

A117

Confidential filing

Problems in the British Horticulture and Fishing industries arising from high energy prices.

AGRICULTURE.

March 1980.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
<del>27-3-80.</del>							
<del>31-3-80</del>							
<del>15-4-80</del>							
<del>16-4-80</del>							
28-11-81							
<p>PREM 19/388</p>							



Agriculture



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

PhS

~~Michael~~ - to see

From the Minister

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MBOM

R

28/4

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

23 April 1981

1801 PPA 85

*Geoffrey* will request if required

Further to my letter of 6 April, you will know that I was waiting to hear what decisions the Dutch Government were going to make about reducing the advantage which their glasshouse growers were gaining due to the availability of cheap gas.

The Dutch Minister had promised me that he would be making some announcement before the end of March. He then explained that due to the price fixing he would be making no announcement for a week or two. We have repeatedly reminded both him and his office, without success, and it is now possible, in the view of our Embassy in the Hague, that any announcement could be postponed until after the Dutch Elections.

This does create an even more serious situation than the one which I had contemplated, because although I knew that the Dutch Government would by no means eliminate the gap of advantage that they enjoy, I did hope that they would make some move towards closing it. With such a move delayed and with the French, Germans and Belgians giving the aid allowed by the Commission to their glasshouse growers it will create an impossible year for ours unless we take speedy action. I hope, therefore, we can urgently consider this together.

I am copying this letter to the Prime Minister, members of E Committee, and to the Secretaries of State for Scotland, Wales and Northern Ireland.

With best wishes.

*[Handwritten signature]*

PETER WALKER



Agriculture

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Ref. A01940

PRIME MINISTER

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Energy Subsidies to the Horticulture and Fishing Industries

(E(80) 35)

BACKGROUND

Mr. Walker wrote to you on 21st March proposing a subsidy to the Horticulture and Fishing Industry to combat 'unfair' competition from foreign (mainly EEC) competitors with access to cheaper energy supplies either directly - as in Holland where gas is cheap - or because their fuel is subsidised. You asked that the issue should be considered by E Committee after a preliminary run over the facts by officials of the Departments concerned. The CPRS paper summarises the information obtained from this latter discussion.

2. In his paper Mr. Walker comes close to suggesting that our pricing policy for North Sea oil is wrong and that we should sell it cheap in order to benefit our industry. He then goes on to argue that we should, in any case, further subsidise fuel to horticulture and the fishing fleet. If we were to try to sell our oil and gas at prices related to the cost of production rather than the OPEC-determined world market price, we should have - to make low prices stick - to introduce export controls and a massive apparatus of interference in the oil market; and we should lose much of the tax proceeds on which the economic strategy depends. It cannot be right to go this way about trying to protect horticulturists and fishermen, though they are having a bad time.

3. The CPRS paper (E(80) 35) sets out the facts as far as they are known. The essence of the CPRS view - set out in paragraph 30 of their paper - is that, rather than provide further special help to horticulture and fishing - with a good many other industries ready and waiting to jump on the bandwagon - we should seek to persuade other countries and the European Commission that cheap energy prices and subsidies to energy should be eliminated "as soon as possible". The paper on energy which the Commission has put to the European Council would provide an opening.



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4. Your colleagues may feel that the CPRS view, while attractive in theory, stands little chance of quick realisation. If this is so, the real choices before the Committee are:-

- (a) To offer no new help to horticulture and fishing.
- (b) To go for a minimum scheme as set out in paragraph 10 of Mr. Walker's paper - costing about £12½ million a year - which, as paragraph 21 of the CPRS paper shows, could be made consistent with the current European Commission guidelines; or
- (c) to accept Mr. Walker's "preferred solution" (paragraph 9 of his paper) which would cost about £25 million a year but would, again as the CPRS paper shows, be incompatible with the Commission's current guidelines.

#### HANDLING

5. Although this is in itself a relatively small issue, discussion could easily become confused - not least because of the number of Ministers with a legitimate interest in the outcome. (Mr. Walker, Mr. Younger, Mr. Atkins and Mr. Edwards as representing horticulture and fishing, Sir Keith Joseph for the implications for other industries, Mr. Howell for Energy policy, Sir Ian Gilmour for the EEC aspects and Mr. Biffen for the money). After allowing Mr. Walker and Mr. Ibbs to introduce their papers, therefore, you will need to guide the discussion yourself.

6. I think you will want to kill off at the beginning any lingering thoughts Mr. Walker might have that our North Sea oil pricing policy as a whole should be overturned. If there is to be a concession to the horticulture and fishing industries, it must be seen as a special exception from a general oil pricing policy rather than as a first step to a new oil policy; otherwise the potential costs and repercussions can easily get out of hand.

7. Next you might ask whether the Committee want to consider a level of subsidies going beyond the Commission's present guidelines. To do so might risk an unproductive row. If this view too is accepted by the Committee, the issue narrows down to whether the Government is prepared to contemplate the modified scheme of assistance in paragraph 10 of Mr. Walker's paper, or some variant of it. The relevant questions then are:-



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- (a) Would a further subsidy of around £12½ million a year to the two industries together do the trick for those industries? We already give both industries a good deal of help.
- (b) If we do give more help in the form of energy subsidies can we hold the line against other energy-using industries - e.g. man-made fibres - which are suffering at least as badly from low feed-stock prices to their competitors? Is there scope for dressing up any new aid in a non-energy form?
- (c) Where is the money to come from? Is Mr. Walker willing to find it from his own PESC allocation, or must it be a claim on the Contingency Reserve? In the latter event the Treasury could ask for the issue to go to Cabinet for final resolution.

CONCLUSION

8. The views of the Committee are unpredictable on this issue and some members may feel that, despite the efforts of the CPRS, they do not have enough information to judge whether a new subsidy would serve a useful purpose or indeed what level of subsidy would be needed to reverse present trends.

Nevertheless the Committee ought as a minimum to be able to agree:-

- (i) that it does not wish to reverse the present pricing policy for North Sea oil;
- (ii) that it does not wish any new subsidies for horticulture and fishing to go beyond the European Commission's guidelines, i.e. it does not wish to risk a new source of friction with the Commission in present circumstances.

In addition the Committee may be able to choose between:

- (iii) either giving no further help to horticulture and fishing at the present time;  
or accepting that further help should be given.

In this latter event the Committee will also need to decide:

- (iv) either to accept Mr. Walker's modified scheme at a cost of up to £12½ million a year subject to a further look to see whether the subsidy can be less directly related to energy costs;



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or to ask Mr. Walker to produce a specific scheme for further consideration by the Committee, which both takes account of the limits set in discussion and provides an adequately costed justification for the expenditure.

- (v) If further help is to be given the Committee will also wish to come to a decision on whether the cost should be borne by Mr. Walker within his present PESC allocation or can be accepted as a claim on the Contingency Reserve.
- (vi) The Committee may also wish, irrespective of its main decisions, to support efforts within the Community to reduce the subsidies our competitors offer to these industries.

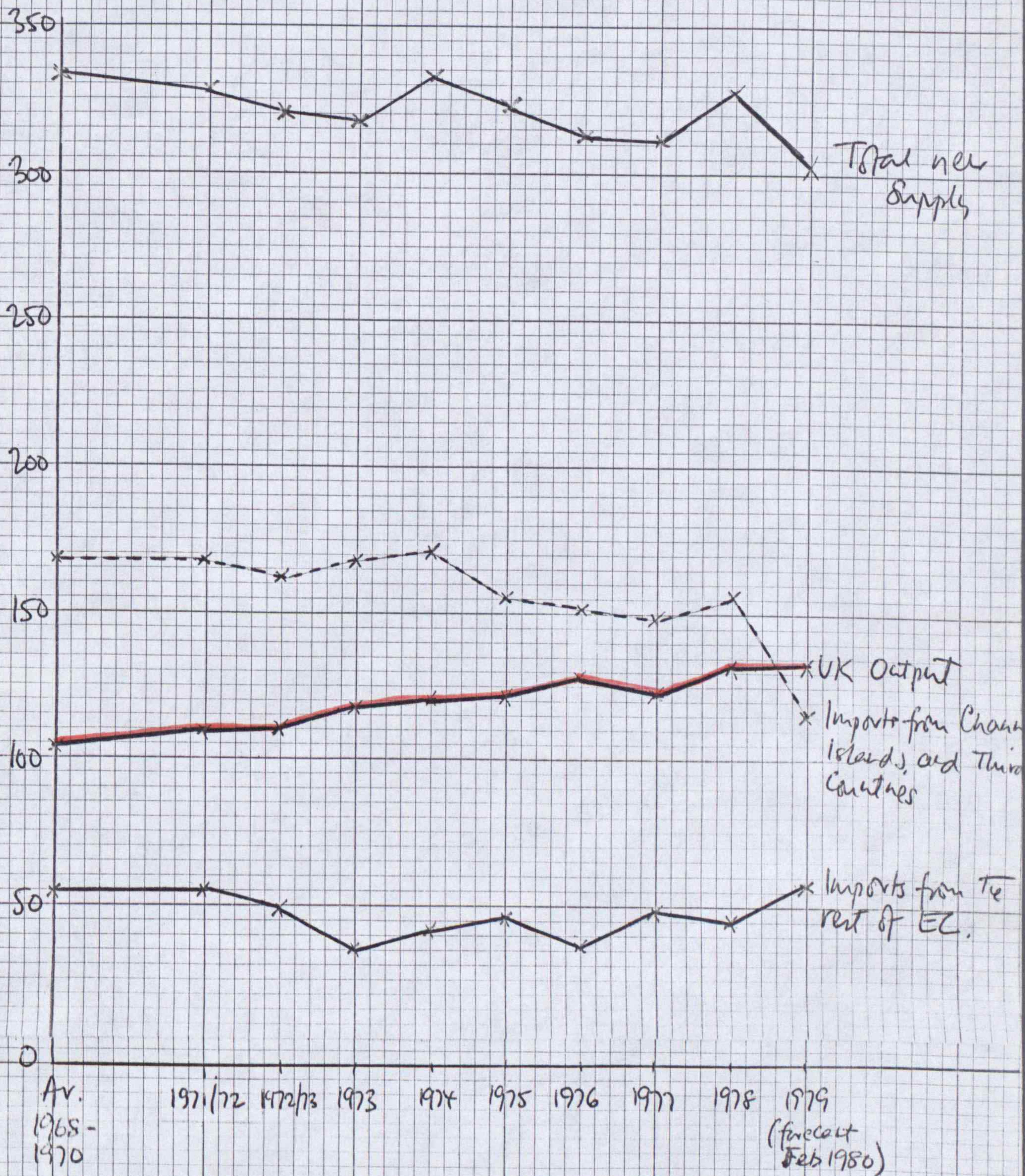
RA

(Robert Armstrong)

15th April, 1980

# Supply of tomatoes 1968-1979 (thousand tonnes)

thousand tonnes



Source: Annual Reviews of Agriculture



*Cabinet Office told*

*MA 194*

PRIME MINISTER

Two items were scheduled for E on Wednesday. One, the Electricity Industry External Financing Limit, has now slipped.? This leaves only Peter Walker's proposals on energy assistance to the horticultural and fishing industries. It has already been postponed twice. We had considered postponing it again, as one item for an E meeting when Prince Andrew is here on Tuesday 22nd, but Messrs. Walker and Buchanan-Smith will both be away at EEC meetings that day.

This therefore leaves you with a one-item E on Wednesday, but we can not reasonably postpone Mr. Walker's proposals again. Content?

*MA*

*Yes no*

14 April 1980

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*Agriculture*

*B/F 15.4.80  
mtg.*



10 DOWNING STREET

From the Private Secretary

31 March 1980

*Dear Sir,*

ENERGY PRICES AND COMPETITION: HORTICULTURE AND FISHING

I wrote to you on Thursday 27 March to let you know that the Prime Minister had seen your Minister's paper and had asked that it should be considered in E. I suggested that this might be done at a meeting of E sometime this week.

I have subsequently learnt that your Minister has to be in Worcester, for the Royal Maundy Ceremony, on Thursday 3 April when E is next to meet. There is, therefore, no possibility of his paper being taken this week nor in the Easter recess which follows, when there are no Cabinet Committee meetings. The Cabinet Office have, however, arranged a meeting of E on Wednesday 16 April at which the paper can be taken.

Although your Minister's paper is concerned principally with the horticulture and fishing industries and their competitiveness, it makes proposals which go well beyond the interests of those industries alone and which affect a number of other Government Departments, particularly on the question of oil pricing policy. Since it will now be over two weeks before discussion can be arranged at E, I suggest that it would be worthwhile if your Minister's paper could be discussed in advance among officials of the Departments which have an interest in the proposals which it makes. The Cabinet Office would be prepared to organise and chair such a meeting, and I hope you will see no objection to their going ahead and arranging such a meeting.

I am sending copies of this letter to Martin Hall (HM Treasury), Michael Richardson (Lord Privy Seal's Office), Bill Burroughs (Department of Energy), Godfrey Robson (Scottish Office), George Craig (Welsh Office), Roy Harrington (Northern Ireland Office) and David Wright (Cabinet Office).

*W*      *W*  
*Tim Laker*

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

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Ref. A01838

MR. LANKESTER

Energy Prices and Competition: Horticulture and Fishing

You wrote to the Private Secretary to the Minister of Agriculture, Fisheries and Food on 27th March to say that the Prime Minister would like Mr. Walker's paper on this subject to be discussed at a meeting of E. You suggested that this meeting might take place this week. But as you now know, Mr. Walker will not be present at the meeting of E to be held on Thursday, 3rd April since he has to be in Worcester for the Royal Maundy Ceremony. There will be no meeting of Cabinet Committees in the week after Easter, but we have suggested that there should be a meeting of E on Wednesday, 16th April when this subject can be discussed.

2. I attach a draft letter which you might send to Mr. Waters about this and which also suggests that since Mr. Walker's proposals have ramifications which go beyond the horticulture and fisheries industries alone, there might be advantage in officials of interested Departments discussing his ideas in advance of E on 16th April. If you agree with this idea, a meeting could be arranged under Cabinet Office chairmanship.

(D.J. Wright)

31st March, 1980



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DRAFT LETTER FROM MR. LANKESTER TO  
G. R. WATERS, ESQ., Ministry of Agriculture,  
Fisheries and Food

Energy Prices and Competition: Horticulture  
and Fishing

I wrote to you on Thursday, 27th March to let you know that the Prime Minister had seen your Minister's paper and had agreed that it should be considered in E. I suggested that this might be done at a meeting of E sometime this week.

I have subsequently learnt that your Minister has to be in Worcester, for the Royal Maundy Ceremony, on Thursday, 3rd April when E is next to meet. There is, therefore, no possibility of his paper being taken this week nor in the Easter recess which follows, when there are no Cabinet Committee meetings. The Cabinet Office have however arranged a meeting of E on Wednesday, 16th April at which the paper can be taken.

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Lynne . . . .

Y SWYDDFA GYMREIG

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switsfwrdd)  
01-233 6106 (Llinell Union)

Oddi wrth Ysgrifennydd Gwladol Cymru



2 P.P.'s

WELSH OFFICE

GWYDYR HOUSE

WHITEHALL LONDON SW1A 2ER

Tel. 01-233 3000 (Switchboard)  
01-233 6106 (Direct Line)

From The Secretary of State for Wales

28 March 1980

Dear Minister,

I am writing to support the proposals attached to your letter of 21 March to the Prime Minister. Like you, I am convinced of the need to help our horticulture and fishing industries to combat the subsidised competition they face from the continent. Although very small, the fishing industry in Wales is socially and politically important and I am very conscious of the fact that much of the Welsh industry, being largely composed of in-shore fishermen, will receive very little, if any, direct or even indirect assistance from the £3m aid scheme which we recently announced. Indeed, the reaction in Wales to that scheme has been one of profound disappointment. I would therefore hope that if some form of assistance with fuel costs is agreed, the in-shore fishermen would be included.

The difficulty is, as usual, that of finding the money and I am bound to say that I have none that I could put to this purpose. But the plight of the UK fishing industry is dire and we must help it survive.

/ I am copying this letter to the Prime Minister and to the other recipients of your letter.

Yours sincerely,  
P.J. Morgan.

Approved by the Secretary of State  
and signed in his absence

The Rt Hon Peter Walker MP  
Minister of Agriculture  
Ministry of Agriculture Fisheries & Food  
Whitehall Place  
LONDON  
SW1A 2HH



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Agriculture  
2

MT

Am. Marsh

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

This will go to  
E soon after  
27 March 1980  
East,

Dear Prime Minister,

I am writing in support of Peter Walker's letter of 21 March to you proposing a fuel subsidy for the horticulture and fishing industries. My interest, of course, is primarily with the latter.

The £3m package of aid to the fishing industry announced on 13 March has been reasonably well received in Scotland. However, the industry sees it as no more than temporary relief. They argue that unless we continue our support, the industry will remain in decline. This is a view which I share and one which I think is well understood by the EEC Commission.

I agree with all that Peter says in his paper. Of the two possible methods of providing help, my strong preference is for making fuel available at a price which does not carry the full impost by Government. I need hardly stress that Scottish fishermen are acutely aware of the extent of our oil revenues. It seems strange to them that they should pay so dearly for a commodity which is present so abundantly below the sea and the effect of which is so apparent on the Scottish east coast - there is clear evidence that oil activities on occasions seriously interfere with their freedom to fish in these seas.

There is in my view a need to demonstrate that we intend to maintain a prosperous fishing industry. It is to the fishing industry that we must look for the future economic support of significant parts of Scotland when the oil industry declines. A fuel aid to the fishing industry now seems both just and prudent. Moreover it will help our relations with the industry in the difficult period before the Common Fisheries Policy is settled. It will also help keep the leadership of the industry in responsible hands.

I am sending copies of this to Geoffrey Howe, Ian Gilmour, David Howell and the other Agriculture and Fisheries Ministers.

Yours ever,

George

TL  
27/3

Agriculture

JS



10 DOWNING STREET

*From the Private Secretary*

27 March 1980

The Prime Minister has now read your Minister's letter of 21 March and the paper which he enclosed with it about energy prices and horticulture and fishing. She would like this issue to be considered in E Committee - probably next week - and I should be grateful, therefore, if you would arrange to have the papers sent to members of the Committee who have not already seen them.

I am sending copies of this letter to Martin Hall (HM Treasury), Michael Richardson (Lord Privy Seal's Office), Bill Burroughs (Department of Energy), Godfrey Robson (Scottish Office), George Craig (Welsh Office), Roy Harrington (Northern Ireland Office), and David Wright (Cabinet Office).

T. P. LANKESTER

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

A handwritten signature in the bottom right corner of the page, appearing to be 'RW' or similar initials.



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

*Copy to Sir Robert Armstrong.*

From the Minister

The Rt Hon Margaret Thatcher MP  
10 Downing Street  
London SW1

21 March 1980

*Bob Walker*

I know after your visit to Hull you expressed concern about the success of Community fishermen at the expense of our own, and you will know also that I mentioned at E Committee the very real potential disadvantage of horticulture and fishing as a result of unequal competition from our major competitors.

I attach a paper which describes the situation and in my judgement it is a situation which must be tackled if we are not to see two more of our industries disappear in order to be replaced by foreign imports. We are, in fact, talking about two industries with a combined production of £400 million who, in this coming year, could lose a considerable proportion of their business to other countries unless they have the opportunity to compete on an equal basis.

Perhaps after you have read this paper we can either have a word upon it or, alternatively, it could be looked at by the appropriate Cabinet Committee.

I am sending copies of this to Geoffrey Howe, Ian Gilmour, David Howell and the other Agriculture and Fisheries Ministers.

Prime Minister.

*Mr Walker's proposals, which have not been discussed with the other departments concerned, are likely to be controversial. We shall probably find that they need further work done on them. I suggest that you do not become too closely involved with them, as you would if you saw Mr Walker about his paper. It would be better to put all this to E, though as I say, we shall probably need more than one bit. Agree?*

*Bob 25 iii 80*

PETER WALKER

*Yes*



ENERGY PRICES AND COMPETITION

NOTE BY THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD

1. This note explains why I am concerned about the prospects for British horticulture and fishing and propose action to defend these sectors from the consequences of unfair foreign competition.

BACKGROUND

2. Both horticulture and fishing are industries which have to exist in volatile and highly competitive markets. They operate in high risk areas even when competing on relatively equal terms with Community rivals. But gross distortions of competition pose an immediate and considerable threat to the viability of these UK industries to an extent quite unrelated to the efficiency of their performance. While immediate short-term aid is being given to our fishing industry, horticulture and fishing face a quite different threat which requires more fundamental long-term action. Other Community members have introduced fuel subsidies, or followed a policy of energy pricing, which allows their industries access to fuel at less than OPEC prices. This threatens irreversible damage to the productive capacity of our industries, and urgent action is needed to preserve them in being.

3. These sectors are abnormally fuel intensive. Fuel oils, the prices of which have risen nearly 70% over the last year, represent over 40% of the operating costs of protected horticultural crops and up to a quarter of those of the fishing fleet.

THE COMPETITION

4. Dutch glasshouses are heated by gas, and as a result of Dutch pricing policy the powerful Dutch industry is securing supplies of fuel, legitimately in terms of the Treaty of Rome, at a price less than  $\frac{2}{3}$  of the price to British growers. The French Government are paying an aid to fishermen, ostensibly for employment protection purposes, but based upon fuel usage and representing between 12% and 15% of fuel costs. Sicilian fishermen receive a direct fuel subsidy. The German Government, with the blessing of the Commission, are about to pay to ~~both~~ horticulturalists ~~and fishermen~~ an aid for 1980 equal to 12% of fuel costs (the

and have it in mind to extend this to fishermen.

cost of financing their fuel purchases for one year) Although both the Dutch and the German arrangements have been attacked in Brussels, the Dutch insist that, since their gas price is not below the cost of production, all they are doing is to take advantage of a natural resource, while the Germans point to the Commission's acceptance of their scheme. I see no sign of any of these serious inequalities of competition being abolished; indeed, I think that they are likely to spread, since the Commission have now issued guidelines for energy aids to horticulture allowing all Member States to assist their glasshouse sector for up to one year at a rate not exceeding 30% of the oil price increase over the last two years. The French are already proposing to assist investment in energy saving equipment by their glasshouse industry.

5. Import penetration for glasshouse crops differs from crop to crop. For example, last year the Dutch took about a third of the important market for early tomatoes (the period on which our industry relies to make its profits), and since their fuel costs have subsequently risen by only about 15%, our growers understandably fear a commercially catastrophic cost/price squeeze on the market this year. Import penetration for fish has been growing markedly, from 25% of total supplies in 1977 to 45% last year. Over the same period imports from the EEC virtually doubled, while first hand market prices have been very weak, cod and haddock being 16% down on January 1979. The fact is that prices which allow our subsidised rivals to survive mean that our fishermen make a loss in putting to sea, and our horticulturalists in growing their crops.

6. North Sea oil gives the UK a comparative advantage. It is possession of the oil which makes sterling strong, but our oil pricing policy, instead of countering the effect on competitiveness of a strong currency by pricing oil to realise a reasonable profit, adds a second blow at competitiveness by deliberately pricing it high. Solely as a result of the strengthening of sterling, compared with last year Dutch returns from tomato sales will increase at constant sterling prices by 7½% (4½p a lb wholesale at this time of year), increasing the relative profitability of Dutch growers by comparison with our own, regardless of their relative efficiency - and Dutch growers have the advantage of cheap energy as well.

7. At a price reflecting costs and a reasonable return on capital, North Sea oil would cost between  $\pounds$  8 and  $\pounds$  10 per barrel. Reflecting world prices, it has been artificially raised to  $\pounds$  33.75 per barrel. Much of the difference accrues to the Exchequer instead of the users. As a consequence the benefits of the comparative advantage are re-distributed; the more fuel-intensive the user, the greater this sacrifice in the redistribution. In the absence of OPEC pricing, our glasshouse and fishing sectors would be poised to dominate the Community competition. Instead they await heavy assault from subsidised rivals.

#### DEFENSIVE MEASURES

8. It is unthinkable that we, the only country in the Community with substantial crude oil supplies that could be sold profitably at prices  $\frac{1}{3}$  of present world levels, should allow two industries producing food worth  $\pounds$ 400 million, to say nothing of their export potential, to continue to suffer so severely because our major EEC competitors can get their fuel at subsidised prices. I agree with these colleagues who, in our discussions, saw action on fuel prices as both appropriate and acceptable in present circumstances. There are two ways in which we could remedy the situation: by charging our industries production prices (the Dutch position) or by helping them to finance their fuel purchases (the German position).

9. The first would recognise that our glasshouse growers and fishermen are having to buy their fuel at prices at which, because we have chosen to follow OPEC upwards, they are unable to compete effectively with their subsidised rivals in other Community countries. In my view it would be right, while the present uncompetitive conditions prevail, to relieve these important industries of part of the burden of what amounts to a Government impost. I do not suggest that this should take them all the way back to production prices, but that our aim should be to effect a reduction which would allow them access to heavy fuel oil at about the same price as the Dutch obtain gas, and give an equivalent reduction in the price of gas oil. At end-1979 prices this would mean a reduction of input costs about  $\pounds$ 25m, of which about  $\pounds$ 12m would go to horticulture and around  $\pounds$ 13m to the fishing industry. This would enable our sectors to seize their competitive opportunities.

10. This is my preferred course. Should it lead to difficulties which prove insurmountable, an alternative would be to follow the German lead. Because of our higher interest rates, to meet the cost of financing fuel purchases for one year would mean 20% of fuel costs; while going up to the peak permitted by the Commission's guidelines would imply 22%. Rather than go all the way, however, I would propose a scheme meeting in 1980/81 15% of their fuel costs. This payment would be both temporary and defensive. It would cost around £12½ million, of which just under £6 million would go to horticulture and about £6½ million to the fishing industry. I have in mind an administratively simple scheme of the kind used for many years for relieving these industries of fuel oil duties. It would go some way to improve the confidence and competitiveness of both industries.

11. Our horticulture and fishing industries are increasingly critical of the marked contrast they see between our policy and that of our EEC partners. They see the other Governments making available to their industries fuel at below OPEC prices for a time, to give them a period in which to adapt to the higher fuel prices, while remaining flourishing and competitive. They see us, on the other hand, deliberately pushing the price of fuel to them to full OPEC prices, despite our inestimable natural resource of relatively cheap oil and gas; and in so doing driving into early bankruptcy two industries which would otherwise be just as competitive. They cannot believe that this is in the national interest; nor can I.

