Member States, in particular France, will suggest that the Community should moderate its present policy of supporting, albeit not as strongly as we would have liked, the US action. I think that we shall need to be on our guard against any such attempts to back away from what was agreed in the Foreign Affairs Council on 15 January.

In so far as the US embargo proves ineffective the strains which it imposes on world prices and the risks it raises of disrupting markets should be lessened, although much will depend on the adequacy of US domestic support. Certainly we shall have to keep a close watch on the internal and other measures which the US administration is taking.

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

[Signature]
PETER WALKER

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MINISTER FOR AGRICULTURE, FISHERIES AND FOOD

Butter Sales to the Soviet Union

1. Thank you for your letter of 18 March.

2. As you say, while we have for the moment a breathing space on this front the position remains uncertain and potentially unsatisfactory. I note that Gundelach himself, in speaking to the European Parliament on 10 March, argued in effect that it would be necessary for butter sales to the Soviet Union to be maintained at the traditional level, and it is difficult to see how this can be achieved without substantial export subsidies.

3. I therefore think that it would be useful for you to take advantage of Gundelach's offer of further talks (his letter of 13 March) to raise the subject with him in the margins of the 26/27 March Agriculture Council, in order to register our continuing concern.

4. The subject was not raised at this week's Foreign Affairs Council and I think we should continue to keep this weapon in reserve, for use only when necessary.

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

(CARRINGTON)

Foreign and Commonwealth Office

20 March 1980

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



From the Minister

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

NB/N

Prints
- 19/3

18 March 1980

De Bui

RUSSIAN BUTTER

I imagine you will know that no tenders were received for the first adjudication on intervention butter sales to the USSR that should have taken place in the Dairy Management Committee yesterday. It remains to be seen whether this represents a genuine lack of demand from the Russians for this particular butter, or merely reflects the fact that their needs have been temporarily satisfied by the large amounts of fresh butter that they contracted for at the end of last year and the beginning of this. It was however interesting that the Commission Chairman, even at this stage, spoke of the need to find ways of ensuring that the export trade to the Soviet Union in 1980 reached "traditional levels", and specifically intimated that one possibility would be to reintroduce export refunds on bulk butter going to the Eastern bloc:

Such a step would of course reverse one of the principal elements in the as yet inadequate Community response to Russian butter sales: and, whilst we would naturally vigorously oppose it in the Management Committee, our chances of blocking it there are remote in the extreme. I think we may therefore have to be ready to pursue this again at short notice at a political level. At the very least, you may wish to be forewarned in case others should refer to it at next week's Foreign Affairs Council.

to Day's ?

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

Peter Walker

PETER WALKER

THE UNIVERSITY OF CHICAGO
LIBRARY

Open until 8 PM





Mr Michael Alexander,
Private Secretary,
No. 10 Downing Street,
LONDON.

With the Compliments
of the
Deputy High Commissioner

A handwritten signature in blue ink, appearing to read "Robert Lynd", is written over the printed text.

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

11 March 1980



New Zealand High Commission

Enno Pd

Reference

New Zealand House

Haymarket

London SW1Y4TQ

Telephone: 01-930 8422 Ext:

Telex: 24368

11 March 1980

Mr M.D.M. Franklin, CB, CMG,
Deputy Secretary,
Cabinet Office,
Whitehall,
LONDON.

*kg
Pd*

Dear Michael,

I mentioned to you yesterday, that the New Zealand Government had adopted a firm position on the question of further sales of New Zealand dairy products to the USSR, in the aftermath of the Russian intervention in Afghanistan. My Government's decision was conveyed to the New Zealand Dairy Board in a letter, dated 18 February 1980, to the Chairman of the NZDB, Mr K.F. Mehrtens, the substantive portion of which read as follows:

"The dictates of general Western solidarity as well as the very real bilateral concerns we have with both the United States and the European Community persuade me that it would be most undesirable that New Zealand take advantage of any artificial or exceptional short-term demand for our dairy products that the European Community action in particular might give rise to.

I believe it calls for special sensitivity and cooperation by the Board in terms of the cooperative understanding on third market dairy export policies between New Zealand and the EEC, and I would accordingly be grateful for your advice that it will be possible for the Board to keep in the closest contact with the European Commission on Soviet dairy market developments."

In accordance with my Government's request, and notwithstanding the inference that might be drawn from this morning's report in the 'Daily Telegraph', no new trade dealings in dairy products have been concluded with the USSR since their intervention in Afghanistan.

I am sending copies of this letter to Brian Hayes, Michael Alexander, and David Hannay for their information.

Kind Regards,

Brian

(B.J. Lynch)
Deputy High Commissioner

MILWAUKEE 1960





M/M/55

European
Policy

NSRA

Phd
- 18/2FCS/80/35MINISTER OF AGRICULTURE, FISHERIES AND FOODSale of Butter to the Soviet Union

1. Thank you for sending me a copy of your minute of 11 February to the Prime Minister. ✓
2. We are, of course, at one on the desirability of bringing to an end subsidised butter exports to the Soviet Union. But I wonder whether it will help our cause if you pursue this question in the Agriculture Council on 18 February in the way you propose.
3. While the detailed follow-up action to the 15 January Foreign Affairs Council decision on exports to the Soviet Union is of course taking place in the various agricultural management committees, at higher levels the question has so far been discussed only in COREPER and the Foreign Affairs Council. There are in my view good reasons why we should seek to maintain this pattern.
4. First there is the fact that we are much better placed to fight the policy battle on the basis of foreign affairs rather than agricultural considerations. In this way we have a reasonable chance of persuading at least some of the Member States (notably the Germans) that the gravity of the political situation needs to be reflected in all aspects of the Community's trading relationship with the Soviet Union - that, in short, this is no time to be giving unreciprocated economic benefits to the Russians.
5. If, on the other hand, we pursue this matter in the Agricultural Council and the SCA those Member States (notably France and Ireland) which bitterly resent what we are trying to do will be better placed to deploy and gain support for the

/agricultural




agricultural objections to our proposals than they are in COREPER and the Foreign Affairs Council. We, by the same token, would be less well placed to deploy political arguments and less likely to rally support for them. If we raise the issue in the Agricultural Council I would expect our opponents to seize the opportunity to attempt to unpick the 15 January Foreign Affairs Council decision, or at least to seek to use the authority of the Agricultural Council to place clear limits to follow-up to that decision.

6. A further consideration is the fact that on 19 February I shall be seeking (at the Political Co-operation meeting in Rome of Commission Foreign Ministers) to persuade our partners to adopt a common position in reaction to the Soviet invasion of Afghanistan. This will not be made easier if on the previous day there has been an acrimonious discussion in the Agricultural Council of butter exports to the USSR.

7. I hope that in the light of these comments you will be able to agree that it is in our interests that high level discussion of this question should continue to be confined to COREPER and the Foreign Affairs Council, where we shall of course vigorously pursue our aims. Meanwhile you have made our position on butter admirably clear to the Commission in your letter of 7 February to Gundelach.

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


(CARRINGTON)

15 FEB 1960

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From the Minister

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

Prime Minister

(2)

PRIME MINISTER

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SALES OF BUTTER TO THE SOVIET UNION

I understand you were tackled on this subject at question time on Thursday and you may therefore find it helpful to have a note of the latest position.

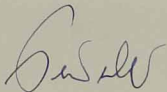
2. The President of the Commission has of course told the European Parliament that there are to be no sales of subsidised butter to Russia in the near future, and that any sales that do take place will be closely controlled in both price and quantity. This broad intention has been reflected in a Commission Regulation which has set the level of refund for bulk butter for the Eastern bloc at zero. In addition, the Commission have extended to butter-oil and skimmed milk powder the export licensing arrangements we managed to secure last autumn for butter, and they have also strengthened the procedure which allows them temporarily to "freeze" applications for pre-fixing refunds to all destinations (thus enabling them to investigate possible disguised sales to the Eastern bloc).

3. All these are useful steps, which we have supported, but there are nevertheless a number of potential loopholes that need to be closed. Although there is no longer an export refund for bulk butter, packeted butter and also butteroil (a possible substitute, not only for butter for certain uses, but also for lard and tallow which the USA had previously sent to Russia) can still be sent to the USSR with the benefit of very large refunds. Moreover - despite our firm opposition - the Dairy Management Committee approved on 7 February a Commission proposal that would enable bulk butter from intervention stocks to go to the Eastern bloc under a system of tendering, which would inevitably involve a degree of subsidisation. Even though the Commission have said they do not in practice intend to invite tenders for at least a month, the possibility of this trade being re-opened is of course contrary to our policy and, although there is unlikely to be any real interest in exporting our salted butter to Russia, there would at least be a technical possibility of butter from our intervention stocks going there - something which we could not legally prevent.

4. I had already made clear to the Commission in advance of Thursday's decision my total opposition to this development and, at the Council meeting on 18 February, I intend to raise the whole question of these exports. In addition to the points mentioned above, I shall argue that - as very large quantities of butter or butteroil are understood to have already been exported, or prefixed

for sending, during 1980 - there is no case for any further subsidized exports to Russia this year, even within the terms of the Foreign Affairs Council's resolution; and I shall insist that all the facts are revealed before any further steps are taken.

5. I am copying this minute to the Foreign and Commonwealth Secretary, to the other members of OD(E) and to Sir Robert Armstrong.



PETER WALKER
11 February 1980



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Prime Minister

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Foreign and Commonwealth Office
London SW1

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8 February 1980

EEC AGRICULTURAL EXPORTS TO THE SOVIET UNION

Thank you for your letter of 4 February.

As you will have seen from UKREP Brussels telno 721, the Foreign Affairs Council discussion of this subject on 5 February went reasonably well from our point of view. We made, as agreed, a strong and detailed statement of the UK position, both on subsidies and on the need for strict implementation of the decisions taken by the Council on 15 January.

Gundelach reported in detail on the follow-up action so far taken by the Commission. Without by any means going all the way to meet our position, he nevertheless made clear the Commission's firm intention to implement the 15 January decisions fully and actively, and took a line which will undoubtedly have given us more comfort than our opponents on this issue. In particular, he repeated that for the moment at least there would be only limited sales of butter to the USSR, and those only from stocks now in intervention. And he undertook, in response to UK pressure, to
/provide

The Rt Hon Peter Walker MBE MP
Minister for Agriculture, Fisheries
and Food
Whitehall Place
London SW1

provide an estimate of the quantities of major agricultural products already sold to the Soviet Union in 1980 - which should help us in forcing home in the management committees the argument that such sales must be taken into account when applying the traditional trade principle.

That said, the position remains in various respects unsatisfactory. Despite Gundelach's claim at the Council that monitoring systems are now in place for 'all relevant products', there is more to be done before that can be said to be true. And as you point out in your letter, not enough progress has so far been made with the creation for each product of a special zone for the Soviet Union - so that proposals for restitutions on exports to the USSR can be voted on individually rather than being lumped together with proposals covering exports to other destinations. On these points - and on the need for a Commission estimate of the level of traditional trade for each product (on which Gundelach was evasive at the Council) - we must continue to press the Commission hard. We should be able to make some further progress, though I am not optimistic about forward movement over products (such as sugar) which are not covered by the US embargo.

Judging by discussions in Brussels so far there seems little prospect of our being able to use the Afghanistan crisis to bring about a complete end to subsidised sales of Community food to the Soviet Union. But, given the amounts exported or contracted for in the first weeks of the year, we may in some areas be able to use the traditional trade principle to prevent further subsidised exports to the Soviet Union in this calendar year.

I am sending a copy of this letter to the Prime Minister, Members of OD(E), and Sir Robert Armstrong.



11 FEB 1980

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IMMEDIATE

Duty Clerk No 1088
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TO IMMEDIATE F C O

TELEGRAM NUMBER 721 OF 5 FEBRUARY.

INFO PRIORITY COPENHAGEN, THE HAGUE, ROME, LUXEMBOURG,
 DUBLIN, PARIS, BONN, MOSCOW, WASHINGTON, UKDEL NATO.

INFO ROUTINE WELLINGTON AND CANBERRA.

INFO SAVING BUENOS AIRES.

FOREIGN AFFAIRS COUNCIL, 5 FEBRUARY 1980.

AFGHANISTAN : COMMUNITY ACTION : AGRICULTURE

MY TELNO 640.

SUMMARY

1. GUNDELACH DEFENDED THE COMMISSION'S RECENT ACTIONS AS CONSISTENT WITH THE DECISION OF THE 15 JANUARY COUNCIL AND WITH GOOD HOUSEKEEPING. I RESTATED OUR OPPOSITION TO SUBSIDISED EXPORTS TO THE USSR, AND SOUGHT GREATER PRECISION ON TRADITIONAL TRADE FLOWS AND AMOUNTS ALREADY EXPORTED TO THE USSR THIS YEAR. THE FRENCH AND IRISH, RELUCTANTLY ACCEPTED GUNDELACH'S EXPLANATIONS. IT WAS AGREED TO CONFIRM THE JANUARY DECISION, AND TO INVITE THE COMMISSION TO IMPLEMENT IT STRICTLY AND CAREFULLY.

DETAIL

2. GUNDELACH SAID THAT THE COMMISSION WERE CARRYING OUT LAST MONTH'S COUNCIL DECISION IN THE SPIRIT AND THE LETTER. ITS KEY ELEMENTS WERE NON-SUBSTITUTION AND TRADITIONAL TRADE FLOWS. HE ALSO HAD A DUTY TO MANAGE THE MARKET IN THE INTEREST OF ECONOMY. THIS WAS VITAL WHEN THE US MEASURES HAD CAUSED CONFUSION AND SPECULATION.

3. FOR CEREALS, MONITORING ARRANGEMENTS HAD BEEN INTRODUCED WITH THE AGREEMENT OF THE MANAGEMENT COMMITTEE. THE COMMUNITY'S TRADITIONAL EXPORTS TO THE USSR WERE A

FEW HUNDRED THOUSAND TONNES OF BARLEY. THERE HAD BEEN CONSIDERABLE SALES OF BARLEY AT THE BEGINNING OF JANUARY, MUCH OF IT PROBABLY TO THE USSR. PREFIXATION WOULD REMAIN SUSPENDED UNTIL THIS WAS CLARIFIED.

4. FOR MEAT, ESPECIALLY POULTRY, THERE WAS A RISK OF SUBSTITUTION FOR US SALES. MONITORING MEASURES, INCLUDING THE FIVE-DAY RULE, HAD BEEN INTRODUCED.

5. SKIMMED MILK POWDER WAS A SUBSTITUTE FOR SOYA AS ANIMAL PROTEIN. THERE WAS NO TRADITIONAL COMMUNITY TRADE TO THE USSR, AND IT WOULD BE WRONG TO ALLOW ANY TO START. MONITORING HAD BEEN ESTABLISHED WITH THE AGREEMENT OF THE MANAGEMENT COMMITTEE.

6. BUTTER WAS NOT A SUBSTITUTE FOR ANIMAL FEED. TO A LIMITED EXTENT IT COULD REPLACE SOYA OIL FOR HUMAN CONSUMPTION, BUT THAT PRODUCT WAS NOT CAUGHT BY THE US EMBARGO. THE COMMISSION MUST RESPECT TRADITIONAL TRADE FLOWS. THERE HAD BEEN VERY LARGE DEMANDS FOR PREFIXATION IN THE FIRST WEEKS OF THE YEAR, MUCH OF IT FOR THE USSR. SALES FIGURES, EXTRAPOLATED OVER A FULL YEAR, COULD HAVE REACHED THREE OR FOUR TIMES THE PREVIOUS MAXIMUM. HENCE PREFIXATION HAD BEEN SUSPENDED, A FIVE-DAY RULE INTRODUCED, AND A TENDER SYSTEM ESTABLISHED WHICH CONTROLLED BOTH PRICE AND QUANTITY. WITHOUT THIS, THERE WOULD HAVE BEEN A GRAVE RISK OF SELLING VERY LARGE QUANTITIES AT UNREASONABLY LOW PRICES. BEARING IN MIND THE POLITICAL SENSITIVITIES, THERE WOULD THEN HAVE BEEN A STORM OF JUSTIFIED CRITICISM. ONCE TRADE CONDITIONS WERE NORMAL, TENDERS WOULD BE OPENED FOR LIMITED QUANTITIES OF INTERVENTION BUTTER FOR THE USSR. LATER, SALES OF OTHER TYPES MIGHT BE RESUMED, WITHIN THE CONSTRAINTS OF THE COUNCIL DECISION. THE COUNCIL COULD LAY DOWN BROAD PRINCIPLES. BUT DAY-TO-DAY DECISIONS WERE FOR THE COMMISSION IN CONSULTATION WITH THE MANAGEMENT COMMITTEES.

7. I RECALLED THAT THE UK WAS NOT IN FAVOUR OF ANY SUBSIDISED SALES TO THE USSR AT PRESENT. WE WOULD HAVE BEEN READY TO GO FURTHER ON AGRICULTURAL EXPORTS, BUT THE 15 JANUARY CONCLUSIONS WERE A NECESSARY MINIMUM WHICH MUST BE STRICTLY APPLIED.

8. THE COMMUNITY SHOULD HAVE ITS OWN DISTINCTIVE RESPONSE TO EVENTS IN AFGHANISTAN. THERE SHOULD BE NO UNRECIPROCATED ECONOMIC BENEFITS FOR THE USSR. THIS WAS IN LINE WITH PUBLIC OPINION, AS REFLECTED IN THE EUROPEAN PARLIAMENT. SUBSIDIES PAID ON AGRICULTURAL PRODUCE WERE POCKETED BY THE SOVIET GOVERNMENT. WE RECOGNISED THE IMPORTANCE AND SENSITIVITY OF THE SUBJECT FOR MEMBER STATES WITH TRADITIONAL AGRICULTURAL TRADE WITH THE USSR. IT WAS NOT OUR INTENTION TO USE AFGHANISTAN TO UNDERMINE THE CAP. WE UNDERSTOOD THAT OTHER MEANS OF SURPLUS DISPOSAL MIGHT BE NEEDED IF SALES TO THE USSR WERE LIMITED.

9. THE IMMEDIATE NEED WAS FOR STRICT IMPLEMENTATION OF LAST MONTH'S DECISION. THERE WERE A NUMBER OF ELEMENTS.

- A) THE SCOPE FOR SUBSTITUTION. THE COMMISSION HAD MADE CLEAR THAT THIS WAS QUITE WIDE. COULD THEY LET US KNOW HOW THEY SAW US MEASURES AFFECTING SOVIET BEHAVIOUR IN THE MARKET?
- B) TRADITIONAL TRADE. THIS WAS NORMALLY RELATED TO FIGURES FOR RECENT YEARS, EVEN THOUGH MATTERS WERE COMPLEX WHERE TRADE WAS ERRATIC. COULD THE COMMISSION GIVE A FIGURE FOR TRADITIONAL TRADE WITH THE USSR IN EACH MAIN PRODUCT? WITHOUT THIS, COMMISSION PROPOSALS IN MANAGEMENT COMMITTEES COULD NOT BE PROPERLY CONSIDERED.
- C) SALES COMMITTED FOR 1990. WHEN APPLYING THE TRADITIONAL TRADE PRINCIPLE, WE MUST DEDUCT SALES TO USSR ALREADY COMMITTED FOR 1990. COULD THE COMMISSION ESTIMATE THESE FOR EACH MAIN PRODUCT? WE WELCOMED COMMISSION RECOGNITION OF THE NEED IN THE PRESENT MARKET SITUATION TO SELL AT THE HIGHEST POSSIBLE PRICES.

D) MONITORING. IT WAS ESSENTIAL TO ESTABLISH MONITORING SYSTEMS FOR ALL MAIN AGRICULTURAL EXPORTS TO THE USSR IF TRADITIONAL TRADE WAS TO BE OBSERVED. WE WELCOMED THE COMMISSION MEASURES TO DATE.

10. FINALLY I SUGGESTED THAT TO PREVENT OTHER WESTERN SUPPLIERS BENEFITTING AT THE COMMUNITY'S EXPENSE, THE COMMISSION SHOULD HOLD INFORMAL DISCUSSIONS WITH THEM. THE AIM WOULD BE COMMON UNDERSTANDING ON THE OBSERVANCE OF TRADITIONAL EXPORT LEVELS, AND ON THE POSSIBILITY OF CONCERTED PRICE INCREASES.

11. BERNARD-REYMOND (FRANCE) IN A SUBDUED INTERVENTION, FOUND THE COMMISSION'S IDEA OF NON-SUBSTITUTION UNREASONABLY WIDE, IF IT HAD LED TO A SUSPENSION OF BUTTER SALES. HE WOULD LIKE TO BE SURE THAT THE COMMISSION'S ACTIONS WERE FULLY JUSTIFIED ON TECHNICAL GROUNDS, AND THAT THERE WAS NO ROOM FOR DIFFERENCES OF INTERPRETATION OF LAST MONTH'S DECISION. HE WAS SUPPORTED BY BURKE (IRELAND) WHO WELCOMED GUNDELACH'S ASSURANCE THAT THE RESUMPTION OF BUTTER SALES WAS NOT RULED OUT.

12. GUNDELACH SAW NO DANGER OF DIFFERENT INTERPRETATIONS. CONTROL SYSTEMS WERE NOW IN PLACE FOR ALL RELEVANT PRODUCTS. THERE WAS STRONG SOVIET DEMANDS FOR ANIMAL FODDER OF ALL KINDS. COMMISSION ACTIONS ON BUTTER HAD BEEN TAKEN FOR MARKET AND TRADITIONAL TRADE REASONS: THEY HAD NOTHING TO DO WITH SUBSTITUTION. THE COMMISSION WERE WORKING CLOSELY WITH NEW ZEALAND ON MILK PRODUCTS, AND WITH THE US AND AUSTRALIA ON MEAT. THIS WAS IN ADDITION TO THE ARRANGEMENTS BETWEEN CEREALS EXPORTERS.

13. IT WOULD NOT BE GOOD MARKETING PRACTICE TO PUBLISH A TARGET FIGURE FOR TRADE IN MAJOR COMMODITIES. LEVELS OF TRADITIONAL TRADE COULD BE SEEN BY LOOKING AT FIGURES FOR THE LAST THREE OR FOUR YEARS (HE LATER SHADED THIS TO TWO). WHERE TENDER SYSTEMS WERE IN FORCE MEMBER STATES COULD APPLY THEIR OWN IDEA OF TRADITIONAL TRADE BY THEIR VOTES IN MANAGEMENT COMMITTEES. HE WOULD PROVIDE AN ESTIMATE OF THE QUANTITIES OF MAJOR PRODUCTS ALREADY SOLD IN 1982. IN ANSWER TO A GERMAN QUESTION, HE SAID THAT EXPORT PRICES TO THE USSR WERE THE SAME AS THOSE FOR OTHER THIRD COUNTRIES. THE SYSTEM BENEFITTED BOTH BUYER AND SELLER.

14. SUMMING UP, RUFFINI (ITALIAN CHAIRMAN) SAID THAT THE COUNCIL CONFIRMED ITS DECISION OF 15 JANUARY, AND INVITED THE COMMISSION TO IMPLEMENT IT STRICTLY AND CAREFULLY.

FCO ADVANCE TO:-

FCO - PS/S OF S, PS/LPS, PS/PUS, BRIDGES BULLARD HANNAY FITZHERBERT
BUDD (EID/E) HD/TPED, HD/EESD, HAZLE (EID/I)

CAB - FRANKLIN ELLIOTT BIRCH

MAFF- PARKHOUSE

FCO PASS SAVING BUENOS AIRES

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Envo. Paul

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



From the Minister

The Rt Hon Sir Ian Gilmour Bt MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
London SW1

4 February 1980

*MBAL
Pmt - 4/2*

[Handwritten signature]

EEC AGRICULTURAL EXPORTS TO THE SOVIET UNION

Thank you for your letter of 30 January.

I am sorry that you see no prospect of the Foreign Affairs Council being persuaded to toughen up its conclusions of 15 January. But I do of course appreciate the difficulties and I accept your assessment of the position. In the circumstances I entirely agree that we must do all we can to ensure the rigorous application of the line the Council has agreed.

I very much hope that the reported attitude of the President of the Commission will result in a more robust approach by the Commission. Some progress was made on butter last week. But much will depend on how "traditional trade" is interpreted and reports that Gundelach may be thinking of butter sales of 60,000 to 80,000 tonnes this year suggest that we have a long way to go. For many products, including beef and poultrymeat, the Commission so far show no readiness to create a special zone for Russia. Indeed they have made it plain in the Management Committee that they have no intention of proposing a special monitoring or zoning system for sugar. Without a fresh political directive for a product such as sugar, the present Commission attitude, as we see it in practice, means that there is no prospect of taking even a step in the right direction.

I am glad that you agree that at the next Foreign Affairs Council we should set out our position clearly. It is essential that other Member States and the Commission should be fully aware that our wish to see an end to all subsidised sales to Russia will be reflected in our actions in the Management Committees. This will help our efforts to ensure that strict implementation of the Council's conclusions.

But however firm a line the Commission can be persuaded to take on "traditional trade" or on monitoring arrangements the fact remains that they will not be induced to go further than the Council decision. It must therefore be clearly recognised that without a change in the Council's attitude there is no chance of ending subsidised sales of food to Russia.

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

A handwritten signature in dark ink, consisting of several fluid, overlapping loops and a final flourish that extends to the right.

PETER WALKER

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- MR MURRAY
- MR BULLARD
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Sir A. Adland

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ASSESSMENT STAFF
CABINET OFFICE

REPOSITION EDCI

MATT

*I have underlined the sentences in
Mr. Ponsard's statement which gave rise
to the E. Standards Committee's remarks
about whether the head lines were justified*

MR AUST LEGAL ADVISER

I agree with

And

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TO IMMEDIATE FCO
TELEGRAM NUMBER 607 OF 31 JAN
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IMMEDIATE

ADVANCE COPY

1. MIPT. TEXT OF PRESIDENT OF COMMISSION'S STATEMENT IS AS FOLLOWS:

QUOTE.

THERE HAS BEEN AGREEMENT IN ALL INSTITUTIONS OF THE COMMUNITY AND THROUGHOUT THE WESTERN WORLD IN CONDEMNING THE SOVIET TAKEOVER OF AFGHANISTAN. I DO NOT THEREFORE THINK THAT I NEED TO REPEAT THE ALMOST UNANIMOUS VIEWS WHICH WE HOLD ABOUT THE EVENTS OF A MONTH AGO. THE EUROPEAN PARLIAMENT PASSED AN IMPRESSIVELY WORDED RESOLUTION ON THE SUBJECT WHICH I KNOW FROM MY OWN VISIT TO WASHINGTON PREPARED A JOYEUSE ENTREE FOR YOUR PRESIDENT, MADAME VEIL, A FEW DAYS LATER.

YOU KNOW THAT AT THEIR FIRST MEETING AFTER CHRISTMAS THE MEMBER STATES OF THE COMMUNITY ON 15TH JANUARY ISSUED, A STRONG RESOLUTION CONDEMNING THE SOVIET INTERVENTION IN AFGHANISTAN.

YOU KNOW THAT AT THEIR FIRST MEETING AFTER CHRISTMAS THE MEMBER STATES OF THE COMMUNITY ON 15TH JANUARY ISSUED, A STRONG DECLARATION CONDEMNING THE SOVIET INTERVENTION IN AFGHANISTAN. THIS WAS UNAMBIGUOUS AND DEMONSTRATED THE SOLIDARITY OF THE WEST IN GENERAL AND THE COMMUNITY IN PARTICULAR TOWARDS THE SOVIET UNION.

THE COMMUNITY AS SUCH HAS ALSO WASTED NO TIME IN REACTING WITHIN ITS AREA OF COMPETENCE. ALREADY IN THE FIRST WEEK OF JANUARY THE COMMISSION EXERCISED ITS RESPONSIBILITY FOR MANAGING THE MARKET, IN CLOSE CONSULTATION WITH THE MEMBER STATES, BY

- STOPPING THE FOOD AID PROGRAMME FOR AFGHANISTAN AS THE CONDITIONS FOR ITS DISTRIBUTION TO THE POPULATION, RATHER THAN TO THE OCCUPYING FORCES, COULD NOT BE GUARANTEED;
- TAKING ADMINISTRATIVE ACTION, PENDING CONFIRMATION, WHICH WAS SUBSEQUENTLY FORTHCOMING BY THE COUNCIL, TO ENSURE THAT THERE IS NO REPLACEMENT FROM COMMUNITY STOCKS OF AGRICULTURAL PRODUCTS WHOSE EXPORT TO THE SOVIET UNION THE UNITED STATES HAD BANNED;
- CONSIDERING IMMEDIATELY FAVOURABLY THE URGENT DEMAND PRESENTED BY THE U.N. HIGH COMMISSIONER FOR REFUGEES FOR IMMEDIATE AID FOR AFGHAN REFUGEES IN PAKISTAN.

THE COMMISSION IS PROPOSING TO THE MEMBER STATES THAT 10 MUA SHOULD BE SET ASIDE FOR THIS PURPOSE.

THESE DECISIONS AS YOU KNOW WERE CONFIRMED BY THE COUNCIL OF MINISTERS OF 15 JANUARY, WHO LAID DOWN THE PRINCIPLE THAT THE COMMUNITY WOULD NOT REPLACE EITHER DIRECTLY OR INDIRECTLY UNITED STATES' SUPPLIES FOR THE SOVIET MARKET. THE COUNCIL REQUESTED THE COMMISSION TO TAKE THE NECESSARY STEPS TO ENSURE THE IMPLEMENTATION OF THIS POLICY AND TO PROPOSE MEASURES FOR OTHER AGRICULTURAL PRODUCTS, WHILE RESPECTING TRADITIONAL PATTERNS OF TRADE.

LET ME NOW TURN IN MORE DETAIL TO THE ACTION WE HAVE TAKEN IN THE AGRICULTURAL FIELD. I MAKE TWO PRELIMINARY POINTS:

FIRST, WE MUST BEAR IN MIND THAT IN CERTAIN RESPECTS OUR SITUATION IS DIFFERENT FROM THAT OF THE U.S. IN AGRICULTURAL TRADE WITH THE SOVIET UNION. THE AMERICANS ACTUALLY HAVE A BILATERAL AGREEMENT ON GRAINS, AND THEY EXPORT VIRTUALLY NO OTHER AGRICULTURAL PRODUCTS TO RUSSIA. FOR THEM, THEREFORE, THE BENCHMARK IS RELATIVELY SIMPLE: IT IS THE FIGURE OF 8 MILLION TONS, WHICH THEY ARE RESPECTING. WE, ON THE OTHER HAND, HAVE NO BILATERAL

RELATIVELY SIMPLE: IT IS THE FIGURE OF 8 MILLION TONS, WHICH THEY ARE RESPECTING. WE, ON THE OTHER HAND, HAVE NO BILATERAL AGREEMENT, OUR EXPORTS TO RUSSIA INCLUDE SEVERAL DIFFERENT CROP AND LIVESTOCK PRODUCTS, AND THE VOLUME OF THESE EXPORTS HAS VARIED GREATLY OVER RECENT YEARS. IT IS THEREFORE FAR LESS SIMPLE TO FIX A BENCHMARK FOR OUR POLICY.

SECOND, THERE IS A DISTINCTION TO BE MADE BETWEEN THE MECHANISMS FOR MONITORING THE DESTINATIONS OF OUR EXPORTS, AND THE LIMITS WHICH WE WISH TO PUT TO OUR EXPORT TO THOSE DESTINATIONS. THE FIRST IS A QUESTION OF ADMINISTRATIVE PRACTICE, AND THE SECOND IS A MATTER OF POLITICAL AND COMMERCIAL JUDGMENT.

ON THE ADMINISTRATIVE PRACTICES, I AM NOT GOING TO RECITE TO YOU A CATALOGUE OF THE DIFFERENT MEASURES, SUCH AS EXPORT CERTIFICATES, PREFIXATION OF RESTITUTIONS, OR ADJUDICATION, THAT WE HAVE ADOPTED FOR THE DIFFERENT PRODUCTS. I AM SIMPLY GOING TO SAY THAT I AM SATISFIED, AND FINN GUEDELACH IS SATISFIED, THAT, FOR ALL THE PRODUCTS WHERE IT IS NECESSARY, WE HAVE THE NECESSARY INSTRUMENTS TO MONITOR EXPORTS AND IF NECESSARY TO KEEP THEM WITHIN LIMITS. WE SHALL KEEP THESE ADMINISTRATIVE MEASURES UNDER REVIEW, AND ADAPT THEM AS THE SITUATION DEMANDS. FOR EXAMPLE, THIS WEEK WE ARE TIGHTENING UP THE MILK PRODUCTS SYSTEM IN VARIOUS WAYS. THERE WILL NO LONGER BE EXPORT RESTITUTIONS FOR FRESH BUTTER TO THE USSR, BUT A SYSTEM OF EXPORT TENDERS FOR STOCKPILE BUTTER. THIS WILL PERMIT US TO KEEP A STRICT CONTROL, AND IN FACT WE ANTICIPATE NO EXPORTS OF BUTTER TO THE SOVIET UNION IN THE NEAR FUTURE.

ON THE TARGETS AT WHICH WE ARE AIMING, LET ME RECAPITULATE WHAT OUR RECENT AGRICULTURAL EXPORTS TO THE SOVIET UNION HAVE BEEN. I LIMIT THIS TO THE SOVIET UNION IN ORDER TO SIMPLIFY MATTERS, BUT IT IS OBVIOUS THAT WE MUST TAKE ACCOUNT IN OUR MONITORING SYSTEM OF THE OTHER EASTERN EUROPEAN COUNTRIES, THROUGH WHICH THE SOVIETS MIGHT TRY TO OBTAIN ADDITIONAL SUPPLIES FROM US INDIRECTLY. I ALSO LEAVE OUT THE YEAR 1979, FOR WHICH FULL STATISTICS ARE NOT YET AVAILABLE.

FOR WHEAT, WE EXPORTED NEGLIGIBLE QUANTITIES FOR A FEW HUNDRED TONNES IN SOME OF THE YEARS 1974 - 78. FOR BARLEY WE EXPORTED QUANTITIES VARYING FROM 440 THOUSAND TONNES IN 1976 TO 200 TONNES IN 1977. WE EXPORTED SMALL QUANTITIES OF OTHER CEREALS, SUCH AS RYE AND MAIZE, IN SOME YEARS. WE SUPPLIED SIGNIFICANT QUANTITIES OF MALT, VARYING FROM 109,000 TONNES IN 1974 TO 31,000 TONNES IN 1977. WE EXPORTED 69,000 TONNES OF BEEF IN 1974, BUT LESS IN SUBSEQUENT YEARS. POULTRY HAS VARIED

OF BEEF IN 1974, BUT LESS IN SUBSEQUENT YEARS. POULTRY HAS VARIED FROM ZERO IN 1975 TO 69,000 TONNES IN 1977. THERE WERE EXPORTS OF 2,000 TONNES OF BUTTER IN 1974, 49,000 TONNES IN 1977, 21,000 TONNES IN 1978 (AND 140,000 TONNES IS ESTIMATED FOR 1979). THERE WERE SMALL QUANTITIES OF WINE IN 1974 - 77 AND RATHER MORE IN 1978.

YOU WILL SEE FROM THE STATISTICS WHICH I HAVE QUOTED THAT OUR TRADE PATTERN WITH THE USSR HAS BEEN HIGHLY ERRATIC. INDEED, BOTH WE AND THE AMERICANS HAVE SUFFERED COMMERCIALY FROM THE UNRELIABLE AND UNPREDICTABLE NATURE OF SOVIET DEMAND FOR THESE PRODUCTS. IT IS NOT THEREFORE USEFUL TO PICK OUT A FIGURE FOR A PARTICULAR YEAR, OR AN AVERAGE FIGURE FOR A PERIOD OF YEARS, AND TO SAY THAT IT REPRESENTS THE TRADITIONAL LEVEL OR TARGET TO WHICH WE SHOULD ADHERE. IT WILL BE A MATTER OF JUDGMENT FOR EACH PRODUCT.

WHAT I WILL SAY IS THIS. UNLESS AND UNTIL THE SOVIET AGGRESSION IN AFGHANISTAN IS ENDED, OUR EXPORTS OF AGRICULTURAL PRODUCE TO THE USSR WILL NOT EXCEED WHAT WE JUDGE TO BE TRADITIONAL QUANTITIES. IN NO CASE WILL THERE BE LARGE EXPORT DEALS AT SPECIAL PRICES, OF THE TYPE WHICH HAPPENED IN 1973. WE SHALL ENSURE THAT SALES ARE MADE IN CONTROLLED QUANTITIES AND AT REALISTIC PRICES.

AS YOU KNOW, I WAS ABLE TO VISIT THE UNITED STATES LAST WEEK FOR TALKS WITH PRESIDENT CARTER AND MEMBERS OF THE ADMINISTRATION AT A TIME WHEN THE AMERICANS ARE ALREADY CONSIDERING THE NEXT STEPS IN THEIR REACTION TO AFGHANISTAN. I AM HAPPY TO BE ABLE TO TELL YOU THAT THE UNITED STATES EXPRESSED SATISFACTION WITH THE ACTION TAKEN SO FAR BY THE COMMUNITY, PARTICULARLY IN THE POLITICAL AND AGRICULTURAL FIELDS, BUT DID EXPRESS THE HOPE THAT WE CONSIDER FURTHER STEPS, NOTABLY IN THE FIELD OF COMMON ACTION TO CONTROL THE GRANTING OF OFFICIAL EXPORT CREDITS TO THE SOVIET UNION. THIS THE COMMISSION AND THE COUNCIL ARE CURRENTLY STUDYING.

ENDS.

FCO PASS ADVANCE COPIES TO:-

FCO POSTON

CAB

MAFF

FCO PASS SAVING UKDEL STRASBOURG.

BUTLER.



Prime Minister

~~XXXXXXXXXX~~

Hand 3/1

There is a disagreement between the Foreign & Commonwealth Secretary & Mr Walker about how to play the hand at the Foreign Affairs Council. In the end I think we have to accept Lord Carrington's proposal since it is his meeting. He will obviously assume that his colleagues are in no doubt about your views. Mr Pennington's intentions are helpful.

Foreign and Commonwealth Office
London SW1

30 January 1980

Discussed with the Prime Minister who agrees.

The Peter,

Hand

Lt. Hand 1/2

EEC AGRICULTURAL EXPORTS TO THE SOVIET UNION

Thank you for your reply of 28 January to my letter of 21 January.

As regards the immediate problem of action in the Management Committees I am quite content with the line suggested in paragraph 9 of your letter.

Turning to your general assessment of the situation, you are of course right to suggest that the conclusions of the 15 January Foreign Affairs Council fell some way short of what we would ideally have wanted. We pressed hard for action going beyond 'non-substitution' for US supplies, but had practically no support and were forced to settle, faced with strong French and Irish opposition, for the best we could get.

I think we must face the fact that if we make a major point at the 4/5 February Foreign Affairs Council of returning to the charge on this question we shall not only fare no better but - in my judgement - risk so irritating other Member States that we would reduce even further the chances of securing worthwhile follow-up to the decisions taken by the January Foreign Affairs Council. Let us by all means restate our wish to see an end

/to

The Rt Hon Peter Walker MBE MP
Minister for Agriculture, Fisheries & Food
Whitehall Place, SW1

CONFIDENTIAL

to all subsidies on agricultural exports to the Soviet Union, but let us place the main emphasis on the need for meticulous and energetic implementation of the line already agreed.

In any case I think that it may be unnecessarily pessimistic to conclude (paragraph 7 of your letter) that there is no prospect of achieving what we want in the Management Committees unless there is a fresh political directive from the Council. In COREPER and the Council we can make no headway without achieving unanimity, but in the Management Committees Commission proposals go forward unless opposed by a qualified majority. If the Commission are helpful we therefore stand a real chance of making at least some progress; and there is already evidence (e.g. UKREP Brussels telno 568) of support in the Commission for what we have in mind.

A further sign of this is the fact that in certain sectors (notably butter and poultry meat) the Commission have now at our behest taken action to revise their existing procedures so as to permit closer control of arrangements for refunds on exports to the Soviet Union. I am therefore less pessimistic on this aspect than paragraph 9(d) of your letter suggests. If we maintain pressure on the Commission we may gain further ground. Paragraph 2 of UKREP Brussels telno 568 reports that the President of the Commission has returned from his recent talks with President Carter intent on taking a tough line on export subsidies for the USSR.

I conclude that for the present at least we should continue to work towards our objective by keeping up the pressure on the Commission and Member States at working level and that we should not put at risk the progress we may thereby be able to make by trying (almost certainly unsuccessfully) to reopen the 15 January Council decision.

I am sending copies of this letter to the recipients of yours.

gm ✓
lan

CONFIDENTIAL



131 JAN 19 1940



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

From the Minister

CONFIDENTIAL

The Lord Carrington, PC, KCMG, MC,
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON SW1

28 January 1980

Not copied to No 10. We will request if you require.

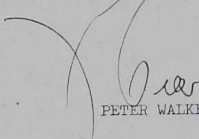
RB

COMMUNITY AGRICULTURAL EXPORTS TO THE SOVIET UNION

1. Thank you for your letter of 21 January summarising the action now being taken following the decisions of the Foreign Affairs Council on 15 January.
2. Your letter and telegrams No. 476 and 477 from UKREP reinforce my growing concern that realisation of the United Kingdom's agreed aim is being put at risk by the conclusions of the Foreign Affairs Council of 15 January. Our policy is clear : to oppose refunds on Community exports to the Soviet Union of sugar, butter and meat - to which I would add of course cereals and, as indicated in the conclusions of the OD meeting on 22 January, any other agricultural products exported to Russia. But most unfortunately the Council conclusions lay down criteria which are thwarting our efforts to achieve the United Kingdom's aim.
3. First, the principle that Community supplies should not replace banned US sales is being taken by the Commission and other Member States to mean that if the US has not exported a particular product to the Soviet Union there is no case for Community action, unless the product can be regarded as a substitute for lost US supplies. Examples of this are sugar and wine which the US does not export to Russia.
4. Secondly, the concept of respecting traditional trade flows is being applied in such a way that it is not compatible with our policy that subsidised sales should stop altogether. The Commission, again supported by most other Member States, argue that the Council has in effect agreed that subsidised sales may continue up to the level of traditional exports. An example is barley where the Commission do not exclude the possibility of a special tender for Russia based on the average of Community sales over recent years. Those opposed to our position point out that the US itself is allowing grain sales up to the maximum level envisaged under the US/USSR long term agreement.

5. Given the Council conclusions, my officials in the Management Committees are in a very difficult position in seeking to pursue policy aims which go further than the Council conclusions. As a result, they are now being charged by the Commission and some other Member States with being out of step with what the Council has decided and with attempting to reopen political questions on which Ministers have already reached a view. In this connection I would stress that it is contrary to our general interest to encourage the raising of points in the Management Committees which have already been decided at Council level. The result of all this is that we gain no allies and risk losing the possibility of persuading the Commission and other Member States to agree to measures which may at least go some way in the right direction.
6. In these circumstances voting against, or even abstaining on, a proposal in the Management Committees will often be no more than a gesture. But it could be positively harmful to United Kingdom interests. For example, if because of our opposition to any refunds for Russia, we were not prepared to vote for a proposal to reduce the level of refunds on butter sales to Russia, our opposition - or even abstention - might, given the position of other Member States, result in a negative 'avis' which could leave the export refund at its present high level.
7. Regretfully I am bound to conclude that there is no prospect of achieving what we want in the Management Committees unless there is a fresh political directive from the Council. I see therefore no alternative to raising the matter at the next Foreign Affairs Council with a view to changing the conclusions of 15 January.
8. Until we succeed in persuading the Council to change its position we must, as suggested in UKREP telegram No. 477, make the best we can of the existing Council conclusions. This means, I think, that, while we should reaffirm in COREPER our opposition to all subsidised sales to Russia, our representatives in the Management Committees should continue to do all they can to limit the quantities sold to Russia with refunds as well as to reduce the level of the refunds. In building on the Council conclusions they should make the maximum use of the principle of non-substitution, traditional trade flows and the market situation.
9. I propose therefore that we modify and amplify the present instructions so that my officials act as follows in the Management Committees :
 - (a) seek a broad definition of substitution in order to make liable to restrictive measures as many subsidised products as possible;

- (b) argue for the lowest possible figure for traditional trade; for example, in some cases we may be able to demonstrate that contracts already concluded by the Russians since 1 January 1980 go far towards reaching for this year the level of traditional trade;
 - (c) normally vote for changes in the market mechanisms which improve monitoring or control even if they do not go as far as we should like;
 - (d) vote against refunds in those cases where the Soviet Union is treated individually; (but without a change in the Council conclusions there is little chance of the existing arrangements being modified so as to permit a separate vote on refunds for Russia); and
 - (e) abstain on proposals for refunds which include the USSR where a negative vote would mean voting against a reduction in the level of refunds or would adversely affect important UK interests; but I would not exclude the possibility of our voting for a proposal to lower the refund rate (for example, the case of butter referred to in paragraph 6 above).
10. I should be glad to know if you and our colleagues agree with this approach. Meanwhile I am instructing my officials to act on the lines set out in the preceding paragraph.
11. I am sending a copy of this letter to the Prime Minister, members of OD(E) and to Sir Robert Armstrong.



PETER WALKER



29 JAN 1977

George Blay

CONFIDENTIAL



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DS

10 DOWNING STREET

From the Private Secretary

11 October 1979

Sales of Butter to the USSR

The Prime Minister has seen your Minister's memorandum of 8 October on this subject. She has taken note, with approval, of the line Mr. Walker proposes to take at the next meeting of the Agriculture Council.

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

M. O'D. B. ALEXANDER

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

CONFIDENTIAL

GRM

two for

CONFIDENTIAL

Ref. A0399

MR. ALEXANDER

Sales of Butter to the USSR

The Minister of Agriculture has now circulated OD(E)(79) 34 in response to the suggestion in the third paragraph of your letter of 24th September to Mr. Waters. Because of the Party Conference it will not be possible to arrange an OD(E) meeting to discuss it before next week's Agriculture Council. Members of the Sub-Committee have been asked to comment by close of play on 11th October.

2. Mr. Walker proposes to raise this issue again at the 15th-16th October Agriculture Council. If, as expected, he gets no support for a ban on these exports, he will propose a change in the export arrangements for dairy products limiting the present freedom of traders to export any quantities they wish, an urgent re-examination of current export refund levels, and a better balance in disposals between fresh butter and old stocks. For the longer term, he will urge effective measures to cut surpluses in the dairy sector.

3. Any attempt unilaterally to impose an export ban on our traders would be subject to challenge in the European Court. An effective ban in the United Kingdom alone would in any case be difficult to impose, since it is believed that most United Kingdom butter which ends up in the USSR is shipped to the Netherlands and re-exported from there.

4. Agreement on the introduction of a Community system of export licensing has been reached, but this is to enable refunds in respect of exports to third countries to be adjusted quickly if necessary rather than to facilitate a ban on exports to the USSR. There is no Commission proposal to discriminate in any way as between various destinations of dairy products. This being the case, the most effective action would be a sharp reduction in export refunds on all exports to third countries, which will be strongly resisted by the French, Dutch, Danes and Irish. A reduction in the export refunds - like the exports to

CONFIDENTIAL

USSR themselves - eases the pressure on third markets to the benefit of New Zealand. On the other hand, our criticism of export sales will strengthen the opportunity of the same member States to continued access for New Zealand butter imports into the Community market, now under discussion in Brussels.

5. The short answer is that the elimination of subsidised exports to the USSR depends on reducing the Community dairy surplus e.g. through a budgetary constraint on CAP expenditure of the kind the Prime Minister discussed with the Italians last week. Meanwhile, Mr. Walker's proposed line for the 15th-16th October Agriculture Council will make our opposition to these sales plain, both to the other member States and domestically.

MJV.

(M. J. Vile)

11th October, 1979

Euro P81. JFA



10 DOWNING STREET

From the Private Secretary

24 September 1979

Dear Garth,

Sales of Butter to the USSR

The Prime Minister has seen the Minister of Agriculture's minute of 21 September on this subject.

With reference to Mr. Walker's conclusion that if the butter deal goes ahead HMG will have no option but to release the butter from intervention, the Prime Minister has commented that such sales are politically unacceptable in this country. In her view we are paying high prices for butter here in order to provide it cheaply for the Russians and this cannot go on. Either the matter will have to be raised at the next Council of Ministers (Agriculture) or at the Summit in Dublin.

I understand that there will be an informal meeting of Agriculture Ministers later this week. Whether or not Mr. Walker raises the matter then, he may wish in the light of the Prime Minister's views to submit a paper on possible courses of action to an early meeting of OD(E).

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Bill Beckett (Law Officers' Department) and Martin Vile (Cabinet Office).

Yours ever

Richard Alexander

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

hw



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

2

From the Minister

Prime Minister

PRIME MINISTER

Print - 21/9

SALES OF BUTTER TO THE USSR

In view of the recent public interest in this subject, I think I should record that our own Intervention Board have received an enquiry from a UK firm who are apparently interested in exporting to the Soviet Union some 10-15,000 tonnes of butter currently held in public intervention in this country.

2. Our latest information is that the prospects of the deal going through are fairly remote. Nevertheless, given that it is clearly undesirable for any butter to be exported from here to the Soviet Union with the aid of a subsidy, I have been looking at our powers to stop such a transaction. The position is as follows. I do have certain powers to issue directions to the Intervention Board. However, I cannot legally do this if the direction I give is contrary to an EEC law which is directly applicable in the UK. The Regulation governing sales of butter from intervention is of course directly applicable, and moreover allows no discretion to intervention authorities to refuse a sale to an applicant who complies with the various conditions laid down. My conclusion therefore is that, if the deal does go ahead, we will have no option but to release the butter from intervention.

3. I am copying this minute to the Foreign and Commonwealth Secretary, the Attorney General and Sir John Hunt.

We cannot go on like this. These sales are politically unacceptable in this country. We pay high prices for butter here to provide it - cheap for the Russians. Little the better must be raised in the Agricultural Council in the Council of Ministers. not

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

C. R. Waters
G R WATERS
Principal Private Secretary
21 September 1979

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21 SEP 1979

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PRIME MINISTER

K.
P.M.S.BUTTER SALES TO THE SOVIET UNION

You saw a minute by the Ministry of Agriculture, Fisheries and Food on this subject last week. You also saw, I think, the reports in the press over the weekend which appeared to confirm that negotiations were going ahead for a sale of butter and which reported the criticisms made by the Minister of Agriculture of the proposed sale.

The Commissioner for Agriculture, Mr. Gundelach, called on Mr. Walker this morning. He denied that any special deal was taking place for the sale of EEC butter to the Soviet Union. He said that it was possible that some small ad hoc sales were being made, but was certain no major deal was under negotiation. It followed that the reports in the press about Mr. Gundelach having intervened to block the sale were equally incorrect. Mr. Gundelach commented that an exactly similar story had been run in the press about the same time last year. It had equally little substance then.

The foregoing, while welcome news, does not of course affect the issue of principle with which you have difficulty and which you have said you would like to pursue further at some stage, viz that the only way to stop a major sale to the Soviet Union would be to suspend export refunds and that the UK are unlikely to get sufficient support in trying to do this.

out

P.M.S.

11 September 1979

Current 8.9.79.

The unions' official position is that they already have an agreement...

Insurance plan

The idea is so absurd if they really mean what they say, but puts the strike weapon in a new context...

armoury if persuasion rather than many unions are likely to go it alone.

In a party political broadcast last night Mr Prior said: "There has been a lot of talk this week about conflict between the Government and the TUC."

"But it's not a question of conflict. The country doesn't want conflict. The shop floor doesn't want conflict. That's very clear from the public opinion polls that have been published this week. No one is spilling for a fight."

In an interview on commercial radio last night, Mr Prior said he was trying to think of ways in which pickets would not face prison if they practised "secondary picketing."

lowered evidence that a coroner on the ground floor was locked at the time of the fire. He said: "In the event, this did not

the fund set up by Manchester Corporation for the victims' were exaggerated.

Butter sale blocked

The sale of tons of cheap European butter to Russia has been blocked, following fierce protests in Britain. European Agriculture Commissioner Gundelach confirmed that negotiations were going ahead for the sale but said it would not be authorised until the European Parliament had had the chance to declare its view.

alarm fell in Britain at the sale. But the commissioner insisted that prospects for the size of the butter mountain were exaggerated.

Mr Peter Walker, Agriculture Minister, described the sale as "crazy" after hearing reports that 75,000 tons of EEC butter from France would be involved at a cost of about £85,500,000 to the community taxpayers.

Mr Gundelach gave the undertaking to the chairman of the Euro-Parliament's agriculture committee, Sir Henry Plumb, who expressed the

Cloudy in most areas

A TROUGH of low pressure will cross many Western and Northern areas while pressure remains low to the North-West and South-West of the British Isles.

London, SE England, E Anglia, E Midlands: Dry bright or sunny periods, possibly some rain later. Wind: SW to moderate. Max temp 21C (70F).

West of England, W Midlands, Cent N. England: Rather cloudy, occasional rain from W. Wind: SW, moderate. Max temp 18C (64F).

Channel fog patches, some bright intervals later. Wind: W to moderate. Max temp 15C (59F).

NW England, NE England: Mostly cloudy, occasional rain. Wind: S, moderate. Max temp 18C (64F).

Lake District, Borders, Edinburgh and Dundee, Aberdeen, SW Scotland, Glasgow, Cent Highlands, West Fife, NE Scotland: Cloudy periods of rain. Hill fog. Wind: southerly, light or moderate. Max temp 15C (59F).

Arlyl, NW Scotland, N Ireland: Rather cloudy showers or longer outbreaks of rain. Wind: W or SW, moderate or fresh. Max temp 15C (59F).

Outlook: Bright at first, becoming cloudy, with some rain and hill fog. Wind S, light. Some rain later. Max temp 15C (59F).

Moist: Dry weather in the North-west will spread to all areas later, becoming warmer.

THE WEATHER

Table with columns: LUNCH-TIME REPORTS (London, Liverpool, Manchester, etc.), AROUND BRITAIN (Sun, Mon, Tues, etc.), WEST COAST, and EAST COAST.

SATELLITE PREDICTIONS The figures give a rough idea of wind, maximum cloud cover and direction of steering. An asterisk denotes entering or leaving cyclone.

TODAY LONDON Big Bird: 22-13-25 NNE* 30K N. Casnes 787 ricket: 20-22-20-27 SSE 25SE NE 21-58-22 63 WSW SOWNW 58 W/NW N (Spot 9) 4.33-4.34 NE 10NE ENE

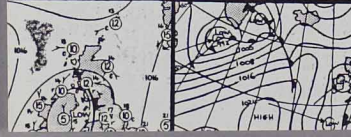
MANCHESTER Big Bird: 22-15-25 NNE* 45NE N. Casnes 787 ricket: 20-23-20-27 SE 20E ENH 31-56-20 SW 40W NNE (Spot 9) 4.31-4.33 NNE 10NNE NE

TOMORROW Big Bird: 21-14-21 NE 15NE NNE. 22-16-22 48 WNW 25NW NNE Casnes 787 ricket: 21-13-21 39 SW 40WNW N

MANCHESTER Big Bird: 21-14-21 16 NE 15NE NNE. 22-16-22 48 WNW 25NW NNE Casnes 787 ricket: 21-13-21 39 SW 55W NNE

Table with columns: TODAY LIGHTING-UP TIMES (Belfast, Birmingham, Glasgow, etc.), HIGH-TIDE TABLE (London Bridge, Nottingham, Dover, Liverpool), and MOON (Lunar quarter Sept 13, Full moon Sept 21).

WIND: S, fair; F, fog; R, rain; S, drizzle; SN, snow.



The Guardian 119 Farringdon Road, London, EC1R 3ER. All departments: 01-278 2332. Telex: 8811746/7/8 GUARDN G 164 Deansgate, Manchester, M60 2RR. Editorial and Advertising: 061-832 7200. Tel. Advs: 061-832 7200 Ex 216.



From the Minister's
Private Office

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

Prime Minister: The difficulty,
in a phrase, is that we have accepted the
system and on present form seem unlikely
to get any support in trying to change this
manifestation of its operation.

Michael Alexander Esq
Private Secretary
10 Downing Street
London SW1

3 September 1979

Am 4/9

Dear Michael,

SALES OF BUTTER TO RUSSIA

As you requested this morning, I attach a note for the
Prime Minister about the report in the Telegraph this
morning of a possible sale of EEC butter to Russia.
My Minister has approved the note.

Would like to
push me this further
no

Yours sincerely
Garth Waters

Garth Waters
Principal Private Secretary

NOTE FOR THE PRIME MINISTER

2

SALES OF BUTTER TO RUSSIA

BACKGROUND

1. Butter is exported from the EEC with the help of export refunds, which are intended to bridge the gap between prices in international trade and those in the Community. The UK accepted the principle of these refunds when we joined the Community and applied the different types of market organisation to the various agricultural commodities.
2. The level of refund for a particular product is fixed each month by the EEC Commission, following the advice of the relevant Management Committee: and the Commission proposal stand even if a majority of member states fail to vote in favour of it. Once refund levels have been fixed, traders can contract sales with third country clients without further reference to governments (except when they claim the refund). Alternatively, they may "pre-fix" the refund up to 6 months in advance of the sale if they want to be certain that they will not be caught out by a subsequent reduction in the refund. These "pre-fixings" are notified daily to the Commission.
3. A substantial quantity of butter - ie about 200,000 tonnes - is exported from the EEC each year, and have included sales to Russia of the sort referred to in today's "Daily Telegraph" article under one or other of the above arrangements. The most recent occasion to attract widespread public attention was in November 1978, when the Commission learned that about 20,000 tonnes of fresh butter was to be exported with the aid of pre-fixed refunds. On that occasion, the Commission suspended the advance fixing facility for 9 days to give time for consultation with the European Assembly

10-17
and Member States. However, following discussion in the Council - where we received no support for the introduction of measures to prevent such sales - the deal went ahead.

MEASURES TO PREVENT EXPORT SALES

4. The sales now in prospect have not had the refunds pre-fixed. They would not therefore be picked up under the monitoring procedures which apply only to pre-fixed refunds, but they could be prevented if the Commission were to suspend export refunds now, or at the time the sales were thought to be approaching. However, this would require either a decision by the Commission in the light of advice from the Management Committee, or direct action in the Council. For either of these options, we should have to persuade the Commission to put forward a proposal and a majority of the other member states to accept it: indeed, a decision in the Council would require unanimity.

5. All the indications are that this would not be forthcoming: indeed, on previous occasions when we have objected to such sales, we have received little or no support from other member states. They tend in any event to regard subsidised exports as part of the normal commercial business of the Community; and with increasing quantities of butter being produced (and going into intervention), and the scope for increased sales on the internal market largely taken up by the recent extension of the consumer subsidy, they would argue that subsidised exports provide the only short term alternative to increased intervention stocks. Finally, although we have always pointed out that subsidised exports represent a resource loss to the EEC, they are in budgetary terms the cheapest means of surplus disposal - a point which other member states would be quick to make.

SAME TERMS FOR EEC CONSUMERS

6. If butter were offered for sale to consumers in the Community at the same cheap price, it would simply displace normal sales. Very little extra butter would be disposed of. To achieve additional sales equal to those made by export, all butter sold in the Community would have to be subsidised at a higher rate. This is because consumers buy very little more butter for a given reduction in price. To subsidise all butter sales in the Community would add considerably to the cost of the EEC budget which we are trying to contain.

SALES OF FRESH BUTTER

7. The Russians appear to want fresh butter rather than old. However, in view of the large stocks of old butter in intervention stores the Minister of Agriculture is asking the Commission to give priority to the disposal of these before fresh butter is offered for sale.

MINISTRY OF AGRICULTURE, FISHERIES
AND FOOD

Milk and Milk Products Division
3 September 1979



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SEP 1979

THATCHER TO SEEK CUT IN EEC BUDGET SHARE

By ALAN OSBORN, Common Market Correspondent

MRS THATCHER is to press her claim for a sharp reduction in Britain's net contribution to the Common Market when she meets the Belgian Prime Minister, Mr Martens, in London next Wednesday.

Lord Carrington, Foreign Secretary, and the Belgian Foreign Minister, M. Simonet, will also attend the meeting. The budget question is now at the very

centre of the Government's EEC policies.

Mrs Thatcher has not repeated the kind of threats about a "taxpayers' revolt" made by Mr Callaghan, but there is no doubt Britain's relations with the rest of the Community could be seriously harmed if the matter is not settled quickly.

The Government flatly believes that Britain pays an excessively large share of the costs of running the nine-country Common Market, and although there is some dispute over the exact figures, most disinterested observers support this view.

EEC admission

The most striking evidence came this week with an analysis of the community budget, drawn up by the EEC Commission in Brussels, that bluntly concedes that Britain is paying too large a net share, and that this represents a serious problem for the EEC as a whole.

The report marks the farthest Brussels has gone so far in conceding the British argument. It concludes that because of the way EEC revenues are organised and payments distributed, Britain's payments to the Community will exceed her receipts from it by about £1,000 million next year, and "there is no denying the real nature of the imbalance."

But it is one thing to convince Brussels, quite another to persuade the eight other member-Governments to act. Britain is only the seventh richest EEC member-country, but every penny by which the British bill is lightened will have to be made good by somebody else.

Mrs Thatcher, at her first EEC summit meeting in June, got the other EEC Government leaders to agree the drawing-up of proposals to reduce Britain's payments, and these are to be considered at a Dublin "summit" in November. But countries that do very well financially out of EEC membership, such as Germany, France and Denmark, are likely to resist tenaciously.

Mr Walker said it was a disaster to have "this massive dairy surplus" in Europe. "It shows how right we were at the last EEC farm price-fixing to stand firm on having no increase on the price of milk," he added.

Europe faced the problem that if it tried to get rid of the surplus by subsidising the sale throughout the Community, the cost to the EEC taxpayer was vast. Therefore the EEC exported the surplus at subsidised rates.

But it is one thing to convince Brussels, quite another to persuade the eight other member-Governments to act. Britain is only the seventh richest EEC member-country, but every penny by which the British bill is lightened will have to be made good by somebody else.

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French seek arms orders from Arabs

By MICHAEL FIELD
in Paris

FRANCE, seeking much-needed compensation for the loss of European markets, is pushing her arms sales to the Arab Gulf states.

Prospects of military co-operation between France and the Emirate of Bahrain have been at the heart of talks in Paris between French leaders and Sheikh Hamad ben Aissa Al-Khalifa, Crown Prince of the Emirate.

Sheikh Hamad, who is also Bahrain's Defence Minister, told reporters in Paris after seeing M. Yvon Bourges, French Defence Minister, that existing relations between the Emirate's armed forces and those of France had been "consolidated."

Co-operation was being orientated towards giving Bahrain access to the "latest techniques" available from France's military experience.

President's guest

Sheikh Hamad, who was entertained at the Elysee Palace by President Giscard d'Estaing, went by helicopter from Paris to the French tanks training school at Saumur.

He had made it clear he wanted to see what France had to offer in the way of conventional weapons, and there was no reluctance by the French to lay their wares before him.

The French armaments industry, a vital factor in the country's foreign trade, suffered a serious setback this summer with the loss of a £400 million order from Belgium to replace ageing AMX 13 French tanks and M75 American tanks. The order went to the Americans.

Inflation for W

By

THE main economic highest level a key political election.

The latest figures show that of living increases per cent in August compared with last year.

Additionally, G officials expect it six per cent autumn.

Although this is of what can be Britain, the increase considerable concern Government and politicians who could reawaken the fear of inflation, the runaway index 1920s.

Prediction

The Government's average inflation the year will be of 4.5 per cent. We official prediction cent. Last year Deutschermark, what the price of last good harvest, an annual inflation to only 2.6 per cent.

This gave an impetus for recent year cost of living coming six per cent. In 1976, per cent. In the following time when other countries were in the Officials admit it

Daily TELEGRAM
8.9.79

EEC BUTTER FOR RUSSIA 'CRAZY'

By GODFREY BROWN,
Agriculture Correspondent
COMMON MARKET
butter to sell off surplus
prices to Russia were
attacked yesterday by Mr
Peter Walker, Agriculture
Minister.

He said it was crazy that taxpayers in Britain and elsewhere should be subsidising the butter Russian consumers bought.

"We have asked the European Commission what information they have about this, and I have also sent a telegram to the Commissioner for Agriculture (Mr Finn Gundlach).

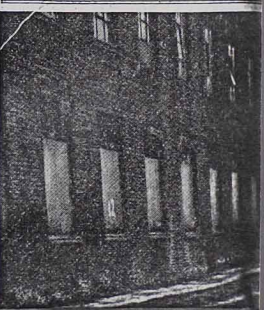
"For W, as is rumoured, they are going to take fresh butter and not from older stocks, this surely would be bad and deplorable," the Minister said.

Butter plus guns

"It is a bad policy, I think, when there is so much to be done, that one pours money into seeing that the Russians can have guns and butter," he added.

Mr Walker said it was a disaster to have "this massive dairy surplus" in Europe. "It shows how right we were at the last EEC farm price-fixing to stand firm on having no increase on the price of milk," he added.

Europe faced the problem that if it tried to get rid of the surplus by subsidising the sale throughout the Community, the cost to the EEC taxpayer was vast. Therefore the EEC exported the surplus at subsidised rates.



EEC Budget

It was not something over which the Council of Ministers had direct control. They were not geared to take day-to-day decisions on managing stocks.

"I don't complain about that, but as a basic policy to keep productive surpluses to subsidise Eastern Europe must be wrong," Mr Walker said.

As disclosed in *The Daily Telegraph* on Monday European dairy industry sources say Russia is to buy 75,000 tons of EEC butter from France this winter at one-third the Community price, at a cost of £85,500,000 to Community taxpayers.

The subsidy, equal to nearly 52p a lb, would mean Russia setting the butter at a basic price of 23p a lb against the 75p that the Commission pays European dairies to buy up and store surplus butter to maintain high support prices for its dairy farmers.

RUSSIA'S REPLY TO KISSINGER

By Richard Beeston
in Moscow

The Soviet Union accused Dr Henry Kissinger yesterday of "pretending" to be afraid that Soviet tanks might invade Western Europe. It said he was spurring on an American arms race to further what it claimed was his ambition to become a senator in the 1980 American elections.

The Communist party newspaper *Pravda* also claimed that Pentagon and "monopolist" support was necessary for the former American Secretary of State to get a Senate seat.

A RHINE SALMON

By Our Staff Correspondent
in Bonn

For the first time in 30 years a salmon has been caught in the Rhine, one of Europe's most polluted rivers which kills thousands of fish every year. The salmon, landed at Lampertheim in Hesse, weighed 6lb 6oz.

Fully agreed to

The budget machinery, however perverse in practice, was fully agreed to by Britain on joining the EEC in 1973 and was implicitly confirmed by the Labour Government's "renegotiation" entry terms.

Against this there is a real possibility that unless the burden is reduced British opinion will turn over more strongly against the EEC.

The EEC gets its money from a share of each member's VAT revenue plus customs duties and levies on food imported from outside. Britain is penalised by a large consumption sector, higher-than-average VAT revenue, and much bigger purchases of non-EEC food than by any other member.

In this the real distortion is that three-quarters of all EEC spending is for agriculture, on which Britain, with a small, highly productive farm sector, has negligible claims.

The impact has been masked by entry concessions, but with expiry of these this year Britain will become the largest single net contributor and so still further ahead next year.

Slow movement

Mrs Thatcher's talks with the Belgians will enable her to assess how opinion has developed and to try out any specific ideas.

But it is likely that detailed schemes will evolve only slowly between now and the November "summit."

Mrs Thatcher has insisted a detailed plan be agreed at Dublin, but there is little doubt she would accept some slowness if there were no bad faith.

The most-discussed remedies involve a limit on EEC agriculture-spending and a separate but simultaneous increase in EEC programmes from which Britain does benefit such as the regional and social funds.

But ideally, Mrs Thatcher would probably prefer a direct linking of a country's net EEC payments to its economic strength. Probably that would be rather daring at the moment.

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