

Common Agricultural Policy
(CAP)

EUROPEAN
POLICY

PART 8

Part 1: May 1979

Part 8: April 1987

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
1-4-81		16-7-87					
2-4-81		24-7-87					
3-4-81		28-7-87					
6-4-81		3-8-87					
8-4-81		16-8-87					
10-4-81		17-8-87					
11-4-81		3-9-87					
12-4-81		15-9-87					
25-4-81		26-10-87					
30-4-81		19-11-87					
5-5-81							
14-6-81		- ends -					
15-6-81							
26-6-81							
27-7-81							
9-7-81							

PREM 19/456

PART 8 ends:-

19. 11. 87

PART 9 begins:-

20. 11. 87

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC (81) 14 th Conclusions Minute 3	2.4.81
OD (E) (81) 13	9.4.81
OD (E) (81) 5 th Meeting, Minutes	14.4.81
OD (E) (81) 14	28.4.81
EQO (81) 56	28.4.81
OD (E) (81) 6 th Meeting, Minutes	30.4.81
CC (81) 20 th Conclusions, Minute 2	21.5.81
CC (81) 21 st Conclusions, Minute 3	4.6.81
DCO (81) 21	10.6.81
OD (E) (81) 19	15.6.81
CC (81) 24 th Conclusions, Minute 3	18.6.81
OD (E) (81) 8 th Meeting, Minute 1	18.6.81
DCO (81) 21 (Revise)	23.6.81
CC (81) 25 th Conclusions, Minute 3	25.6.81
CC (81) 26 th Conclusions, Minute 3	2.7.81
CC (81) 27 th Conclusions, Minute 3	9.7.81
CC (81) 28 th Conclusions, Minutes 1 and 3	16.7.81
CC (81) 29 th Conclusions, Minute 3	23.7.81
EQO (81) 128	3.9.81
CC (81) 31 st Conclusions, Minute 2 (extract)	15.9.81
CC (81) 33 rd Conclusions, Minute 4	20.10.81

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

Signed Wayland

Date 5 April 2011

PREM Records Team

Published Papers

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

1. House of Commons Hansard, 3 April 1981, columns 609 – 619 “European Community (Agriculture Ministers’ meeting)”
2. House of Commons Hansard, 20 October 1981, columns 167 – 175 “European Community (Agriculture Ministers’ meeting)”

Signed C. Wayland Date 5 April 2011

PREM Records Team

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DSC

File CAP
Budget



cc: FCO
CO

10 DOWNING STREET

From the Private Secretary

19 November 1981

I enclose a copy of a letter which the Prime Minister has received from the President of the National Farmers Union. I also enclose, with apologies for not having sent it to you sooner, a copy of a letter which the Prime Minister received from the President of COPA on 16 November and to which Mr. Butler refers in his letter. (I passed Signor Capodilista's letter to the Foreign and Commonwealth Office on the day of its receipt).

I should be grateful for advice tomorrow as to whether or not the Prime Minister should receive a delegation from COPA. Needless to say it would be extremely difficult to fit such a meeting into her diary at this notice. She should only be asked to do so if it is clearly essential.

I am sending a copy of my letter with a copy of the first enclosure to Francis Richards (Foreign and Commonwealth Office), and a copy of my letter with copies of both enclosures to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

SA

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

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AGRICULTURE HOUSE · KNIGHTSBRIDGE · LONDON SW1X 7NJ

01-235 5077



FROM THE PRESIDENT
RICHARD BUTLER

17th November, 1981

The Rt. Hon. Mrs. Margaret Thatcher, PC, MP,
Prime Minister,
10 Downing Street,
London SW1

PPS

Dear Prime Minister

I hope that you will by now have received a letter from the President of the Committee of European Agricultural Organisations (COPA) submitting views on the Commission's document, "Guidelines for European Agriculture", which has been put forward in response to the European Council Mandate of 30th May 1981.

I am writing in my capacity as Vice President of COPA to ask if you would be prepared to meet a small delegation from the COPA Presidency to hear their views on this subject before the European Council meeting next week. The delegation would consist of the President, Signor Umberto Emo Capodilista, M. Hinnekens, the COPA Vice President, and myself, together with one senior staff member. I know that there is very great pressure on your time and that this request comes rather late in the day. But I do hope that you will feel able to see us. This will give you an opportunity of hearing at first hand about the concern which farmers throughout the European Community feel over the proposals for changes in the Common Agricultural Policy. It will also let it be seen that the British Presidency of the European Council recognises that there is an agricultural view to be taken into account in solving the problems of the UK Budget contribution and the future development of the EEC.

Yours sincerely

Richard Butler



JS
23/11
S. di CAPODILISTA

10 DOWNING STREET

From the Private Secretary

16 November 1981

I enclose a copy of a letter which the Prime Minister has received from the President of the Committee of Agricultural Organisations in the European Community. I should be grateful if you could let me have a draft reply which the Prime Minister might send to S. di Capodilista. It would be helpful if your draft could reach me by Monday 23 November.

M. O'D. B. ALEXANDER

Francis Richards, Esq.,
Foreign and Commonwealth Office.

fu

C.O.P.A.

Comité des Organisations Professionnelles Agricoles
de la Communauté Européenne

Ausschuss der berufsständischen landwirtschaftlichen
Organisationen der Europäischen Gemeinschaft

Comitato delle Organizzazioni Professionali Agricole
della Comunità Europea

Comité van de Landbouworganisaties van de Europese
Gemeenschap

Committee of Agricultural Organizations in the European
Community

Sammenslutningen af Landbrugsorganisationer i de
Europæiske Fællesskaber

Le Président,

3129

B-1040 BRUXELLES, 13.11.1981
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The Rt. hon Margaret Thatcher, M.P.
President of the European Council
10 Downing Street
GB - LONDON SW 1

Rublia

Dear President,

The European Council is about to embark on discussions concerning the future of the Community. COPA would like to take this opportunity to recall that it has always supported further Community integration through the development of new policies. COPA therefore hopes that the European Council will give a new impetus in this direction and will provide the Community with the necessary financial means to this end.

Since the European Council's discussions could have considerable implications for agriculture, the Praesidium of COPA, on behalf of the 40 million people whose livelihood directly depends upon agriculture, would like to draw your attention to the present situation in this sector.

Farmers in the Community have now faced a downward trend in income in real terms for over seven years. In the last two years alone, 1979 and 1980, farmers' incomes in real terms fell by a quarter on average in the Community, whereas earnings generally have kept pace with inflation. No improvement is expected in 1981, given the continued rapid increase in farm costs.

This state of affairs can be directly attributed to three main factors : the severely restrictive price policy followed by Community authorities in recent years, the weakening in the common market organisation for agricultural products and the non-respect of one of the basic principles of the CAP, Community preference, which has facilitated substantial imports of similar or substitute agricultural products at prices which undermine the Community markets.

This, together with the lack of progress in developing common policies in other spheres, and the continued wide disparity in inflation rates from one Member State to another, has considerably aggravated the problems facing farmers in certain regions and sectors of the Community.

When the European Council gave the Commission the mandate to examine the development of Community policies on 30 May 1980 it clearly stated that the basic principles of the CAP should not be called into question.

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Rather than taking the opportunity presented by the mandate to give a positive impetus to the Community on all fronts so that it is equipped to deal with the challenges it will face in the years to come, the Commission's horizon appears to have been limited to ways of reducing EC budgetary expenditure in agriculture. This will lead to a further reduction in farmers' earnings, which is in itself unjust and unacceptable, and which will have dangerous wider economic and political implications.

In COPA's view the European Council should ensure that the Community's policies, including the CAP, are developed along lines which promote economic growth and help to resolve the European unemployment problem.

The major factor contributing to market disequilibrium in agriculture and the increased budgetary costs has been the non-respect of the basic principles of the CAP.

Instead of ensuring their respect in future and thereby improving the agricultural situation, the Commission has now put forward a series of guidelines for European agriculture which will have the reverse effect and will undermine support for the Community.

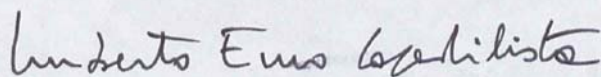
The Commission is suggesting a further reduction in farm prices and a weakening of guarantees. It is also proposing to extend the financial participation of farmers in budgetary costs. This will put additional pressures on farmers' returns and thus on employment and investment in agriculture. The Commission has failed to deal with differences in income and social conditions between sectors and regions. There are at present no concrete measures to deal with the increasing volume of competing imports which are able to enter at preferential prices; nor to deal with the problems of Mediterranean products and the socio-structural problems in the Mediterranean and other disadvantaged regions.

In addition, the dynamic export policy which the Commission has advocated, and which could contribute to the commercial success of the EEC, has not been translated into a concrete and coherent set of measures.

Were the Commission's guidelines for agriculture to be implemented they would undoubtedly aggravate the existing trend for more and more farmers and farm labourers to leave agriculture at a time when unemployment generally is at a dangerously high level. This in turn will increase pressure on Member States to resort to national aids thereby risking a disintegration of not only the CAP but the Community itself.

For these reasons COPA can under no circumstances accept the Commission's guidelines for European agriculture.

Yours faithfully,



EMO DI CAPODILISTA



Approved
6/10/81 20/10

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

From the
Minister of State

M Pattison Esq
Prime Minister's Office
10 Downing Street
London
SW1

20 October 1981

Dear Mr Pattison

COUNCIL OF AGRICULTURE MINISTERS: 19 OCTOBER 1981

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

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

Yours sincerely

Sarah Nason
Private Secretary

COUNCIL OF MINISTERS (AGRICULTURE) - 19 OCTOBER 1981

PARLIAMENTARY STATEMENT BY THE MINISTER OF STATE (COMMONS)

With permission, Mr Speaker, I wish to make a statement about the Council of Agriculture Ministers' meeting in Luxembourg on 19 October which met under my Rt Hon Friend's chairmanship. I represented the United Kingdom.

GUIDELINES FOR THE COMMON AGRICULTURAL POLICY

The Council had a general debate on the Commission's guidelines for future decisions on the Common Agricultural Policy contained in its report under the Council of Foreign Ministers' Mandate of 30 May 1980. There was a constructive discussion, out of which widely differing views emerged. These issues will now be considered by the Foreign Affairs Council in preparation for next month's meeting of the European Council.

I emphasised the very real need both to contain the cost of the CAP and to deal with the problems of surpluses. We supported the Commission's recommendation for a strict policy on prices, particularly for products in surplus, and the need to relate these more closely to world prices. We agreed that the Community should develop closer cooperation with overseas trading countries in order to stabilise world prices. Regarding measures to discourage unwanted production I opposed those levies on production which discriminate between producers.

I strongly supported the Commission that there must be much stricter controls on national aids.

One country, France, advocated restrictions on the import of certain feedingstuffs from third countries. I opposed this because of its adverse effect on food and feed costs.

The changes recommended by the Commission should continue to slow the growth in agricultural spending. I stressed that in our view the rate of growth in agriculture expenditure should be markedly below the growth in the Community's own resources.

DUTCH GAS PRICES FOR HORTICULTURISTS

The Commission reported on its further discussions in the Netherlands to eliminate rapidly the preferential gas tariff available to Dutch growers. The Commission had sought to remove this distortion from the start of the 1982 heating season. Supported by the great majority of Member States, I emphasised again the serious difficulties faced by UK growers, and the urgency of a solution for the 1981 heating season about to start. Mr Dalsager said that he would be presenting his proposals to the Commission this week, and that these would be for the current season.

MINIMUM STANDARDS FOR BATTERY CAGES

The Council also discussed the recent Commission proposals on battery cages.

I said that after a reasonable transitional period the cage area for each bird should be increased to 600cm². I also made clear that there must be on-the-spot inspection to ensure fairness Community wide. A number of differing views were expressed, but some countries supported the United Kingdom in the improvement of standards. We shall press for progress on this at the next Council.

MCA's

The French requested adjustments in mcas to help their pig industry. The Commission refused this.

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cc France: July 78: Revision
Eno Pol

SUBJECT

α mae (EXTRACTS)

Subject filed in France A-2. Visit of Mitterrand

RECORD OF A CONVERSATION BETWEEN THE PRIME MINISTER AND THE PRESIDENT
OF THE FRENCH REPUBLIC, M. FRANCOIS MITTERRAND, AT 10 DOWNING STREET
ON 10 SEPTEMBER 1981 AT 1600 HOURS

PRESENT

The Prime Minister
Mr. M. O'D. B. Alexander

President Mitterrand
M. Vedrine

General

After an exchange of courtesies, President Mitterrand said that he hoped his visit marked the beginning of a period in which the two Governments could speak frankly and productively on the problems facing them. The bilateral relationship was making real progress. There was a growing feeling of confidence, although, of course, this improved atmosphere could not altogether displace the reality of events. He thought that perhaps the discussions might start with general international problems in which both countries were involved; go on to deal with the problems of the Community, where there were difficulties both between France and the United Kingdom, and with their other partners; and end with a discussion of the bilateral relationship where there was much that was positive. One could equally well take these problems in reverse order. What mattered was that they were all covered.

European Community

The Prime Minister proposed that it might be helpful to start with a discussion of the Community. After all both the Governments had surrendered many powers, e.g. in the field of agriculture, to it. There were major problems to be dealt with in the coming year, e.g. the CAP, the reform of the Budget, and the CFP. All these problems needed to be dealt with as soon as possible. They did not become any easier with the passage

/of time.

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of time. It would be a great help to know President Mitterrand's mind on them. A date had been set in Luxembourg for further consideration of the 30 May Mandate and of the CAP, i.e. early September. The President had said then that by this time he would have had time to study the problems and/^{would} know the direction in which he wished to go.

President Mitterrand said that the problems of the European Community had to be examined as a whole. It was, of course, permissible to study the problems of the CAP. They could, if necessary, be discussed in isolation. But if one was to draw up a balance sheet of advantages and disadvantages for any member country, then the agricultural problems could not be taken in isolation. The French Government had no wish to evade the problems of the CAP. But the Mandate referred to the whole range of activities of the Community. France had advantages in some spheres and disadvantages in others. He could not accept that those areas where France enjoyed advantages should be picked out and the others ignored. That having been made clear by way of a preliminary statement, he was in favour of a discussion of the agricultural issue.

The positions of the French and British Governments were, of course, different in regard to the CAP and the 30 May Mandate. The British Government wished to establish the principle of the juste retour, i.e. that member countries should be entitled to draw advantages from the Community in exactly the same proportion as the effort they contributed. In relation to the CAP, Britain contributed more than it got back. France was hostile to the principle of the juste retour. To implement that principle would be to render the European Community a nullity. It implied that the Community should be regarded as a confederation within a free trade area. The British, of course, disliked indulging in broad political generalisations of the kind which he had just made. But it was important to remember the distance which separated Britain and France on this concept. Britain

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wanted the juste retour to be a permanent feature of the Community. He could not accept this. The juste retour could be useful. For a year or two agreement on a budgetary mechanism was permissible. But it could not be a permanent policy.

The Prime Minister said that she would never describe her policy as being to seek a juste retour, i.e. a situation in which member countries were getting out precisely what they had put in. Her policy was to seek a situation where, when the balance sheet was drawn up, the total budgetary result should be seen to be a flow of resources from the richer members to the poorer members. Countries like Ireland, Greece and Italy must be seen to benefit from membership. But those countries which were in per capita terms, among the richest, should not, as at present, be the beneficiaries. One had to achieve a final budgetary outcome where the better off were paying and the less well off were receiving. We should be aiming to establish a principle of equity of this kind. This was not happening at present. Germany was the biggest contributor, the United Kingdom was the second largest and France was contributing very little. Unless an equitable system could be achieved, conflicts would undoubtedly ensue. She wished to stress the importance which she attached to the Community. It had locked together countries which in the past had fought each other. Such hostilities must never happen again. The Community was playing a vital role in bringing much of Europe closer together.

President Mitterrand said that there was much in the Prime Minister's presentation with which he could agree. The European Community was a political necessity. All its members had drawn profit from it. There had, of course, been problems and crises but the economies of the members had grown, thanks to the Community. The further development of the Community posed no problem for France. He had therefore been glad to hear the Prime Minister's words.

The Prime Minister's remarks about juste retour had been a very useful corrective. The application of juste retour

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to the poorer members would certainly make more difficulties for them. He agreed that there had to be a better balance as between the various member countries. The problem was how to establish this within the CFP and the Community's other areas and policies. There would have to be much discussion on the basis of member countries' mutual requirements and individual problems. If the Federal Republic felt it was doing too much and the United Kingdom felt it was being hard done by, this must be examined. He considered that the examination would show that things balanced out. France was, of course, a larger producer of agricultural products than either the Federal Republic or the United Kingdom. On the other hand she did less well where industrial products were concerned. France prospered in those areas where the character of the workforce and the quality of her natural resources favoured her. On the other hand, she did not have the United Kingdom's commercial genius. The discussion of the Community's problems could not concentrate only on those areas where France was benefiting.

The Prime Minister said that if things went on as at present, the Community would run up against a budgetary crisis. The CAP would produce ever greater surpluses and would take up ever more of the budgetary resources of the Community. At the same time, the Federal Republic and the United Kingdom would stand firm on the 1 per cent VAT ceiling. It was neither sensible nor intellectually justifiable to spend such a large proportion of the Community Budget on agricultural surpluses which the Community could not eat, which it had to dispose of at considerable cost, and which dislocated the economies and agricultural industries of third world countries. President Mitterrand said that a brake had to be imposed on the production of surpluses. It posed too great a burden on France and her partners. The Prime Minister's reasoning was irrefutable. The question was, in practical terms, what to do.

/ The Prime

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The Prime Minister asked whether French dairy farmers were intent on increasing their yields and therefore producing ever larger surpluses. British dairy farmers were highly efficient but did not produce surpluses. They could, of course, produce a good deal more than at present. Britain had tackled the problem of small farmers many years earlier by encouraging them to combine. It was difficult to solve the problems of the Budget without tackling the CAP. Of course, farmers had to be provided with a decent living. But there had to be a reasonable budget and there had to be an agricultural policy which was reasonable in relation to the rest of the world. Of course, these problems could not be solved here and now. But each member had to feel that it was being fairly treated by its partners. She and the President were both politicians who knew what could and could not be done.

President Mitterrand said that his position was in many respects the same as that of the Prime Minister. He had no wish to encourage the production of surpluses. He had to point out, however, that the surpluses often occurred because producers outside the Community were able to get their products into the Community too easily and too cheaply. Soya was a case in point and a source of serious competition. Another example was provided by beef, the imports of which were unbalancing the Community's internal production. The problems could not be resolved in a year or two. Changes in the structure of production would be required but the Prime Minister's basic approach was right.

It was necessary to distinguish between the immediate problems, such as those relating to wine and milk, and the medium and long term problems of surplus production where fair and equitable solutions should be sought. In this latter context, President Mitterrand said he would be glad if a solution could be found which did not involve raising the 1 per cent VAT ceiling and imposing higher taxes on his electorate. As regards wine, France had been forced to take action because

/the problem

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the problem was "threatening to strangle us". The measures taken were certainly legally contestable and might well have contravened Community regulations. One could also reproach the Italians, e.g. on the origins, quality and quantity of the wine they were exporting. In any case, the French Government could not have contemplated a farmers' revolt which might well have resulted in bloodshed. As a result, he had had to adopt a position which was opposed to his political philosophy. He accepted that the question of milk surpluses might be similarly urgent for the United Kingdom. There was a need to get round a table to discuss all these matters. Ways must be found to limit the production of surpluses and to avoid imbalances. France was ready for discussions. President Mitterrand said that he was a realist. He recognised that German acceptance of the present budgetary situation could not last. France would have to make proposals.

The Prime Minister said that everyone understood the need to deal with short-term problems. She and the President were both in politics. But what needed to be considered now was whether longer-term structural adaptation was not required. The CAP had shown itself to be insufficiently flexible. No-one welcomed the surpluses or the percentage of the budget being taken by the CAP. The time had come when both the structure of the CAP and the proportion of the Budget taken by the CAP had to be discussed. In the period of two years since she had been in office she had seen these problems repeatedly postponed because they were not urgent. They had to be tackled while there was still time and that meant a start in September. President Mitterrand said that although on some questions his point of view and that of the Prime Minister differed, her overall approach was just what he would have hoped for. His safeguard measures on wine had resulted from the non-observation of Community rules by Italy. The discussion of the CAP must take account of the entry of agricultural products from outside the Community. That said, he was anxious to see the reform of the

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CAP. It might not be the same reform as the Prime Minister had in mind. But it certainly was the same discussion and it was a discussion from which he wanted a result. The Prime Minister wanted to begin in September. So far as he was concerned, the sooner the better - although in practical terms September might prove to be a little early. He would be entirely happy to begin in the European Council meeting in November. If the discussions could be got under way before November, whether between Heads of Government or between others, he would be entirely content.

The Prime Minister said there were many other problems beyond those contained in the 30 May Mandate. Agreement on the Common Fisheries Policy had to be reached. So long as it remained unresolved, each Government was paying subsidies to its fishing community because they were being prevented from fishing normally. (President Mitterrand indicated that he agreed.) HMG wanted to see whether progress could not be made in developing a Community policy on insurance. Britain and France had a shared interest in the Multi Fibre Arrangement because of their textile industries. Britain wanted to see the Community developing a more effective policy for negotiating with the Japanese, whose technique of focusing on particular trading sectors caused such difficulties. President Mitterrand said he would be happy to see a start made in bringing the positions of France and Britain closely together on insurance and on the MFA. The CFP had been discussed many times in the past. France's defence was that what was happening now was consistent with the commitments entered into by France in the past. As regards Japan, he endorsed the Prime Minister's broad objective. However, Britain's own practice towards Japan had been too liberal. We had opened our market, more particularly for cars, excessively and allowed exports into the Community to a degree which was dangerous for all members. None the less, he would be happy to see this issue, like the others, discussed. The Prime Minister said that our trading policies were very liberal and as a result we had been taking in more imports than others. We had agreed that the negotiation with the Japanese should be conducted by the European Commission or at least that

/ they should

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they should keep a close watch on the level of Japanese imports. But the Commission did not seem to be moving sufficiently rapidly. Because of the Community, we were, of course, inhibited from negotiating with the Japanese on a country-to-country basis and therefore had been negotiating on an industry-to-industry basis. This had resulted in widely varying situations in the various member countries. It had strengthened the case for Community action.

President Mitterrand said that he and the Prime Minister were agreed on the need for joint discussions on the MFA, on a Community policy on insurance and on the need for a Community policy on trade with Japan. These were all positive initiatives. As regards the Common Fisheries Policy, France would never refuse discussion. He recognised that the United Kingdom, an important partner whom he respected, had every right to raise the question. But there were earlier agreements in force and France had to defend its interests. As regards the 30 May Mandate, he was happy to open discussions with France's other partners in the Community on the basis which he had already described. On the reform of the CAP, which likewise should be discussed in the larger frame of the development of the Community as a whole, he would be happy to see preparation begin immediately after the present meeting with conversations between Ministers and officials. He was, in short, ready for an all-embracing discussion as soon as possible. He would be looking for progress in the direction of greater justice between the members of the Community. He did not wish to delay matters in any way.

/ Bilateral Relations

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DEPARTMENT OF AGRICULTURE, *EWO*

DUNDONALD HOUSE, *BC*

UPPER NEWTOWNARDS ROAD,

BELFAST,

BT4 3SB.

27 August 1981

CONFIDENTIAL

The Rt. Hon. Peter Walker, M.P.,
Minister of Agriculture Fisheries and Food,
Whitehall Place,
LONDON,
SW1A 2HH.

NRS/A

Plants - 2/9

Dear Peter:

Thank you for sending me a copy of your letter of 12th August to Geoffrey Howe seeking agreement to extending the slaughter policy for Newcastle Disease so as to be able to prohibit the importation of poultrymeat and eggs to Great Britain from the Continent.

DW
The poultry industry is experiencing the same difficulties as the industry in Great Britain. A large proportion of our egg and broiler production is sold in G.B. and I am therefore very reassured by your determination to do something about it. I understand that you are now committed to a slaughter policy and I hope that this will bring the benefits hoped from it to the G.B. market at least in the short-term.

The policy will not, of course, do anything to protect N.I. producers from low priced imports from the Republic but they will none the less be glad of the protection afforded to the G.B. market.

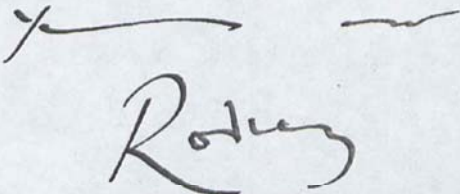
In the longer-term I see some threats to the N.I. position of which I would like to give warning. Any challenge of the policy in the courts would be against the United Kingdom as a whole. If it was successful it would set dangerous precedents leading, I fear, to erosion of the F.M.D. protection. This would have considerable repercussions for Great Britain but they would be even more serious for Northern Ireland and the Irish Republic as both rely on F.M.D. controls for Swine Fever and Swine Vesicular Disease protection.

We know the great cost both to industry and to public funds of eradicating these diseases and I do not relish putting our cattle and pig herds at risk as well as our poultry flocks.

A further consequence of a successful challenge to the policy could be retaliation by the imposition of a ban on exports of poultrymeat from Northern Ireland to the Irish Republic. This would have serious repercussions for the industry here as this trade has been growing and is now economically important. It might be politically awkward for the U.K. or a N.I. trader to take the Irish Republic to the European Court.

That said, I do appreciate the pressure you are under from the poultry industry. I am under similar pressure. But it will be necessary to ensure that Northern Ireland's animal health position can be maintained, including if necessary, by a defence in the European Courts of Justice. Northern Ireland Departmental Votes cannot be expected to bear the cost if any relaxation of existing controls, arising from policy changes to assist the poultry industry in Great Britain, leads to infection.

I am copying this letter to the other recipients of your letter of 12th August.



Robert Elton

THE LORD ELTON



✓ 740 Euro PA

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries and Food
Department of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1

25 August 1981

Dear Mr Walker

PROBLEMS OF THE UK POULTRY INDUSTRY

In my letter of 21 August I made my agreement to your proceeding with the introduction of a revised poultry health regime conditional on a reasonable assurance that the poultry industry will be prepared to continue insurance cover for the compensation scheme after the first year. I have subsequently seen a letter from the British Poultry Federation dated 21 August setting out their position on this point. They state that it is their "firm intention" to back the scheme in subsequent years, but reserve the right to consider their position, inter alia in the light of the support received from the poultry industry at large.

I am prepared to accept that this is as firm an assurance as we can reasonably expect the BPF to give. But they do reserve the right to change their position if things do not proceed in line with their expectations, and I am concerned about the contingent risk this imposes on the Exchequer. I would however be prepared to proceed with the proposed new arrangements if you could assure me that, should the industry seek to end its insurance cover, your intention would be to introduce legislation providing for the imposition of a statutory levy on producers to cover the costs of compensation payments.

I am sending copies of this letter to recipients of the earlier correspondence.

Yours sincerely
Nigel Lawson (Private Secretary)

NIGEL LAWSON

(Approved by the Financial Secretary and signed in his name)



NEW ST. ANDREWS HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

CONFIDENTIAL

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

21 August 1981

Dear Peter,

Your exchange of letters with the Lord Privy Seal confirms me in the view which I have expressed in my letter of 11 August that we should act now to help the UK poultry industry retain its own home market. I recognise the difficulties to which the Lord Privy Seal has pointed but your reply has answered his points cogently and there is no need for me to go over the grounds again.

The crucial point to me is that the Solicitor General has made clear that while there are legal difficulties they are not so great as to prevent our acting if we have the political will to do so.

I think we should have that will and that indeed a failure by us to act as you propose would be seen by the public and the Press as an admission that this Government cannot or will not seek to protect UK interests within the Community as well as do governments of other Member States. And more closures in our poultry industry would be taken by opponents of the Community as further evidence that we gain nothing - and lose much - by membership.

Let us act now.

Yours ever,

George



Wm 21/8

Treasury Chambers, Parliament Street, SW1P 3AG

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

21 August 1981

Dear Minister,

PROBLEMS OF THE UK POULTRY INDUSTRY

You wrote to Geoffrey Howe on 12 August seeking agreement in principle to the introduction of a revised poultry health regime - involving a switch to slaughter and compensation for Newcastle disease - coupled with restrictions on imports. I have also seen the subsequent letters from Ian Gilmour, John Biffen, Christopher Soames, yourself and also Ian Percival's letter of 19 August, in which he makes it clear that the course you are advocating would not be improper from a legal standpoint.

I accept that there is a case for giving some measure of protection as this stage to the turkey industry. I am less convinced about the needs of UK broiler and egg producers, who would also have to be covered by the change in policy you are proposing. However, it seems clear that a change to slaughter and compensation is the only viable course of action from those mentioned in your earlier letter of 31 July. So if we are to take action to protect the turkey sector, this must also cover other parts of the poultry industry.

I see little attraction in the alternative that Ian Gilmour has put forward, namely announcing our intention to introduce health changes for poultry without actually implementing them. I am not clear that this would achieve the aims you are seeking, and also find it difficult to see what would subsequently trigger a decision either to proceed with implementation or to withdraw the proposal. I am however in the circumstances prepared to agree in principle to the introduction of the policy you propose, subject to one important condition.

I understand that the British Poultry Federation has so far indicated a willingness to take out insurance cover against the Exchequer liability for compensation payments only for 1 year. I do not regard this as acceptable, and we must have a reasonable assurance that the BPF will continue the cover for later years. There can be no question of accepting a contingent Exchequer liability. I believe you must insist on a reasonable assurance, that as long as the compensation scheme and associated import restrictions are in place, the industry will be prepared to continue comparable cover. I must reserve the right to consider whether the form of assurance you can obtain from the BPF is acceptable. I am encouraged by the categorical statement in your letter of 18 August to Ian Gilmour that the industry are prepared to meet the

cost of your proposal themselves. On a point of detail, my understanding is, contrary to the view expressed in Ian Gilmour's letter, that the insurance scheme would cover a proportion of the total poultry flock not just turkeys.

I believe the details of the insurance arrangements and associated agreement between the Government and the industry also remain to be settled. I assume that your officials will continue to be in touch with mine on the progress of the negotiations. One point I would mention is that, in terms of Government accounting, it would be highly desirable for the insurance monies to be made available at or before the time at which any compensation payments had to be made by the Government.

Finally, I understand that you consider it desirable to maintain a stock of vaccine against Newcastle disease, in case it should prove necessary at some subsequent point to abandon the slaughter and compensation policy and return to vaccination. This is clearly a prudent course of action, but I must insist that the costs of the vaccine bank should be accommodated within the existing provision for the cash limited part of your programme.

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

Yours sincerely,

D. L. Willetts

or NIGEL LAWSON

*(Approved by the Financial Secretary
& signed in his absence)*



Foreign and Commonwealth Office

London SW1A 2AH

20 August 1981

ms.
Dear Gaoth,

UK Poultry Industry

Prime Minister

'Reluctant acquiescence'
from the FCS, who
nevertheless re-emphasises
the risks. MAP 21/vm

Our Secretaries of State spoke on the telephone last night about your Secretary of State's proposals for dealing with the problems faced by the UK poultry industry, as set out in recent correspondence ending with the Solicitor General's letter of 19 August. My Secretary of State agreed with yours that we cannot leave the UK industry undefended and accepted your Secretary of State's judgment that his proposals, involving a change in the animal health regime and a ban on imports of vaccinated birds, are probably the least damaging of the various courses open to us.

It may, however, be useful if I set down for the record the reasons why my Secretary of State has been and remains concerned that the seriousness of the possible consequences of the action proposed should not be lost from sight. As far as the legal position is concerned, the Solicitor General has already explained that the European Court of Justice could well find against us on the grounds that our action was aimed at protecting our industry and that there was little or no substance in the "animal health" grounds for it. Our legal advisers also think that it is not only possible but likely that the ECJ would rule against us: the change to a slaughter policy at this particular moment, combined with a ban on the import of vaccinated birds, could hardly be seen otherwise by the ECJ than as a disguised restriction on trade, and they would in our view be likely to rule that we were, by introducing these measures, in breach of Article 30 of the Treaty and that we could not rely on the Article 36 exception.

The Solicitor General also refers to the "real possibility" of the Court granting an interim order restraining us from taking our action. We do not dissent from the view expressed in your Secretary of State's letter that it could take up to five weeks for the Court to order / such



such measures, but we do think it very likely that the Commission would apply for such measures (as in the pig-meat case) and that the Court would grant them.

Finally we would draw your attention to the broader repercussions of the action proposed. The Solicitor General has referred to the effect on public opinion in this country if we suffer defeat at the hands of the Court. There will also be a price to be paid in terms of Anglo-French relations at a time when we are hoping, at the Anglo-French Bilateral on 10/11 September to establish a genuinely closer relationship with the new French Government.

I am copying this letter to Private Secretaries to Members of OD(E), Secretaries of State for Scotland and Northern Ireland, the Solicitor General, and to David Wright at the Cabinet Office.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

Gareth Steel Esq
PS/Ministry of Agriculture,
Fisheries and Food
Whitehall Place
London SW1

Eve Pa 2,

PRIME MINISTER

I mentioned to you that our position on the poultry industry is still unresolved. I attach the most recent exchanges.

Flag A - the Lord Privy Seal's letter raising a number of points on which Mr. Walker's proposals might be inadequate.

Flag B - Mr. Walker's latest letter stressing the political case for firm action.

Flag C - a cautionary note from Lord Soames.

Flag D - a legal assessment from the Solicitor General, warning of the dangers but specifically not advising against Mr. Walker's approach.

I am also attaching a piece from the PA tape about a campaign to boycott food shops handling large quantities of imported poultry.

As I said this morning, I am sure that most of the country would be only too ready to see the Government adopt a vigorous self-interest policy in respect of yet another industry which is threatened by a concentrated attack from overseas, especially if this involves

- (a) standing up to the EEC; and
- (b) defending ourselves against the French in particular.

It now seems possible that Lord Carrington will conclude that the Foreign Office must acquiesce in Mr. Walker's broad strategy, in which case there will be no need for a meeting. Lord Carrington is not proposing to be up in London before you leave for Scotney, but you might want to mention this topic if you have a telephone conversation with him in the next day or two.

MAD

19 August 1981

FARM WORKERS DECLARE POULTRY WAR

BRITAIN'S FARM WORKERS TODAY DECLARED WAR ON IMPORTED POULTRY. MARKS AND SPENCERS, THE CO-OP, TESCO'S AND KENTUCKY FRIED CHICKEN WILL ALL BE TARGETS OF LIGHTNING SWOOPS BY PICKETS. PORTS THROUGH WHICH THE POULTRY ENTERS BRITAIN WILL ALSO BE PICKETED AND CONTAINER LORRIES CARRYING TURKEYS OR CHICKENS WILL BE LOCKED IF THEIR LOADS CAN BE IDENTIFIED, THE MEN'S UNION WARNED TODAY.

AND TUC HELP IS BEING SOUGHT TO MAKE THE CAMPAIGN TO PROTECT BRITAIN'S POULTRY INDUSTRY AGAINST CHEAP FOREIGN PRODUCE MORE EFFECTIVE.

MR JACK BODDY, GENERAL SECRETARY OF THE NATIONAL UNION OF AGRICULTURAL AND ALLIED WORKERS, SAID IT WAS QUITE OBVIOUS THE GOVERNMENT WAS NOT GOING TO HELP SAVE 20,000 JOBS AT RISK.

'I BELIEVE IT IS ESSENTIAL FOR THE EFFECTS OF OUR CAMPAIGN TO BE FELT IMMEDIATELY BECAUSE THE CRISIS IS ALREADY WITH US AND UNLESS SOMETHING IS DONE NOW THERE WILL NOT BE A POULTRY INDUSTRY TO SAVE,' HE SAID.

TEN CONTAINER LORRIES CARRYING CHICKENS FROM HOLLAND - MOST OF THEM FOR THE CATERING TRADE - ENTER GREAT YARMOUTH EACH DAY. SUFFOLK FARM WORKERS WILL PICKET THE DOCK.

THERE WILL ALSO BE DEMONSTRATIONS IN PLYMOUTH, WHERE MOST OF THE FRENCH IMPORTED POULTRY COMES IN ON BRITANNY FERRIES - A SHIPPING COMPANY SET UP BY FRENCH FARMING CO-OPERATIVES.

THE UNION IS ANGRY THAT THE GOVERNMENT HAS DONE NOTHING TO STEM THE FLOOD OF CHEAP FOREIGN POULTRY, MUCH OF IT HEAVILY SUBSIDISED.

FRENCH PRODUCERS HAVE RECEIVED AID FROM THEIR OWN GOVERNMENT - A PRACTICE RECENTLY DECLARED ILLEGAL BY THE EEC COMMISSION - WHICH ALLOWS THEM TO UNDERCUT UK TURKEY PRODUCERS BY UP TO 12P

A LB.

1518



01-405 7641 Extn

ROYAL COURTS OF JUSTICE,
LONDON, WC2A 2LL

19 August, 1981

Dear Peter,

UK POULTRY INDUSTRY

1. As you know, I discussed the legal aspects of this matter on Monday afternoon with legal advisers from your own Ministry and from the other departments principally concerned. (FCO, Trade and Cabinet office). As I understand it, you now wish to take the following steps:

- (a) Internally - (i) to announce that you are returning to a policy of slaughter and will, if and when necessary, use your powers under paragraph 5 of Schedule 3 of the Animal Health Act 1981 to that end; and (ii) to ban the vaccination of poultry (or perhaps just turkeys);
- (b) Externally - to make it a condition of all import licences granted under the Importation of Animal Products and Poultry Products Order* that some person must certify in respect of each consignment that no bird has been vaccinated.

2. I am concerned here only with the second of these steps and my views on it are these:

- (a) There is a perfectly respectable argument for saying that you may do all those things without being stopped either by our own courts or by the ECJ; but
- (b) far from being able to assure you that that view would (as I think it should) prevail, I have to tell you that I think that there is a very serious risk that, applying the very different canons of construction which are sometimes applied in construing Community law, either the ECJ or our own courts might well come to a different conclusion.



01-405 7641 Extn

ROYAL COURTS OF JUSTICE,
LONDON, WC2A 2LL

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3. I have also to warn you that if, on looking behind your actions, as they would no doubt do, either the ECJ or our own courts decided that there really was no substance in the "animal health" side - that it was all a fiddle to protect our poultry breeders - they could and would find against you on that ground.
4. On the question of timing, some take the view that an interim order restraining us from taking our action would be granted by the ECJ, and very speedily. I do not share that view but I must not disguise from you that it is a real possibility.
5. If we were taken to Court and lost - and a fortiori if an interim order against us was obtained speedily so that no good at all resulted from these moves - it would then of course be very apparent that we had been prevented by our membership and the laws of the European Community from protecting our own industry. Presumably those who are opposed to our membership would then latch on to this example because it would be so easy to demonstrate. It is a matter for you and others to judge the likelihood and importance of such a defeat being so used. I merely draw that danger to your attention so that you and colleagues will not fail to have it in mind.
6. I appreciate that, having read this far, you may say that all that I am saying is that in law the position is wide open. And you would be right, because I am: in my opinion, it is. But, fraught with risk as your proposed course would be, I can assure you on one aspect of it. It has been suggested that such a course would so clearly be unlawful that it would be improper for you to

/take

CONFIDENTIAL



01-405 7641 Extn

ROYAL COURTS OF JUSTICE,

LONDON, WC2A 2LL

-3-

take it. If I felt that to be the case, I should not hesitate to say so - as would be my duty. Therefore, I have considered it carefully. In the result, I do not take that view and do not so advise you.

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

Yours ever
Jau.

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

CONFIDENTIAL

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Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel: 01-233 3000 (Switsfwrdd)
01-233 (Llinell Union)
Oddi wrth yr Is-Ysgrifennydd Seneddol



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel: 01-233 3000 (Switchboard)
01-233 7172 (Direct Line)
From The Parliamentary Under-Secretary

✓ MAJ

12 August, 1981.

SECRET

Dear Peter,

In Nicholas Edwards' absence on holiday I am responding to your letter of 12 August about the problem of French poultry imports.

below.

Nick had had an opportunity to consider this matter before he went away and made it clear that he feels that we should counter the French threat robustly and with the same degree of determination as they employ in furthering the interests of their agriculture industry.

Thus, despite its various disadvantages, we support the introduction of a slaughter policy for Newcastle Disease coupled with a ban on imports from countries which rely on vaccination.

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

Yours ever,
Michael

MICHAEL ROBERTS

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

C O N F I D E N T I A L



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

18 August 1981

UK POULTRY INDUSTRY

I was surprised and disappointed by your letter of 13 August.

I agree with you that the factors which enable the French to offer turkeys at such low prices have yet to be fully established. But what is quite clear is that M. Bourgoin is offering at prices well below his costs of production, never mind those in the UK, and is prepared to do so for very considerable quantities. He has had printed some 3 million bags for whole turkeys labelled in English and has reportedly reserved a corresponding amount of cold store space in this country. This is equal to perhaps a third of the total UK Christmas market and represents a large proportion of Bourgoin's own production of whole turkeys this year - perhaps between one-third and one-half. It is inconceivable that this kind of pricing policy for so large a share of the Bourgoin output can be explained merely by the willingness of the French to accept on average a smaller profit margin than that sought in this country. Bourgoin is asking about 54 p/lb from one major French buyer, compared with offers in this country of 39 p/lb and even less. There is no way of explaining this on ordinary commercial grounds. It can only represent a deliberate policy of invading this market and wiping out a large section of our own industry. I doubt whether we shall ever know precisely how it is financed. Nor frankly do I think this very material.

Certainly the answer does not lie in excessive margins earned by our own industry. Imperial Group (Ross Buxted Nitrovit) has recently announced a loss of £8 million on its poultry operations (six months to 1981) while only in the last few weeks Twydale Turkeys has reported a loss for the first half of 1981. Bernard Matthews did relatively well last year, partly no doubt because of his greater involvement with further processed turkey products. In general, however, the allegation of high margins simply does not stand up. In these circumstances I am quite certain that we must act to save our industry. I am simply not prepared to stand by and see it wiped out by the French.

I turn now to the legal objections your lawyers have raised and which have, I understand, now been discussed at a meeting chaired by Ian Percival. As your people will now know, we take the view that we have a good case in Community law for the measures I have proposed. If the Commission took a different view they would have to argue that Article 11(1) of the relevant Directive (71/118/EEC) which says that "the animal health provisions of Member States concerning trade in live poultry and poultrymeat shall continue to apply until the entry into force of any Community provisions", prohibits any change in national provisions and that this in turn means there must be no change of any kind in national practice. Our view is that this part of the Directive simply means that member states are entitled to continue to apply national law in this field. Such law must self-evidently be flexible to meet changing circumstances, and it would be contrary to sense to interpret the provision in a way which prevented a country from improving its animal health status if changing circumstances made this possible. We are in any case making no change in our national provisions, as provided in the Animal Health Act 1981: the Act simply confers enabling powers and a slaughter policy can be adopted under the Act without the need of any Order made under it.

I understand it has been argued that the directions in the rest of Article 11 of the Directive about the procedures to be followed in prohibiting imports of poultrymeat should be taken to apply to the measures I am proposing. In my view, however, they do not so apply. It is indeed quite clear that these provisions relate exclusively to emergency situations: they have no relevance for our present proposals, which are based not on an animal health emergency but on our desire to improve the health status of our poultry to that already enforced by the Irish and in Northern Ireland.

If we can thus show that Article 11 of 71/118 does not exclude national measures we can then justify those measures under Article 36 of the Treaty, which provides for restrictions on imports where these are justified on grounds of the protection of the health of animals. Thus we have a perfectly arguable case under Community law.

It may be, of course, that the Commission would decide to challenge us. But the notion that they could get the European Court to grant interim measures against us in a week, as you suggest, is quite mistaken. The Commission cannot ask the Court for interim measures until it has begun proceedings. This in turn it cannot do until it has fulfilled the requirements of Article 169 of the Treaty. This means that it has first to give us an opportunity to submit observations, and it has then to deliver a reasoned opinion giving us time in which to comply. The very minimum time this would take is three weeks, and I very much doubt whether in the holiday season, and with the Agricultural Commissioner possibly sympathetic towards us, it would be done in anything approaching so short a period. I am advised that a realistic, bare minimum time for the whole process might be five weeks, with the probability of its taking substantially longer. That would probably be long enough to meet our immediate needs. And all this is on the assumption that the Commission will apply for interim measures, or if it does that the Court will grant them. In view of their extreme rarity - only two or three instances in the history of the Community - it seems to me to be quite unwarrantable to make this assumption.

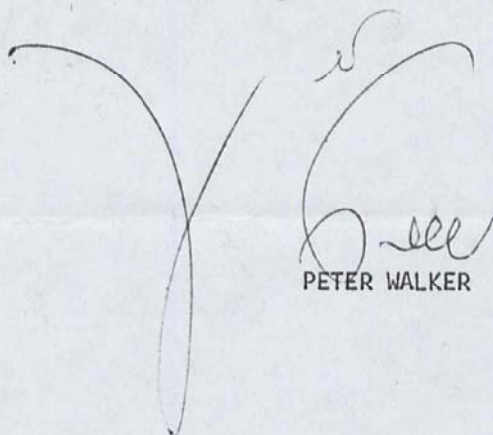
I do not therefore accept that there is any legal bar to what I propose. Nor do I accept your other objections. It is of course true that the French may retaliate: but in the field of animal health and agricultural trade they could not do us sufficient harm to justify our failing for that reason to save our poultry industry. Nor could any measures they might take to improve their own poultry health status persuade me to change our own new regime quickly. It is true that the French would not like what I propose: but there is no way of safeguarding our own interests in this field which they would like. Your argument that action of this kind would weaken our position on milk imports seems to me to be mistaken: the Court must be expected to treat each case on its merits, and our milk measures relate mainly to public, not animal health. I agree that the Americans too would not like it: but I cannot agree that this should deter us from taking action which is urgently necessary to safeguard a substantial

British industry. Nor do I see the need for further study by officials, as John Biffen suggests. The facts of the situation are well known. The question is simply whether we have the political will to act.

I am surprised that you should question my proposal on grounds of cost. First, the industry is prepared to meet the cost themselves. Secondly, the circumstances are quite different from those which you recall from your days as a Norfolk MP. The United Kingdom is currently free of Newcastle disease: that is why it makes sense to change policy and make a virtue of our disease free status. Then on the contrary the disease was endemic. If we had a severe outbreak after implementing the new policy we would ring-vaccinate. If that failed to contain it, we would go back to allowing free vaccination. This could and would be done long before we reached the point where 10% of the flock (the figure to which your £16m figure relates) had had to be slaughtered. You are therefore quite mistaken in arguing that potential cost is a material objection.

Finally, perhaps I could comment briefly on your alternative course - that we should threaten animal health restrictions but not carry them out. This seems to me to offer a unique combination of disadvantages. The prospect of a ban at some later date would leave the UK industry exposed to continuing uncertainty (and with no convincing explanation available of our failure to introduce measures we apparently thought justified); while it would invite the French processors to move all their stocks into UK cold stores, thus undermining any later measure we might take. I understand your officials have suggested that we might meanwhile ask Customs or the Port Health Authorities to hold up imports at the docks. This is much more easily said than done: one can imagine what an English judge or the Parliamentary Commissioner for Administration would say about a Ministerial directive to maladminister.

I remain convinced that we can and should act decisively and urgently, as I have proposed. I hope to speak to you about this and to hear that you can withdraw your objections. Meanwhile I am sending copies of this letter to the Prime Minister, to other members of OD(E) and to Sir Robert Armstrong.*



PETER WALKER

* Also copied to Secretaries of State for Scotland, Wales and Northern Ireland and to the Solicitor General



C
Civil Service Department
Whitehall London SW1A 2AZ
01-273 4400

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

18 August 1981

Dear Peter,

UK POULTRY INDUSTRY

I have just seen your letter of 12 August to Geoffrey Howe proposing immediate action to ban, on health grounds, imports of French poultry. I have also seen Ian Gilmour's letter to you of 13 August.

I have just two points to make: the first stemming from my experience as an EEC Commissioner; the second from my time as Minister of Agriculture in the early 1960s.

The first point is that it is of the highest importance that there should be sound and proper veterinary reasons for whatever animal health restrictions we may introduce. If we or others were to use one primarily as a non-tariff barrier, it will, to say the least, weaken the credibility of what are genuine animal health restrictions.

My second point is that, in the early 60s, our slaughter policy for turkeys and chickens cost the Government dear. I became convinced that these diseases were being introduced deliberately into some big flocks of poultry in order to get vast sums of compensation. It was in the teeth of opposition from the poultry industry that we eventually stopped the slaughter policy and moved over to vaccination. I have not got access to the relevant papers now but if your and Treasury officials were to look up the figures, I think they would lead us to pause before reintroducing a slaughter policy here as a necessary counterpart to import restrictions.

I am copying this letter to recipients of yours.

Yours ever

Christopher



From the Secretary of State

CONFIDENTIAL

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

17 August 1981

Dear Peter,

POULTRY

I have seen your letter of 31 July to Peter Carrington and the subsequent exchange of letters with Ian Gilmour.

I would like to put on record some anxieties over possible difficulties with the United States, who will very likely take us to the GATT once again.

I can see that the matter is urgent, but I do think that we should have a considered appreciation by officials from the main Departments concerned. We should ask for this to be done very quickly.

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

*Yours
John Biffen*

JOHN BIFFEN

CONFIDENTIAL



Foreign and Commonwealth Office
London SW1

13 August 1981

Tim Peter,

UK POULTRY INDUSTRY

Thank you for sending me a copy of your letter of 12 August to Geoffrey Howe about the problems of the UK Poultry Industry. in PM Box

I share your concern about the way in which the situation in our turkey industry is developing. However, it is clear that the factors which enable the French to offer such low prices, particularly for turkeys, have not yet been fully established. Lower French production costs, deriving from slaughter at lower weight, cheaper feedstuffs and the efficiency of the new processing plant, must provide at least part of the answer. We have identified substantial aids to the capital cost of M. Bourgoin's new plant (although they appear to be no higher than those we ourselves have given, for example to NEC's micro-electronics plant in Scotland and Sony's TV tube plant in Wales). Nobody has yet produced any evidence of any major additional French Government aids. The French themselves allege that the larger UK producers have enjoyed very high profit margins. I wonder how certain we are that all the problems facing the industry genuinely derive from unfair French competition. Are we absolutely sure that our own producers are not holding out for a high price in order to protect their margins? Whatever the answer, I think that we need to consider whether it is right and necessary to give almost

/total

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



total protection to the British poultry industry, when this would go far beyond anything which has been done for important manufacturing sectors such as textiles and consumer electronics.

If we do decide to take action to protect our poultry producers, the options are severely limited. I remain concerned that we have not given sufficient consideration to all the implications of the particular course which you are now advocating. This has some major drawbacks which I do not think have been fully set out in your letter:

- (a) My Legal Advisers warn me that the European Court would be quite likely to find that, introduced in this way and in these circumstances, our measures were illegal and that if an application for an interim measure were made, the Court would probably grant it and could do so very quickly.

The legal problems derive from Article 11 of Directive 71/118 EEC and Article 36 of the Treaty. Before it goes on to allow the banning of imports if there is an outbreak of disease, Article 11 of the Directive says that the animal health provisions of Member States shall continue to apply until the entry into force of any Community provisions. Northern Ireland and the Irish Republic have had their present poultry health regime for many years and certainly before the introduction of the Directive. It would be the UK which was proposing to change its animal health provisions. It could reasonably be argued against us that Article 11 requires the continuation of existing regimes and prohibits changes to them until the Community makes some other provisions.

Even if we could get over this argument, we should have to defend our action under Article 36 of the Treaty. As you say in your letter, this permits the restriction of trade on grounds of animal health protection, provided it is not used as 'a disguised restriction on trade between Member States'. Whilst
/it is



it is generally desirable to change over to a 'disease free' status for our poultry industry, I am advised that this is in itself unlikely to be sufficient to convince the Court that measures introduced in this way and in these circumstances are not a disguised restriction of trade. After all, our main motive for introducing such measures would in fact be our desire to protect the UK industry, and our concern about the French threat has been widely publicised. Our measures would be introduced just at the most critical period for our turkey producers.

You suggest that by introducing these measures we should at least be able to buy time. I am advised that this is not necessarily so. If the European Court were to be faced with an application for interim measures, they could decide on this within a week or so and would be very likely to order that we must revert to our present regime until they had had an opportunity to consider the merits of the case. If this were to happen, we should have the worst of both worlds - a difficult and embarrassing legal case during our Presidency without achieving any protection for our industry.

Other colleagues will have views on these legal points and I believe that we will need to go into them thoroughly before any Order is introduced.

- (b) Depending on the outcome of any legal proceedings, our action could invite retaliation by the French against British exports. They could even go further and defeat the whole object of our measures by declaring that France, or even just Brittany, was now a 'disease-free' area for poultry. This would give it the same status as Ireland or Denmark, and we should have little justification for attempting to stop imports.

/(c) The



- (c) The French, and to a lesser extent other Member States, such as the Dutch from whom we import substantial quantities of chicken, to say nothing of eggs, would be certain to condemn our action as a misuse of veterinary controls to protect our own producers. We should be embarked on a major Anglo/French row shortly before the Anglo/French Summit on 10/11 September and right in the middle of the British Presidency. The French would be likely to see the issue in the same way that we viewed the arguments about sheepmeat. We should be very fortunate if the row did not spill over into the other larger Community issues such as CAP reform and budget restructuring.
- (d) The action would undermine the credibility of the UK's general position that we introduce health restrictions only where there are sound health reasons for doing so. Our case over liquid milk imports would thus be weakened even further.
- (e) The restrictions would affect imports from all countries including the US who have only recently withdrawn a complaint against us in the GATT over the chilling requirements for poultry meat. There would probably be another major row over the new measures with the Americans. It is of course possible that they would conclude that there would be unwelcome implications for the defensibility of their own practices if they were to obtain a GATT ruling against the UK. But we would be unwise to count on this. Domestic reaction will undoubtedly be strong and the US administration will probably feel obliged to submit a complaint to the GATT. If they were to do so, it must be doubtful whether we could mount a convincing defence. And unlike the chilling case, where the Commission represented us, on this occasion we should almost certainly have to take on the task ourselves. It is most unusual for an EC member state to have to act alone in the GATT. It would be particularly embarrassing to do so during our Presidency and it would be interpreted in Geneva as an indication of the weakness of our case.

/(f) I am



(f) I am also concerned that the cost of the new policy cannot be predicted. The change to vaccination was made in 1962 because slaughter and compensation was proving to be too expensive. Although the industry appear to be willing to pay for insurance against an outbreak of the disease in turkeys, the sums mentioned are not large. We understand that an annual premium of £3 million would probably only buy an insurance policy worth around £16 million. I would expect that a major outbreak could easily cost considerably more than this, and the extra compensation would presumably have to come from the Exchequer. There seems to be no provision yet for an insurance scheme to cover chickens. I remember, from my time as a Norfolk MP, that fowlpest was a frequent and very costly occurrence - except to the breeders!

All this has caused us to start thinking whether there is an alternative course which would have fewer complications. Our main objective is to create enough doubt about the possibility of French turkeys being banned to persuade the British retailers that they should now sign Christmas contracts with British suppliers. I think that we should examine whether we cannot achieve this by announcing now our intention to introduce health changes for poultry without actually implementing them. This could help us avoid most of the legal objections.

I suggest that we should explore this idea further and that we should be in touch again when there has been more detailed consideration of all the issues involved and before a final view is taken on any scheme which you are thinking of adopting.

I am copying this letter to the recipients of yours.

Yours ✓
lan



From the Minister

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

cc Post Office

Prime Minister

You have seen the earlier papers on this. The Solicitor General is being asked for his advice over the weekend on the legal aspects. The FCO are still not entirely happy with MAFF's proposals, but I hope the issue can be resolved without your having to be brought in.

The Rt Hon Sir Geoffrey Howe QC MP
Treasury Chambers
Parliament Street
London SW1P 3HE

MS

12 August 1981

As Geoffery attached

With my letter of 31 July, I circulated a paper outlining some possible courses of action to support the UK eggs and poultry sectors. Unfortunately, as you know, the meeting scheduled for 3 August had to be cancelled and I am therefore writing to seek my colleagues' agreement to the course which I believe we should now pursue as a matter of urgency.

12/8

The plight of the turkey trade is particularly serious. Retailers have still not placed Christmas orders with their traditional British suppliers and the French continue to offer at prices well below those at which the UK industry can compete. I have had no response from the Commission to my renewed representations to the effect that these prices are so low as to be economically inexplicable and inconsistent with the concept of fair competition within the Community market. Past levels of import penetration are of course no guide to the size of the present problem: French turkey production is continuing to increase against the overall EEC trend and, on the basis of poult placings in the first five months of the year, could account for over 40% of Community production in 1981. The accumulation of evidence - low offer prices, a rapid growth in production and the extent of their activity in the UK - persuades me that the French are determined to secure a major share of the UK turkey market. It is clear therefore that our domestic industry needs protection urgently; and my conclusion is that this can best be provided by a move towards a higher poultry health status coupled with a ban on imports, which could deal satisfactorily with the problem with least risk of legal challenge.

Such an approach would cover broilers and eggs in addition to turkeys. As I explained in my earlier paper, both these sectors too are under threat from low priced imports. For the first time for many years, the UK is likely to become a net importer in 1981 as a result of increased sending of low-priced eggs from the Netherlands and France; broilers are already being offered at up to 7p/lb below UK costs of production; and many egg and broiler producers are currently selling at below cost of production in order to retain their markets. This clearly cannot go on much longer.

My proposals are not however based simply on the need for protection. They are fully justified in terms of animal health policy itself. The introduction of a compulsory slaughter policy for Newcastle disease and of a ban on the use of vaccine would raise the health status of the poultry flock in Great Britain to the highest level of disease freedom. Northern Ireland has enjoyed this internationally-recognised status for several years and there are good reasons for deciding that the time has come to raise the poultry flock in the rest of the UK to the same highest level. In the last five years, there has been only one confirmed case of Newcastle disease in GB (in 1978) and, with over half of the national flock no longer protected by vaccine, we have reason to believe that field virus is now likely to be absent from the whole country. The poultry industry recognise the advantages, in productive efficiency and in savings in vaccination costs, that would accrue from a change of policy and are currently negotiating with under-writers to cover the Exchequer liability that would arise from compensating those whose poultry would be slaughtered in the event of a disease outbreak. In providing this insurance cover, the industry would however expect to gain some protection from the potentially destructive effects of French and other supplies.

With vaccination prohibited and a national poultry flock totally open to any incursion of disease, there would be veterinary grounds for imposing tighter controls on imports of poultrymeat and eggs into GB. Both commodities can carry the Newcastle disease virus, including the milder form of the virus associated with vaccine. It is on these grounds that Northern Ireland - and the Irish Republic - have justified their rule that imports are permitted only from countries which are free of the disease and which ban vaccination. Among the other EC countries, only Denmark can satisfy these criteria: although few Member States have reported outbreaks of the disease recently, there is widespread use of vaccine. Despite the veterinary reasons for tighter controls, we could therefore expect strong criticism from most Member States if we extended the Northern Ireland rules to cover GB. The United States authorities would also complain, though their own animal health restrictions on poultrymeat leave them vulnerable to counter-argument.

Within the Community, we could make use of Article 36 of the Treaty which permits the restriction of trade inter alia on grounds of animal health protection, provided it is not used as a disguised restriction on trade between member states. There is, however, the more specific provision in Article 11 of directive 71/118 which, while permitting Member States to continue to apply their national poultry health rules, also specifies the circumstances (ie widespread outbreak of disease) in which poultrymeat from another Member State may be completely banned and provides for the Commission to intervene on the basis of a weighted majority vote in the Standing Veterinary Committee (SVC). In taking the action proposed, we should therefore risk a vote against us in the SVC and the possibility of Commission action to force us to remove our restrictions. It would however be difficult for the Commission to take action against us and not against

/Ireland ...

Ireland too; and they might well find it embarrassing to explain why it was wrong for us to switch to a policy which Ireland has pursued for eight years of Community membership with impunity. We should in any event have achieved something well worthwhile if, as seems certain, we could maintain the restrictions long enough to secure the bulk of this year's Christmas turkey trade for our own producers. Our longer-term objective would be to argue for better safeguards in Community law for Member States which maintain or seek to achieve health status in their poultry flock and, at the same time, to bring to a head the highly unsatisfactory state of affairs in the Community poultry market.

My officials are working urgently, in consultation with the industry on the financial aspects, on the details of a scheme on these lines and these will be completed as soon as possible. Subject to that, I should be glad to receive my colleagues' agreement in principle to our proceeding on these lines so that I can be in a position to make as early an announcement as possible. If, of course, you or your officials wish to have any particular points clarified meanwhile, we shall be glad to help. But the need to act is urgent. The longer we delay, the greater the risk of pre-emptive shipments from France to swamp our market. I very much hope therefore that I can have your agreement and that of our colleagues very quickly.

I am copying this letter to the Prime Minister, the other members of ODE, Sir Robert Armstrong and the Secretaries of State for Scotland, Wales and Northern Ireland.


PETER WALKER

SECRET



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

*Write to MAFF,
who says they will
try to resolve this with*

The Rt Hon Peter Walker MBE MP *to the F&A and Treasury without*
Minister of Agriculture, Fisheries and Food *appealing to*
Ministry of Agriculture, Fisheries and Food *the PM.*
Whitehall Place
London
SW1A 2HH

T2 148

// August 1981

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148*

COMPETITION IN POULTRY AND EGGS

History of

I am writing in response to the paper which you circulated to Peter Carrington and members of OD(E) about the threat to our poultry industry.

I very much share your concern: our poultrymeat and egg industries could suffer irreparable harm from these subsidised imports. Already in Scotland our turkey industry has all but disappeared: there has been a sharp contraction in broiler processing, (with consequent redundancies) and the resilience of our egg sector is being sorely tested. This is hardly surprising when one considers the catalogue of assistance which the French, for example, are prepared to make available to their industry. If we do not Act decisively soon, our home industry could collapse, with consequent major damage to employment in this and associated industries (and in the long term to UK consumers). It would also offer more ammunition to opponents of UK membership of the Community. In these circumstances, given the failure of the Commission to take decisive action against State aids, I very much support the need to safeguard our home poultry industry. The French certainly would not hesitate to safeguard their industry by any means available - legal or illegal.

So I support your proposal, provided suitable compensation arrangements can be negotiated with the industry.

If colleagues agree, I suggest we move very quickly, to reassure the industry, avert further closures, and anticipate speculation.

Copies of this letter go to the recipients of yours and to the other Agriculture Ministers.

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

Wm 10/16



Foreign and Commonwealth Office

London SW1A 2AH

7 August 1981

Dear Kate

Thank you for your letter of 6 August about the problems of the UK poultry industry.

The Lord Privy Seal has noted the urgency of the question and agrees that it would be desirable to reach conclusions before September. He is ready to take part in early Ministerial consideration of this question.

He remains of the view however that the issues which are raised by the three courses of action outlined in the enclosure to your Minister's letter of 31 July are so complex that before Ministers discuss the matter, thorough (but speedy) official work is required.

Each of the three options poses considerable difficulties. Apart from those of cost, there is a range of legal complications. Our Legal Advisers tell us that both the methods of giving aid to the producers would require prior Commission approval and that it would be unlawful to pay over any of the aid money until that approval had been obtained. We find it difficult to see how the aids could be presented to the Commission in a way which would elicit their approval.

The third option, that related to animal health, is likely, we fear, to look like a device to prevent imports. It would consequently invite infraction proceedings in which our prospects would be poor. Annex 2 to the enclosure to your Minister's letter sets out other

/reasons

Ms Kate Timms
Private Secretary to the Minister
of Agriculture, Fisheries & Food
Whitehall Place
London SW1



reasons for caution. We were particularly struck by the thought that this course of action would undermine the case we are deploying to defend our ban on liquid milk imports.

All these questions need, in the Lord Privy Seal's view, to be examined by the Legal and other experts before they are put to Ministers.

I am copying this letter to the recipients of yours.

Yours ever
Stephen Gomersall

S J Gomersall
Private Secretary to the
Lord Privy Seal



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

ms

Prime Minister

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From the Minister's Private Office

CONFIDENTIAL

Stephen Gomersall Esq
Private Secretary to the
Lord Privy Seal
Foreign and Commonwealth Office
London
SW1

Mr Walker hopes that decisions on action to counter subsidised French poultry imports can be taken in correspondence. I understand his further paper will put in more detail the arguments for the option at A: the introduction of a compulsory slaughter and compensation for Newcastle disease. This would justify a ban on imports of poultry from France (as well as some other countries).

6 August 1981

WR

6/8

Dear Stephen,

My Minister has now seen the Lord Privy Seal's letter dated 4 August about our paper on the problems of the UK poultry industry which was intended for discussion on Monday of this week.

The Minister has asked me to say that it will be difficult to defer decisions on this matter until September, as the Lord Privy Seal suggests, because now is the time when retailers are placing orders for turkeys for the Christmas trade. Mr Walker will very shortly be sending a further paper to his colleagues on this matter.

I am copying this letter to Michael Alexander (No 10) the Private Secretaries to members of OD(E), and to David Wright (Cabinet Office).

Yours sincerely

Kate

Kate Timms
Principal Private
Secretary

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Wm 4/8

Foreign and Commonwealth Office
London SW1

4 August 1981

Mr Peter,

Thank you for your letter of 31 July to Peter Carrington about the problems of the UK poultry industry.

In view of the cancellation of yesterday's meeting, we need to consider seriously and quickly the best course of action. None of the options so far identified seems free from significant disadvantages and legal complications. I hope you will agree therefore that our officials should get together urgently with those from the Treasury and Department of Trade to prepare a paper for us to consider at our meeting in September.

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

*gms ✓
/a*

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

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Foreign and Commonwealth Office

London SW1A 2AH

3 August 1981

*Prime Minister**2*

*FCO and New Zealand officials
doubt the value and
negotiability of an EC/NZ Trade
agreement.*

*WR
4/8*

Dear Clive,

Possible EC/New Zealand Trade Agreement

Thank you for Michael's letter of 27 July. It is helpful to know that Mr Muldoon mentioned the idea of an EC/New Zealand trade agreement when he saw the Prime Minister in June. This is something of an old chestnut and we are not sure why Mr Muldoon should have brought it up again now. He may have electoral considerations in mind since his government's present term of office ends in November.

What the New Zealanders would no doubt like is an agreement providing for fixed, long-term quotas for their agricultural products on the Community market. But the French, whatever fair words Mr Muldoon may have obtained from President Mitterrand, would be most unlikely to be prepared to consider any agreement with specific quantities which were not both degressive and finite. And a more general agreement is unlikely to help the New Zealanders to get over the problem of periodic renegotiation or to give them anything more than they have already so far as sheep-meat and butter are concerned.

Any proposal to offer preferential concessions to EC industrial exports to New Zealand would cause considerable difficulty in the GATT, particularly with the Americans. And it would have the effect of generalising in favour of the Community as a whole the preferences which the New Zealanders continue to grant the UK on motor vehicles and parts. (These arrangements, which derive from the old Commonwealth preferential system, pre-date the GATT and are of dubious legality under it. In 1980 they covered £50m worth of trade - 20 per cent of our total exports to New Zealand - and thus continue to be worth having). This is similar to the point made by the Prime Minister to Mr Muldoon, that Britain would be expected to take in all imports while the rest of the Community benefited from the export of manufactured goods to New Zealand. In any event, the Commission would be most unlikely to want to re-open the 1973 'Soames-Casey agreement' under which the Commission told the Americans that they would not propose any further extension of the Community's preferential trading area (the Americans at the time were increasingly concerned at the steady extension of that area).

/The



The only precedent for an EC agreement with a developed third country outside Europe is the EC/Canada agreement of 1976. That agreement contains no provisions for preferential trade access in either direction, and its trade provisions in substance do no more than refer to GATT obligations.

There is a further important tactical consideration. Any initiative for an EC/New Zealand agreement now would present a great temptation to the French to establish linkage with the 30 May mandate. We do not think it can be in our or New Zealand's interest to run such a risk, when we have just successfully eluded a whole series of similar linkages in 1980 and earlier this year.

From what we know of the attitude of New Zealand officials they seem to share our doubts about the value and negotiability of an EC/New Zealand trade agreement. Meanwhile we have briefed our High Commission in Wellington on the lines of paragraphs 2 to 4 above and have confirmed to them that there was an exchange between the Prime Minister and Mr Muldoon as reported in your letter.

I am sending copies of this letter to the Private Secretaries to the Secretary of State for Trade and the Minister for Agriculture, Fisheries and Food, and to David Wright.

Yours man
Rodric Lyne

(R M J Lyne)
Private Secretary

C Whitmore Esq
10 Downing St

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



From the Minister

BV
for meeting on 3rd August.

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

Secret

31 July 1981

See

As my colleagues are aware, the United Kingdom poultry industry - and particularly the turkey sector - is in great difficulties as a result of subsidised French competition. The attached paper by officials summarizes the problem and rehearses the main options which appear to be available for dealing with the problem. You and our colleagues will like to have this as background when the Prime Minister discusses this problem (among others) with us on 3 August.

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

See

PETER WALKER

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PROBLEMS OF THE UK POULTRY INDUSTRY

1. The British poultry and egg industry is of considerable economic significance (with production worth over £1,000m at the farm level alone). Poultry is second only to beef in its contribution to our meat supplies with broilers accounting for about 80% of the total and turkeys for most of the remainder. The UK industry grew very fast in the 1960s and until the late 1970s, with virtually no help from Government funds, and became a dynamic, efficient and highly competitive industry. Until recently, the UK was more than self-sufficient in poultrymeat, some relatively small imports (mainly from the USA) having been more than outweighed by exports.
2. Over the last few years however competition, largely from other EEC countries, has been increasing at a time when the recession has made the market sluggish. As a result, our domestic industry has been facing growing problems, with high stocks, increasing import penetration and constant pressure on margins. In the past year, a considerable increase in turkey production in France, deliberately fostered by the French government, has focussed attention particularly on the problems of the turkey sector: but those of the rest of the poultry sector are of a similar nature and it appears that the French are now embarking on an expansion programme for broilers and eggs too.
3. The French encouragement of poultry and egg production is easy to understand. As a result of their "Green Oil" policy, they are deliberately seeking to increase agricultural production; the production of poultry and eggs can be expanded rapidly, needs little extra land and uses large quantities of cereals which France produces cheaply and of which she has a large surplus. It is clear that considerable assistance has been made available to the poultry processing sector in particular and one new turkey plant alone has a potential output equal to some 80% of total UK production. We have repeatedly raised in Brussels the question of the legality of the various French aids and are assured that these are under investigation. The probability is however that for the most part those we have been able to identify will not be held to be inconsistent with the existing rules: and it is in any event unlikely that the French will change their policies. Moreover we have probably not identified all the aids involved: the figures at Annex I show a gap between our costs and the French offer prices for turkeys which cannot be reconciled with the known facts.

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4. It is highly unlikely that - despite continued pressure on Commissioner Dalsager - action in the EEC will or could make a significant contribution towards solving the problem. We have therefore been considering what national action could be taken to meet the threat posed by EEC (largely French) competition which would otherwise destroy our industry. The industry, if undermined this Christmas, could be swiftly destroyed and the result would be unemployment and a major adverse effect on our balance of payments. A number of possible courses of action have been examined and are listed in Annex II. As this shows, our membership of the EEC very considerably constrains our freedom of action. The Treaty prohibits the application of Customs duties (or equivalent charges) on trade between Member States, and the imposition of quantitative restrictions on imports, though exceptions may be made in cases involving protection of animal or human health. State aids must conform with the provisions of the Treaty but the restrictions on national measures are not entirely clear and the Commission retains considerable discretion. Any measures taken by the UK could be challenged by those affected (eg an importer) in the UK courts and there is a real risk that any such action could quickly be declared illegal without reference to the European Court.

5. Three courses of action seem capable of dealing with the situation. These are:

- a) financial aid to the sector sufficient to enable it to compete on more nearly level terms with the French competition. As the Annex shows, this might need to be of the order of 12p/lb for turkeys. The figure for broilers and eggs would be rather less. It would be necessary to find ways of paying the money which did not risk legal challenge in Europe. A legal scheme of capital grants might be devised but it would not meet the immediate need, principally because no additional capacity is needed and few processors are in a position to contemplate replacement investment, even with government aid. Moreover, it would inevitably take time before any benefit was felt. We would therefore need to find a combination of measures such

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as assistance with the costs of poultrymeat inspection, fuel or storage; with employment costs (such as refund of NI contributions); or with local rates or other taxes - many of which are paralleled in the French schemes. Further interdepartmental study would be necessary to discover whether it was possible to find an effective combination of measures which would pass muster in Brussels. The total cost of bridging the gap of 12p/lb for turkeys would be of the order of £15-30m in the 1981-82 financial year: the extent of what would be necessary for the remainder of the poultry industry would need further consideration. If offsetting savings cannot be found - and in MAFF's view they are not available - this extra finance could only be met through a charge on the contingencies reserve. If such a measure continued beyond 1981/82, the cost would have to be put forward on an additional bid in this year's PES;

- b) an excise duty would not be illegal (whereas an import duty would) provided it were raised on both home production and imports. The duty would need to be at a level sufficient to force the import price up to the necessary British selling prices; a sum roughly equivalent to the product of the duty could then be paid back to the industry through the kind of measures discussed under option a) above. An excise duty would need primary legislation and a number of practical questions would need to be worked out by Customs and Excise. The public expenditure implications are similar to those of course (a). Because the arrangements would be self-financing, there would be no effect on the PSBR but they would be open to the objection that they would hypothecate revenue to a particular purpose. The weakness of this policy is that the French could destroy the effects by paying their producers a further national aid equivalent to our excise duty; I have little doubt that they would do this;

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- c) the introduction in Great Britain of a compulsory slaughter and compensation policy for Newcastle disease in place of the present reliance on vaccine. This would justify a ban on imports of poultry (which could perhaps be extended to eggs also) from France and other countries where vaccine is used or the disease present. The industry has indicated its willingness to raise a voluntary levy on processors and packers to finance a slaughter compensation fund and is confident that a total of about £3m p.a. could be found: and, while the details would need to be worked out, this should enable the Exchequer liability to be eliminated or at the least reduced to a minimum. There would be some risk that this course of action would be challenged in the European Court but, if so, the UK would have a credible defence. Moreover the arrangements envisaged are similar to those which already operate in Ireland (including Northern Ireland) and which, despite their potential restrictive effect on trade, have escaped challenge. There would also be a danger of retaliation by the French in particular (eg against our sheep exports) and the USA would also be severely critical.

6. Account would need to be taken of the effect on other competing producers. Option c) would automatically extend to all forms of poultry, and perhaps to eggs too; but the position under options a) and b) would need consideration. It would not be possible to extend help to (say) turkeys without covering other forms of poultry meat, which are in any event already hard pressed and likely to face increasing competition from France. The egg industry too is under pressure from France and other EEC countries, and its fortunes are inevitably closely linked with those of the rest of the poultry sector, so that it would be necessary sympathetically to consider its claims. Producers of other forms of meat (some of which, notably pig products are not directly supported by the CAP) would no doubt complain that their interests were adversely affected if help were extended to the poultry sector, but it should be possible to counter this.

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7. On balance, the third course (ie a compulsory slaughter and eradication policy for Newcastle disease, largely funded by the industry) would seem to be the best. It would effectively meet the problem and could be introduced swiftly without recourse to legislation. It would undoubtedly be criticised by our trading partners and could be challenged in the European Court: it should however be sustainable and, subject to that, would not need to be confined to a limited period of time. It would be warmly welcomed by the industry (provided, as should be possible, the protection were extended to the eggs sector as well as poultry) and, in so far as they have indicated a willingness to contribute the necessary finance, it should be possible to adopt the policy at little or no net cost to the Exchequer.

Ministry of Agriculture,
Fisheries and Food
31 July 1981

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SECRETEstimated production, processing and distribution costs of the French turkey industry

<u>Cost of liveweight bird</u>		
<u>ex-farm</u>		25.09 (1)(2)
Plus allowance to cover 1% dead on arrival		.25 <u>25.34</u>
<u>Deadweight</u> cost based on 80% conversion from liveweight		31.68 (2)
Less allowance for value of offal sales		0.20 <u>31.48</u>
 <u>Processing costs</u>		
(ie factory fixed and variable labour, packaging, storage, handling and administration)	14.00 (3)	
 <u>Other costs</u>		
(ie sales, promotion and distribution costs, including cross channel transport)	4.90 (4)	
 <u>MCA</u>	1.07	<u>19.97</u>
 <u>Total Cost</u>		<u>51.45 (5)</u>

Notes

(1) This figure is based on the reported buying price of the major new French company.

(2) The liveweight cost of 25.09p/lb implies low feed (and other) costs. To the extent that this is a result of the production of a lighter weight bird than is typical in the UK, this would justify the use of the 80% figure used in the calculation the deadweight price. (The basic stock used is similar in both countries.) Even so, costs would appear to be unusually low in relation to intervention prices for cereals.

(3) These costs are based on typical UK experience. It is possible that costs in a recently erected automated plant, working close to full capacity, might be somewhat less: but the latest French plant is

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understood to be working considerably below capacity. The assistance given by the French towards labour costs, local rate charges and capital expenditure would benefit this group of costs but no allowance has been made for this.

(4) This figure would be reduced by 1p if no allowance were made for sales promotion and advertising.

(5) ^{the} The total estimated cost figure of 51.45p/lb (which compares to/off^{er} price for French turkeys on the UK market of 39p/lb or less) makes no provision for profit or return on capital employed.

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POSSIBLE COURSES OF ACTION

This Annex describes the options for further action and sets out briefly their likely advantages and disadvantages:-

a) Intervention Measures. The CAP policy provides for an essentially free market in poultrymeat (which is why the effects of subsidised competition from France or elsewhere are so damaging.) One theoretical solution to French competition would therefore be Community-based support arrangements similar to those for other major agricultural products. There are, however, obvious difficulties about this approach, bearing in mind the UK's general attitude on the review of the CAP: and there would of course be no objection to leaving the levels of production and consumption of poultrymeat in the Community to the operation of normal market forces provided that competition within the Community and with other products was on fair terms.

b) MCA Adjustments. Another theoretical solution would be to change the basis of the MCA calculations for poultrymeat/^{and eggs}so that they reflected more fully the value of the production.

There would however be serious obstacles including the facts that (i) when faced with negative MCAs, the UK pressed for the "cereals only"/^{basis}applicable to eggs and poultry to be applied to pigs and (ii) other Member States benefit from the existing arrangements and so would bitterly oppose any change. So far as the CAP cost is concerned, it is possible that, while UK contributions to the budget would be increased, the total cost might be reduced - although it is likely that there would be added pressure on export restitutions since the Community would probably be unable to absorb the displaced trade.

c) Import Controls. Unless justified on grounds of animal or public health, the restriction of French imports by means of an import ban, quantitative restrictions, or special levies would be ruled illegal under the Treaty of Rome. There is no machinery to deal with the dumping of products originating in the EEC. It is sometimes argued that it would be right to impose an import ban, even in the knowledge that it would in due course be struck down by the European Court (or indeed a UK court) since it could well stand long enough to afford the industry a breathing space (and in practice cover the period for/^{the}conclusion of Christmas contracts which are

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fatal to the turkey industry). But this way of proceeding was looked at in the context of possible retaliatory measures against the French at the time of their ban on imports of lamb and ruled out; moreover a decision in the UK Courts could be reached very speedily (without reference to Luxembourg) and actions for damages might easily be sought against the Government.

- d) Animal Health Restrictions. The diseases present in French turkey flocks are believed to be similar in type and incidence to those found in GB flocks. Most of the diseases affect all types of poultry and may also occur in wild and captive birds. A thorough consideration of the more significant diseases indicates that there is only one - Newcastle disease - that could justify extension of controls to prevent the importation of the virus. Newcastle disease is notifiable in this country but, since 1962 - when a compulsory slaughter and compensation scheme was abandoned following a departmental committee inquiry - there has been widespread use of vaccine. Sporadic outbreaks of the disease still occur; the last was in April 1978. If the Government were to reintroduce a compulsory slaughter policy and to prohibit vaccination, there would be grounds for imposing stricter import controls on live birds and poultrymeat from countries or parts of countries where the disease was known to exist or where vaccine was permitted to be used. There would however be several disadvantages in adopting such a course. In particular:
- (i) it would be seen in present circumstances to be inspired by economic protectionist motives and might be challenged as such in the European Court;
 - (ii) it would be a departure from the traditional policy of introducing health restrictions only where there are sound health reasons for doing so and could thus undermine the credibility of the UK position in other areas, in particular on liquid milk imports;
 - (iii) it would invite retaliatory health barriers across the wider field of livestock and livestock product exports from the UK;
 - (iv) it could be countered by the French taking parallel action to require the compulsory slaughter of diseased birds and to prohibit the use of vaccine in France, or in an area such as Brittany, thereby removing any justification for an import ban;
 - (v) restrictions could not be confined to France and would be particularly antagonistic to the USA who have only recently withdrawn a complaint against the UK on a poultrymeat issue in GATT;

SECRET

SECRET

(vi) a compulsory slaughter policy could be expensive if disease outbreaks occurred and could make heavy calls on scarce veterinary resources. (At its peak in 1962, the previous eradication policy cost £8.8m.)

e) Community Review. We could press the Commission to undertake a detailed review of the market prospects and the general Community regime with reference to the projected increase in Community production etc. This might provide the opportunity to spotlight the problems and hence the need for special action eg on state aids and other forms of unfair competition. Such an approach would have real value in the long term but would offer no solution to the immediate problem.

f) Inter-professional Body. The UK has been pressing the Commission to come forward with its long-promised proposals for an inter-professional body in the poultry sector which could help by improving the transparency of the market and could also provide a forum for pressure against unwarranted expansion on the basis of state aids. But it would not really help with the immediate and fundamental questions.

g) Aids to Capital Investments. The precise scale of the subsidies available in France is not clear but a wide range of capital grants appear to be available, backed by subsidised interest rates, in areas well suited to poultrymeat production and processing. Investment aids in the UK are confined to "development" areas away from the regions best suited to poultry production and processing and are in any event limited to capital grants of up to 22% and there are no interest rate subsidies. To match the French system, it would be necessary to extend aids to appropriate areas, make substantial increases in the rates of grant available and introduce interest rate subsidies.

h) Operating Subsidies. These would be illegal under Community law if they took the form (for example) of direct subventions on fuel or feed costs. The Commission is however wary of tackling Member States where tax or national insurance is involved and DANI are in fact introducing a scheme partially to offset the disadvantage faced by their intensive livestock sectors by rebating Class I national insurance contributions.

i) Excise Duties. These are not ruled out by the Treaty provided that they apply without distinction between the domestic and

SECRET

SECRET

Imported product. If the excise were set at a sufficiently high rate, the revenue collected could be applied in some form to enable the UK industry to bring their prices into line with the French. Primary legislation would however be required and retaliation against UK exports would be a possibility.

j) Cash Aid. Immediate relief might be offered by the injection of cash into the industry. Aid equivalent to the difference between UK production costs and French offer prices (say 12p/lb) on turkey production of 110,000 tonnes a year would amount to nearly £30m. p.a. It would however be necessary to extend similar help to the rest of the poultrymeat sector which is also under pressure and would be directly affected by subsidies of turkeys, ^{and to eggs} There would also be complaints, and demands for comparable treatment, from other meat and food producers, particularly those of non-protected meats (eg pork and bacon). It would also be necessary to find a means of channelling any such aid into the industry which would be consistent with Community rules. Any capital grants scheme would entail long lead times and the industry is not in favour of subsidised expansion of processing capacity in the UK. Another possibility would be to give further assistance on poultrymeat hygiene inspection costs which probably amount to £4½-5m per annum. (Relaxation of the burden of hygiene costs is already under discussion with the industry). These costs amount however only to some 0.25p/lb of poultrymeat produced so that other means of aiding producers costs would also need to be found.

k) Marketing Initiative. The industry might be encouraged to mount a major promotional campaign, analogous perhaps to that recently adopted for Cox apples. It might be possible to find some means of helping such a campaign from public funds but the impact would be somewhat uncertain and it could not by itself bring about a major change in the size and extent of the problem.

MINISTRY OF AGRICULTURE,
FISHERIES & FOOD
30 JULY 1991

SECRET



Wm
2/8

Pomie Minister

You will want to be aware that the proposal is to 'launder' American butter - 28/7.

Foreign and Commonwealth Office
London SW1

through N. Zealand to the Soviet Union is going ahead.

28 July 1981

See also the attached letter from the Minister of Agriculture -
R. Peter,

PROPOSED US/NEW ZEALAND/USSR BUTTER DEAL

underneath

You will already have seen my letter of 27 July about this deal.

We have now heard in confidence from the New Zealanders that they have decided to go ahead with this deal and expect to make an announcement later this week (Stewart, Deputy Secretary at their Foreign Ministry called on Hannay here on 27 July). Stewart avoided specifying whether he was 'consulting' us about this deal, or merely 'informing' us of it in advance of a public announcement. He did say, however, that if there were a strong UK reaction the New Zealand Government would no doubt want to give this due consideration.

The New Zealanders have clearly been faced by the Americans with the unpalatable alternatives of agreeing to act as middle man for the proposed sale to the Russians or seeing the Americans put the butter out to tender on the world market, thus causing a sharp drop in the world market price, which is of such importance to New Zealand. The Americans apparently say that they cannot dispose of the butter domestically and they are not prepared themselves to sell direct to the Russians, who are the only potential large scale buyers in sight.

I think that we should tell the New Zealanders that while we recognise the arguments in favour of minimising disruption of the world butter market we remain opposed to large scale sales of butter to the

/Soviet

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

CONFIDENTIAL



Soviet Union at subsidised prices (as Peter Carrington made clear to Haig on 17 July), but that if the Americans are indeed determined to go ahead, as the New Zealanders say they are, then the question of New Zealand involvement can only be decided by the New Zealand Government.

If you and other colleagues agree, we should make our attitude plain to the New Zealanders as soon as possible. In particular Peter Carrington or I hope to have a word personally with Muldoon, who is over here for the Royal Wedding.

As to any public comment which may be necessary, I suggest that the line in paragraph 8 of my letter of 27 July remains appropriate.

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

gus ✓
/a

CONFIDENTIAL

PM has seen.



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

From the Minister
CONFIDENTIAL

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

28 July 1981

Dear Lord Privy Seal,

I am very disturbed about the proposals for the New Zealanders acting as agents for the American Government in the disposal of butter. I would be grateful if you would inform them that, in my judgement, such an action will very much jeopardise their position within the European Community. It has been a long struggle to persuade Europe to give an allocation for dairy imports to New Zealand and, as you know, to some extent Britain has had to pay a price in negotiating terms to obtain that quota. For our opponents in Europe now to be able to point out the ability of New Zealand to sell 100,000 tonnes of butter on behalf of another country indicates that they no longer have a need to have a quota into a market where there is already a considerable surplus of dairy products.

As the person who has negotiated on behalf of New Zealand, I would deeply regret it if this particular transaction takes place.

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

Yours sincerely
Kate Timmins

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



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

From the Minister

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

MBDA
Rms
28 July 1981

Geoffrey Howe

MEASUREMENT OF FARM INCOMES

Thank you for your letter of 9 July.

The draft paper, reviewing a wide range of technical issues connected with the agricultural income measurement problem, has all along been prepared by officials here with Economic Trends in mind. The usual procedure is for drafts to be submitted to the Editorial Board, on which, of course, the Treasury is represented, and subsequently modified as necessary.

I am, however, perfectly content for the draft to be circulated to your officials and others beforehand and this will be arranged as soon as possible. The paper can then go forward to Economic Trends in the normal way.

I am copying to the recipients of yours.

Peter Walker

PETER WALKER

FILE

cc MAFF
D/T
CO

27 July 1981

EC/New Zealand Trade Agreement

The Prime Minister has seen your letter to me of 17 July on this question.

Mr. Muldoon mentioned the idea of a formal trade agreement between New Zealand and the Community as something which, if achieved, would represent a great advance in New Zealand's relations with the Community. The Prime Minister told him that she thought the idea would be worth exploring. She added, however, that there would be a danger in such an arrangement that Britain would be expected to take in all the imports while the rest of the Community benefited from the export of manufactured goods to New Zealand. Mr. Muldoon took the point and agreed that it would have to be dealt with.

I am sending copies of this letter, together with a copy of yours, to Kate Timms (MAFF), John Rhodes (Department of Trade) and David Wright (Cabinet Office).

MICHAEL ALEXANDER

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

*PM was seen.*

Foreign and Commonwealth Office
London SW1

27 July 1981

Dear Peter,

PROPOSED US/NEW ZEALAND/USSR BUTTER DEAL

As you know, there was some discussion at the Agriculture Council on 20/21 July of reports that the Americans might dispose of their current (poor quality) butter surplus by selling it to New Zealand, which would sell an equivalent amount of butter to the Soviet Union, some by direct sale of New Zealand butter and the rest via Community firms which would process part of the US butter into butter oil and then re-export it to the Soviet Union.

This is a difficult question for us. Our traditional position in the Community is one of opposition to exceptional, large-scale sales of Community butter to the Soviet Union, with the aid of substantial export refunds. That position will begin to look rather foolish if the Americans now do what we have always objected to the Community doing, particularly if their sale is made at a price below the world market price (which is the price at which the Community sales have normally been carried out). It would also give the Russians yet another wrong signal over Afghanistan.

Peter Carrington raised this issue with Haig in Washington on 17 July, when he expressed concern to him over the reports that US butter would be 'laundered' in New Zealand. He agreed but, after what happened over the partial grain embargo, we cannot be confident

/that

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

that he will not be overruled by Reagan, backed by the agriculture lobby.

We think that we should continue to bring home to the Americans that a heavily subsidised sale of butter by them to the Russians:

- (a) contrasts with overall US policy towards the Soviet Union, will sit oddly with the recently agreed line on East/West economic relations embodied in paragraph 36 of the Ottawa communique, and will give another wrong signal over Afghanistan;
- (b) will make it difficult for us or anyone else in the Community to complain in the future if the Community does likewise.

We should urge the Americans to look again at the possibility of disposing of their surplus domestically (I understand that officials are already investigating whether or not this is practicable and, if it is not, what precisely are the alternatives open to the Americans). It would I think lend weight to what Peter said to Haig and to the approaches our Embassy are already making in Washington if you felt able to send a message to the Agriculture Secretary, Block (in your UK not your Community Presidency capacity of course) making clear our unhappiness at what seems to be under consideration. Even though our voice may not decisively affect the outcome in Washington, we should not for that reason stay silent.

The New Zealanders are clearly worried, in my view rightly, about their proposed involvement in the deal and the effect this might have on the Community's willingness to continue to accept substantial amounts of New Zealand butter on the Community market. At the same time they are worried about the threat to the world butter market which is represented by the current US surplus of 100,000 tonnes (ie more than New Zealand now supplies annually to the Community).

We have already instructed our High Commissioner at Wellington to tell the New Zealanders that we are not happy about the proposed deal. Should we go further and advise them formally not to go through with it? I do not think so. We have an interest in ensuring that, if the US butter has to be disposed of outside the US, this should be

/done

done in the least damaging way to the world butter market. The New Zealanders' long experience could be relied on to ensure that any damage to that market is kept to a minimum. The cost to the Community in the form of the increased export restitutions needed to dispose of its own future surpluses would be greatly increased if as a result of clumsy handling the world butter market collapsed (which of course would suit the Russians very nicely). At the same time I think we should continue to make plain to the New Zealanders that the deal contains risks for them and that we do not like it.

The only Community (and therefore indirectly UK) involvement in the proposed deal would arise from the processing of some of the butter in the Community for re-export to the Soviet Union. This would be done under the 'inward processing' arrangements which allow Community firms to import products tariff and levy free for re-export in processed form, without the benefit of any export restitutions which might normally apply. It would not be easy to change these arrangements, in which some Member States (eg Germany in the case of wheat for turning into flour and France and Belgium in the case of butter to be turned into butteroil) have a vested interest. But we might be criticised for not trying to do so, particularly if it turns out that the only way the Americans can turn their surplus, or part of it, into a form acceptable to the Russians is to process it in Europe.

My general conclusion is that since we are not directly involved in the proposed deal we should not make a disproportionate song and dance about it. We have already spoken to the Americans and New Zealanders, who are in no doubt about our reservations. We should however have to be ready to respond publicly if the deal eventually went through. I suggest our public position might be based on the following:

- (a) UK not directly involved. Therefore not for us formally to comment;
- (b) (if necessary) Americans and New Zealanders left in no doubt about our reservations about proposed deal, consistent with our longstanding position on large scale subsidised exports of Community butter to the Soviet Union;

/(c)

- (c) (if necessary) New Zealand involvement will help to ensure stability on the world butter market; this therefore should be welcome to the Community, which also has an important interest in that market;
- (d) Community involvement is only indirect, through use of well established 'inward processing' arrangements; no prospect of abolishing these arrangements, which cover several commodities, simply in order to prevent this particular processing deal. No element of Community subsidy is involved.

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

your ✓
lan



Env PD

H. Hunt

FCS/81/98

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Sheepmeat Clawback

1. Thank you for your letter of 10 July. I entirely agree that the Commission handling of this affair has been deplorable, and that it would be best to let the matter rest for the time being. But I hope we do not have to go through such an episode again.

2. I am copying this minute to the Prime Minister, the Secretaries of State for Scotland, Northern Ireland and Wales and to Sir Robert Armstrong.

(CARRINGTON)

Foreign and Commonwealth Office, SW1
24 July 1981



Prime Minister
 Did Mr Muldoon raise
 this point with you?

Foreign and Commonwealth Office

London SW1A 2AH

17 July 1981

RMJ
 22/7

Dear Michael,

EC/New Zealand Trade Agreement

A. |

On his return to New Zealand after his recent visit, Mr Muldoon has asserted that, when he saw the Prime Minister last month, he obtained her support for the idea of a formal trade agreement between New Zealand and the Community to replace the periodic wrangles over butter and sheepmeat. Can you throw any light on this? The New Zealanders have not made any formal proposal, but we know that Mr Muldoon raised the subject with President Mitterrand and Chancellor Schmidt and alleges that the former responded 'positively'.

yours ever
 R M J Lyne

(R M J Lyne)
 Private Secretary

He mentioned it
 to me as a great
 advance in New Zealand's
 relations with
 the E.C.

M O'D B Alexander Esq
 10 Downing St

Subject to the caveat
 that I would have to be
 dealt with in such an agreement
 namely that Britain must not
 be expected to take in all
 the import while the rest of
 the Community gets all the
 exports of manufactured goods.
 I said I thought it was
 Muldoon's intention to
 import with us but as
 Muldoon looks the
 import from
 South
 and



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

(2)

From the Minister

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

Prime Minister
It is odd, in view of the head of
steam that had been built up, that
Mr Walker & the industry were prepared

10 July 1981

to go so quietly.

And - 13/7

As I believe
ms

SHEEPMEAT CLAWBACK

As I reported to Cabinet yesterday, the Commission put forward to the Sheepmeat Management Committee today its proposals for reducing the clawback imposed on lamb exports to Europe. After prolonged consultations yesterday with representatives of the abattoir industry and the farmers, I decided that the right course was to reject these proposals. The relatively small and uncertain reduction in clawback which was on offer under the Commission's proposals was not, in the industry's view, sufficient to compensate for the uncertainties which the trade would have faced from implementing the Commission proposals, or for the reduction in the guarantee to producers which would have occurred during the course of the marketing year.

As the Commission had fulfilled at least the letter of the agreement reached at the time of the price fixing by bringing forward proposals to the Management Committee - though not proposals which I believe were in accord with the spirit of that agreement - I decided not to maintain reserves on the remainder of the price fixing package, as to do so would adversely affect our own producers' interests. I shall continue to seek changes to the clawback arrangements which our industry would see as worthwhile; though realistically we must accept that this may not be possible before next year's price fixing.

I am copying this letter to the Prime Minister, the Lord Privy Seal, the Secretaries of State for Scotland, Northern Ireland and Wales, and to Sir Robert Armstrong.

[Large handwritten flourish]
Peter Walker

PETER WALKER

RESTRICTED



Euro Pal

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

9 July 1981

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

Wm 9/7

Don Pat

MEASUREMENT OF FARM INCOME STATISTICS

Thank you for your letter of 30 June.

I do not think there need be much difference between us on how we can best take this issue forward.

There may have been some misunderstanding about what I had in mind in my letter of 28 May. I entirely take your point that we would not want to divert scarce resources into a long draw-out study, generating large quantities of paper and a lengthy report. Indeed, as I made clear in my letter, I envisaged that the review would have to be completed by late summer or early autumn so that its conclusions on the appropriate presentation and treatment of farm income statistics could be taken into account in next year's agricultural review White Paper.

I also envisaged that one of the main purposes of the review I proposed would be the publication of an article setting out the alternative bases on which farm income might be defined and bringing out the conceptual problems associated with them. You explain in your letter that your officials are already preparing an article for publication along these lines.

I am entirely content that we should now focus our efforts on the draft article to which you refer. Accordingly I propose that we should proceed as follows. First, it would be helpful if my officials could be brought into the preparation of the draft article straight away, so that they can see how far it corresponds to the objective I have in mind. I should be grateful if you could instruct your officials accordingly. Second, before the draft article is submitted to us both for approval, in advance of publication, I think it is essential that other interested Departments should have a chance to comment at official level. I have in mind in particular the need to ensure reasonable compatibility between the various farm income series and other national income statistics, so that proper comparisons can be made between agriculture and other sectors in the economy. Third,

/I would



I would suggest that, when it is ready, we should consider putting the article in Economic Trends. This would ensure that it received a widespread circulation among economists and others professionally concerned with the problems of income measurement in other sectors.

If during the course of completing the article for publication, it appears that further aspects of the subject, eg. breakdown of income by product of geographical areas, need more extended treatment, then those can be taken up bilaterally at greater leisure.

Finally I must comment on what is said in the penultimate paragraph of your letter. First, I entirely accept that in certain circumstances the pre-interest series of farm income statistics may show a sharper change (upward or downward) than the post-interest series. You yourself accepted, however, in your letter of 5 November last year that the pre-interest series was more appropriate for intersectoral comparisons. Second, I equally agree that any change in the farm income statistics would need to be carefully explained. But the usual practice in the presentation of other national income figures is to qualify any statistics by a full explanation of their defects or inadequacies and, where necessary, to offer an alternative measure. That is all I am suggesting here. This seems to me entirely separate from the kind of political presentation to which you refer - in which, incidentally, it would also be necessary for us to explain why we have not been able to insist on a freeze in CAP prices for products in surplus!

Perhaps your Private Office could let mind know that you are content to proceed along the lines suggested in paragraph 5 above.

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

GEOFFREY HOWE

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

*Guo Pp
C.P.*

Y SWYDDFA GYMREIG
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switsfwrdd)
01-233 6106 (Linell Union)



WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-233 3000 (Switchboard)
01-233 6106 (Direct Line)

Oddi wrth Ysgrifennydd Gwladol Cymru The Rt Hon Nicholas Edwards MP

From The Secretary of State for Wales

Still with PM 4/8

8 July 1981

De Peter

*hs
Am*

- still with PM

Thank you for your letter of 11 June and for drawing my attention to the publication about French investment incentives. I share your concern that the British food industry should make the investments necessary to enable it to compete with French manufacturers.. Assistance is, of course, available for projects in Wales through the regional development grants and selective financial assistance arrangements. These aids together with the tax incentives available, can provide a very substantial amount of Government assistance for companies with investment plans. Although our assistance is channelled through a number of agencies my Industry Department play a co-ordinating role to ensure that companies are given all the advice they need.

At the recent Welsh Grand Committee Debate on rural affairs I took the opportunity of underlining the opportunities which now exist for food exporters and let us hope that this prompts them to take advantage of the incentives that are available for them to invest here rather than in France.

J *over*
Walt

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



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

From the Minister

Elwo
PSC
WN
30/6

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

30 June 1981

MEASUREMENT OF FARM INCOMES

Thank you for your letter of 28 May about farm incomes.

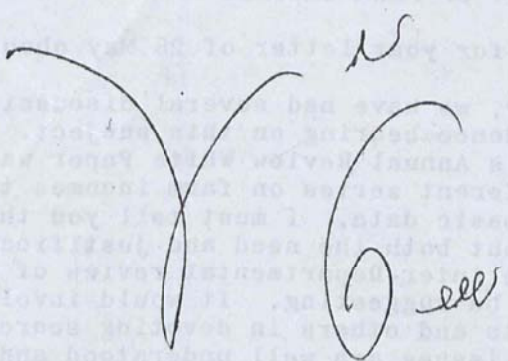
As you say, we have had several discussions and exchanges of correspondence bearing on this subject. The presentation in this year's Annual Review White Paper was altered so as to allow different series on farm incomes to be readily derived from the basic data. I must tell you that I have serious doubts about both the need and justification for the sort of full-scale inter-Departmental review of this subject which you appear to be suggesting. It would involve both of our Departments and others in devoting scarce resources to a study where the issues are well understood and have been fully discussed between our Departments.

I agree with you on the need for greater public understanding about the development of farm incomes and the bases upon which these are defined. Indeed, my officials are well advanced in drafting a review article for publication with precisely these objectives in mind. As soon as the drafting is completed, your officials will be consulted with a view to early publication.

I think, however, we must recognise the politics of changing the basis of assessing farm incomes after a number of years in which the agreed formula has shown a substantial drop. Firstly, of course, there is the risk, as has been shown by the production of the new indices to measure the cost of living, in which after a few months those indices are more embarrassing to the Government than the old retail price index, and I must say that unless your

view is that interest rates are going to move sharply upwards, the same could apply to the type of indices you have in mind. But, secondly, there is a natural suspicion and hostile political reaction when, just prior to an Election when you have failed on the basis of the old indices to deliver what you promised in the Election campaign, you announce that you are changing the indices themselves. I am perfectly willing, as I was last year, to consider how the various elements might be separated out when published in the White Paper, but I hope that you will agree not to press for an inter-Departmental study to be mounted. I fear that this would generate a large amount of not very useful paper and take up a good deal of time when both our Departments are going to be heavily engaged on the Presidency and on issues relating to the Budget Mandate.

I am copying this letter to those who received copies of your letter to me.



PETER WALKER

30 JUN 1967

10 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30

CONFIDENTIAL



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10 DOWNING STREET

From the Private Secretary

29 June, 1981

The Prime Minister has seen the Chancellor of the Exchequer's recent minute on agriculture and fisheries policy and the Minister of Agriculture's comments of 22 June.

The Prime Minister agrees that it will be necessary to prepare the United Kingdom's approach to the 1982 CAP price fixing in good time, and to pursue the Government's objectives for the reform of the CAP with vigour and resolution in the forthcoming negotiations on the restructuring of the Community budget. The Commission's report appears to offer a number of suggestions which are in line with the policy on the CAP as agreed in OD(E).

The Prime Minister also agrees that it will be vital to avoid the Common Fisheries Policy getting tangled up with the budget restructuring negotiations, and understands that bilateral meetings with the French are being arranged with a view to securing an early agreement in the Fisheries Council.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food and other members of OD(E) Committee, the Secretaries of State for Scotland and Wales and Sir Robert Armstrong.

M. O'D. B. ALEXANDER

A J Wiggins, Esq
HM Treasury

CONFIDENTIAL

RH

CONFIDENTIAL

Type for my signature

①

Ref. A05169

Prime Minister

MR. ALEXANDER

Yes

Apex draft letter?

Am

CAP Reform and the Common Fisheries Policy

15/6/87 TPM

In a recent undated minute to the Prime Minister, the Chancellor of the Exchequer set out his reflections on the outcome of this year's price fixing and their implications for future policy. The Minister of Agriculture has commented in his letter of 22nd June.

2. The main purpose of the Chancellor's minute is to place on record his assessment of the extent to which the package emerging from the 1981 CAP price fixing fell short of agreed Ministerial objectives and to press for timely action to settle the United Kingdom's line for 1982. He also urges the need for an early settlement on a revised Common Fisheries Policy to avoid a link with the budget restructuring negotiations and further trouble with the Germans on the Canada Agreement.

3. The Chancellor notes that the average CAP price increase of 9 per cent was within the margin Ministers had been prepared to accept, but that the associated exchange rate realignment gave several member states greater increases in their own currencies, with the result that surpluses can be expected to go on growing. There was in his view little progress with agricultural economy measures, although he acknowledges the value for the future of Mr. Walker's success in securing Dutch and German support for the United Kingdom declaration that the growth of CAP guarantee expenditure should be markedly below that of own resources. On fish, the Chancellor regrets that it proved impossible in the event to block the price fixing negotiations until a settlement on the CFP had been agreed.

4. He concludes that the Government should hold to the three main elements in their CAP reform policy: price restraint, with real prices moving towards equilibrium levels; economy measures for individual commodities, but with no further increase in the linear coresponsibility levy on milk; the firm application, in concert with the Germans, of the formula for restraining the growth in CAP expenditure, on which action will be needed in the context of the 1982 Community budget.

CONFIDENTIAL

CONFIDENTIAL

5. While saying that he accepts many of the Chancellor's points, the Minister of Agriculture argues that it is politically unrealistic to believe that CAP surpluses can be eliminated by price restraint, since the continuing fall in real farm incomes throughout the Community - including the United Kingdom - will make it impossible to press this course too far. He voices particular disquiet about the political risks the Government would run at home if they sought to impose a still tougher price policy on British farmers.

6. Mr. Walker clearly sees less scope for price restraint than the Chancellor and places correspondingly more weight on finding a solution for the United Kingdom's net contribution problem through a budget adjustment mechanism. He is also more sceptical of the feasibility of achieving an effective alliance with the Germans and the Dutch; and expresses concern about the threat to our farmers from the widespread use of national aids by other member states.

7. On fish, the Minister of Agriculture agrees that we should press the French to reach agreement quickly, in line with the conclusions reached recently in OD(E)(81) 8th Meeting, Item 2. But he says that he will shortly circulate a paper on the future of the British fishing industry if there is no early settlement of the CFP.

8. No immediate operational decisions are called for on any of the issues raised by the Chancellor of the Exchequer or the Minister of Agriculture. Officials are working on how best to apply the "markedly lower" formula to the 1982 Community budget and Ministers will be consulted as necessary. Detailed reactions to the CAP reform aspects of the Commission's report on the 30th May mandate will probably not be needed until the September Agriculture Council. OD(E) has already agreed that there should be general price restraint to avoid generating structural surpluses (OD(E)(81) 6th Meeting) and more recently has also agreed that the United Kingdom should be ready to study income aids for farmers as a means of facilitating price restraint (OD(E)(81) 8th Meeting, Item 1). These decisions should provide an adequate basis for constructive participation in the period of elucidation that will follow the presentation of the Commission's report.

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9. The Prime Minister might nevertheless think it useful to comment briefly on these exchanges in a way that would serve to confirm the policies so far agreed by Ministers on CAP reform. A draft letter in this sense is attached.



ROBERT ARMSTRONG

26th June, 1981

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DRAFT LETTER FROM MR. ALEXANDER TO
A. J. WIGGINS, PS TO CHANCELLOR OF THE
EXCHEQUER

The Prime Minister has seen the Chancellor of the Exchequer's recent minute on agriculture and fisheries policy and the Minister of Agriculture's comments of 22nd June.

The Prime Minister agrees that it will be necessary to prepare the United Kingdom's approach to the 1982 CAP price fixing in good time, and to pursue the Government's objectives for the reform of the CAP with vigour and resolution in the forthcoming negotiations on the restructuring of the Community budget. The Commission's report appears to offer a number of suggestions which are in line with the policy on the CAP as agreed in OD(E).

The Prime Minister also agrees that it will be vital to avoid the Common Fisheries Policy getting tangled up with the budget restructuring negotiations, and understands that bilateral meetings with the French are being arranged with a view to securing an early agreement in the Fisheries Council.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Minister of Agriculture and other members of OD(E) Committee, the Secretaries of State for Scotland and Wales and Sir Robert Armstrong.

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

From the Minister

CONFIDENTIAL

The Rt Hon Margaret Thatcher MP
10 Downing Street
London
SW1A

22 June 1981

CAP REFORM

The Chancellor kindly sent me a copy of the reflections he sent you recently on future agricultural and fisheries policy. While I agree with much of what he said, you may find it helpful to have my own comments.

First, the outcome of this year's CAP price negotiations. The Chancellor speaks of our ending up short of our initial objectives, and stresses in particular the size of the price increase. If however one considers what had happened to farmers' incomes throughout the Community I do not think the outcome ought either to surprise or dismay us. The Commission's paper on the background to their proposals showed that real incomes in agriculture in the Community as a whole had fallen by 2% in 1979 and a further 9% in 1980, and were falling further and further behind incomes in the rest of the economy. There is no way in which democratically responsible governments could be expected to ignore this. I agree, of course, with the Chancellor when he says that at the price levels agreed we can expect surplus production to continue to increase. But this simply underlines the fact that it is quite impractical and unrealistic to suppose that Community surplus production can be eliminated by action on prices. We have got to find other ways of containing surplus production; and to the extent that we fail we must get redress for our own situation through budgetary correctives.

Quite apart from the impracticality of a draconian policy on common prices, I do not see how we could reconcile it with our responsibility to our own agriculture or with our pledges. You will recall that our Manifesto condemned Labour for seriously undermining the profitability of agriculture. But since 1978, ie broadly since we came to power, real net farming income has fallen by no less than 38% (since 1976 it has fallen by 52%). Investment is declining, with dramatically adverse consequences for the agricultural machinery and construction industries. As the next election approaches we are going to be asked more and more forcefully in the farming constituencies whether

/we are.....

we are satisfied with the results of our stewardship, and what hope we can hold out for the future. If our answer, as the Chancellor suggests, is to say that we favour a much tougher stance on common prices, implying an even deeper cut in the industry's depleted income, I do not think we shall get a friendly hearing.

Against this background, I do not think we need apologise for the size of this year's common price increase. With production costs continuing to rise, our estimates show that, even with the increase in support prices, the falling trend in the real net income of British farming is unlikely to be reversed in 1981. Our support prices of course reflect only the bare increase in common prices: all other countries except Germany got more than the Common price increase, as a result of the monetary changes. But even over the Community as a whole the outcome can in no sense be regarded as a bonanza for farmers. And the price-fixing contained a number of highly significant advantages for us: the butter subsidy, sheepmeat premiums and beef premiums to help the housewife; a number of useful steps to contain Community expenditure; and stronger statements of intent about the control of future CAP expenditure than the Chancellor had found it possible to secure in ECO/FIN.

The Chancellor remarks that it was a disappointment that we could not make a stronger link between agriculture and fish so as to secure more progress on the latter. But such links can only be made effectively at the Heads of Government level, and you will recall that the circumstances were far from favourable. The French were clearly not prepared to do a trade-off between the two issues and would not, I suspect, have been too distressed to see us isolated in seeking to hold up a reasonably satisfactory agricultural settlement by ourselves making an overt link with fish. You decided against this and I am sure you were right to do so.

As for the future, I agree entirely with the Chancellor that we must seek the earliest possible agreement on the CFP. That is indeed what we have been doing for the last two years. We came very close to success in December, but the then French Government decided to block it. It remains to be seen whether the new French Government will be genuinely ready to settle. So far they show no great hurry to come to the conference table: they talk of September rather than July. My aim is to test their intentions in bilateral meetings as soon as possible. But I think we have to face the fact that they may not be prepared to make the concessions on access that, in the light of your assurances to the fishing industry, are essential for us. In that case we shall need to do two things: to consider what progress of a limited kind can be made on other issues, such as a marketing regulation and the EEC/Canada agreement; and to decide what our own policy towards the British fishing industry is to be over the next 18 months, on the assumption that there may be no agreement on the linked questions of quotas and access during that time. I shall be circulating a paper on this during the next few weeks.

/I turn now.....

I turn now to future policy on the CAP. I have already commented on the price question. I do not of course argue that we should go for big common price increases: I say only that we must be realistic about the likely attitudes of other member countries, and take due account of the requirements of our own industry. We must also recognise that even if it were possible to hold common prices down, this would not stop the continued increase of surplus production and therefore of disposal costs, for other countries would pour in even more money in national aids than they do now, in order to make good the effect on farm incomes: it is significant that the new French Government has already agreed to meet the farmers' leaders in September to discuss incomes, with the implication of a decision on new direct aids in November or December. Otherwise I agree with what the Chancellor says about the general thrust of our future policy. I have to point out, however, that the policy he suggests is the same policy as we have pursued over the past two years. He suggests that we should put the case for a tough stance on prices to the Commission well before they formulate their 1982 price proposals: this we did in 1981. He suggests that we must strongly oppose any further increases in the linear co-responsibility levy on milk: we did so in 1981 and were at least able to contain the increase at half of one per cent. He recognises the difficulty of getting agreement to a super-levy on milk: despite its difficulty, I think we must persist in pressing for it, for I know of no other way of restraining expenditure in this area that would not be either more unacceptable to other member countries or more damaging to ourselves. When the Chancellor goes on to say that we must develop a clear position on all these issues and be prepared to stick to it, I can therefore only comment, while agreeing with him, that we already have such a clear position and will stick to it just as firmly as circumstances and political imperatives allow.

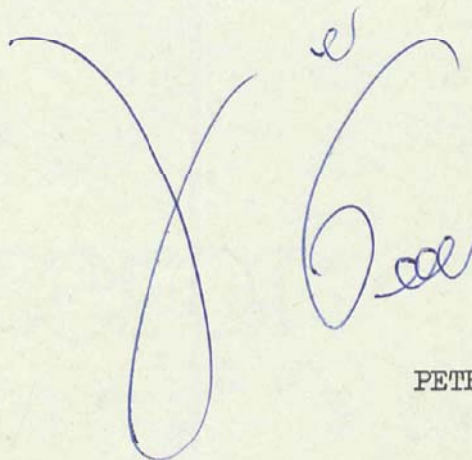
Just two final points. First, the Chancellor does not mention what is for me one of the most threatening aspects of the present situation: I mean, the way in which other countries are subsidising massive attacks on our markets. The French are launching an assault on our poultry market over the next two years, with the clear aim of destroying our poultry industry. Our glasshouse industry faces similar pressures from the Dutch, who have just announced national aid to that sector alone of nearly £60m. Potato processing is another vulnerable area: Hector Laing tells me he will have to locate his next processing plant in the Netherlands, because he can get his raw material cheaper from Dutch growers. We are going to have to decide how we can meet all these threats to future production, employment and balance of payments; or whether we must reconcile ourselves to seeing whole sectors destroyed between now and the election.

Secondly, I agree of course with the Chancellor that we must do all we can to persuade the Schmidt faction in the German government of our views. But you will remember that when I reported at the Chequers meeting the extent of my disagreement with Herr Ertl, and the issues on which we differ, there was not a word of dissent from either Chancellor Schmidt

/or his.....

or his Finance Minister. The Dutch too are broken reeds: they make no secret of their insistence that the 1 per cent VAT limit must be lifted. In our dealings with both of them we must be very careful not to give any encouragement to measures that may suit them but not us: in particular, the discriminatory use of further co-responsibility levies to finance yet further increases in surplus production at our expense.

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

A handwritten signature in blue ink, consisting of a large, stylized 'P' followed by 'Walker' in a cursive script.

PETER WALKER



Secretary of State for Industry

DEPARTMENT OF INDUSTRY
ASHDOWN HOUSE
123 VICTORIA STREET
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301
SWITCHBOARD 01-212 7676

19 June 1981

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

Dear Peter.

*kg
Print*

FRENCH INVESTMENT INCENTIVES

*still in
PM box*

Thank you for your letter of 11 June 1981.

2 I agree with you that the French investment incentives are attractively presented and potential investors may find the administrative arrangements in France simple and helpful. I think the incentives available here (particularly on the tax side) are also quite attractive although in particular cases the French may be able to offer more generous "packages" than are available in the UK. We certainly need to keep the overall attractiveness of UK incentives under review and, if there is any suggestion that the French are contravening the Treaty of Rome, or other international obligations, we should take it up vigorously.

3 I am copying this letter to Cabinet colleagues and to Sir Robert Armstrong.

Ken

Kear



Euro Pol.
Mr Alexander

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

From the Minister's
Private Office

M Pattison Esq
Prime Minister's Office
10 Downing Street
London SW1

M . 16 June 1981

Dear Mike

COUNCIL OF AGRICULTURE MINISTERS:
15 JUNE 1981

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

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

Yours sincerely

David Jones

for Miss V K Timms
Principal Private Secretary

STATEMENT ON THE COUNCIL OF AGRICULTURE MINISTERS' MEETING

With permission, Mr Speaker, I wish to make a statement about the Council of Agriculture Ministers' meeting in Luxembourg on 15 June, which I attended accompanied by my Rt Hon Friend the Minister of State.

The Council was mainly concerned with business outstanding from last April's price settlement. I recalled to the Council the undertaking I had received from the Commission at the time of the price-fixing that clawback on sheepmeat would be calculated to take account of the price of export quality sheepmeat. The Commission had undertaken to put a proposal in this sense to the Management Committee but they had failed to do so. There was no doubt that this could be done in a perfectly legal way and I pressed the President of the Commission, M. Thorn, who attended the Council in place of Mr Dalsager who is still sick, to make a proposal as soon as possible. M. Thorn promised to put a well-balanced proposal to his colleagues in the Commission at once. I said that if a satisfactory proposal was made and was dealt with satisfactorily I would be prepared to lift the United Kingdom reserve on other parts of the price-fixing.

On other matters connected with the price-fixing, the Greek quota for iso-glucose was reduced from the Commission proposal of 16,500 tonnes to 13,000 to bring it more into line with that prevailing in other Member States. No agreement was reached on the transport and storage subsidies for ^{sugar from} the French overseas territories.

Progress on the question of controlling the use of hormones in animal husbandry and medicine was again blocked by one Member State.

A preliminary discussion was held on a Community support system for cotton but no decisions were taken.

cc Bingle

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(2)



Ronnie Minister

You will wish to see this
Minute or McWalsh's comment.
I am not sure they take us much
further forward!

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

Print
22/6

PRIME MINISTER

CAP REFORM: NEXT STEPS AFTER THIS YEAR'S PRICE SETTLEMENT

I have been reflecting on the outcome of this year's CAP price fixing and considering whether there are any particular lessons to be learnt from this year's experiences, which might provide us with pointers to action both in the short and longer term. I thought it would be helpful to set down some conclusions before we become caught up in the UK Presidency in general and the budget restructuring negotiations in particular.

2. The starting point should perhaps be the objectives we set ourselves for this year's price negotiations. All of us involved in the discussions in OD and OD(E) recognised that for a number of reasons - for example, the French Presidential elections, cost pressures on farmers throughout the Community and not least in the UK - this year's price negotiations were bound to be difficult and that we were unlikely to make much immediate progress towards our longer-term objectives for reducing the surpluses and the costs of the policy. Moreover, once it became known that there was plenty of headroom available in the 1981 Community budget, it was clear that the Agriculture Council's decisions would not be significantly affected by the approach of the 1 per cent VAT ceiling. We therefore accepted, as early as February, that we might have to be prepared to concede somewhat higher prices than the Commission had initially proposed, but that in return for this we should insist on progress in the Common Fisheries negotiations, the acceptance of the main Commission proposals for CAP economies, in particular the super-levy on milk, and agreement that an effective limit should be set on the rate of growth of CAP guarantee expenditure.

/If we

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3. If we look at the outcome of the 1 April settlement in the light of this general negotiating strategy, the picture is rather mixed. On the one hand the increase in Community target prices at 9 per cent did not go beyond the level we had felt obliged to regard as acceptable in February and March. Although it was well below the more extravagant demands made by the farmer's organisations and by one or two member states, it seems to have been reasonably well received by UK farm producers. Consumer representatives were more critical, notwithstanding the fact that the effect on the UK consumer was mitigated in particular by the continuation of the butter subsidy, which Peter Walker was able to secure.

4. On the other hand, the 9 per cent was only achieved with the help of an EMS realignment, which meant that the increase in farm prices in terms of some national currencies was higher. Even if the overall impact is to leave agricultural prices broadly unchanged in real terms, at this level of real prices production will continue to increase faster than consumption and accordingly the level of surpluses will over time tend to increase. Any disincentive effect which may have been building up following the low price increases in the last two years may now have been eroded.

5. In other respects we clearly ended up short of our initial objectives. In particular, there was little progress on the economy measures needed to curb the growth of agricultural expenditure. As a result of the Commission's last minute volte-face, we not only failed to get agreement to the super-levy on milk, but were faced with a further increase in the linear co-responsibility levy, which it had been our agreed policy to oppose. On the credit side it was most helpful that Peter Walker was able to line up the Germans and Dutch in support of our formula for limiting the future growth of CAP guarantee expenditure to markedly below that of own resources. This is a platform on which we must build in the forthcoming restructuring discussions.

/Probably



6. Probably the most disappointing outcome of the negotiations was that we found ourselves obliged to accept the higher settlement on prices, while at the same time leaving the problem of the Common Fisheries policy unresolved. I understand, of course, how difficult it became to sustain a link between the two negotiations after the Fisheries Council on 27 March, but the result, as we all realise, is that we have made ourselves more vulnerable to French pressure and in particular to the risk that they may seek to establish a link between fish and the budget restructuring negotiations later on.

7. In the light of all this, there are a number of conclusions to be drawn about the line we should take in the coming months. First, on fish we must clearly seek, during our Presidency, the earliest possible agreement on the CFP. I have no doubt that when you meet President Mitterand at the forthcoming European Council, you will do all you can to encourage him to get an impetus towards an early settlement on fish. The record of Peter Carrington's conversation with Cheysson suggests that there may be some grounds for hoping the new French Government will be receptive to this line of argument. An early settlement is desirable not only because of the budget restructuring timetable, but also because of the possible repercussions of further delay on our relations with Chancellor Schmidt. The longer the fisheries negotiations are protracted the greater the risk that the new EC-Canada agreement will once again become a live issue. We should in any case be thinking hard whether we cannot find some acceptable accommodation with the Germans on the Canada agreement to avoid the risk of a further confrontation with them at the end of this year, if the CFP negotiations cannot be quickly concluded.

8. As regards the CAP itself clearly the best strategy is to continue with the present three-pronged approach:-

- price restraint-
- effective non-price changes in the individual commodity regimes to reduce surpluses and limit costs,



- the firm application of the formula to keep the growth rate of FEOGA guarantee expenditure "markedly below" that of own resources.

9. Price restraint is bound to present us with something of a dilemma. On the one hand unless the prices of surplus products are reduced in real terms it will be a major problem to prevent the surpluses growing even further, let alone reduce them. On the other hand we cannot ignore the effect on the income of UK producers. But it is important that the real price should be moved steadily towards an equilibrium level. If, as I understand is quite possible, the Commission include in their restructuring paper a proposal that Community prices should be gradually moved towards world price levels, it is essential that we should be able to respond positively. Looking a little further ahead, the 1982 CAP price fixing could well become linked with the latter phases of the budget restructuring negotiations. With this in mind we will need to be ready to put the case for a tough stance on prices to the Commission well before they have formulated their 1982 price proposals.

10. As regards other economy measures, the main lesson of this year's negotiations is that we must make it clear at an early stage that we are not prepared to countenance any further increases in the linear co-responsibility levy. Otherwise there are real dangers that the Commission and the Agriculture Council will regard this as being the obvious way round either the 1 per cent VAT ceiling or any other form of expenditure constraint. I propose we make our position on this clear as soon as the Commission's paper on budget restructuring comes out. Given the widespread opposition to the super-levy on milk, however, we may need to look at other ways of restraining expenditure in this sector.

11. On all these issues we must develop a clear position well in advance of next year's price fixing negotiation and be prepared to stick to it.

/Finally,



12. Finally, I suggest that we should invest a lot of diplomatic effort in cultivating relations with the Germans with the aim of getting the Schmidt faction within the Government to prevail over Ertl and the farm lobby. In particular, we must follow up the agreement we have reached with them on the formula for limiting the growth of CAP expenditure with a view to ensuring that it will be applied in practice. This is a point to which we may well need to return in the context of the 1982 Community budget.

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

P. S. Jenkins

for (G.H.)

June 1981

(Approved by the Chancellor and signed in his absence).



From the Minister

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

The Rt Hon Sir Keith Joseph Bt MP
Secretary of State for Industry
Department of Industry
Ashdown House
123 Victoria Street
London SW1E 6RB

11 June 1981

-- I do not know whether you have seen the publication which the French are pushing out to the food industry and, I am sure, many other industries in this country.

It is, I think, an impressive document and certainly is creating a great deal of interest amongst British firms who discover that on the other side of the Channel they can obtain a total package of incentives through one organisation, which may well give them a better opportunity for their future expansion than siting their expansion in the United Kingdom.

In the food industry the French are launching a major onslaught and we will have to find ways of making certain that it is the British food industry which expands, and not the French food industry at the expense of Britain.

I am sending copies of this to Cabinet colleagues because I think it is an important factor when we come to discuss the nature of the economic strategy we are going to have to pursue over these coming years.

PETER WALKER

INVESTMENT INCENTIVES IN FRANCE



DELEGATION A L'AMENAGEMENT DU TERRITOIRE
ET A L'ACTION REGIONALE (DATAR)

**INVESTMENT
INCENTIVES
IN FRANCE**

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7 Loans	17
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Introduction

The French investment incentives system is designed to encourage industrial projects that will contribute to better, balanced growth in France. Each proposal will be studied to determine the mix of incentives best suited to the investment being considered.

WHAT WE CAN DO FOR YOU

DATAR—a coordinator for the various Government bodies at the national and local levels—provides assistance to the foreign investor from the early, tentative phase, when a company may merely be considering France as a possible location, to the final stages of staff recruitment, training and installation of equipment.

We can help you finance your investment:

- cash grants
- long-term loans

We can lighten your tax burden:

- accelerated depreciation;
- relief from local business tax and from transfer taxes.

We can help you locate the work force you need and provide you with subsidies for job training.

We cut red tape:

- Your cash grant application will be handled rapidly and receive an answer within two months;
- No prior application is required for tax-related measures;
- Quick contacts are arranged with the various bodies providing loans and job training subsidies.

This package of government incentives can be very attractive. When your investment is located in a top-priority area, it can be an outstanding opportunity.

This brochure is meant as an introduction to the French incentives system. It cannot, however, provide answers to all questions and should not replace information given on a case-by-case basis by DATAR's representatives.

INCENTIVES

Which Incentives May Apply

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CASH GRANTS	REGIONAL DEVELOPMENT GRANT	7
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In cases of transfers from the Paris Area, special incentives are available. See p. 22

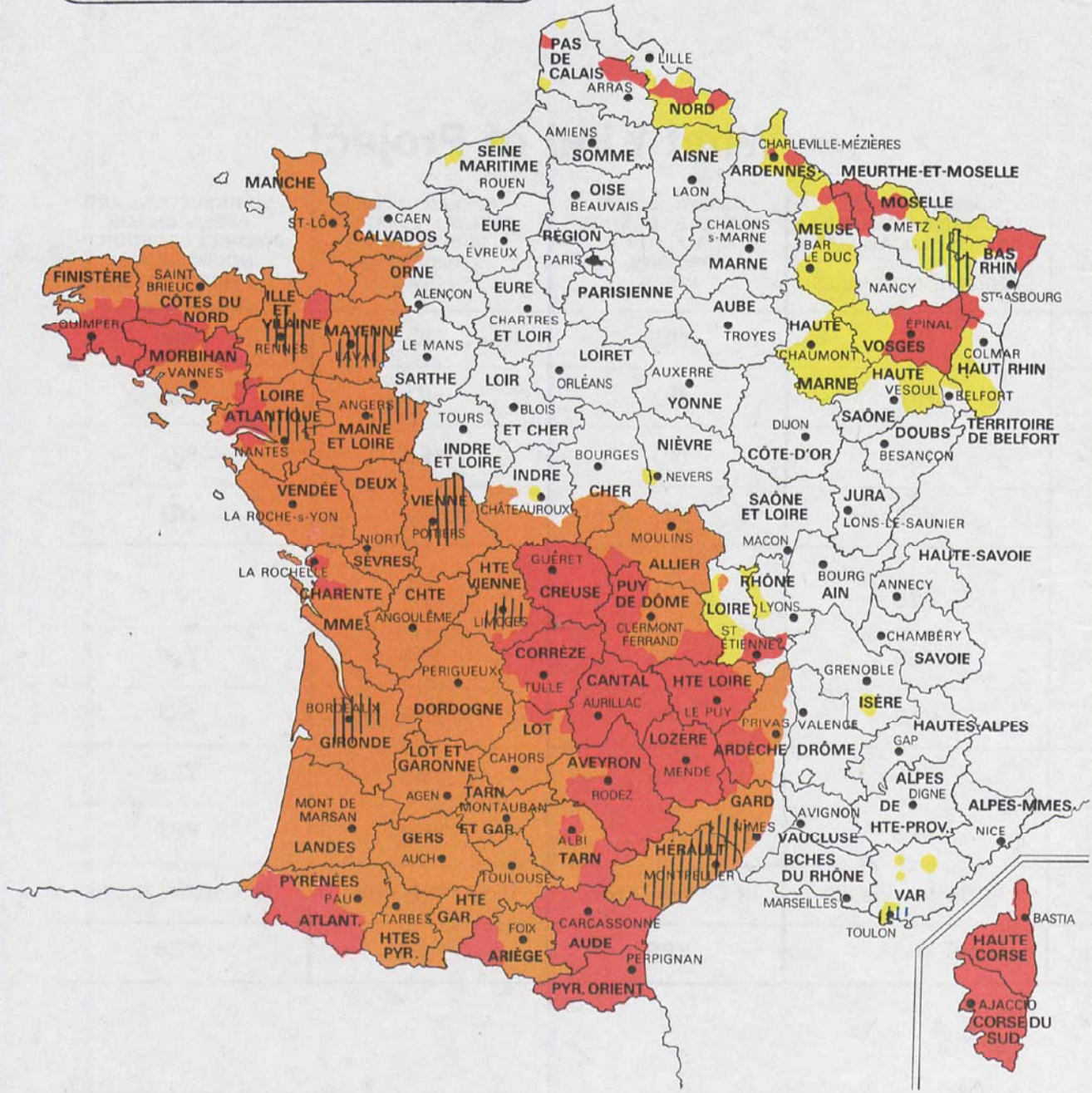
CHART

What Kind of Project

INDUSTRIAL OR NONINDUSTRIAL FOR POSSIBLE LOCATION IN SPECIFIC RECONVERSION AREAS	INDUSTRIAL FOR POSSIBLE LOCATION IN INDUSTRIAL PRIORITY AREAS	RESEARCH FOR POSSIBLE LOCATION IN RESEARCH PRIORITY AREAS	NONINDUSTRIAL AND RESEARCH FOR POSSIBLE LOCATION IN NONINDUSTRIAL PRIORITY AREAS
NO	YES	NO	NO
NO	NO	NO	YES
NO	NO	YES	NO
YES	NO	NO	NO
YES	NO	NO	NO
YES	YES	YES	YES
YES	YES	YES	NO
YES	YES	YES	YES
YES	YES	YES	YES
In Certain Areas	In Certain Areas	In Certain Areas	In Certain Areas
YES	YES	YES	YES

ZONES'	CREATION OF NEW ACTIVITY		EXPANSION OF EXISTING ACTIVITY		
	grant per new job	up to an investment ceiling of	grant per new job	up to an investment ceiling of	
	eligible for	25,000 FF	25%	22,000 FF	25%
	eligible for	20,000 FF	17%	17,000 FF	17%
	eligible for	15,000 FF	12%	12,000 FF	12%
	Zones designated for major projects				
<p>'The grant per new job for capital-intensive projects can be increased as an exception.</p>					

REGIONAL DEVELOPMENT GRANT



Regional Development Grant

2

(Prime de développement régional - PDR)

WHERE DOES IT APPLY?

- In most parts of Western, Southern and Central France and Corsica;
- In some traditionally industrial areas of the North, East and Southwest;
- Exceptionally in other localities experiencing a particularly severe unemployment situation, as circumstances require (not on the map).

WHAT KIND OF PROJECT IS ELIGIBLE?

As a rule, only manufacturing activities that represent either:

- Creation of new activities through establishment of a new company, transfer out of the Paris area and, in some cases, acquisition of a declining company;
- Expansion of existing activities;
- Internal conversion of business.

BASIS FOR THE DETERMINATION OF THE GRANT:

Expenditures for all fixed assets (construction or purchase of buildings, acquisition of land for construction, purchase of equipment).

It must be noted that investments in working capital, among other things, are not eligible.

AMOUNT OF THE GRANT

Because the purpose of the Regional Development Grant is to create jobs in priority areas, it is based primarily on the projected number of jobs to be created within a given period of 3 years and the amount of the investment (see map for grant brackets).

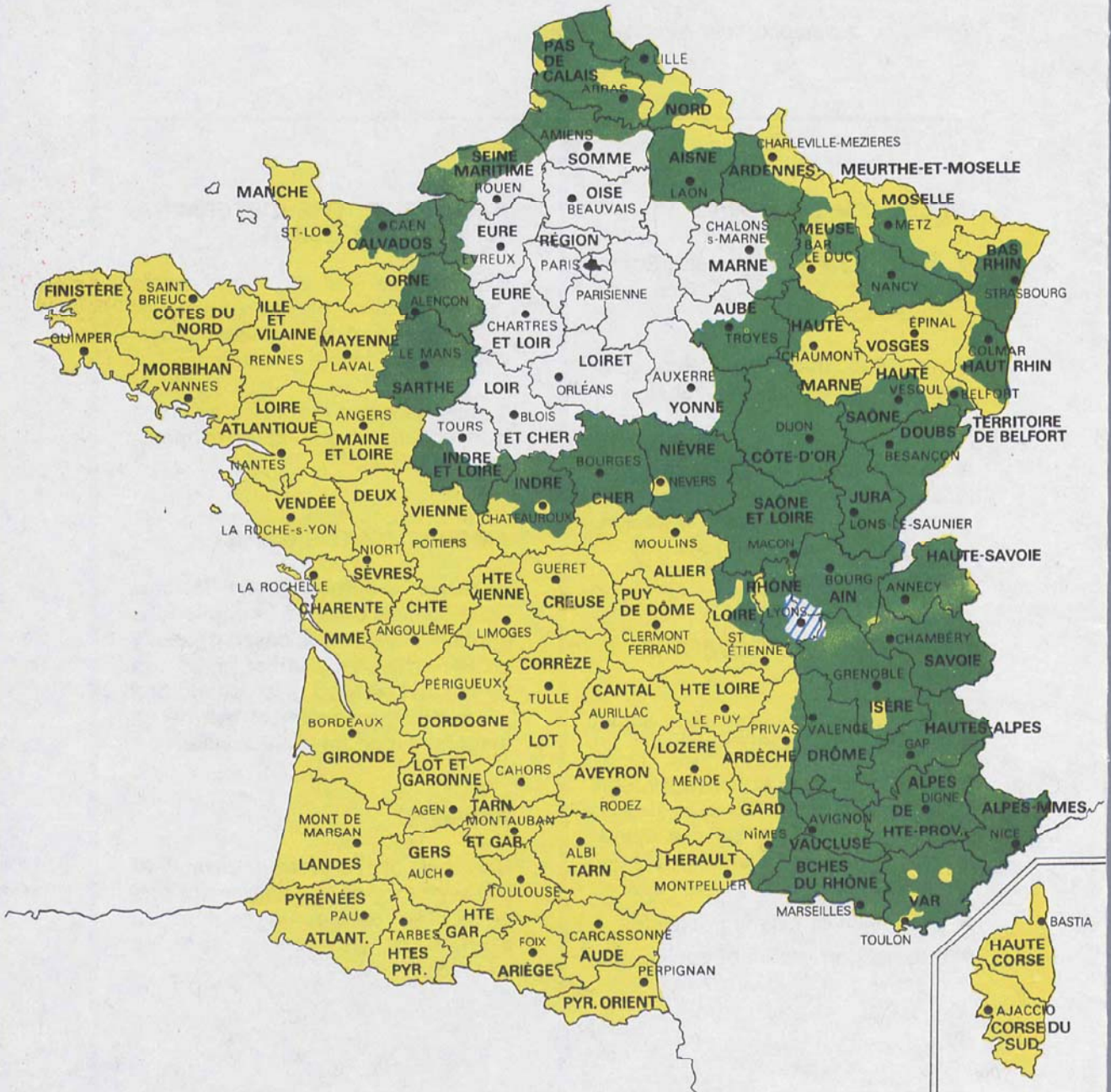
PAYMENT

One third of the grant is payable at the beginning of the investment program. The balance is paid in installments as the project is executed.

ZONES FOR NONINDUSTRIAL ACTIVITIES

- eligible for 20,000 FF per job
- eligible for 10,000 FF per job
- Lyons Urban Area

NONINDUSTRIAL ACTIVITIES GRANT



Nonindustrial Activities Grant

(Prime de localisation de certaines activités tertiaires)

3

WHERE DOES IT APPLY?

- Anywhere in France except the Paris Basin Area as shown on the opposite page (white zone).
- In special cases, in the urban area surrounding Lyons for very high-level activities.

WHO IS ELIGIBLE?

Companies in the industrial or the services sector planning or developing new activities in administration, management, engineering, planning, consulting or data-processing.

WHAT KIND OF PROJECT?

- Creation of new activities or services;
- Transfer of activities or services outside the Paris area;
- Expansion of existing activities or services.

To qualify for aid, a project must create a minimum number of new jobs within a 3-year period:

- 30 new jobs where new activities or services are *created*, or where

support services are transferred within an industrial operation giving greater decision-making capacity to a production facility;

In certain exceptions the threshold may be lowered to 15 jobs if the location and nature of the activity justify it.

- A 50% minimum increase in personnel engaged in services activities (minimum 100 additional jobs) where activities are being expanded.

■ *Since this grant is designed to guide investments to specific areas, a company's flexibility as to location is an important factor when it is being considered for aid.*

■ *No minimum investment is required for this grant. A project in the services sector can qualify for aid merely by renting buildings or equipment.*

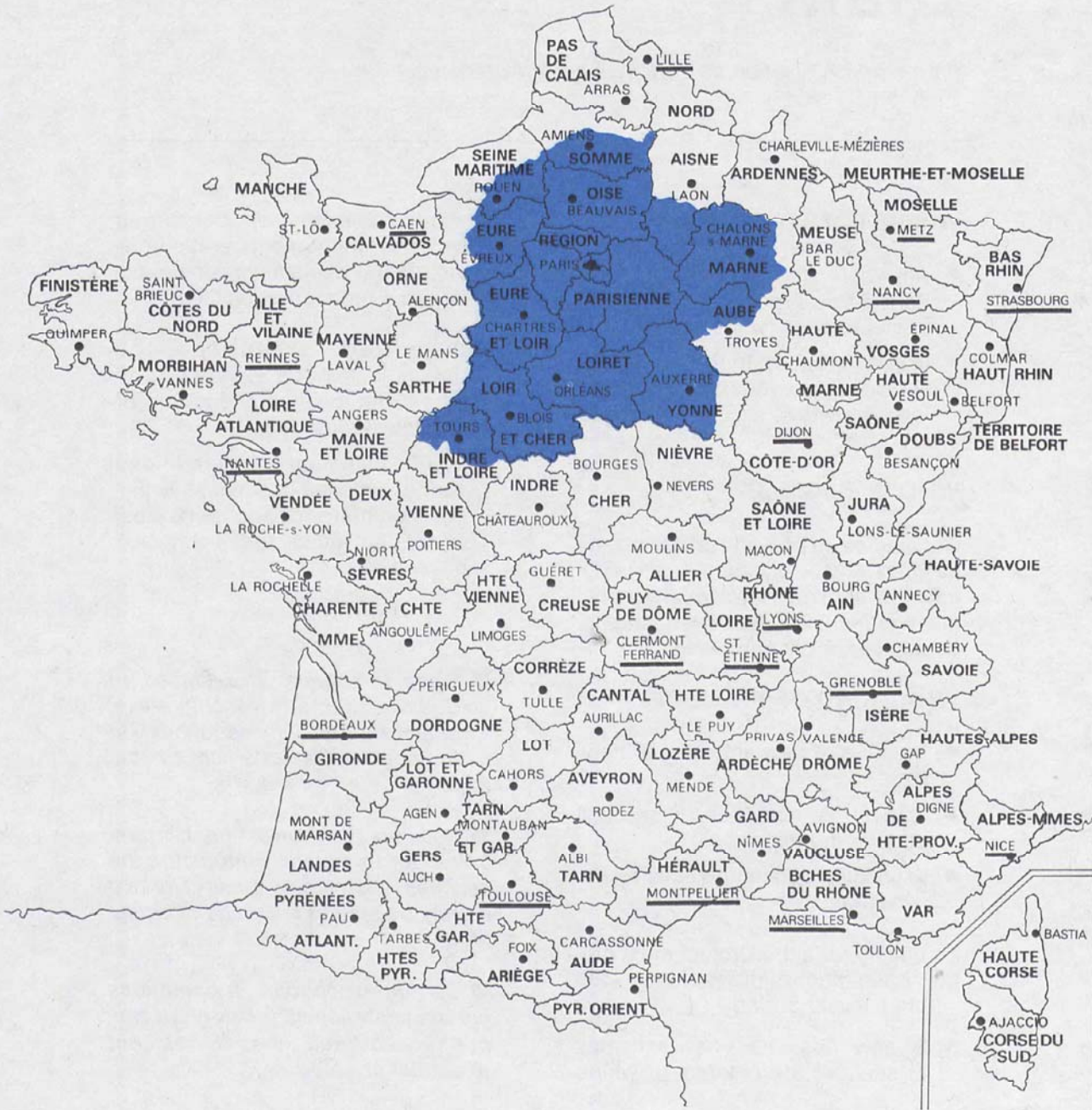
■ *Barring exceptions, in operations creating new activities, the grant cannot exceed three times the amount of capital invested.*

City

— research eligible for higher grants

■ Paris Basin Area

RESEARCH ACTIVITIES GRANT



Research Activities Grant

(Prime de localisation d'activités de recherche)

WHERE DOES IT APPLY?

Anywhere in France except the Paris Basin Area as shown on the map on the opposite page.

WHO IS ELIGIBLE?

Institutions or companies in the private sector that are *creating or developing* scientific or technical research departments, even within an existing industrial facility (eligible activities are: basic and applied research, development activities, and design and testing activities contributing to corporate technological improvement).

This grant can be combined with R & D subsidies of other governmental institutions but not with a Regional Development Grant or a Grant for Nonindustrial Activities.

WHAT KIND OF PROJECT?

To qualify, an operation must create a minimum of 10 jobs, including posts as researchers, technicians and other research-related functions.

In the case of expansion, the operation must also increase the number of local workers hired for research positions by at least 30%. Alternatively, the project may create at least 50 additional jobs, but only when expansion is due to:

- transfer out of the Paris Region;
- creation of a new activity within the company;
- a new company's first expansion.

- Although there is a 3-year time limit for creating jobs and completing investments, for operations involving the creation of more than 150 jobs, the time limit may be extended to 5 years.

AMOUNT OF THE GRANT

INVESTMENT UNDER 10 MILLION FF	Grant ¹ of 25,000 FF per new job up to: —15% of the investment in areas eligible for the Nonindustrial Activities Grant —25% in some cities ²
INVESTMENT OVER 10 MILLION FF	The grant ¹ is decided on a case-by-case basis, up to: —25,000 FF per new job —25% of the investment

¹In special cases the per job amounts may be exceeded. However, the total should remain within the percentage limits mentioned.

²These cities are considered centers of research because of their universities and industrial concentration: Lille-Roubaix-Tourcoing, Saint-Etienne, Caen, Nantes, Rennes, Bordeaux, Toulouse, Clermont-Ferrand, Montpellier, Aix-Marseilles, Grenoble, Lyons, l'Isle d'Abeau, Dijon, Metz, Nancy, Strasbourg, Nice, Valbonne.

Special Fund for

(Fonds spécial d'adaptation industrielle—FSAI)

This is an incentive program designed to bring new jobs and new activities to specific target areas, where certain industrial sectors are declining (e.g. steel and shipbuilding).

WHERE DOES IT APPLY?

The operative principle is proximity of the labor pool where conversion of activities is undertaken. There are no precise boundaries to designate locations eligible for this investment aid.

WHO IS ELIGIBLE?

- Companies investing in an industrial activity or, in certain cases, in nonindustrial activities.

WHAT KIND OF INVESTMENT?

- Creation of at least 50 jobs within 3 years by the establishment of a new production unit or expansion of an existing one.

TYPES OF AID: CASH GRANTS AND LOANS

When combined, cash grants and loans can add up to 50% of the total investment expenditure.

CASH GRANTS

These are granted on a case-by-case basis for up to 25% of the investment.

Basis for the Determination of the Grant

Expenditures for all fixed assets (construction or purchase of buildings, acquisition of land for construction, purchase of equipment).

It must be noted that investments in working capital, among other things, are not eligible.

Amount

The amount of the cash grant is determined mainly by the economic merits of the proposed investment, its impact on employment and its financing plan.

Because the amount is not directly proportionate to the number of jobs created, capital-intensive projects can be subsidized.

Payment

One-third of the grant is payable at the beginning of the investment program. The balance is paid in installments as the project is executed.

Industrial Reconversion

LOANS

These capital subordinated loans are:

- long-term (up to 20 years);
- considered part of corporate equity, giving a company increased borrowing power with financial institutions;
- subject to deferred repayment of capital; for the first 3 to 5 years, the borrower pays only a low interest rate. After this period, the borrower starts repaying the capital on a straight line basis;
- redeemed at a competitive interest rate pegged to the profitability of the venture. But the discount rate (calculated over the total life of the loan) will never exceed the market rate for comparable long-term loans.

At its lowest, the interest rate may never, however, sink below the rate of return on the borrowing company's own capital, nor the average rate on its members' current accounts.

There is a maximum interest level as well; any interest above this level is registered as accelerated redemption of the loan and is applied to the final payments. The interest is a charge against the fiscal year.

If earnings for the first few business years following the deferment period are not high enough to fully meet the debt obligation, annual payments

may be limited to the cash flow remaining after other medium-term and long-term debts have been reimbursed. The balance owed for those years is then due with the final instalments on the debt.

Basis for the Determination of the Loans

Same as the grant.

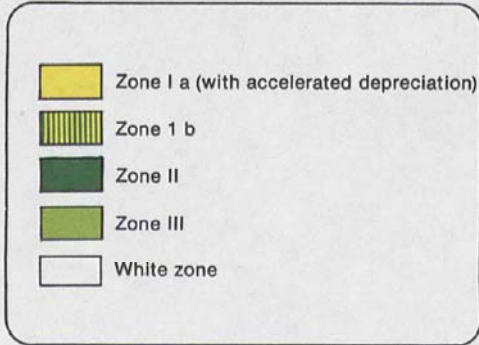
APPLICATIONS GET PROMPT REPLIES

A special panel guarantees a ruling on the eligibility of an investment program within 8 days after the company files a summary of its plan with DATAR.

If an applicant is ruled eligible, a financing body is assigned to make an economic and financial examination of the proposed program. Based on the report of this body, Fund authorities decide whether aid is warranted, and if so, how much will be granted under what conditions.

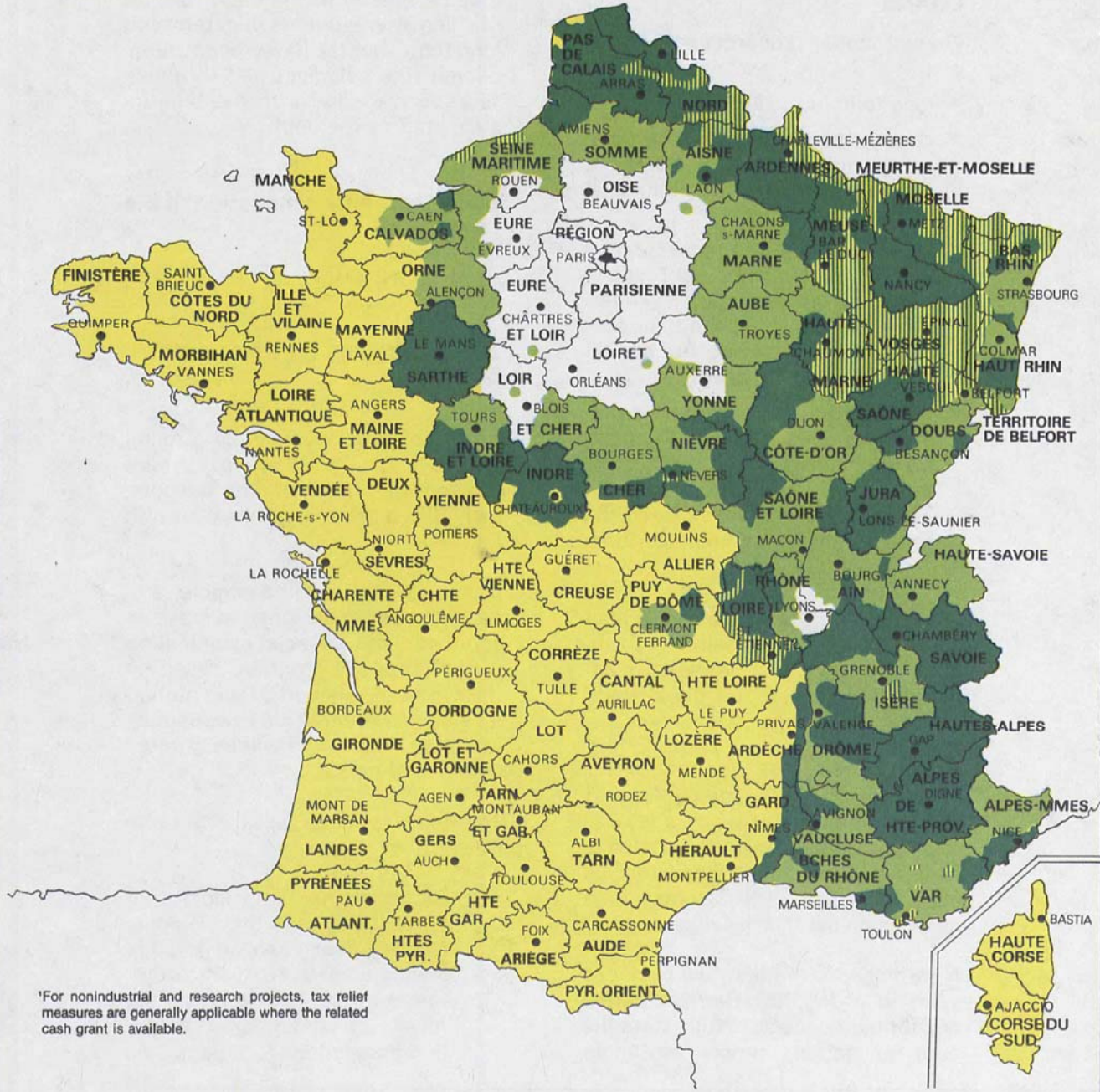
The entire process takes about one month.

N.B.: Reconversion Fund aid is not compatible with the Regional Development Grant. It is compatible, however, with other forms of aid such as local tax relief, job-training and relocation indemnities (see page 24).



TAX RELIEF ZONES¹

(for industrial projects)



¹For nonindustrial and research projects, tax relief measures are generally applicable where the related cash grant is available.

Tax Relief Measures

Enterprises in the industrial and services sectors whose investments promote regional development because of their location and the jobs they provide may be eligible for the following tax relief.

- Partial or total exemption from the local business tax (*taxe professionnelle*) for a period of up to 5 years;

- Reduction of transfer taxes (*droit de mutation*);
- Accelerated depreciation of new construction.

The factors that determine tax relief are the zone in which an operation is located, the nature of the activity, the size of the local population (whether or not it exceeds 15,000) and the number of jobs created or maintained.

WHERE DO THEY APPLY?

	For Qualified Industrial Activities	For Qualified Nonindustrial Activities
Zone I a	All tax relief measures	All tax relief measures
Zone I b and Zone II	All tax relief measures except accelerated depreciation	All tax relief measures (except accelerated depreciation) available only to projects eligible for the Nonindustrial Activities Grant
Zone III	<ul style="list-style-type: none"> —Relief from local business tax only for relocating firms —Reduction of transfer taxes only for relocation and takeovers —No accelerated depreciation 	
The Paris Basin White Zone and the Lyons White Zone	No tax relief	No tax relief

AMOUNT OF TAX RELIEF

- **Exemption From Local Business Tax:** Total or partial exemption, at the discretion of the local authorities, for up to 5 years.
- Since the exemption is granted on a local basis, companies should inquire at DATAR as to its availability in the geographical area considered.
- **Reduction of Transfer Tax:** A decrease from 13.8% to 2% in the transfer taxes for:
 - the purchase of a business;
 - the purchase of plants more than 5 years old, including their equipment.

There is no reduction in the additional taxes levied by the local municipalities.

- **Accelerated Depreciation:** 25% of the cost of new construction may be depreciated upon completion, in zone 1a, as shown on the map page 14. The residual value is depreciable over the usual useful life of the construction and its first annuity may be added to the accelerated depreciation.

HOW TO APPLY

There are two different methods, depending on which category a company is in (DATAR or the Prefecture should be consulted if there is a question).

- In most cases (creation, expansion or decentralization of industrial, research and development activities), no special form is needed. The exemption must be reported to the tax administration, at the latest with the first tax return concerning the new project. They retain their right of inquiry to verify that the firm indeed complies with all requirements for such relief. However, the percentage of fixed assets eligible for this tax exemption is limited to a maximum of one million francs per new job created.

It must be said that in some cases involving the acquisition of ailing companies, tax relief is also available.

Loans

Companies planning investments in France may apply to certain institutions for ordinary or special long-term loans to help finance their projects, over and above the short and medium-term credit they have already obtained. The major sources for these loans are:

Le Crédit National
La Caisse Centrale de Crédit
Hôtelier, Industriel et
Commercial
Les Sociétés de Développement
Régional

● **Ordinary loans:**

These promote the start-up and development of all industrial or commercial operations. They finance all of a company's durable assets: tangible investments such as the purchase or construction of production facilities and intangible expenditures such as the purchase of patents or shares. The term is usually between 10 and 15 years, occasionally 20 years.

There is a fixed interest rate for the life of the loan. Redemption terms are adapted to the needs of the company. Capital repayment is often deferred for one or more years.

● **Special loans:**

Available only to the industrial sector, these loans are granted to companies that either:

—pledge to create a significant number of jobs in relation to the size of the venture or reconvert a production unit or a depart-

ment that would otherwise be phased out. The project must be a new investment for which no financial institution has yet granted a loan.

—engage in an investment program designed to conserve energy through the use or development of new energy sources, for instance, or to spare raw materials such as natural textiles, metals, wood...

—engage in export activities and wish to raise their export capacity for destinations outside the EEC.

The special loans are usually granted in two parts:

—first, a long-term loan at a rate about 2 points below comparable long-term rates;
—second, medium-term bank credits at the going rate.

The mix of medium and long-term is left up to the discretion of the bank. The two parts of the loan together cannot exceed 70% of the total investment, exclusive of taxes.

The special loans are the responsibility of the major financing institutions, which decide whether to grant them or not based on their own analysis of the case and in accordance with current practice. It is up to the financing bodies to see that the criteria for the loans are met, especially in terms of investment and creation or maintenance of jobs.

Job Training

Government subsidies are available to firms that must make exceptional outlays to train personnel for operations that contribute to regional development, i.e. creating, expanding or converting activities.

The National Employment Fund (*Fonds national de l'emploi-FNE*) pays subsidies to help train personnel being hired or retrained for projects that benefit regional development and involve the creation, expansion or conversion of activities.

This aid is always governed by contracts the company signs with the Ministry of Labor setting forth the conditions for training personnel for jobs within the company. The contracts are called "Retraining Agreements" and "Training Agreements."

Retraining Agreements

These are the most common type of contract, covering programs companies set up to retrain employees for other jobs. The program must require employees to spend 120 working hours in training.

Aid must be requested before training begins. It reimburses all or part of:

- Outlays for materials and depreciation of equipment used in the training program;
- salaries and benefits costs of instructors;
- cost of aptitude tests for trainees.

FNE also reimburses the company for up to 50% of the trainees' salaries and benefits costs for the working hours they miss.

Subsidies

Training Agreements

These are made when a company's requirements in skilled labor cannot be met locally and training programs for specific skills must be established. Such programs are usually for the most basic level of skilled labor and are held outside working hours, whether in-plant or not.

The terms of FNE grants are comparable for Retraining and Training Agreements, except that in the latter, the Association for Adult Job Training (*Association pour la formation professionnelle des adultes-AFPA*) may purchase materials on behalf of the FNE and make them available to the company during the program. AFPA also co-signs Training Agreements because it handles the administrative, technical and financial aspects of the programs.

Up to 70% of the trainees' salaries and benefits costs are reimbursed by FNE for training programs.

How to Apply

Requests for Retraining or Training Agreements must be made to the Labor Agency (*Direction départementale du travail et de la main-d'oeuvre*) of the department in which the program is located.

After approval, the company signs the agreement with the Prefecture.

EMPLOYMENT TRAINING CONTRACTS (*Contrats Emploi Formation*)

These are job contracts a company signs with individuals 17 to 26 years of age or with women of any age who are widowed; divorced; legally separated; single and responsible for one or more dependent children or receiving a single-parent allowance; of or reentering the job market no less than 2 and no more than 5 years after the birth or adoption of a child.

People employed under the terms of these contracts receive salaries that are comparable to others in the field and no lower than the legal minimum wage. They are given 120 to 500 hours of training if hired for unskilled positions, and 500 to 1,200 hours if hired for skilled positions.

The employer pledges to organize and finance this training and to employ the person for at least 6 months (unskilled) or 1 year (skilled), training time included. The government pays the employers 3.5 times the legal minimum wage per person and per hour of training.

A Few Details

ABOUT THE APPLICATION

Whatever grant you are considering, the application form is a standard questionnaire; six copies of the completed form are always required when filing.

An investor should apply for subsidies *before* he sets his investment plan in motion. If he must proceed with his plans immediately, he may obtain a 6-month extension by writing without delay to the Prefecture of the department where he is investing or to DATAR.

Application forms are obtainable from any of the agencies listed on page 25. The investor must supply details about himself, describe the proposed investment and explain how it is to be carried out and financed.

Average time to process an application is currently about two months, except for FSAI applications, which take approximately one month.

ABOUT THE PAYMENTS

The grants are usually paid in several installments, starting with a down-payment made within one month after notification of approval. This down-payment cannot exceed one-third of the total grant. The remainder is disbursed in two or three payments upon presentation of supporting documents for expenditures made or for jobs created.

In calculating the number of jobs created by a recipient project, concurrent personnel changes in all the mother company's branches outside the Paris region are taken into account.

For the purposes of the grant, when a company moves to the provinces, the jobs held by relocated personnel are counted as well as those offered to local workers.

Regarding Cash Grants

MAKE SURE YOU KNOW...

- ...That a program is considered expansion, not creation, when a company or one of its subsidiaries starts a new activity comparable in nature or technology to the original operation and located within 30 km (19 miles) of it.
- ...That expenditures for the leasing of movable equipment and of real assets are applicable to the basis for the grant. So are hire-purchase outlays, but only when the supplying company is a non-commercial (*société civile*) or business corporation that constructs commercial buildings or acquires new equipment for hire-purchase.
- ...That the grant is paid by the local representatives of the Ministry of the Economy in the department in which the project is located, upon presentation of the required supporting documents. (The investor is told what documents to present when he is notified of his grant.) In cases where the grant is based on the investment, these documents must include a record of accounts showing that the outlays were in fact entered under capital expenditure accounts.
- ...That the grant is computed according to an investment and recruiting program of up to three years, beginning when the first ex-

penditures are made. Companies have to indicate this starting date on their application forms. Programs of longer than three years are considered only in exceptional cases.

- ...That an employment agreement (*convention d'emploi*) is negotiated with the investor when he receives a cash grant. It generally calls for him to cooperate with the local labor authorities and give preference to job applicants sent by them.
- ...That since the grant is an outright subsidy that increases the company's assets, it is considered part of the company's taxable income.

Special rules have been devised to allow the taxes to be spread over several years:

- If the grant is used to acquire or create depreciable fixed assets, the taxes on it will be spread over the assets' period of depreciation and paid at the same rate as this depreciation.
- If the fixed assets are not depreciable, the amount of the grant must be declared in equal parts over a 10-year period, starting the year after the grant is paid. The same 10-year distribution is used for the Nonindustrial Activities Grant.

Regulations for

Development of the Paris Region¹ and of the five southern cantons of the Oise department is controlled through the preliminary authorization procedure (*procédure d'agrément*) and the levying of special taxes (*redevance*):

AUTHORIZATION

- For industrial facilities: Specific authorization is required from the Ministry of the Environment if the start-up or expansion of an industrial facility will bring its total usable surface to more than 1,500 square meters. Measurement of surface includes outbuildings, offices and warehouse space.
- For office space: Authorization is necessary for all construction of office space in excess of 1,000 square meters of usable surface. This applies to any project that will cause a user to have more than 1,000 square meters of surface.

Nonindustrial firms must also obtain authorization for warehouse space in excess of 5,000 square meters.

Before Taking Any Steps . . .

Applicants are advised to contact DATAR before they consider any construction in the Paris Region or prepare their application for approval.

How to Apply:

Two copies of the standard application form must be filed with the Ministry of the Environment (*Direction de l'Urbanisme et des Paysages*). DATAR's Decentralization Committee also studies the application.

SPECIAL TAXES

A special tax is levied on the construction of workshops and office space in certain zones within the Paris Region; rates vary according to the zone and the nature of the construction.

¹Includes the Paris, Hauts-de-Seine, Seine-Saint-Denis, Val-de-Marne, Val d'Oise, Essonne, Yvelines and Seine-et-Marne departments.

the Paris Area

RELOCATION SUBSIDIES

Available to employees who follow a company that relocates outside the Paris area, restructures its operations or changes or reduces its activities.

If the new location is in the White Zone (see map page 8), aid is limited to the reimbursement, at prescribed rates, of the cost of moving furniture and dependents. This rule may be waived for the New Cities (*Villes Nouvelles*)¹

To Qualify

- The employee had to relocate in order to keep his present job;
- The company must show good cause for the move (decentralization or restructuring, for example) to the Labor Agency (*Direction départementale du travail et de la main d'oeuvre*) of the department it is leaving. The Agency sends this information to its counterpart at the new location;
- The price of 2nd-class train tickets for the employee and his dependents;
- Two-tier repayment of moving costs upon presentation of supporting documents;

—one, a fixed amount equal to 100 times the legal minimum wage (SMIC) paid in full to the

employee, plus 50% of that amount for each dependent;

—and two, a variable amount equal to 1/6th the legal minimum wage multiplied by the distance in kilometers between the old residence and the new one, plus 50% of that amount for each dependent.

- A resettlement grant based on a multiple (from 800 to 2,000) of the minimum wage and on the number of dependents. This grant is reduced by half when household income exceeds 1,000 times the minimum wage.

How To Apply

Although the aid is paid to the employees, the company is advised to make the application on the employees behalf, compiling all the necessary information and filing with the Labor Agency of the department where it is relocating. In certain cases the company is reimbursed for sums it has advanced.

Companies are also advised to contact the Labor Agency of the department they are leaving for any information they may need.

¹A series of planned urban areas throughout France. The 5 already completed or under construction are: Evry, Cergy-Pontoise, Marne-la-Vallée, Saint-Quentin-en-Yvelines, Melun-Sénart

RELOCATION INDEMNITY

This cash grant partially reimburses location expenses incurred by industrial enterprises transferring all or part of their production facilities¹ out of the Paris Region or the 5 southern cantons of the Oise department.

WHERE DOES IT APPLY?

- Anywhere outside the White Zone (see map page 8), which covers all the departments, arrondissements and cantons not designated for any grant or tax relief.

WHO IS ELIGIBLE?

Companies that vacate² at least 500 square meters of industrial premises in the Paris Region or the five southern cantons of Oise and that re-establish themselves outside the White Zone as shown on the map on page 8.

WHAT KIND OF INVESTMENT?

The relocation indemnity will cover part of the expenses incurred in the transfer of equipment, including transportation and such related costs as dismantling and reassembling the equipment.

¹Under the law, research equipment is traditionally considered the same as production facilities.

AMOUNT OF THE INDEMNITY

Basically, the amount of the indemnity is equal to:

- 60% of the cost of dismantling industrial equipment;
- 60% of the cost of transporting it;
- 60% of the cost of reassembling it, arbitrarily set at half the dismantling cost.

The indemnity is not paid until the equipment transferred is in operation at the new location and the Ministry of the Environment has issued a certificate attesting to the fact that the old premises have been vacated.

²Defined here as: Actually leaving the premises, or in certain cases, converting them to administrative or sales offices.

No distinction is made, for purposes of the indemnity, between companies that own and companies that lease the premises they are vacating.

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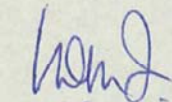
To learn more about opportunities to do business in France, please contact us. We will be pleased to assist you.

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PRIME MINISTERCommunity Affairs

1. The Foreign and Commonwealth Secretary might wish to report on his talks with M Cheysson, the new French Minister for External Affairs, in Paris on 28 May; and especially the prospects for progress on the restructuring mandate. He might also confirm for the record that M Pisani is the new French Commissioner.
2. The Minister of Agriculture might report on the discussions at the 1/2 June Informal Agriculture Council, notably on sheepmeat clawback. He and the Foreign and Commonwealth Secretary are keeping up the pressure on President Thorn to honour the undertaking given at the price fixing Council to ease the restrictions on exports of British lamb, in the hope that the issue can be resolved before the 15/16 June Agriculture Council.
3. You might think it useful for the Chancellor of the Exchequer to inform the Cabinet of the speech he delivered in The Hague on 3 June setting out our general approach to the budget restructuring problem. This is the latest of a series of Ministerial speeches, including most recently the Paymaster General's speech on 6 May, which spell out the Government's commitment to the Community as well as their determination to put its major present deficiencies to rights. Colleagues might find it helpful to draw on the material in these speeches for their own purposes.
4. OD(E) meets later on 4 June to consider the scope for maintaining or increasing the United Kingdom's net benefit from non-agricultural Community spending after enlargement, and to settle the line to take on trade relations with Japan in a series of forthcoming bilateral and multilateral talks. The Steel Council takes place on 4 June. Next week there will be a Social Affairs Council on 10 June, a joint ECOFIN and Social Affairs Council on 11 June, and an Environment Council also on 11 June. and an Environment Council also on 11 June.



M D M FRANKLIN
3 June 1981

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FM FCO 031636Z JUNE 81
TO FLASH UKREP BRUSSELS
TELEGRAM NUMBER 486 OF 3 JUNE
INFO PRIORITY PARIS
YOUR TELNOS 1967 AND 1972: SHEEPMEAT

*Mr Walker will report
to Cabinet.*

ms

1. PLEASE INFORM THORN BEFORE THE COMMISSION MEETS TO DISCUSS THIS QUESTION TOMORROW THAT I HAVE DISCUSSED THE MATTER WITH MR WALKER. I AM NOW QUITE CLEAR THAT THERE WOULD BE A BREACH OF FAITH ON THE PART OF THE COMMISSION IF THEY DID NOT NOW SPEEDILY IMPLEMENT THE UNDERTAKING AT THE COUNCIL ON 30 MARCH/1 APRIL TO ABATE CLAWBACK, TAKING ACCOUNT OF THE EXPORT QUALITY OF THE LAMB INVOLVED. MR O'KENNEDY CONFIRMED TO ME YESTERDAY THAT THE FACT THAT SUCH AN UNDERTAKING WAS GIVEN IS NOT IN DOUBT.

2. I WELCOME THE INDICATIONS WHICH THORN SENT ME THROUGH YOU THIS MORNING, AND WE ARE PREPARED TO AGREE THAT ANY SOLUTION COULD TAKE THE FORM OF BOTH A TEMPORARY AND PERMANENT PHASE. BUT THE FORMER IS NEEDED NOW WITHOUT DELAY, AND THERE NEED BE NO IMMEDIATE DECISION ON THE PRECISE NATURE OF THE LETTER.

3. AS A RESULT OF MY DISCUSSIONS WITH MR WALKER, I MUST MAINTAIN MY RESERVE ON THE OUTSTANDING A POINTS UNTIL A SOLUTION TO THIS PROBLEM, AT LEAST ON A TEMPORARY BASIS, IS FOUND.

4. I AM GLAD TO HEAR THAT THE COMMISSION LAWYERS HAVE BEEN ASKED TO LOOK AT ALTERNATIVE METHODS OF FULFILLING THE COMMISSION'S COMMITMENT WHICH WOULD NOT POSE THE SAME LEGAL DIFFICULTIES AS THEY NOW SEE IN THE ORIGINAL ABATEMENT PROPOSAL. ANY SUCH SOLUTION WILL, HOWEVER, NEED TO MEET THE CASE AS EFFECTIVELY AS A SIMPLE ABATEMENT COULD DO. SHOULD THE COMMISSION WANT US TO LIFT OUR RESERVE AT THE AGRICULTURE COUNCIL ON 15/16 JUNE, WE WILL NEED TO HAVE A FIRM AND DETAILED UNDERTAKING FROM THE COMMISSION ABOUT THE NATURE OF ANY TEMPORARY PROPOSAL AND ITS TIMING.

CARRINGTON

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10 DOWNING STREET

From the Private Secretary

1 June 1981

Michael Franklin reported the
outcome of FCS/HIS MAFF meeting
truly to MOBBA. MOBBA contact.
cc. 9/6

Sheepmeat Clawback

The Prime Minister has seen a copy of the Foreign and Commonwealth Secretary's undated minute (FCS/81/62) on this subject. She has also seen the Minister of Agriculture's minute of 28 May.

The Prime Minister assumes that the Foreign and Commonwealth Secretary and the Minister of Agriculture will be reviewing the position on Wednesday 3 June. She will be grateful to have a report thereafter of how they intend to proceed.

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

M. O'D. B. ALEXANDER

CS

Brian Fall, Esq.,
Foreign and Commonwealth Office.

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DESKBY 292030Z
TO IMMEDIATE UKREP BRUSSELS
TELEGRAM NUMBER 464 OF 29 MAY
INFO PARIS

for Paris

SHEEPMET CLAWBACK (TELECON FAULKNER/BLOOMFIELD)

1. FOLLOWING IS TEXT OF PROPOSED MESSAGE FROM LORD CARRINGTON TO THE PRESIDENT OF THE COMMISSION.
BEGINS: I AM WRITING TO YOU PERSONALLY TO UNDERLINE MY GREAT CONCERN ABOUT THE OUTCOME OF THE COMMISSION'S DISCUSSION OF 27 MAY ON SHEEPMET CLAWBACK.
2. AS I UNDERSTAND IT, AT THE PRICE FIXING IN MARCH, THE COUNCIL TOOK NOTE OF A COMMISSION UNDERTAKING THAT THEY WOULD TAKE ACTION TO PROVIDE FOR CLAWBACK ON LAMB EXPORTS TO OTHER MEMBER STATES TO BE CALCULATED SO AS TO TAKE ACCOUNT OF THE HIGHER COSTS OF THE PRODUCT OF EXPORT QUALITY. IN OUR VIEW, THIS WAS AN INTEGRAL PART OF THE PRICE FIXING SETTLEMENT REACHED BY THE COUNCIL AND OUR AGREEMENT WAS GIVEN TO THE OVERALL SETTLEMENT ON THIS BASIS.
3. WHEN THE COMMISSION DISCUSSED THE IMPLEMENTATION OF THIS UNDERTAKING, I UNDERSTAND THAT LEGAL DOUBTS AROSE ABOUT WHETHER THE COMMISSION HAD THE POWER TO MAKE THE NECESSARY PROPOSAL FOR ABATEMENT OF THE CLAWBACK. I FIND THIS VERY SURPRISING. NO SUCH DOUBTS WERE EXPRESSED AT THE TIME OF THE PRICE FIXING. AND I MUST ASSUME THAT THE COMMISSION HAD FULLY CONSIDERED THE LEGAL IMPLICATIONS BEFORE GIVING THEIR UNDERTAKING. IN OUR VIEW, THE COMMISSION CERTAINLY APPEAR TO HAVE SUCH POWER. INDEED, THERE IS SPECIFIC PROVISION IN THE BASIC REGULATION FOR THEM TO TAKE ACTION TO AVOID DISTURBANCES IN TRADE.
4. THIS IS FOR THE UK A SERIOUS PROBLEM WHICH IS CAUSING SEVERE DAMAGE TO CERTAIN OF OUR COMMERCIAL INTERESTS. I AM ALSO CONCERNED ABOUT THE EFFECT ON ATTITUDES IN THIS COUNTRY TOWARDS THE

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12540 - 1

COMMUNITY OF A FAILURE TO RESOLVE THIS PROBLEM.

5. I WOULD URGE YOU TO RECOGNISE THE PRESSING NEED TO FIND AND IMPLEMENT A SOLUTION AND I HOPE YOU WILL BE READY TO ARRANGE FOR THE COMMISSION TO GIVE FURTHER CONSIDERATION TO THIS MATTER AT THEIR NEXT MEETING. AS I SAY, WE HAVE NO REASON TO BELIEVE THAT THE COMMISSION LACK THE NECESSARY POWERS TO MAKE A PROPOSAL FOR THE ABATEMENT OF CLAWBACK. HOWEVER THIS IS ACHIEVED, WE MUST ASK FOR AN IMMEDIATE AND SATISFACTORY SOLUTION WHICH WILL ENABLE THE TRADE TO TAKE PLACE.

6. PETER WALKER WILL BE DISCUSSING THIS WITH POUL DALSAGER IN ROTTERDAM ON 1 AND 2 JUNE. THIS WILL PROVIDE AN OPPORTUNITY FOR DISCUSSION WITH MADAME CRESSON AND OTHER MINISTERS. I HOPE THAT THESE EXCHANGES WILL HELP TO CLEAR THE WAY FOR AN EFFECTIVE COMMISSION ACTION. ENDS.

7. THE SECRETARY OF STATE HAS STILL TO APPROVE THE TEXT AND YOU SHOULD AWAIT FURTHER INSTRUCTIONS VIA THE RESIDENT CLERK BEFORE DELIVERY. PLEASE DELIVER THE MESSAGE AS SOON AS POSSIBLE THEREAFTER DURING THE WEEKEND. A COPY SHOULD BE GIVEN AT THE SAME TIME TO DALSAGER.

CARRINGTON

[COPIES SENT TO NO 10 DOWNING ST.]

FRAME AGRICULTURE
ECD(I)

Bonnie Minister

(1)

CONFIDENTIAL

MR ALEXANDER
SHEEPMET CLAWBACK

Plays
A + B.

1. The Prime Minister has had a copy of the Minister of Agriculture's letter of 28 May to the Foreign and Commonwealth Secretary on sheepmeat clawback. *I also attach Lord Cammiston's reply.*

*Mr Walker & Lord Cammiston agree that the French have behaved typically on the Commission (usually) (also typically). They are agreed on the action on Monday & Tuesday. If we do not get satisfaction, Mr Walker would like to meet under your Chairmanship on Wednesday. I would have thought that he & Lord Cammiston should try to agree on how to proceed without your involvement initially and report the outcome of their efforts to you. Agree? *Am!* 29/6*

Yes no

2. The Minister of Agriculture's concern is that, since the Community sheepmeat regime was instituted last Autumn, our export trade in lamb has been sharply cut back. This is because when it was agreed that we could run a deficiency payment system (and hence low consumer prices) in the United Kingdom while others maintained high market prices and an intervention system, the French insisted that part of the premium paid at the time of slaughter would have to be refunded on exports. The current rate of "clawback" coupled with current exchange rates makes exporting uneconomic.

3. During the price-fixing this year Mr Walker secured an oral agreement with the French and the Commission that the arrangements would be modified to take account of the higher costs involved in providing lamb of export quality and so permit trade to flow at a higher level. This was one of the points specifically mentioned by the Secretary of State for Scotland at the meeting the Prime Minister held on the day the price-fixing negotiations were concluded. Subsequently the French reneged on agreement and have successfully lobbied the Commission who now say that they do not have the legal power to implement the change without a Council decision. French pressure has also included the blocking of the formal adoption of a number of measures agreed in the price-fixing, but now that they have persuaded the Commission, they are likely to lift their reserves at the next Council meeting (which happens to be on steel) on Thursday 4 June.

4. The Minister of Agriculture proposes that we should use the same lever as the French and block the regulations ourselves on 4 June with the object of forcing the Agriculture Council on 15/16 June to tackle the problem seriously.

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5. Most blame attaches to the Commission which allowed M Dalsager to give the assurance in April and has now shifted its position. The Foreign and Commonwealth Secretary is intending to send a message to President Thorn over the weekend deploring the Commission's behaviour. Lord Carrington has also suggested that Mr Walker should send a suitable message to the new French Minister. The purpose of these two messages would be to see whether some solution could be found while Mr Walker, Madame P Cresson and M Dalsager are together at an informal meeting of Agriculture Ministers in Rotterdam on Monday and Tuesday.

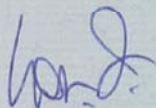
6. If not, it will be necessary to decide on Wednesday whether or not we should block the outstanding regulations, at least until the Agriculture Council on 15/16 June. There is no doubt that Mr Walker has right on his side and to allow the French to get away with it would be unwise. On the other hand, there is very little prospect of getting a satisfactory answer out of an Agriculture Council which meets between the two rounds of the French legislative elections. To continue to block these (unrelated) regulations until the Council can agree will create major problems (e.g. for the start of the sugar campaign) and take us into our Presidency. The best hope must be in persuading the Commission to accept its responsibilities.

7. The French anxiety is that a lower clawback will lead to increased exports on to the French market and thus lower returns to French sheep farmers. So far as we are concerned, it is the exporting companies which are affected. Sheep producers are protected by the premium system. Lamb exports are in the hands of a relatively small number of enterprises which, like the rest of the meat trade are already in difficulty. But they are generally the more dynamic (and vocal) enterprises situated in the South West, Wales and Scotland where the employment they provide is valuable. One such exporter has gone bankrupt and others have closed parts of their enterprises. The current weakness of the market is of course involving considerable Community

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expenditure, 80 per cent of which comes to the United Kingdom. An increase in the level of exports would marginally raise the price of lamb in the UK.

8. The Minister of Agriculture has suggested that the Prime Minister might chair a small meeting on Wednesday, 3 June, if no solution has been found by then. I do not know whether the Prime Minister's engagements would make this possible. It would perhaps be sufficient for Lord Carrington and Mr Walker to meet and then report the outcome to her.



M D M FRANKLIN
CABINET OFFICE SW1
29 May 1981



FCS/81/62

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Sheepmeat Clawback

1. Thank you for your letter of 28 May about this problem. Both the Commission and the French have behaved badly in seeking to overturn an agreement which everyone else involved, including Dalsager, seems to accept was reached at the price fixing Council on 30 March/1 April. The Commission are the prime culprits. It was they who declared at the price fixing Council that they intended to deal with the problem within their own vires by abating the clawback to take account of export quality. Dalsager clearly accepts that he gave this commitment, but the Commission as a whole have overruled his attempt to implement it. I think our efforts to solve this problem should therefore principally be directed towards achieving a change on the part of the Commission and I therefore intend to send a message to Thorn in strong terms to tell him that we are not prepared to be treated in this way and pressing the Commission to stand by the undertaking their agricultural colleague gave.

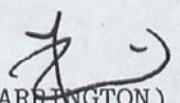
2. At the same time, I fully agree that you should make every effort at the informal meeting of Agriculture Ministers in Rotterdam on 1 June to try to solve the problem. There would in my view be advantage in your sending an urgent message to your new French colleague before then to make quite clear the importance we attach to a quick and satisfactory settlement.



3. We will then need to take stock when you get back from Rotterdam. But I am very doubtful whether it makes sense for us to block the regulations implementing the price fixing decisions. This would only exacerbate the problem and precipitate a public row with the French as well as alienating those other Member States whose interests are affected by the decisions being blocked. Once we place a reserve on the 'A' points at the 4 June Steel Council, it will be difficult for us to drop it at the Agriculture Council on 15/16 June unless we obtain what we wanted. Since the latter Council will be taking place between the first and second rounds of the French legislative elections on 14 and 21 June, the chances of reaching agreement at that Council in a public confrontation will be negligible. We should then be faced with the choice of either having our bluff called, with all that would mean in terms of public outcry here or maintaining our blocking position indefinitely.

4. In my view, we are much more likely to be able to solve the problem if we keep up the pressure on the Commission persistently but also keep the temperature down and the issue as far as possible out of the public eye on both sides of the Channel. I do not believe that the interests at stake on this issue warrant a major dispute on the scale of the lamb war of 1979 and early 1980. This would not only be a very bad start for our Presidency but would also jeopardise our efforts to build up a less confrontational relationship with the new French administration.

5. I am copying this minute to the Prime Minister and Sir Robert Armstrong.


(CARRINGTON)

Foreign and Commonwealth Office

(approved by Lord Carrington and signed in his absence)

29/5/81

CONFIDENTIAL

A

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 SW1A 2AL

28 May 1981

SHEEPMET CLAWBACK

You will recall that, when the detailed clawback arrangements were being discussed in the Management Committee in October, the Commission representatives made a declaration to the effect that it was not the intention that the arrangements should hinder the development of our export trade in sheepmeat. Moreover the Commission declared at the time of the price fixing in March that they intended to take action to deal with the problem by abating the clawback to take account of the higher costs of the product of export quality. This statement was an integral part of the price fixing proposals and our agreement was given on this basis.

As you will know, the Commission yesterday decided against putting forward proposals for an immediate abatement of clawback. They are choosing to hide behind legal advice. But it is not acceptable for the Commission to enter into commitments which they subsequently refuse to implement, as a result of pressures from particular Member States.

I shall try to find a way out of this impasse when I see Mr Dalsager and other Ministers in Rotterdam on Monday next. But given the attitude which the Commission have adopted and the electoral situation in France, I am not optimistic about doing so.

I have therefore been giving thought to how we should in this event proceed. The French imposed a reserve on the remaining regulations implementing the price fixing decisions on the grounds that Commission action on abatement of clawback would unbalance the sheepmeat régime and the outcome of the price fixing settlement. They will presumably now lift this reserve at the Steel Council on 4 June. I consider that we should be entirely justified in applying a similar reserve ourselves on the remaining price fixing regulations, and I propose that we should do so.

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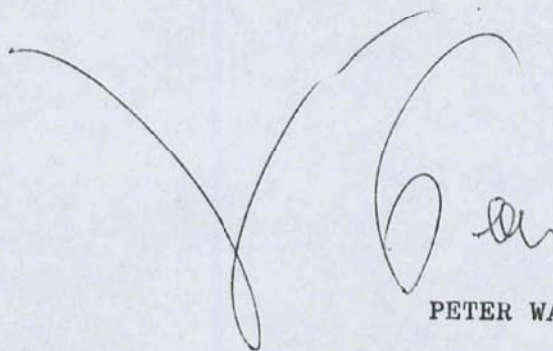
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Our aim in imposing a reserve would be to bring the maximum possible pressure to bear on the Commission and other Member States before the next Agriculture Council on 15/16 June. We should be leaving no-one in any doubt about the seriousness of the problem, and I believe this is the most likely way of reaching an early settlement, given the situation following this week's Commission discussion. Unless we show the sort of resolve which the French have demonstrated, the issue is likely to continue to trouble us well into our Presidency. I cannot accept the damage that is being done to our own trade as a result of the operation of the clawback arrangement. Nor do I believe that it will help progress on other matters during our Presidency to have this problem unresolved.

If these tactics do not produce a result, we should have to take stock after the next Council. I am not wanting now to take a view about whether it would then be right to maintain our reserves on the price fixing regulations. Indeed, I think we must avoid pre-judging that question. Our own interests will understand, if it comes to this, why we have imposed the reserve on a temporary basis up to the June Council. By then the situation will inevitably have changed in some respects, sufficiently to enable us to change course if that seems the right thing to do.

I am very conscious of the political difficulties at this point in time in the Community. I am mindful, in particular, of the importance of trying to develop a good working relationship from the outset with the new French administration. I will certainly want to avoid setting up a direct confrontational situation with the new French Minister. But as I have said, I believe we have a perfectly tenable position from which to justify doing just what the French themselves have done in blocking price settlement regulations. I do not consider that we can accept what has happened in this case. If commitments entered into by the Council and the Commission can be set aside, the whole basis of political decision taking in the Community becomes a lottery that I do not see how we can defend. I wish to make our attitude clear during next week's Informal Council, and I should therefore be very grateful to have your agreement tomorrow.

I am copying this letter to the Prime Minister and to Sir Robert Armstrong.



PETER WALKER

CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

28 May 1981

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

Dr Peter

MEASUREMENT OF FARM INCOMES

We have had several discussions and exchanges of correspondence over last year and this about the measurement of farm incomes, in which I have expressed reservations about the present methods of measuring and presenting the figures. As you know, my difficulties centre on the validity and use of the measure of post-interest "real" income.

We have a number of doubts about the use of this measurement. For one thing it conflicts with the national income approach and tends to make difficult comparisons with other sectors of the economy. For another, and more specifically, the normally accepted method of assessing the performance of a company - in this case the national farm - is to take operating profit (i.e. profits before charging interest) and to relate this to capital employed. But the major objection to your approach is that post-interest "real" income takes no account of the erosion by inflation of the value of outstanding debt, the so-called "gearing adjustment".

A useful step forward was made in last year's Annual Review White Paper (Cmd 8132) when the aggregate statistics were presented in such a way that a pre-interest income series could be derived as well as the post-interest series. It became clear at that time and in our subsequent discussions in OD over this year's CAP price negotiations that there were indeed considerable differences in the two series; in particular the pre-interest series showed a much less steep fall in farmers' real income compared with the post-interest figures. But as might be expected the NFU has continued to rely exclusively on the post-interest figures and to emphasise the 24 per cent fall in real income which these figures appear to imply. I am concerned too that in public comments at least we have appeared to accept the use of this statistic without qualification.

/I am sure



I am sure you will agree that it is not helpful if, in our discussions on agricultural policy, we are faced by alternative definitions of farm income and competing claims about what has been happening to it. I suggest we need to make a further attempt to see if we can arrive at a single agreed statistic which we can use both for the measurement of farm income and for the purposes of comparison with other sectors in the economy. At the very least, there is a need to bring the issues out into the arena of public debate, so that we can reach a clear understanding on which of the alternative measures for farm income are valid, what each of them means and in what circumstances each can be used.

The purpose of this letter is to propose that we should now institute a full view of the measurement of farm income figures with three major aims. The first would be thoroughly to explore the appropriate measurement of incomes, not only the aggregate farming income concept, but also alternative measures by sectors and geographical areas. The second would be to establish measures of the financial state of agriculture other than accounting profit, for example cash flow and rates of return, and to assess the importance to the farming sector of income from sources other than agriculture such as receipts from tourism. Finally the review should facilitate the comparison of the position of agriculture with other sectors, one of the issues on which we have already corresponded.

As regards procedure there would seem to be considerable advantage in the review being conducted in a group similar to that recently chaired by Deputy Chief Economic Adviser on the measurement of the cost of the CAP. But its membership should be wider and, apart from our own officials, should include representatives of the CSO, the other Agricultural Departments, and the Departments of Employment, Industry and Trade, all of which have an interest in this issue.

Once the internal review has been completed, its results should be published in a suitable Government journal, in order to facilitate public discussion with interested parties such as the NFU, food manufacturers and academics.

I therefore suggest that we should jointly institute such a review under the chairmanship of the Deputy Chief Economic Adviser, with terms of reference as in paragraph 4 above. The group should be asked to report by late summer, so that its results can be taken account of in the next Annual Review exercise.

I am sending copies of this letter to the Prime Minister, Secretaries of State for Foreign Affairs, Employment, Industry, Trade, Scotland, Wales, and Northern Ireland, and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', written over a horizontal line.

GEOFFREY HOWE



New Zealand High Commission

Reference

19 May 1981

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

Mr M.O'D.B. Alexander,
Private Secretary, Overseas Affairs,
Prime Minister's Office,
10 Downing Street,
London SW1

Dear Michael,

Attached is the original letter from the Prime Minister,
Rt. Hon. R. D. Muldoon, on New Zealand and EEC matters.

The text has already been sent to you and I believe
Mrs Thatcher's acknowledgement is being forwarded through
the British High Commissioner in Wellington.

Yours,

Gray B. Nelson

Gray B. Nelson
Counsellor (Assistant to
the High Commissioner)

18/
20/

COMMUNITY HEADS OF MISSION CONFERENCE : 15 MAY 1981

RECORD OF MEETING

1. The Lord Privy Seal welcomed those attending the conference and invited Mr Franklin to introduce the item on restructuring and the CAP.

RESTRUCTURING

2. Mr Franklin said that it was becoming clear that restructuring would fall into 3 main parts:- CAP reform, non-agricultural policies and the extra measures which would be needed if these did not solve the budgetary problem. On the first subject, there were differences between those who favoured a more general approach of putting a ceiling on the growth of CAP expenditure and those who thought that the problem should be tackled on a product by product basis. Our position reflected both views. We would like to see Heads of Government lay down guide-lines of the following kind:-

- (a) price restraint
- (b) specific measures to reduce surpluses eg. a super-levy on milk
- (c) the imposition of a financial target whereby the growth of CAP expenditure was kept markedly lower than the growth of own resources
- (d) containment of the costs of enlargement
- (e) strict control of national aids
- (f) no extension of Community preference

We had tried these ideas out on the Germans, and there was a wide measure of agreement on general principles, although not on some specific points such as co-responsibility levies.

3. The scope for increases in non-agricultural expenditure was limited by the 1% VAT ceiling, which both the Prime Minister and Herr Schmidt firmly believed should be maintained. Some countries favoured an increase in own resources, and it was not clear yet what line the Commission would take. The Germans had accepted that benefits from the Regional and Social Funds should be concentrated on the poorer countries. We had been studying in Whitehall ways to make it more certain that we received a net benefit from these Funds, such as by introducing a special 'window' for the UK or skewing the criteria for receiving payments in our favour. The latter approach appeared more promising as changes in the criteria, eg. to reflect the problems of urban renewal, could be presented as updating Community policies.

4. It now seemed likely that the Commission would say that changes to existing policies would not be enough to solve the budgetary problem. On present trends the UK unadjusted net contribution was set to rise over the next few years from about 2,000m ecu to about 3,000m ecu or more, and the UK and Germany would stay the main contributors. Ideas for solving this problem ranged from a

/simple

simple German system of limits on net benefits and contributions to more sophisticated UK mechanisms designed to relate net benefits and contributions to each country's needs and abilities. We had discussed these ideas with the Germans and the Commission, but not yet other Member States. It would be a big step forward if all would acknowledge that some such corrective mechanism was needed. The problem this time was not just a UK problem. The Germans too wanted to limit their contribution, and other Member States including France would have to pay.

5. This would probably lead some Member States to aim for delay. Mr Franklin hoped that the Commission would produce its paper on time in spite of fears that it might be used as a political football during the French legislative elections. Events in France might however make it impossible to achieve any progress before the summer and that would only leave a short period in the autumn before the European Council in November. He and Lord Bridges would soon be visiting capitals to discuss the handling of restructuring during our Presidency.

6. The Lord Privy Seal said that we should make it clear that this was quite different from the last round of negotiations. We needed also to allay suspicions that we might misuse our Presidency to push our own views. He asked whether any other Member States had similar views to ours on the CAP. Sir R Arculus said that whilst the Italians had different interests from us, their Foreign Ministry was better disposed than their Ministry of Agriculture and would like to find some way for Foreign Ministers to be more involved in agricultural decisions. The Lord Privy Seal commented that attempts to get the ECO/FIN Council to give guidelines to the Agriculture Council had not been successful. Mr Hancock said that we had succeeded in demonstrating our unity with the Germans. The MAFF had been able to use this at the price-fixing to persuade the German Minister of Agriculture to agree to a joint declaration on a ceiling for CAP expenditure.

7. Sir B Hayes said that it was a Community myth that Agriculture Ministers were in some way out of control. This was clear from events last year when the price-fixing negotiations had been held very close to meetings of Heads of Government, but there had been little change in the way the negotiations went. The truth was that Agriculture Ministers represented their national interests. On CAP reform the MAFF generally favoured a product by product approach. The imposition of a ceiling would invite the Community to introduce more co-responsibility levies (which counted as negative expenditure) and to eliminate such items as the butter subsidy which greatly benefitted the UK. A ceiling was however necessary, and we did get a partial agreement to this at the Agriculture Council. We had had little success however in advocating a milk super-levy. No-one else had made any proposal which would control milk production. Sir M Butler agreed that Ministers of Agriculture were following Government policy. As long as Germany and the UK paid, most Member States were not too worried about the cost of the CAP. If a budget mechanism meant that Denmark, the Benelux countries and France would cease to be net beneficiaries, would their Ministries of Finance exert more control over their Ministries of Agriculture? The Irish argued that there was no surplus problem, but how far did other countries recognise that the problem existed and had to be tackled? Mr Thomas said that the Luxembourg Government probably would change its views on the CAP if it had to pay the cost. They would agree that

/surpluses

surpluses were a problem, but they also argued that the surpluses had been greatly reduced. Mr Figg said that the Irish said that they had no surplus; they consumed all their liquid milk production and had no problem in disposing of their other dairy products. Mr Mansfield said that the Dutch argued that surpluses had been reduced. Sir M Butler said that although stocks had been reduced, the surpluses were actually increasing. Sir B Hayes said that he defined a surplus as any production which could not be sold without a subsidy. The growth of CAP expenditure had slowed because world prices were higher, but production was continuing to increase.

7. Sir P Wakefield said that the Belgians did regard surpluses as a problem. They thought that one solution might be to introduce production targets and penalties for any production above them. They favoured co-responsibility levies and were very concerned about national aids. They were not quite so opposed to partial national financing, but did not like it. Mr Mansfield said that the Dutch recognised that they would lose from restructuring and wanted it to be a long process. They would like to see the 1% ceiling raised.

8. Lord Bridges said that the key factor in recent progress had been the development of the views of the Economic and Foreign Ministries in Bonn. Would Chancellor Schmidt be able to sustain his present line politically, particularly in view of the effects it would have on farming interests? Sir J Taylor said that he might not be able to. The Foreign Ministry was concerned that reform would be very difficult and that Herr Schmidt did not realise the full implications of this and of the 1% ceiling. The Economic Ministry wanted to see a substantial reform of the CAP but were less sure what else should be done. The Ministry of Agriculture did not believe that there would be much damage: each Member State had a different view of the objectives of the CAP, and some of these objectives could not be met within the 1% ceiling. All Ministries felt that if no progress were made during our Presidency, it was very unlikely that anything satisfactory could be achieved in the Belgian and Danish Presidencies. Lord Bridges asked about internal political factors in Germany. The strength of the alliance between the UK and Germany would be a crucial factor during the negotiations. Sir J Taylor said that everyone would support Herr Schmidt in reducing the budget burden, but CAP reform was much more difficult politically. Sir M Palliser said that another factor was the Franco-German relationship and the extent of concessions which might be made to the French.

9. Sir R Hibbert said that the new French Government would base its approach to CAP reform on the Pisani Report. We should see whether that contained anything which suited us. M. Mitterrand had said that he wanted the Community to adopt adequate social policies. This presumably meant that more money from the Regional and Social Funds should be spent in France or the poorer regions of the Community. The French would want to maintain their relationship with Germany and it would be wrong to think that we could gang up with the Germans. M. Mitterrand was committed to having full discussions on Community problems among the 10. He might however find it hard to make concessions in the short term because of the forthcoming legislative elections. Mr Franklin said that French officials had been ready to contemplate the establishment of a budget mechanism, presumably because they thought it necessary for Germany. In return they might hope that Germany would not seek to change the CAP in a way contrary to French interests.

/Sir

Sir R Hibbert said that the French socialists had not taken a view on the budget problem as such. They would have to undergo a slow learning process.

10. Dame Anne Warburton said that the Danes took a similar view to the Dutch on surpluses. There had been no signs of movement in their thinking in the last six months except for some internal study of how to improve the efficient operation of the CAP. The Danes did not see the 1% ceiling as sacred. They would regard national financing as the first step towards the break-up of the Community. They understood the implications of a possible budget mechanism, and would try to delay agreement. Mr Mansfield said that the Dutch had suggested that dairy producers be encouraged to produce other products like soya, but Sir B Hayes said that there was not much scope for this in the Community.

11. In response to a question from the Lord Privy Seal, Sir Michael Butler said that the Commission report would probably say that the final package should include new own resources, but would probably not put forward specific proposals. The Community could well hit the 1% ceiling in 1982, depending on world food prices. If a ceiling could be put on CAP expenditure, then money would be available within the 1% ceiling for other policies, but the Commissioners doubted whether a CAP ceiling could be agreed, and some were opposed to it in principle. Mr Thomas said that Luxembourgers would like to see the budget tilted much more in favour of industry and the unemployed, but argued that it could not contribute much to solving these problems as long as the 1% ceiling was maintained. We should need to think carefully about the presentation of our views on the 1% ceiling. Sir M Butler said that the net contribution of the UK and Germany in 1981 was about 3,500 to 4,000 m ecu. If we and the Germans paid only 1,500 m ecu then at least 2,000 m ecu would have to be found from Denmark, the Benelux Countries and France, and perhaps also some reduction in Ireland's net benefit. When these countries realised that they would have to meet the UK and Germany half way, would they not alter their whole attitude to the 1% ceiling? Every country now had severe public expenditure problems.

12. Sir P Wakefield said that the Belgians were already beginning to understand this, and their Ministry of Finance was beginning to be concerned. Sir R Arculus said that by contrast the Italians had not grasped this point at all. We should encourage them to understand the logic of the situation. Sir M Palliser said that for the smaller countries, leaving the Community was not a real option. They were, however, used to doing well out of the Community, and if this changed there might be some effect on their attitudes in other areas such as defence. Moreover, if, as Sir R Hibbert had suggested, France were to become rather self-consciously communautaire and if France were required to make a bigger contribution, there might be a small alliance between France and the smaller countries in support of Community principles. If that happened, Germany's resolve might weaken. Dame Anne Warburton
/agreed

agreed with Mr Thomas that we should need to be careful how we presented our view on the 1% ceiling. The Danes could not understand why we were so opposed to a slight increase, when that would make it easier to improve the balance of the budget.

13. Mr Hancock said that the Treasury had found bilateral talks useful with the German economic Ministries, and now had a very close relationship. They could not do the same with all countries, but such contacts did have a role to play. In the German case, they had put forward their ideas for sophisticated mechanisms for redistributing budgetary burdens, and the Germans were now putting forward ideas which were not the same but bore a family resemblance to the Treasury's. The Treasury's view of the 1% ceiling was that if it were raised now there would be no check on CAP expenditure and thus no way of holding down the UK's net contribution. He suggested that one way to present this was to say that unlike every national system, the Community lacked a fiscal discipline. The 1% ceiling was at present the only check there was, but some other system could perhaps be devised.

14. Mr Sutherland said that the Greeks had no interest in keeping the 1% ceiling. They were the poorest Community country and were guaranteed a net benefit during the transitional period. On the CAP, they were sympathetic towards measures to cut surpluses of temperate products, although they would like to see more support for Mediterranean products. Sir J Taylor said that some people had said to him that the ceiling would have to be breached when Spain and Portugal entered the Community. Sir R Hibbert asked whether we could change our formula on the ceiling but say that it should not be raised beyond 1% until the budget was more fairly distributed. Mr Hancock said that this would undoubtedly require collective ministerial agreement.

/15.

ENLARGEMENT

15. Lord Bridges said that the handling of enlargement during the UK Presidency was a cause for some anxiety. The political imperative remained, but other aspects of the negotiations posed difficulties. He suggested that the Conference should consider enlargement under six headings: the state of the negotiations; the attitudes of the applicants; the view from Paris following Mitterrand's elections; implementation of the 1970 Agreement with Spain; Gibraltar; and the economic impact of enlargement.
16. Mr Parsons said that many people had been too optimistic about Spanish democracy before the attempted coup but we should not now swing to the opposite extreme of excessive pessimism. It seemed likely that the Spanish Government would now adjust its policies to avert the risk of a coup, but, as Calvo Sotelo had said, we should not take Spanish democracy for granted. The Spaniards needed reassurance and were convinced that the link with Europe was essential to them. This view might be exaggerated but was sincerely held. For the present the Spaniards had accepted that EC membership would be a long slog and were therefore concentrating on NATO, which was more controversial but technically easier. What the Spaniards really wanted was membership of the European political Community, something which did not exist.
17. Mr Parsons thought that the Spaniards were very concerned about the election of Mitterrand, who they thought would be more resistant than Giscard. Spanish opinion was still united in favour of EC membership but the employers' organisation had become more active and was now more conscious of the economic risks. The employers tended to be right wing and had links with the Army: Calvo Sotelo would therefore have to take account of their views. The impetus for enlargement was political. The Spaniards knew there was less in it for them economically but had expected to gain advantages from the CAP. Restructuring could now make this less attractive. As for the 1970 Agreement, we should not try to reopen the fundamental issues, e.g. cars, but should continue to press our case forcefully where the Spaniards were falling down on their obligations.
18. The Spaniards thought that the UK Presidency was important. They would want information from us on restructuring: a legitimate request. They also wanted access to political cooperation. This was a non-starter in Community terms but there could be bilateral briefings by the Presidency. Following Mitterrand's election, London now looked ideologically closer to Madrid than Paris or Bonn and Calvo Sotelo wanted to visit the UK. This raised the question of Gibraltar. The Spaniards were now admitting that the ball was in their court and that the main obstacle was not the UK but internal Spanish politics. This was a new factor. Meanwhile opinion in Gibraltar was restive but not excessively so. Our position was therefore not too bad. We should not allow Spain's breach of her obligations on Gibraltar to obscure the importance of our other interests with Spain, especially during the Presidency.
19. Mr Bvatt said that he was impressed with the Portuguese determination to join the Community. This was now their highest priority. They accepted that the timing had slipped from 1983 to 1984 but were concerned that the Community's difficulties with Spain should not delay their own accession still further. Natali had told them that the two negotiations were separate but that Spain

and Portugal would probably accede together. Money did not seem large for the Portuguese, who saw enlargement as a framework for democratic stability, but they had said that they would not come in if the price were too high. Under present rules they would be net contributors. Their views on restructuring were close to ours, but less close on the 1 per cent VAT ceiling, because they hoped to get something for themselves. There was a danger that they were regarding the Community as a panacea, and that reaction could set in. The Portuguese Government feared that delay could bring a change of public mood.

20. Miss Lackey said that the 1970 Agreement was the key factor for the Department of Trade. The domestic position in the UK was becoming uncomfortable: the Secretary of State for Trade was concerned about criticism both of the existing imbalance in the Agreement and of its devious non-implementation by the Spaniards. The delay in enlargement had increased the need for a presentational improvement, without which there could be a souring of the atmosphere. If the Spaniards did not live up to their existing obligations there would be a question mark over their good faith after accession. Was there not a similar tide of opinion in other Member States? Did not other Members think that, without holding up the negotiations, we needed to persuade the Spaniards to improve their image?

21. Mr Hancock pointed to the link with restructuring. The Portuguese desire to raise the 1 per cent VAT ceiling was precisely what the UK feared. Portugal was poorer than Ireland and once it joined it would become more ambitious. The UK faced two choices in restructuring. We could go for a 'quick fix' CAP reform with some supplementary measures, but such a solution would not endure. The Community could not go on buying off those who had a problem since the Germans would not continue to pay. The UK should therefore press for a more radical solution aimed at staying within the 1 per cent ceiling, using enlargement as a lever to bring this about. The solution might lie in a system which offset payments against receipts so that the net result was zero, rather like the present co-responsibility levies.

22. Mr Franklin said the despite our genuine goodwill, the Spaniards had continued to procrastinate over Gibraltar and the 1970 Agreement. How much pressure should we exert? Mr Parsons said that Ministers had told the Spaniards that our political commitment to enlargement would be easier to maintain if Spain mended her ways. It was logical to maintain this position. He did not seek to defend the Spaniards but they were clearly operating under great difficulties, beleaguered as they were by terrorism, etc., and our concerns were not therefore a high priority for them. We should distinguish carefully between the question of rebalancing the 1970 Agreement and that of better implementation. Mr Punset had been a sound influence, but his views had cost him his job, and there had since been a swing back to greater protectionism in Spain. Mr Parsons was therefore pessimistic but not defeatist.

23. Sir M Butler said that our present line, that we would push the enlargement negotiations along during our Presidency, would quickly wear thin, since it was already clear that nothing much was going to happen during the Presidency. We should stop saying that the important dossiers would remain blocked until the end of the year and instead call vigorously for the Commission to produce its proposals on changes in the Mediterranean acquis without waiting for its separate proposals for budget restructuring. Mr Hannay said that the Secretary of State had been briefed to speak to the Commission on this point. It would be important during the Presidency to point out to Spain and Portugal that restructuring was not inimical to their interests. If they thought that restructuring would lessen the benefits of membership, this could be damaging to us as its main advocates. In fact the Treasury's ideas would help to get over the problem of Portugal becoming a net contributor. The case of Spain was less clear cut but what the Spaniards wanted was mainly the non-budgetary resource benefits of access to the Community food market. The main cost would arise, in the absence of reform, because the French and Italians would insist on support for their uncompetitive agricultural producers. We should point out to the Spaniards that we wanted them to get access to the market but not at the cost of huge pay-outs to less efficient producers elsewhere. Mr Parsons said that the Spaniards understood this but nevertheless regretted the delay caused by restructuring. Sir R Hibbert pointed out that Mitterrand drew his strongest support from the agricultural constituencies of the South-West and to a lesser extent the industrial constituencies of the North-East, in both of which he was in competition with the Communists. This would act as a brake on the negotiations. Sir R Arculus said that the Italians supported enlargement at the highest level because of the political arguments, but they knew that they would suffer in agriculture and would want something in return.

24. Mr Andrews said that the Mediterranean products sector would be hard to reform. The French and Italians would be defensive. Mr Hannay might be right in thinking that the Spaniards were mainly concerned to gain access to the market but they would not easily give up the substantial budgetary benefits of accession. They had inefficient temperate producers who would claim support under present rules.

25. Mr Fergusson said that two years ago the Commission had pointed to the social tensions which could arise in Spain as a result of enlargement, eg. in the beef producing and fishing communities. He wondered if these tensions would not surface as enlargement came closer, thus making the economic case look less tempting on both sides. These social tensions might react against democracy, thus eroding the political argument for enlargement. Mr Parsons agreed that regional problems could grow as entry approached but this point was still far away and the Spanish Government did not share these doubts. Mr Daunt said that NATO could come to be seen as a political alternative to the EC, perhaps to the extent of /compensating

compensating for further delay. The Lord Privy Seal said that unfortunately NATO did not call for democratic credentials quite so firmly as did the EC. Mr Parsons agreed that NATO membership might remove some of the pressure for EC membership.

26. Mr Sutherland said that the Greek experience suggested that membership was some kind of guarantee against extremism but paradoxically Greek membership might tend to favour Papandreu because democracy could now survive his election. This might even be a good thing for Greek politics, were not Papandreu so far to the left.

27. Mr Mansfield said that the Dutch regarded Spanish membership as politically important.

/28.

UK PRESIDENCY

28. Mr Hannay said that although the Presidency did not begin until 1 July the UK would be expected to act in an increasingly Presidential way in the run up to it, both because of the need to make decisions now about events which would take place after 1 July and because of press and public interest in our Presidency. He expected the Secretary of State's forthcoming visit to Brussels to initiate this process. He was concerned about the question of presentation. We did not want to raise exaggerated expectations as had happened in our first Presidency. The EC was not run by the Presidency but by a sort of collective leadership including the Presidency but of which the Commission, who were very sensitive, also formed a part. Thus we should avoid talking big or giving the impression that "we are the masters now".
29. On the other hand, there were occasions on which the public exposure that the Presidency would give us would be of benefit: the forthcoming EC/ASEAN ministerial meeting for example, and perhaps the Euro/Arab Dialogue ministerial meeting. We should seek to give the impression of an effective Presidency, sensitive to the many requests we would receive from our partners. We should also try hard to give a Presidential cast to our public statements.
30. The central business of our Presidency would be restructuring. Certain of our partners would argue that we were not the best country to preside over these discussions. We should resist this on the grounds that no other country was obviously better qualified and we should exploit to the full eg the FRG's recent public acceptance that it was right for us to hold the chair. We must not, however, give the impression that restructuring was the be all and end all of our Presidency. There would be other problems. On enlargement we would essentially be trying to make bricks with little straw. We might have to content ourselves with a ringing declaration of principle at the time of the European Council, but there would be some areas on which we could make progress and we must seek to press ahead with them. There also be the 1982 budget discussions - a crucial item in relation both to our partners and the Parliament. We would be pressing ahead with the air fares directive and the insurance directive, both of them matters where our interests were served by pulling in the same direction as the Community. On external matters there would be the multifibre negotiations, where our position lay in the centre of the Community spectrum so that we would hopefully be able to push in the direction we wanted.
31. There were also 2 summits coming up, in Ottawa and Mexico. In Ottawa we would have a rather undefined Presidency role, which was most likely to arise in connection with trade. At Mexico the relevance of the Presidency was less evident. The summit was not a forum for negotiations, so we could take the line with our partners that the Community did not need to be represented, rather than the line that we would represent it.
32. Sir M. Butler said that the Community had fallen behind during, but by no fault of, the Dutch Presidency. The problem was that the French were not ready to take any decisions. Thus the UK Presidency would start off with a large backlog of Community business to clear. Sir R Hibbert said that France could not be ready to make many decisions until the end of the French

elections, and even then it seemed unlikely that we would have a France capable of decisive action.

33. Lord Bridges raised the matter of the North/South dialogue. After some doubt it now looked as if the Reagan administration might unblock the Dialogue during our Presidency. This would leave us in a particularly exposed position. We would have to decide whether to go along with the majority of the Community or to maintain our present tough line alongside the US. At present, Whitehall Departments seemed set on pursuing the latter course. This could cause particular friction if Mitterrand took a major interest in the Dialogue, and especially if he made Cheysson his Prime Minister.

34. Sir M. Butler said that, as seen from Brussels, colleagues at the Sherpa meeting for the Ottawa summit were already criticising the UK for lining up with the US to grind the faces of the poor. If the US moved out of the firing line we would be still more exposed. The problem was one of good presentation of our policies rather than giving extra money. We should seek to present our policies as more in the centre of the Community spectrum.

35. Sir M Palliser said that at Paris there had been 2 discussions on a Canadian paper. The first discussion had concluded that the paper was too long, woolly and not yet ripe. In the detailed discussion, however, the Germans and Japanese had been very enthusiastic for the paper, the French had said little, the US had taken a very hard line and the only sensible voice had been that of the Commission. We had stuck rather close to the Americans. Lord Bridges pointed out that this had been an aid study. The problem was that Sir M. Butler was exposed to criticism in Brussels.

36. Sir M Butler repeated his view that once we held the Presidency we should endeavour to move our position to the centre of the EC spectrum. If we lined up with the US it would be used against us. Lord Bridges said that this matter was under discussion in the Cabinet Office with a view to finding areas where our policy could be changed in a satisfactory way. This was very difficult, given the substantial recent cuts in our aid programme. It was difficult to get other Departments to respond to pressures that they didn't feel to be real.

37. Sir M Butler said that he didn't believe that France or West Germany would allow the independence of the IMF to be threatened. We should get alongside them on such issues. Mr Hancock said that much depended on the forum in which these matters were discussed. He had recently participated in a meeting of Treasury officials and central bankers which had easily achieved an agreement which had caused considerable extension in the various Foreign Offices when it was reported back.

38. Sir M Palliser observed that it was all a matter of posture. We should try to make a generous posture without actually spending any more. The recent change of United States' attitude, which was probably based on President Reagan's concern with Mexico, showed this. They were not talking about global negotiations. We took the view that these wouldn't get anywhere, so there was no harm in letting them go ahead.

39. Lord Bridges said that the problem was that the US Government didn't know what they were doing. If they unblocked the negotiations it could prove very expensive. Sir M Butler said that it was amazing what you could do just by talking. After all the work that had gone into the CIEC it had only produced a special fund composed of money which would have gone to the third world anyway. Mr Hancock added that we should also reemphasise how much the IMF/IBRD were already doing for the third world.

ANY OTHER BUSINESS

40. Sir J Taylor expressed concern about the publicity the Community and its members were receiving in the UK, and the material that was available to Bonn. Mr Hannay said that the FCO was conscious of the need of posts for a stream of different sorts of material. On the broad political front there were major ministerial speeches of which there were now many, eg the Chancellor of the Exchequer on 3 June in the Hague and the Secretary of State's programme speech to the European Parliament on 8 July. The latter will be important and should receive a lot of coverage. It is possible, although it has not yet been decided, that the Prime Minister will make a speech in the autumn, and there were other possibilities such as the Secretary of State's Winston Churchill speech. Mr Pym's recent speech had also been carefully circulated and Mr Pym had plans to follow this up.

41. The second level of information support was to supply Embassies with briefing on tricky Community subjects. This had started already with restructuring. There was also the idea of providing Embassies with material that popularised aspects of the restructuring debate, eg how our trade is adapting itself to the Community, which should prove useful in smaller countries. In addition Embassies would be receiving a history of the 1979/80 budget negotiations, which they would find informative. In general, however, the FCO needed feedback on the sort of material that Embassies wanted.

42. Mr Fenn said that the Anglo-German talks at Chequers had received some useful publicity. In general, however, ministerial speeches would provide the basis for our approach to internal as well as external coverage. The central problem here was excessive public expectation of our Presidency, particularly in the Arab world. It was hard to ask Ministers to take a high profile when these expectations suggested that a low profile was more appropriate.

43. Sir R Hibbert said that in the case of France what was needed were direct TV and press interviews, particularly with the Prime Minister and the Secretary of State. It would also help if News Department could do what it can with the French correspondents in London. Mr Fenn said they would continue to do so.

44. Sir R Arculus said that the UK opinion polls were becoming a problem. People in Italy were wondering what would happen if the Government fell. Guidance on the SDP would also be useful. In addition it would be valuable to have some guidance before big meetings on the line we were going to take. This could then be used as bait when Embassies went into the local MFA to fish before the meeting took place. It would give the Embassy representative something substantive to say during these preliminary

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bilateral contacts. Lord Bridges said that we would continue the practice of the present Presidency by preparing discussions in capitals as well as London.

45. Mr Hannay asked if COREPER reporting telegrams were insufficient for briefing Embassies. Sir R Arculus said that Embassies needed a steer as well. Mr Hannay expressed doubt about the practicability of this.

46. Mr Sutherland said that it would also be useful to have a steer before Political Cooperation meetings. As a result of the telegram economy measures his Embassy tended to receive telegrams saving only after a meeting had taken place. Sir M Palliser said the FCO would look into this. He recommended that Embassies use the telephone more.

47. Sir R Hibbert said that in Paris the distribution of COREU telegrams was slow and inefficient. It would be helpful if the FCO would bear this in mind, and also if reporting on Political Cooperation meetings could be less laconic. Mr Bullard said that this would be done.

48. Sir M Palliser summarised the discussion by saying that Embassies were clearly not getting enough information fast enough. He promised that the Office would do better, especially during the Presidency. Sir P Wakefield said that it would also be useful if posts could receive some background information on the thinking going on in Whitehall. This could be useful in discussions with others.

49. Mr Hancock said that 2 relevant papers would shortly be circulated to posts: the synoptic paper from EQS and the text of The Hague speech. He added that the assistance of posts would be particularly necessary in connexion with the budget. He hoped that they would "try out" Presidency packages in capitals before they were put to the Council. This would be crucial if they were to get the Council to accept something which was also acceptable to the Parliament.

50. Mr Franklin said that some of these discussions might also take place in Brussels. On a different subject he observed that the Presidency was a mixed blessing. He hoped that one of its benefits would be that Ministers would give less confrontational briefings to the press after Council meetings.

51. Sir M Palliser thanked the participants, and said that it had been a useful day.



fb KB

10 DOWNING STREET

From the Private Secretary

5 May 1981

CF

I enclose the signed text of a message from the Prime Minister to the Prime Minister of New Zealand, Mr. Muldoon. I should be grateful if you could arrange for this to be delivered in Wellington. You may wish to send the text in advance by telegram.

I have sent a copy of the text to the New Zealand High Commission here in London.

M. O'D. B. ALEXANDER

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

B



file 16

10 DOWNING STREET

From the Private Secretary

5 May 1981

Your letter to the Prime Minister of 9 April set out the terms of a message to her from the Prime Minister of New Zealand. I enclose herewith a copy of the text of the Prime Minister's reply. I am arranging for this to be delivered in the normal way in Wellington.

M. O'D. B. ALEXANDER

His Excellency The Honourable L. W. Gandar.

SUBSET
copy to Hofer + ops



10 DOWNING STREET

file VB
cc fro
N.Z. High
Commissioner

THE PRIME MINISTER

5 May 1981

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL NO. T 728/81

Dear Rob,

Many thanks for your kind message. I agree that the successful outcome of our efforts to secure proper arrangements for the continuation of New Zealand's exports of butter to the United Kingdom for the next three years is a matter for satisfaction. This outcome is in no small measure due to the tireless and skilful diplomatic campaign which you and your colleagues and officials organised. For our part, we were always determined to secure a result which would be satisfactory for you and you can count on our continuing support when the arrangements come up for review in the Community in 1983.

I also agree that we should now turn our attention to strengthening cooperation in other areas of mutual interest. The visit to London last week of senior officials from your Ministry of Foreign Affairs offered a useful exchange of views in a number of areas, particularly on the situation in Poland and on the wider implications of events there for Eastern Europe.

I look forward to seeing you in Melbourne later this year.

Yours sincerely
Royall Muldoon

The Right Honourable R.D. Muldoon, C.H., M.P.

VB

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VB

CAP

10 DOWNING STREET

From the Private Secretary

5 May 1981

Dear Kate,

Reform of the Common Agricultural Policy

As you will already be aware, the Prime Minister has agreed that the Minister of Agriculture's paper on the Reform of the Common Agricultural Policy (OD(E)(81)14) can be used as a basis for discussion at the Anglo/German Summit.

However, the Prime Minister made one comment of substance on the text. She noted, in relation to the final sentence of paragraph 4, that in this country we could readily increase our own milk production without going into surplus. She sees no reason why we should agree in advance not to do this. She believes that we should reserve the right to increase production in this country for our own use without incurring penalties.

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

Yours sincerely

Michael Alexander

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

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Rth



CF file

10 DOWNING STREET

From the Private Secretary

1 May 1981

Sean Guffe,

COMMUNITY BUDGET RESTRUCTURING

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute to her of 14 April on this subject. Although she remains concerned that we should not leave the resolution of the question of our 1982 Budget refund too late, she is content that we should proceed as proposed in Lord Carrington's minute.

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

Yours ever

Nicholas Alexander

George Walden, Esq.,
Foreign and Commonwealth Office.

6

Michael Alexander would like to know today (Sunday) if you (1) agree



his note below.

Monica.

10 DOWNING STREET

3/5

Prime Minister. 00(15)(81)/4

This paper has now been approved by OS (E). Would you be content for it to be handed to the Germans on Monday: it would then serve as a common basis for the preparations for your meeting with Chancellor Schmidt the following week. If you are content the Party (Gene) will take the necessary action.

P.T.O.

Paul

1.5.87

Paragraph on Milk
states towards the end of
the para, that if Milk prodⁿ
increases in any Member State
that State should bear the full
cost of disposal. But, in
this country we could increase
our own production and
still have no surplus.
Why should we agree not
to do so? Subject to that
restriction - it can be handed
to the Government.
ms

PRIME MINISTER

UK 1982 BUDGET REFUNDS

mf. (2)

(attached) I have had a word with Michael Franklin about your manuscript note on the Foreign Secretary's minute about budget restructuring. There are, I think, two aspects of the timing issue - a procedural one and a political one.

On procedure, we have plenty of time. During 1982, we shall be getting refunds in respect of 1981. As during this year (in respect of 1980) we shall probably get some in January, the bulk in March and the remainder in the autumn. All the necessary framework exists for our refunds to reduce what we will effectively pay in 1982. As well as making provision for these (which should not cause major difficulties) we will want to ensure that the 1982 Budget contains provision for us to get advance payments in respect of 1982. We shall aim to get the Commission to propose this in the Preliminary Draft Budget (PDB) it puts forward this summer. However, since such advances would not be payable until late 1982, and could if necessary be made the subject of a supplementary budget, we would not need to die in the last ditch about getting them included in the 1982 Budget. From a purely budgetary point of view we do not need agreement on the advances of our 1982 refund before the very end of 1981. (The detail on this is at Flag B.)

From a political point of view, it is of course inconceivable that the Government could go into next year (and let the November European Council pass) without a clear understanding that we would get refunds in respect of 1982. But in securing that understanding we want to avoid diverting the Community's attention from the need for fundamental long term reform, or implying that we are not in a hurry for such reform. We hope the Commission's document will at least draw attention to the problem. But if we try to get a negotiation going on the 1982 refund, e.g. in the Foreign Affairs Council or at Ecofin during the autumn, it will cut right across our Presidency attempts to pursue the fundamental debate on the budget.

/It is

It is almost certainly unrealistic to suppose that discussions will have proceeded far enough to get decisions on fundamental reform at the European Council. That being the case it will be necessary to secure agreement on the need for the third year extension at the Council. The best way to do so may well be to introduce it towards the end of the Council meeting. Other Heads of Government will not be able to deny on 30 November that a carry forward is necessary; and agreement on that point can then emerge as a practical decision of that meeting.

Ant

30 April 1981

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Euro pd.



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 30 April 1981

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

NBPA

Print

Dear Foreign Secretary,

REFORM OF THE COMMON AGRICULTURAL POLICY

Because of Finance Bill commitments I will not be able to attend this afternoon's OD(E) meeting to discuss Peter Walker's paper on reform of the common agricultural policy. I have asked Nigel Lawson to represent me. Accordingly, I thought I should let you have my comments in advance of the meeting.

In general, I very much welcome Peter Walker's redraft. I think it is most useful that this now brings out the crucial problem of the milk sector, without sacrificing the important guidelines in the earlier version of the paper. It should be a good basis for discussion with the Germans at the bilateral Summit next month and I very much agree that it should now be handed over to the Germans at official level in preparation for that meeting.

There are two small amendments which I would want to suggest to the sentences dealing with prices policy in paragraph 2 and at the beginning of paragraph 3 of the note. I would prefer to see these sentences read as follows:-

"Paragraph 2. Prices policy. General price restraint must be a central component of policy towards the CAP in order to avoid generating structural surpluses."

"Paragraph 3. Additional measures. However, it is not practical to solve the problem of surpluses through price policy on its own."

I do not believe there is any difference between us on the substance underlying these sentences. All of us are agreed that price restraint can only be applied gradually and that

/at least in the

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at least in the short-term it will need to be complemented by other measures. I suggest, however, that it is important to avoid giving the Germans - and for that matter our other Community partners - any impression that we are hesitant about the need for price restraint. Recent German statements continue to place emphasis on it and on the importance of letting market forces have a greater influence on the agricultural sector. They are likely to be our main, if not only, supporters on this issue and it is desirable that what we say about it should carry conviction with them.

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

Yours sincerely,

L. S. Tokier,

for,

GEOFFREY HOWE

[*Approved by the Chancellor
and signed in his absence*]

Qz:02096

CONFIDENTIAL

CABINET OFFICE
70 WHITEHALL
LONDON SW1A 2AS



XXXXXXXXXX
233 7256

30th April 1981

Print

Mr. Alexander

Dear Mr Hannay

REFORM OF THE COMMON AGRICULTURAL POLICY

I hope to clear with the Prime Minister overnight the paper for the Germans as now approved by OD(E) today viz OD(E)(81)14 but with the first sentence of paragraph 3 amended to read: "However, it is not practicable to solve the problem of surpluses through price policy on its own".

Provided the Prime Minister agrees I should be grateful if the text could be telegraphed to Bonn with the following message:

"Grateful if attached note on the development of the CAP could be given to Heick: say Franklin would like to discuss it with him on 7th May. The Prime Minister hopes that it could form the basis for discussion of this subject at Chequers on 11th May.

Copies to Hancock (Treasury) and Andrews (MAFF).

Yours sincerely
M D M Franklin

M D M FRANKLIN

for

This will now go off, as we agreed, but with a stopper on it. Bonn is not working today but on Monday. Grateful if you would arrange for the Embassy to be given the half-clear if the PM approves the note over the weekend.
W.D.
1/5

D H A Hannay Esq, CMG,
Foreign and Commonwealth Office,
Downing Street East,
LONDON
SW1



T 61/87

Prime Minister
Wellington
New Zealand

28 April 1981

The Rt. Hon. Margaret Thatcher M.P.,
Prime Minister,
London,
UNITED KINGDOM.

Dear Margaret,

Now that the Community has at last taken a decision permitting New Zealand continued access for our butter for the next three years, I wish to express my very deep appreciation for the role which the United Kingdom, and your Government in particular, has played in achieving this result. Naturally, the decision is not everything we hoped for, but it does meet a number of our common objectives and will certainly be welcome to the New Zealand dairy industry as providing a measure of certainty for the immediate future. Without Britain's support, and the untiring efforts of Peter Walker in the Agriculture Council, the arrangement would have been a good deal less satisfactory.

We hope to be able to use the breathing space which last week's decision will provide to continue our efforts to broaden and strengthen our relations with the Community in a wide range of areas. No doubt we shall be returning to the specific details of our butter access before too long, as the Community's decision makes inevitable, and I am sure we will be able to rely on Britain's continued support. In the meantime, however, we hope we can turn our attention to strengthening cooperation in other areas of mutual interest.

Yours sincerely,

Rob Muldoon

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air
Enrol
COP

C A Whitmore Esq



CABINET OFFICE

With the compliments of
Sir Robert Armstrong KCB, CVO
Secretary of the Cabinet

70 Whitehall, London SW1A 2AS
Telephone: 01-233 8319

2.

- 1. Mr Alexander *Am*
- 2. Comm. Minist.

Am
28w

Ref. A04762

NOTE FOR RECORD

MS

When I was in Paris for the meeting of Personal Representatives from 22 to 24 April, I took the opportunity of calling on Monsieur Jacques Wahl, the Secretary General of the Presidency of the French Republic, on Thursday, 23 April at 5.30 pm.

2. Monsieur Wahl was obviously preoccupied with the forthcoming election. He seemed confident that Monsieur Giscard d'Estaing would be re-elected. The latest poll suggested that on the first round the President would get about 28 per cent of the vote, Monsieur Mitterrand about 22 per cent; Monsieur Chirac and Monsieur Marchais about 18 per cent each. Monsieur Marchais might in the event do slightly better than that because people did not like to tell pollsters that they were going to vote communist and the Communist Party were very good at getting the votes out. If (as Monsieur Wahl expected) Monsieur Chirac came fourth, he would have to decide whether to support the President in the second round. It was likely that he would decide to do so, in order to be able to claim some of the credit for the President's eventual success. In the second round Monsieur Wahl expected Monsieur Giscard d'Estaing to win with a vote of about 52 per cent, which would give him a better margin than in 1974. He said that Monsieur Giscard d'Estaing had announced that, if he was elected for a second 7-year term, he would not stand for a third.

3. On Community business, Monsieur Wahl recalled the message from the President to the Prime Minister in which the President had expressed his gratification and pleasure at the outcome of the agricultural price negotiations. Unfortunately the outcome had stood the President in less good stead in the elections than had been hoped, because, though the agricultural lobby was privately satisfied with the result, the other Presidential candidates were saying that the price increase ought to have been larger and the agricultural lobby were therefore precluded from expressing their satisfaction in public. This would make it the more important, for the second round of the election, that there should be agreement to the proposed export of 60,000 tons of grain to the Soviet

Union. Monsieur Wahl said that they had been informed that the United States embargo was about to be lifted, and at that point they would re-apply to the European Commission. Monsieur Wahl recognised that we were not very eager to see the proposed sale, but hoped that we would not object to it, given its political importance to the President in the election.

4. I said that we had noted and understood the clear view of the French Fisheries Minister that there could be no settlement of the Common Fisheries Policy this side of the French election, but we had welcomed the indications that meaningful negotiations could be resumed after the election. We should go into these negotiations with a wish and determination to reach a settlement. Monsieur Wahl said that it would not be possible to reach a settlement before the election. The President was already in enough trouble in the fishing areas: he had just returned from a difficult visit to Brittany. He was having to say in public that the French position was strong because, if no agreement was reached, there would be freedom of access from the beginning of 1983; but the French fishing industry were treating statements of that kind with some scepticism since they believed that the British Government would never allow freedom of access. I said that that was a realistic view. If the French fishing industry was in a difficult position and presented a difficult political problem, so did the British fishing industry. Several constituencies where the fishing industry was strongly represented were marginal. By the end of 1982 we should be within 15 or 16 months of another General Election. Whatever the strict legal position, it would be politically inconceivable for the British Government to accept an unrestricted right on the part of French and other European fishermen to "fish up to the beaches" of Britain. The French fishing industry might well be right if they thought that their interests would be better served by reaching agreement than by failing to do so. With these considerations in mind I hoped very much that negotiations could be resumed once the French elections were over, with a view to getting the Common Fisheries Policy out of the way before the major issues of budget and CAP reform were tackled. Monsieur Wahl reiterated that it should be possible to resume negotiations after the election (though I learned separately from the Embassy that the Fisheries Ministry were indicating it would be unlikely that a settlement could be reached before June).

5. As to the major issues in the Community Monsieur Wahl thought that we were in for a time of considerable difficulty. The Germans had now had considerable financial deficits at Federal as well as at Land levels, and they would not be prepared to think in terms of higher contributions. I agreed that we were likely to be in for a long and probably difficult period of negotiation on these issues. I thought that it could well be of value that there should be bilateral conversations between us and the French, with a view not so much to reaching compromises or agreements as to clearing minds and discussing possible solutions. Clearly such talks could not start before the election. If, after the election Monsieur Wahl thought that it would be useful to pursue this idea I hoped that he would get in touch with me.

6. Monsieur Wahl at first said that he did not know where he would be after the election. The President was talking in terms of "profound changes" in his entourage (assuming that he was re-elected) for his second term. Eventually, however, Monsieur Wahl indicated that he probably would still continue in his present position after the election, and we parted with expressions of mutual esteem and desire to maintain continuing contact to the benefit of Anglo-French relations and of relations between the Prime Minister and the President.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

27 April 1981

cc Private Secretary to the Prime Minister
Private Secretary to the Foreign and Commonwealth Secretary
Sir Michael Palliser GCMG
Sir Kenneth Couzens KCB
HM Ambassador, Paris

CONFIDENTIAL

GPS 200
CONFIDENTIAL
FM BONN 241750Z APR 81
TO PRIORITY FCO
TELEGRAM NUMBER 301 OF 24 APRIL
AND PRIORITY UKREP BRUSSELS

SECRETARY OF STATE'S VISIT TO THE FRG

EUROPEAN COMMUNITY: RESTRUCTURING
FOLLOWING FROM PRIVATE SECRETARY

AT HIS MEETING TODAY WITH GENSCHER, REFERRING TO ANGLO/GERMAN EXCHANGES AT OFFICIAL LEVEL, LORD CARRINGTON ASKED GENSCHER WHAT HE THOUGHT THE PROSPECTS WERE FOR A SETTLEMENT OF THE PROBLEM BY THE END OF THE YEAR. GENSCHER'S REPLY WAS TO ASK IF LORD CARRINGTON THOUGHT THAT THE ONE PERCENT CEILING COULD BE KEPT. HE DOUBTED IT COULD BE KEPT AFTER ENLARGEMENT. LORD CARRINGTON SAID IT HAD TO BE KEPT. APART FROM ANYTHING OTHER, CONSIDERATIONS THE DISCIPLINE OF THE ONE PERCENT CEILING WAS ESSENTIAL FOR REFORM. HE ASKED IF GENSCHER THOUGHT FRENCH SUPPORT FOR THE ONE PERCENT CEILING WAS SOLID. GENSCHER SAID HE DIDN'T KNOW AND THOUGHT THAT A GOOD DEAL MIGHT DEPEND ON THE FRENCH ELECTIONS. SUBJECT TO THE STRENGTH OF THE CHALLENGE FROM EITHER CHIRAC OR MITTERAND, GISCARD MIGHT FIND BETWEEN THE TWO BALLOTS THAT HE HAD TO DO DEALS THAT MIGHT AFFECT THE FRENCH POSITION ON THE ONE PERCENT CEILING. AGRICULTURE WAS AN IMPORTANT ISSUE IN THE ELECTION. HE AGREED WITH LORD CARRINGTON'S HOPE THAT THE COMMISSION WOULD PRODUCE A GOOD PAPER QUICKLY.

TAYLOR

[THIS TELEGRAM WAS NOT ADVANCED]

FCO/WHITEHALL
EOD

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

NJS

16 April 1981

I think this can wait

MAP

Type the message to Muldoon (incl that to Gauden) for PM's signature

MODBA (O/R)

MS

214

Signature

Rich

Dear Mike,

Thank you for your letter of 10 April enclosing a copy of a letter to the Prime Minister from the New Zealand High Commissioner. As requested I enclose a draft reply which the Prime Minister might send through the New Zealand High Commissioner to Mr Muldoon, including a postscript in answer to the High Commissioner's postscript. The reply is one of courtesy rather than substance, and we see no urgent need for it to be sent before the Prime Minister's return from the Gulf.

Yours ever,

Francis Richards

(F N Richards)
Private Secretary

M Pattison Esq
10 Downing St

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM: The Rt Hon Margaret Thatcher

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

- Top Secret
- Secret
- Confidential
- Restricted
- Unclassified

His Excellency
The Hon L W Gandar
High Commissioner of
New Zealand

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

Thank you for your letter of 9 April enclosing a message from your Prime Minister. I should be grateful if you would transmit the following reply to Mr Muldoon:

CAVEAT.....

'Dear Rob,

Many thanks for your kind message. I agree that the successful outcome of our efforts to secure proper arrangements for the continuation of New Zealand's exports of butter to the United Kingdom for the next three years is a matter for satisfaction. This outcome is in no small measure due to the tireless and skilful diplomatic campaign which you and your colleagues and officials organised. For our part, we were always determined to secure a result which would be satisfactory for you and you can count on our continuing support when the arrangements come up for review in the Community in 1983.

I also agree that we should now turn our attention to strengthening cooperation in other areas of mutual interest. The visit to London last week of senior officials from your Ministry of Foreign Affairs offered a useful exchange of views in a number of areas, particularly on the situation in Poland and on the wider implications of events there for Eastern Europe.

/I look

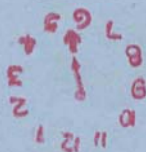
Enclosures—flag(s).....

I look forward to seeing you in Melbourne
later this year.

Yours sincerely,

Margaret Thatcher

Thank you too for your own kind message.!



16 APR 1981

CONFIDENTIAL

Euro PA,

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



From the Minister

The Rt Hon George Younger MP
Secretary of State for Scotland
Scottish Office
Dover House
London SW1

16 April 1981

MAJ

R. S. ... will require of request (x3)

I was not able before the last Agriculture Council to reply to your letters of 24 and 26 March about the Commission's proposals to assist beef producers in the Irish Republic. Nicholas Edwards also wrote to me on 31 March setting out his worries about the package for the Irish and I also have a letter from Geoffrey Howe *-27/3.* about the handling of this part of the negotiations.

You are, of course, aware of how the negotiations on this developed at the Council and of the outcome. As I expected, the Irish made acceptance of their package, including the additional suckler cow premium, a pre-condition for their agreement to the price settlement as a whole. Indeed, they sought to add to the package a calf subsidy along the lines of the Italian arrangement and held up the final stages of the negotiations over this. I argued that in parts of the UK the income problems are no less difficult for livestock producers than those faced in the Republic. Some other Member States were concerned about the implementation of the Irish package but there was no one prepared to come out strongly against it though they did resist the addition of the calf subsidy. There was clearly no possibility of extending the Irish package to parts of Great Britain without other Member States insisting on similar benefits for themselves.

There was, therefore, no real alternative to accepting the extension of the Irish package to Northern Ireland alone. I do not believe that we could have justified politically an outcome in which the Irish received the additional aids without extension to Northern Ireland. I recognise, of course, the problems which this creates for you and Nicholas Edwards. Indeed, I have to face similar difficulties with parts of the industry in England. But we can, of course, point out that the special rate of beef premium in Northern Ireland has been discontinued.

/ As you know, ...

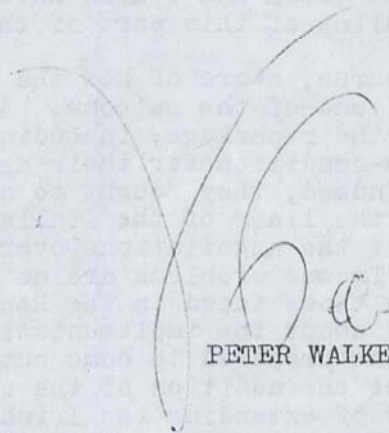
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10 11 12 1 2 3 4 5 6 7 8 9

6 APR 1981

As you know, the final outcome was an invitation to the Commission to study further the income problems facing the Irish farming industry, in particular the cattle breeding sector, and to come forward with proposals so that the Commission can take decisions before 15 July. This further Commission exercise could clearly create new problems for us. I shall be keeping in close touch with what the Commission are doing and I shall consult you and other colleagues on the handling of any new Commission proposals.

I am sending copies of this letter to the Prime Minister, Geoffrey Howe, Nicholas Edwards, Humphrey Atkins, other Members of OD(E) and Sir Robert Armstrong.



PETER WALKER



CONFIDENTIAL

PM/81/16

PRIME MINISTER

Community Budget Restructuring

I think we have already left the 1982 budget rather late.

We may have

to withhold (any)

Prime Minister.

Lord Coomaraswamy endorses the recommendations of officials in paragraph 12 of the note or Plan A and in paragraph 7 of the note or Plan B. Are you content with them?

Are you also that there is no need for a 'straw' discussion at this stage?

*AM
23rd.*

*very doubtful of the
figures. The
main problem
is on my plan
at the time
have.
not*

1. Since the progress report OD(81)4, officials have examined what more needs to be done before the Commission make their report and in the run-up to the UK Presidency. Their conclusions are contained in the two attached reports dealing respectively with budget restructuring generally and with the specific question of our 1982 budget refunds.
2. The first brings out that our main task over the next few weeks will be to encourage the Commission to produce a decent report on the restructuring mandate for the June European Council and one which is helpful to our interests. While there has been some radical thinking among a few Commission officials, there are no signs so far that the Commission has seriously addressed itself to the basic problems. The report suggests ways in which we should seek to influence the work, through M. Thorn, the British Commissioners and other contacts. The importance of talking to the Germans is also stressed, for which your meeting with Chancellor Schmidt on 11-12 May will provide the main focus. I also concur with the proposed round of official level bilaterals talks with all the other member states, ostensibly to prepare the ground for our Presidency but particularly with restructuring in mind. We can then take stock nearer the time of the June European Council.
3. The second note deals with our budget funds in respect of 1982. This will present us with a tricky problem during our Presidency. The need for a third year of refunds under the 30 May agreement will soon become apparent, but to press for agreement on it too soon could cast doubt on our good faith in seeking to achieve permanent restructuring arrangements starting in 1982. On financial grounds, all that we require is an entry in the 1982 Budget to cover possible advance payments. We do not need to settle on a firm budgetary

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provision for this until the end of 1981. I agree therefore that we ought to play this issue in low key for the time being. We shall need to consider nearer the time exactly how we play the hand at the November European Council under our Presidency.

4. If you agree, we will proceed accordingly. It does not seem to me that collective discussion at this stage is necessary. Copies of this minute and attachments go nevertheless to the other members of OD, the Minister of Agriculture and Sir Robert Armstrong.

A handwritten signature in blue ink, consisting of a large, stylized letter 'C' with a horizontal stroke underneath it.

(CARRINGTON)

Foreign and Commonwealth Office

14 April 1981

CONFIDENTIAL

EC BUDGET RESTRUCTURING: THE NEXT PHASE

Note by Officials

1. We are now within sight of the end of the preliminary exploratory phase of the EC budget restructuring negotiation. The Commission will present its paper early in June; the European Council will have a first, necessarily very general discussion of it on 29-30 June; and the next day we will take over the Presidency.
2. The present paper reviews progress so far and suggests how we should handle this subject in the remaining period until the end of June, including the run-up to our Presidency. It does not seek to set out our objectives for the June European Council; these will need to be the object of separate consideration later. Nor does it cover the tactical and procedural handling of budget restructuring during our Presidency, which will also be the subject of a later submission.

Progress to date and further action required

A. UK

3. Our own preparation for budget restructuring have been proceeding now for over six months. A first set of papers was seen and approved by Ministers last October (OD(80)20th Meeting). A Line to Take based on it has subsequently been used with all our partners and also in a number of Ministerial speeches.
4. In addition we have worked up our ideas on direct budget adjustment mechanisms and these too have been approved by Ministers (OD(81)4). They have been discussed with the Germans and the Commission only; we have made it clear that they represent our preliminary thinking, not proposals or a "British scheme". Ministers have also had a report on certain ideas on national financing of the CAP which are being considered within the Commission (OD(E)(81)8); and officials are examining what we should do if the Community came up against the 1 per cent ceiling involuntarily. We will shortly report to Ministers on how to deal with the issue of our third year of refunds under the 30 May agreement on the assumption that such refunds will be needed.

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5. Work earlier put in hand on reform of the CAP and on the future development of non-agricultural spending policies is in progress and reports will be made to Ministers shortly. On CAP reform there would be advantage in having a succinct statement of our aims for use in bilateral contacts especially in connection with the forthcoming Anglo-German summit. On non-agricultural spending officials are working towards a suggested order of priorities for any new ideas we might wish to run, so that we can seek to influence Commission thinking, even though it is clear that decisions are still a long way off and available financial resources limited. We now need to know in which direction the Commission are going to point before advancing our own work beyond that.

B. The Commission

6. Our next important task will be to ensure so far as we can that the Commission produce a satisfactory document in June. We have had a series of informal contacts with the two senior Commission officials (Noel and Jenkins) working on budget restructuring; and we have reasonably full information about the work currently being undertaken in preparation for their June paper. On the agricultural side consideration is being given to national financing, to a number of economy measures and to the possibility of using income support payments to mitigate a stringent price policy. The Commission will clearly also press for the development of non-agricultural spending. They are likely to give particular emphasis to review of the Regional and Social Funds; but ideas for increased spending on energy and the industrial sector are not to be excluded. So far as direct budget adjustment mechanisms are concerned, we are as yet in the dark about their intentions (although they know of our ideas). The Budget Commissioner wishes to include some consideration of new own resources but it is not clear what he has in mind.

7. The Commission itself has not yet grasped the nettle of restructuring. It is not easy to predict how it will behave when it does. Much will depend on the attitude of the more influential Commissioners (Davignon, Ortoli). We should like to see a Commission report which provided a reasonably comprehensive range of options for reform, based on an analysis of the current and forecast net contributions and receipts of member states; the idea that

/the budgetary

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the budgetary distribution should be a matter of conscious decision; the inclusion of a direct adjustment system or systems in the list of options; recognition that the Community is about more than just the Budget (and hence recognition of the problem of the UK's non budgetary resource transfers); and an appreciation of the implications of the various options for the 1 per cent VAT ceiling. When it comes to the point, the Commission may well not be able to agree on a report on these lines. In that event, a second-best outcome would be for the report to list the options for reform dispassionately, including direct adjustment systems, without any significant accompanying commentary. That would at least have the advantage of placing direct adjustment systems in the arena of public discussion. But we should not want a report which condemned direct adjustment systems.

8. These efforts to influence the Commission should be at all levels, both with the officials charged with co-ordinating the restructuring mandate and with officials working on the Regional and Social Funds and on the financial sector. Formal contact in the agricultural sector may be less productive. At the political level, M Thorn intends to make a tour of capitals in June. This will provide an opportunity for the Prime Minister to put across to him a comprehensive view for our side. An invitation to Mr Tugendhat from the Chancellor of the Exchequer might be worth while at a later stage in the discussions.

C. Reactions of other Member States

9. Our exploratory contacts seem to have made some progress towards the objective of evolving a new conventional wisdom in the Community, more propitious for the sort of solutions we want. Although it might become necessary to accept that the 1 per cent ceiling is not an eternal verity, the political unreality of seeking to raise it in the next few years is now widely accepted and it looks more and more likely that the real negotiation in 1981/83 will not be about that. The problem of enlargement and the need to control the costs of it in advance of Spanish and Portuguese accession is also more widely appreciated. The fact that the UK's unadjusted net contribution (and Germany's as well) is rising rapidly, the impossibility of realising major distributional readjustment through CAP

/reform

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reform and the small scope for doing so through increased non-agricultural spending are not contested and are beginning to lead people to accept that "something more" will be needed. Our ideas about the need for the distributional outturn of the budget to be consciously willed and not haphazard have been quite well received although no doubt attitudes will harden when the financial implications become clearer. It is noteworthy that Chancellor Schmidt and the German representative at the recent informal ECOFIN Council have restated that there should be limits on the net contributions of member states, and Schmidt has claimed that France agrees.


10. In the remaining weeks before the Commission paper becomes available we need to concentrate mainly on our contacts with the two most important Member States, France and Germany (while not neglecting the Dutch Presidency in the run-up to the June European Council). So far as the former is concerned, the Presidential elections and their aftermath effectively rule out Ministerial contact, but a meeting at senior official level is envisaged. With the Germans the key meeting is that between the Prime Minister and Chancellor Schmidt on 11-12 May. It will be important to concentrate on preparing for that and seeking to ensure that, in spite of the disagreements over fish, the meeting is productive both on budget restructuring and on CAP reform. There is to be a further FCO/Auswartiges Amt contact in early April. Contacts between the Cabinet Office and the Federal Chancellery and between the two Ministries of Finance are also planned.

Preparation for our Presidency

11. Budget restructuring will dominate our Presidency. Given the history of the subject, we shall be the object of considerable suspicion among our partners. We need to alleviate this suspicion as best we can and prevent it prejudicing our handling of the issue. Part of the solution will lie in the way we ourselves address the subject, both publicly and in Community discussion of it. But a useful initial step might also be to have bilateral talks with each of our partners in capitals in the month or six weeks before we take over the Presidency. Officials suggest that such a round of talks would probably best be billed as consultation about our Presidency as a whole, and not only about budget restructuring; it would come to much the same in the end. It

/would

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would best be done at official level to avoid an excessive publicity build-up and also to avoid upsetting the incumbent Dutch Presidency which will simultaneously be preparing the June European Council.

Conclusions

12. Ministers are invited to agree the following recommendations:

- (i) We should concentrate our bilateral contacts in the next three months about budgetary restructuring on the Commission, the Germans and the French (though not neglecting the Dutch Presidency) in the run-up to the June European Council.

- (ii) With the Commission, the Prime Minister's meeting with M Thorn will be important and the Chancellor of the Exchequer might consider inviting Mr Tugendhat. Officials should continue to keep in close touch with the Commission at the appropriate level in an effort to ensure that the Commission report on restructuring is satisfactory.

- (iii) We should do all we can to prepare and make a success of the discussion of CAP reform and budget restructuring at the May Anglo-German summit.

- (iv) There should be a round of official bilateral talks with other Member States to prepare the ground for our Presidency.

Cabinet Office

8 April 1981

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UNITED KINGDOM BUDGET REFUNDS FOR 1982 UNDER THE 30 MAY AGREEMENT

NOTE BY OFFICIALS

Introduction

1. Under the 30 May agreement member states set themselves a target of 1982 for implementation of the arrangements for restructuring the Community budget. If this target is not attained the agreement provides for the Commission to bring forward proposals for a refund of part of the United Kingdom net contribution to the 1982 Budget along the lines of those for 1980 and 1981. It will be surprising if the budget restructuring negotiations are completed in time for implementation in 1982, and this paper considers what initiatives it would be appropriate for the United Kingdom to take to safeguard our 1982 refunds under the 30 May agreement.

Financial Timetable

2. The Community's financial year is the calendar year and, with the exception of advance payments, our budget refunds are paid in the year following the one to which they relate. The bulk of our 1982 refunds would therefore be provided for in the 1983 budget, the preliminary draft of which should be introduced in mid 1982. The advance payments in respect of 1982 would however be met from the 1982 budget, the preliminary draft (PDB) of which should be introduced in mid 1981. The continuance of an unacceptable situation for the United Kingdom in 1982, unless suitable arrangements are made, may therefore surface as an issue in mid 1981, and may perhaps feature in the Commission's report on the restructuring mandate. From a financial point of view, it would be desirable at that stage to protect our position by securing a token entry in the PDB for 1982 to provide for our advance payments.

Tactical Considerations

3. It might be argued that we should press for specific assurances about our 1982 refunds in mid 1981 when the need for them is first disclosed. Without such assurances, United Kingdom public opinion might be exercised, and there would be a risk that our refund would be squeezed out between the rising cost of agricultural support and the constraint of the 1 per cent VAT ceiling.

4. But to exert pressure so early would imply that we had no confidence that the 30 May mandate would be implemented by 1982 and would necessitate a

/difficult

CONFIDENTIAL

- 2 -

difficult and confrontational negotiation about figures long before this was necessary on financial grounds and while we were inhibited by our Presidency responsibilities. Moreover, as regards the 1982 budget it is only the advances on the refunds and not the main bulk of them which is at issue. Officials therefore suggest that our attitude should be to work vigorously towards achieving decisive progress on restructuring in 1981 while seeking to have it accepted undramatically as a matter of course that if the deadline were not met, the necessary arrangements for our third year of refunds would be made at the beginning of 1982.

5. If this approach is accepted our tactics might be as follows:

- a. The Commission are due to report to the European Council in June on their proposals for restructuring. We should encourage them to make it plain in their report that decisions would have to be taken quickly and implemented urgently if the need for a third year of refunds under the 30 May agreement for the United Kingdom is to be avoided. We should also encourage the Commission to include a token entry in their draft of the 1982 PDB which would acknowledge the possibility of the UK needing refunds for a third year.
- b. When the 1982 PDB is discussed during the United Kingdom Presidency in the autumn of 1981 we should insist on such a token entry. There are several possible technical devices for including such an entry.
- c. If, by the time of the November Council, it was clear that no restructuring arrangement could be implemented in 1982, we should seek a firm agreement there with other member states and the Commission that the necessary proposals for a third year would be made without delay by the Commission and that the Council would take decisions on them expeditiously.
- d. Before the 1982 budget was adopted in final form in December 1981, we should need to convert the token entry for advance payments into a firm provision for a reasonable amount of advance payments in 1982.

/6.

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6. If, against expectations, the course of action outlined above did not lead to the desired result and it seemed that other member states intended to refuse agreement to an appropriate refund in respect of 1982, we should have to consider then what counter measures, such as blocking the agricultural price fixing, might be appropriate.

Conclusion

7. No final decisions are required at this stage, and a further report will be made when the issues have emerged more clearly. Subject to this, however, Ministers are invited to agree that:

- i. it would be unwise to precipitate the negotiation over the 1982 refunds too soon.
- ii. we should follow the tactical approach suggested in paragraph 5 above.

Cabinet Office

7 April 1981

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10 DOWNING STREET

From the Private Secretary

MR. WRIGHT
CABINET OFFICE

The Prime Minister was grateful for Sir Robert Armstrong's minute of 3 April (reference A04534) about the preparation by the Ministry of Agriculture, Fisheries and Food of their paper on imports of New Zealand butter. She has noted his findings, and also his suggestion that the Ministry should in future consult with the Treasury in advance about the financial implications of all papers intended for collective consideration, whether or not they are technically Cabinet or Cabinet Committee papers.

I am sending copies of this minute to John Wiggins (HM Treasury) and Kate Timms (MAFF)

J. P. LANKESTER

13 April 1981

CONFIDENTIAL

Eno Rd

BF 29/4

10 April, 1981.

I enclose a copy of a letter which the Prime Minister has received from the High Commissioner of New Zealand enclosing the text of a message from the Prime Minister of New Zealand.

I should be grateful if you could let me have in due course the text of a draft reply which the Prime Minister might send to Mr. Muldoon.

M. O'D. B. ALEXANDER

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

S

HS

10 April, 1981.

The Prime Minister has asked me to thank you for your letter to her of 9 April enclosing a message to her from Mr. Muldoon.

The Prime Minister was most grateful for your own good wishes.

M. O'D. B. ALEXANDER

His Excellency the Hon. L.W. Gandar

file

BK

CONFIDENTIAL

SIR ROBERT ARMSTRONG

Reform of the CAP

The Prime Minister has seen your minute to me of 7 April on the above subject. She has decided that she would like the paper attached to your minute to be taken in OD(E) during her absence.

She will certainly wish to press the question of CAP reform with Chancellor Schmidt in May.

MICHAEL ALEXANDER

9 April 1981

SR

CONFIDENTIAL

Mc. Harles
op



**PRIME MINISTER'S
PERSONAL MESSAGE**
SERIAL No. T61/81

NEW ZEALAND HIGH COMMISSION

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

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

9th April, 1981.

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

My Dear Prime Minister,

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

"Dear Margaret,

Now that the Community has at last taken a decision permitting New Zealand continued access for our butter for the next three years, I wish to express my very deep appreciation for the role which the United Kingdom, and your Government in particular, has played in achieving this result. Naturally, the decision is not everything we hoped for, but it does meet a number of our common objectives and will certainly be welcome to the New Zealand dairy industry as providing a measure of certainty for the immediate future. Without Britain's support, and the untiring efforts of Peter Walker in the Agriculture Council, the arrangement would have been a good deal less satisfactory.

We hope to be able to use the breathing space which last week's decision will provide to continue our efforts to broaden and strengthen our relations with the Community in a wide range of areas. No doubt we shall be returning to the specific details of our butter access before too long, as the Community's decision makes inevitable, and I am sure we will be able to rely on Britain's continued support.

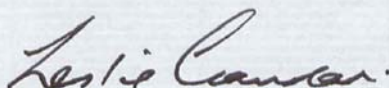
In the meantime, however, we hope we can turn our attention to strengthening cooperation in other areas of mutual interest.

Yours sincerely,

Rob Muldoon."

May I add to the Prime Minister's my own warm thanks for the unfailing support and cooperation we have received from the British Government throughout a long and complex process of negotiation.

Yours sincerely,

A handwritten signature in cursive script that reads "Leslie Cairns".

High Commissioner

EEC AGRICULTURAL PRICE SETTLEMENT - 1 April 1981

It is hoped that this brief will be of some help to Members in speaking to farmers and answering questions.

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Conservative Research Department,
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RBC/FB
8th April, 1981

THE AGRICULTURAL PRICE SETTLEMENT - 1 April 1981

1. Introduction

The annual Agricultural Price Review negotiations started off with the sad death of the Agricultural Commissioner, Mr. Finn Gundelach and the appointment of the then Danish Minister of Agriculture, Mr. Dalsager as the new Commissioner. Proposals for the coming marketing year were therefore deferred and not published until the beginning of February.

The scene was set initially by COPA, the farmers' organisation for the EEC with a demand for price increases of 15.3% to cover the estimated fall in farm income for the year of about 12%. In the United Kingdom, the Annual Review White Paper 1981, Cmnd. 8132, published in January highlighted the effect of the recession and showed that the agricultural industry had suffered a fall in farm income in real terms of 24% in the year 1980. However, the proposals published by the Commission in February offered the industry only 7.8% and incorporated revaluation and devaluation of Green Currencies as well. The effect of these proposals would have given an increase in money terms to British farmers of only 1.4% (7.8% together with a revaluation of the Green Pound of 5%). This was seen to be totally unacceptable by the Government, particularly the proposed Green Currency change.

"I am saying categorically that, in the Commission's proposals for the coming price review and its suggested increases, there will be no re-valuation of the Green Pound"
(Peter Walker, Hansard 19 March 1981, Col. 420).

The proposed revaluation of the Green Pound was strongly supported by the French Government and others for the simple reason that it would enable their exports to the UK to be that much more competitive leading to a greater share for them in our market place.

Also incorporated in the proposals was a special Aid Package for the livestock producers in the Irish Republic because of their substantial fall in income last year. The UK's special butter subsidy and our Beef Premium scheme were NOT included in the proposals and it was proposed that co-responsibility should be extended to other commodities such as Cereals (co-responsibility is already effective for milk 2% and sugar 2% - see below).

Outline agreement was reached in the Agricultural Council on 24th February in a number of separate proposals which were finally incorporated in the main agreement on 1st April after Italy removed her veto (on sugar). There were quota proposals for sugar, quotas for the importation of New Zealand Butter, beef import quotas and export refunds on cereals used in Whiskey (see below).

2. The Agricultural Prices Agreement (1 April 1981)

The package that was finally agreed in Brussels comprised the

.../ new

new prices for each commodity, structural packages for Ireland, agrimonatory changes, special subsidies for UK consumers, a new common market organisation for sugar, New Zealand Butter imports, beef import quotas, export refunds on cereals used in Whiskey, and the extension of co-responsibility to other commodities.

(a) Price Increases

Price increases agreed ranged from 6% to 11% for the full year (average 9.5%) and were as follows:-

Milk Target Price	+ 9%
Beef Guide Price	+ 10% (7.5% for start of marketing year & 2.5% on 7.12.8)
Pigs Basic Price	+ 11%
Wheat Milling	+ 5.5%
Barley Intervention Price	+ 6.0%
Sugar Intervention Price	+ 8.5%
Wine Guide Price	+ 8.5% (some 10%)
Olive oil Intervention Price	+ 9%
Sheepmeat Basic Price	+ 7.5%

These support price increases are reasonable when considering cost increases mentioned previously in this brief. It is also interesting to note that the last Labour Government increased prices one year (1974) by an average of 14.5% and that their average increase during their five years was 7.6%. In three Conservative price fixings, the average increase in support prices is 5.2%.

(b) Structural Package

This "structures package" provides for a number of measures to improve existing measures in the field of agricultural structures and to introduce new action in favour of certain regions (Northern Ireland and the Western part of Scotland) or certain categories of farmers. Also, a package of aid was agreed for the Republic of Ireland and Northern Ireland (after considerable pressure by Peter Walker) the latter totalling between £8 and £9 million, totally financed by the Community.

(c) Continuation of existing UK subsidy schemes

Peter Walker, Minister of Agriculture, persuaded the Council to continue the special butter subsidy for the UK, as well as the Beef Premium scheme and the Sheep Premium Scheme. All the schemes are particular to the UK and are worth about £300 million in direct benefit to the British Housewife and consumer (The Conservative Government doubled the butter subsidy during their first price review in 1979).

(d) Changes in Green Currencies

The Government successfully resisted pressure from a number of countries to revalue the Green Pound by the proposed 5%, particularly from France. Indeed, in public speeches ten

.../ days

days before the price fixing, both the French President M. Giscard d'Estaing and the French Agricultural Minister stated that their main objective in the negotiations was to get a revaluation of the Green Pound and the Green D. Mark. Therefore, for France, the negotiations were not as successful as they had hoped.

A revaluation of any amount would open the door to a greater volume of imports into our market and the idea that prices in the shops would fall as a result, is to say the least naive. Traders in imported food products would maintain their market prices and run to the bank with greater profits; not cut prices as some people have been led to believe. An example of the advantage now available to UK producers is the change in the MCA's applicable to pigmeat. At the time of the election, May 1979, imported Danish Bacon received an MCA of £127 tonne. Today importers have to pay an MCA of £127 tonne to the European Commission.

Decisions were taken on changes in Green Currencies for all countries except the UK with MCA's (monetary compensatory amounts) being +3.2 for France, - 1.7 for Italy and 0 for the other countries.

The changes in Green Currencies plus the increases in common prices listed previously would give increases in support prices for other Member States as follows:-

Italy	+ 15.5%
France	+ 12.3%
Greece	+ 12.3%
Denmark	+ 12.3%
Ireland	+ 13.4%
Benelux	+ 10.2%
Germany	+ 4.8%

(Source: Europe - Agence
Internationale
No. 3112)

(e) Sugar

The new sugar regime which incorporated cuts in A, B and C quotas for most Member States will come into force at the beginning of the marketing year on 1 July 1981 (agreed in the Council on 24th February 1981). It incorporated a co-responsibility levy of 2% on all production and gives the UK Beet Sector a total quota of 1.12 million tonnes (a reduction of 182,000 tonnes which has led to the pending closure of four BSC factories - see my brief No. PAC(81)3 dated 16.2.81). This quota is that which the Government aimed for in the negotiations.

(f) New Zealand Butter and Beef imports

Agreement was reached for import quotas of New Zealand Butter to be set at: 94,000 tonnes in 1981, 92,000 tonnes for 1982 and for the 1983 quota to be set and agreed by 1st October 1982. The New Zealand Government have accepted these quotas with thanks to Peter Walker for his help, the New Zealand Prime Minister sending him his special thanks.

The Council set a quota of beef for processing at 60,000 tonnes, mainly for Australia.

(g) Export refunds on cereals used in Whiskey production

The Council passed a regulation whereby export refunds may be paid on the cereals used in Whiskey production. This should give the industry a welcome boost of more than £70 million.

(h) Co-responsibility

The basic co-responsibility levy on milk was increased from 2% to 2½%. Therefore the real increase in the target price for milk (see table above) is 8.5% - the existing 2% is already accounted for.

Agreement was also reached to bring in co-responsibility arrangements for cereals in the marketing year 1982/83. This is very much along the lines proposed in Mr. Gundelach's paper "Reflections on the Common Agricultural Policy" published just before his untimely death.

3. Budget implications

It is estimated that the package will provide £325 million of additional receipts to British Agriculture in a full year.

The overall budgetary effects for the entire European Community in 1981 of the total package will be £186 million and in a full 12 months £596 million. This is the equivalent to approximately an increase in the current CAP budget of 8.5%. This is certainly a great achievement in curtailing agricultural spending by the Community when compared with the last three years of the Labour Government when the increase ranged from 20% to 25%, at an average of 23%. So far under the Conservative Government, the average increase has been 11% in three price fixings since May 1979. Another point to be considered is that the last Labour Government raised the percentage of the Community Budget spent on Agriculture to 80%. This price fixing reduces the percentage to 69% of the total Community Budget being spent on Agriculture.

4. Prices

It is estimated that the package will increase food prices in a full year by 1% and the Retail Price Index by 0.2%. It must be remembered that under the last Labour administration, food prices went up an average by the same amount every two weeks of their term of office. This coupled with the Conservative Government's achievements in retaining the Butter subsidy which Peter Walker doubled in his first price fixing, the retention of the Beef premium scheme and the Sheep premium scheme show that consumers have done well in this agreement. These three schemes together will bring subsidies likely to be worth about £300 million to the consumer - benefits that are not available to consumers in other countries in the Community.

To understand the pressure that has been put on farmers, it is interesting to compare general inflation with food price increase and farm gate price increases. In the last year, inflation was approximately

15%, food price increases 9% and farm gate prices rose by only 6%.
This settlement in Brussels will go part way to redressing the balance.

The Consumers Association and Press comments on the effect on food prices were totally wrong. As Peter Walker said in London on the 7th April:-

"We then estimated that the overall effect on prices over a full year would be a $\frac{1}{4}\%$ on the retail price index and 1.2% on the retail food index. As a result of our successful negotiation, the effect on the retail price index will now be less than $\frac{1}{4}$ of 1% and on the retail food index about 1%.

In our evidence to the House of Lords we stated that the direct effect of the Commission's price proposals would be to increase beef prices by 5p per pound, but this effect will now no longer be felt due to our successfully negotiating continuance of the beef premium scheme.

The Consumer Association and other reports stated that bread prices would go up a penny when in fact, as a direct result of the price fixing, the increase will be only a halfpenny a standard loaf; that bacon prices would go up by 7p per pound when, in fact, because there is no effective intervention for bacon or pigmeat, the common price increase will not be reflected in market prices given the fierce competition on the British bacon market. When the impact of the extra feed costs and changes in monetary compensatory amounts have eventually worked through, the increase in bacon prices is likely to be about 2p per 1b.

On the other items listed in the House of Lords Report - butter, cheese and sugar - figures were given to the House of Lords based upon the fullest impact of the proposed changes in intervention prices. My only comment upon these has been that, in reality, there is strong competition for shares of the British butter and cheese markets which will moderate the effect of consumers.

There has therefore been no discrepancy whatever in any comments by myself and the evidence given to the House of Lords Select Committee."

5. Summary

As Peter Walker said:-

"The package agreed in Brussels was in compliance with all of the requirements I outlined to the House in the debate we had prior to the price fixing. For the consumers we secured the premium and subsidy schemes which are of direct benefit to them and arranged a price fixing that over the course of the full year will increase food prices by only 1%.

We built into the proposals important safeguards for the future

.../ which

which will assist in further reducing the increased costs of the Agricultural Policy, and we provided important increases in the income to British agriculture without those increases being dramatically reduced by revaluation of the Green Pound. We also resisted measures which would have discriminated against British farmers'. It is a package that will enable the British food industry and British agriculture to continue to make an important contribution to the British economy".

(Hansard, 3rd April 1981, Col. 610)

Conservative Research Department,
32 Smith Square,
London, SW1.

RBC/FB

8th April, 1981

Ref: A04671



*Good
for
And*

MR. ALEXANDER

*Sir R. Armstrong's manuscript
minute should be on this file.*

*And
-8/4*

I have seen Stephen Gomersall's letter of 6th April advising against a direct approach by the Prime Minister to the President of the French Republic about the fisheries question.

2. I agree that it would be better to keep the possibility of a direct approach from the Prime Minister in reserve. As you will have seen from my manuscript note of 3rd April, I took the opportunity of dropping a heavy hint to M. Wahl, when he rang up to convey the President's pleasure and gratitude at the good outcome of the agricultural price negotiations.

3. I am sending a copy of this minute, together with a copy of my manuscript note, to Mr. Gomersall.

REA

(Robert Armstrong)

8th April 1981

Ref. A04657

MR ALEXANDER

Prime Minister.

(1)
 It would not be easy to fix a meeting of O.D. before your departure. Perhaps the best thing would be to say that you like the attached draft (if you do); that something like it summed up to the Germans in late April; & that you would like the paper 'refined' by OD(E) during your absence overseas. *And*

Reform of the CAP

The recent settlement on agricultural prices did little or nothing towards the reform of the CAP. It will now have to be tackled as part of the restructuring exercise. To make progress we need to secure the support of the Germans and - in spite of Schmidt's recent critical view of the United Kingdom's approach to Community issues - the forthcoming Anglo-German summit in May provides a good opportunity to canvas German support.

2. With this in mind the European Secretariat of the Cabinet Office has prepared a succinct paper (copy attached) on ways in which the CAP should develop. It draws very largely on points which have already been agreed in earlier discussions in OD. It takes account of the position adopted by the German Government on the CAP after the election of last autumn. The intention would be to discuss such a paper with the Germans in preparation for the Anglo-German summit on 11-12 May; and, if that went well, to use it for a co-ordinated approach within the Community.

3. The Foreign and Commonwealth Office and Treasury strongly support such a move and have substantially agreed the text of the paper. But the Ministry of Agriculture have reservations and say that Mr Walker would wish to discuss the paper with his colleagues. I should be glad to know how the Prime Minister would like to proceed. There could be a meeting of OD for that purpose as soon as the Prime Minister returns, although that would not leave much time for discussion with German officials before the summit. Alternatively there could be discussion in OD(E) during the Prime Minister's absence, but in that event it would be desirable for the Prime Minister to indicate that she wishes to press the question with Chancellor Schmidt and would want to have a meaningful paper for that purpose.

*Anna**mt**RA*

ROBERT ARMSTRONG

7 April 1981

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NOTE ON DEVELOPMENT OF THE CAP

1. A major task flowing from the 30 May mandate is to find ways of reducing the dominance of agricultural expenditure within the Community budget. Expenditure on agriculture has in the past grown far faster than own resources and at the same time massive structural surpluses have grown up in some sectors so undermining political support for the Common Agricultural Policy (CAP). Without calling into question the principles and objectives of the CAP measures must be found which:

- (a) sustain and improve a healthy European agricultural industry;
- (b) eliminate structural surpluses, especially in the milk sector; and
- (c) reduce Community expenditure on agriculture as a proportion of the total budget.

2. Against this background the Community at the highest political level should now give directions as to how the CAP should develop over the next four or five years. This is necessary to give guidance to the agricultural sector and to ensure that the present defects are progressively eliminated. The following six points should constitute the basic guidelines:

- (1) The Community should gradually move towards price levels which will avoid generating structural surpluses. The possibility of mitigating the adverse social consequences of such price restraint through selective aids not related to production to augment the income of certain categories of farmers should be examined. The Community would need to lay down rules within which such aids would be allowed.

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- (2) As well as price restraint, co-responsibility measures will be needed to influence production and to control the growth of guarantee expenditure. Such measures should allow market forces to have a greater influence on producers' returns and should effectively deter increases in surplus production. While taking account of the circumstances of each product, they should not be applied in the form of levies which in effect fall on consumers.
- (3) There is need for a proper balance between the support regimes of Mediterranean products and of Northern products. Relative adjustment should take account of the costs of the regimes and the need to control or avoid surplus production. The main emphasis must be in achieving improvements in the balance by greater economy and market discipline especially in the regimes for Northern products.
- (4) In agricultural trade Community preference should continue to be applied and the Community's role as an exporter is not in question. But strengthened import restrictions and aggressive export promotion are not a suitable solution to the Community's problems of surpluses. Due regard must be paid to the Community's commitment to a liberal international trading order, to the avoidance of the disruption of world markets and to the maintenance of its existing trading obligations in agricultural products. The measures proposed above will contribute to making the Community's trade in agricultural products more acceptable to third

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countries and should promote sound trade relations in agriculture while maintaining Community preference.

- (5) Beginning with the 1982 Budget, the rate of increase in Agricultural Guarantee Expenditure, compared with the level provided for in the previous year, should be markedly lower than the rate of increase in the own resources base between the two years. Agricultural Expenditure should be so managed as to remain within this limit and the Council should adopt in good time any measures necessary to achieve this objective.
- (6) The Commission should make an annual report to the Council on the progress towards the achievement of these objectives. The report should be discussed by the Agriculture and Ecofin Councils and, if appropriate by the European Council in time for the conclusions of these discussions to be taken into account by the Commission in formulating the price and economy proposals for the following year.

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FM PARIS 061335Z APR 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 252 OF 6 APRIL 1981

INFO IMMEDIATE TOKYO (FOR PRIVATE SECRETARY)

INFO PRIORITY BONN AND UKREP BRUSSELS

TOKYO TELNO 187: PRESIDENT GISCARD AND THE UK

1. TO ACHIEVE A SUCCESSFUL IMPACT IN FRANCE AN UNATTRIBUTABLE BRIEFING OF THE BRITISH PRESS FOLLOWED BY A SPECIAL BRIEFING OF LE MONDE MAY NOT BE THE BEST FORMULA. LE MONDE CANNOT BE TRUSTED TO PUT THE CASE IN THE RIGHT WAY. IT WOULD BE BETTER TO TALK TO REPRESENTATIVES OF ALL THE MAJOR FRENCH DAILIES IN LONDON AS WELL AS TO THE PRINCIPAL BRITISH PAPERS AND TO MAKE ONE OR TWO COMMENTS ON THE RECORD.

2. I HAVE THREE ADDITIONAL POINTS TO SUGGEST FOR THE BRIEFING:

(I) WITHOUT COMMENTING ON PRESIDENT GISCARD'S CONTRIBUTION TO EUROPE, I THINK IT WOULD PUT THE BALL BACK HARD INTO THE FRENCH COURT IF A LAUDATORY REFERENCE WERE TO BE MADE TO PRESIDENT POMPIDOU. THE LORD PRIVY SEAL MIGHT SAY THAT IN THE PERSPECTIVE OF HISTORY, PRESIDENT POMPIDOU WILL BE SEEN AS A FAR-SIGHTED AND REALISTIC STATESMAN WHO MADE A MAJOR CONTRIBUTION TO THE CONSTRUCTION OF EUROPE.

(II) I SUGGEST THAT A DIRECT CHALLENGE SHOULD BE MADE ON THE SUBSTANCE OF PRESIDENT GISCARD'S ALLEGATIONS. WHAT RULES DO THE FRENCH CONSIDER THE UK IS BREAKING? AN EQUITABLE AGREEMENT WAS REACHED LAST MAY BY COMMON ACCORD (IE BY NINE, NOT BY TWO) OVER THE VERY NECESSARY CORRECTION OF THE HUGELY UNBALANCED UK CONTRIBUTION TO THE COMMUNITY BUDGET. RECENTLY, LIKE ALL THE COMMUNITY PARTNERS, BRITAIN HAS BEEN ABLE TO AGREE IN RECORD TIME TO THE FIXING OF THIS YEAR'S AGRICULTURAL PRICES. BALANCED AGREEMENT LAST YEAR HAS HELPED TO PRODUCE BALANCED AGREEMENT THIS YEAR, NOT IN THE SENSE OF PAYMENT AND COUNTER-PAYMENT, BUT IN THE SENSE OF COMPROMISE BECOMING RELATIVELY EASILY POSSIBLE ONLY WHEN THE NATIONAL INTERESTS OF ALL PARTNERS, AND NOT SIMPLY THOSE OF ONE OR TWO OR EVEN EIGHT, ARE MET. THE OUTSTANDING DOSSIER IS FISHERIES. HERE VITAL UK NATIONAL INTERESTS ARE AT STAKE. THE SEA AREAS IN QUESTION ARE UNDER BRITISH NOT FRENCH JURISDICTION AND WERE CONTRIBUTED TO THE COMMUNITY BY THE BRITISH AND NOT BY FRENCH ADHESION. THE BRITISH ATTITUDE ON FISHERIES IS IN NO WAY UNCOMMUNAUTAIRE. IT IS FRANCE THAT IS BEING OVER-DEMANDING ON FISHING IN WATERS ROUND THE UK. IT WAS ALL NINE MEMBER STATES AND NOT JUST BRITAIN WHICH UNDERTOOK TO REACH A FISHERIES AGREEMENT BY THE END OF 1980.

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(III) ON POINT (F) IN TOKYO TUR, I THINK IT MIGHT BE PREFERABLE TO SUBORDINATE THIS POINT TO (II) ABOVE. A GREATER IMPACT IS LIKELY TO BE MADE BY CORRECTING THE SUBSTANCE OF WHAT PRESIDENT GISCARD HAS SAID THAN BY ISSUING A "TU QUOQUE". IT COULD BE SAID THAT THE FRENCH CASE WAS WRONG BUT NONETHELESS, EVEN IF IT WAS RIGHT, FRANCE WAS NOT ENTITLED TO CAST A STONE. FRANCE'S PURSUIT OF NATIONAL INTEREST AND SELECTIVE DEFIANCE OF COMMUNAUTAIRE SOLUTIONS WERE WELL ENOUGH KNOWN. IN THE LATTER CATEGORY COULD BE LISTED IN RECENT TIMES THE FRENCH REFUSAL TO COMPLY WITH THE EUROPEAN COURT'S DECISION ON SHEEPMEAT AND FRENCH FAILURE TO PAY THEIR 1981 BUDGET CONTRIBUTION IN FULL. FURTHER BACK IN TIME FRANCE HELD THE RECORD FOR STANDING ALONE AGAINST THE WISHES OF PARTNERS DURING THE PERIOD OF THE EMPTY CHAIR.

3. SINCE THE ABOVE WAS DRAFTED I HAVE HEARD THAT THERE IS TO BE A DEBATE NEXT WEDNESDAY ON EUROPE IN THE HOUSE OF COMMONS. I SHALL TELEGRAPH SEPARATELY SOME RECOMMENDATIONS ON THEMES WHICH MIGHT BE DESIRABLE IN RELATION TO RECENT FRENCH ATTITUDES.

HIBBERT.

FRAME GENERAL
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Foreign and Commonwealth Office

London SW1A 2AH

6 April 1981

Dear Michael,

*KS
S. Gomersall*

MESSAGE TO PRESIDENT GISCARD

In your letter of 30 March you asked for a draft message to President Giscard seeking undertakings about a settlement of the fisheries question after the presidential election.

Now that CAP prices are settled, we doubt whether a message from the Prime Minister would be useful, and think that it may be taken by the French as a further sign of weakness on our part.

It would seem better therefore to keep the possibility of a direct approach from the Prime Minister to President Giscard in reserve.

I am copying this letter to Kate Timms (MAFF), John Wiggins (Treasury), Godfrey Robson (Scottish Office) and David Wright (Cabinet Office).

*Yours ever
Stephen Gomersall*

S J Gomersall

M O'D B Alexander Esq
PS/Prime Minister
10 Downing Street

SECRET



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

From the Minister's Private Office

A J Wiggins Esq
Private Secretary to
the Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1

Kg
Timms
6 April 1981

Dear John,

CAP STATEMENT: 3 APRIL

Thank you for putting on record, in your letter to me of 3 April, the Chancellor's suggested addition to our statement to the House on the CAP price fixing; you had also let us have this form of words by telephone at about 10.15 that morning. Your amendment came too close to the time of the statement to permit us to include it in the text, which by that stage had to be given to the Opposition; my Minister had it in mind to use it in response to an appropriate supplementary, should one be asked. The line of questioning on this occasion did not, as it turned out, provide a suitable opportunity. But we shall bear in mind both this point, and that relating to the UK contribution to the budget contained in your postscript, in replying to subsequent PQs on the price fixing, and where other opportunities arise.

I am copying this letter to Michael Alexander (No 10) and to David Wright (Cabinet Office).

Yours sincerely
Kate

KATE TIMMS
Principal Private Secretary

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PRIME MINISTER

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Prime Minister

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You asked for a report on why MAFF had not - or so the Chancellor alleged - consulted the Treasury in drafting a paper on N-Z. butter. The story is not as bad as the Chancellor suggested, and MAFF have promised to do better in future.

You asked me to look into a complaint by the Chancellor of the Exchequer that officials of the Ministry of Agriculture, Fisheries and Food had failed to consult the Treasury adequately in the preparation of their recent paper on imports of New Zealand butter (OD(E)(81) 5). In the Chancellor's view this was a contravention of the requirement that proposals involving expenditure affecting general financial policy should be discussed with the Treasury before being submitted to the Cabinet or to a Ministerial Committee (C(P)(79) 1, paragraph 11).

2. The paper in question was commissioned by the Cabinet Office. A first draft was circulated to the Treasury and other Departments on 2nd February for discussion at an interdepartmental meeting in the Cabinet Office on 3rd February. The draft outlined three possible courses and included an estimate of the cost of one of them. At the meeting the Treasury representatives pointed out that all three courses of action had either immediate or contingent public expenditure implications and asked that these should be fully spelt out when the paper came to be revised. Although they did not dispute the MAFF estimate of the cost of certain payments to be made to New Zealand, they pointed out that under one of the three options this did not represent the full public expenditure cost involved. Finally, they made the point that no legislative cover existed for any payments to be made to New Zealand and that a decision would be required on the question of Ministerial responsibility for any such payments. At the conclusion of the meeting the Ministry of Agriculture was asked to prepare and circulate a revised draft, setting out the advantages and disadvantages of the options which had been identified in discussion.

3. The revised draft was circulated on 12th February, but did not reach the Treasury until 13th February. By then we were arranging a meeting of Ministers in OD(E) for Wednesday, 18th February. In order to meet the 48 hour rule, the Cabinet Office asked the Minister of Agriculture's Private

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Office to provide a memorandum by the afternoon of Friday, 13th February for circulation on the morning of Monday, 16th February. In response to this request the Minister made the revised paper available under a cover note of his own, in time for it to be circulated on the evening of Friday, 13th February. In accordance with the conclusions of the 3rd February meeting the revised paper now contained passages dealing with the public expenditure implications of all three courses of action. The Treasury did not consider these descriptions to be adequate or fully to reflect the points that they had made in the discussion of 3rd February. On the morning of 16th February, therefore, they asked the Cabinet Office to hold up the circulation of the paper to OD(E) until the necessary corrections had been made, but were told that the paper had already been circulated. The Treasury accepted that it was not practicable for the MAFF paper to be withdrawn at this stage, but the Chancellor accepted a recommendation that he should minute his colleagues on OD(E) in advance of the meeting, commenting inter alia on the public expenditure implications (minute of 17th February from the Chancellor to the Lord President).

4. It is thus clear that the Ministry of Agriculture had sought to revise the first draft of their paper in the light of the discussion on 3rd February to bring out, inter alia, the public expenditure implications of all three courses of action. At that stage they were expecting another round of discussions at official level, and they did not ask the Treasury whether they agreed with the references to public expenditure in the revised paper before circulating it. In the event the second round of discussions at official level was short-circuited by the need to arrange a meeting of OD(E), and in the time available it was not possible for the Treasury to comment on the revised paper before it was circulated to OD(E). The Treasury accordingly took the step of asking the Chancellor to circulate his own minute. It would have been better (if the timetable had permitted) had a somewhat longer time been allowed for inter-departmental comments on the revised paper before it was circulated to Ministers, so that Treasury views could have been taken into account. It would



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also have been helpful, if the Ministry of Agriculture had positively sought Treasury clearance of the passages dealing with public expenditure, given the complexities which had been brought out at the 3rd February meeting. Sir Brian Hayes has assured me - and the Treasury fully accept - that there was no intention on the part of the Ministry of Agriculture to evade the obligation to consult the Treasury and that in future the Ministry of Agriculture will take positive action to ensure that Treasury agreement is obtained regarding the expenditure or other financial implication of proposals put to Ministers. In the present case the problem seems to have arisen because of the need to circulate the Ministry of Agriculture's memorandum to OD(E) as rapidly as possible.

5. I understand that the Chancellor of the Exchequer suggested to you that this was not the first example of the Ministry of Agriculture's failure to consult on the financial implications of proposals before submitting a paper to a Cabinet Committee. I have not been able to find any documented example of any other case of failure to consult adequately in relation to a paper circulated to the Cabinet or Cabinet Committees. There were, however, two occasions in July and November 1980 when the Minister of Agriculture wrote to you about the price of milk, copying the correspondence to the Chancellor of the Exchequer and other colleagues. The Minister of Agriculture's proposals had not been the subject of advance consultation with the Treasury, and in both cases it was decided that it would be appropriate for the question to be discussed by officials before the Ministerial Committee on Economic Strategy took its decision. There was a similar case involving aid to the Fishing Industry in July last year. In summing up the discussion at E on 4th December last year you said that in future the Minister of Agriculture should ensure that proposals for milk price increases were discussed between officials in good time before coming to Ministers for decision. The Minister's letters on these occasions were not technically Cabinet or Cabinet Committee papers, but they seem to have been intended to be in effect substitutes for such papers, and I have suggested to the Ministry of Agriculture that it would be in the spirit of



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your summing up that, when the Minister is minded to consult his colleagues with a view to a decision on such a matter, informally by means of a minute rather than formally through the appropriate Cabinet Committee, there is the same need for adequate advance consultation with the Treasury about the financial implications, even where, as in the case of a milk price increase, these are indirect and limited.

6. I am sending copies of this minute to the Chancellor of the Exchequer, and the Minister of Agriculture, Fisheries and Food.

(Robert Armstrong)

3rd April 1981

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FRAME GENERAL/FRAME AGRICULTURE

FM PARIS 031600Z APR 81

TO PRIORITY FCO

TELEGRAM NUMBER 249 OF 03 APRIL 1981

INFO ROUTINE BONN UKREP BRUSSELS THE HAGUE

INFO SAVING BRUSSELS COPENHAGEN DUBLIN LUXEMBOURG ROME ATHENS

FRANCE/EEC: REACTIONS TO AGRICULTURAL COUNCIL 30 MARCH - 2 APRIL

1. THE FRENCH PRESS OF 3 APRIL IS GENERALLY HIGHLY SATISFIED WITH THE OUTCOME OF THIS WEEK'S AGRICULTURAL COUNCIL PRICE NEGOTIATIONS WHICH IT ASCRIBES TO THE SUCCESS OF PRESIDENT GISCARD AND THE FRANCO-GERMAN AXIS IN OVERCOMING THE RESISTENCE EXPECTED FROM BRITAIN.
2. THE PRICE AGREEMENT ITSELF IS SEEN AS A VICTORY FOR FRANCE. DESPITE SOME LOW-KEY GRUMBLING BY FARMERS' LEADERS, THERE IS GENERAL SATISFACTION AT FRENCH SUCCESS IN OBTAINING A SETTLEMENT ON THE DUE DATE WITH ADEQUATE PRICE RISES, A REDUCTION IN GERMAN MCAS AND THE AVOIDANCE OF THE PROPOSED SUPER-LEVY ON MILK OR OTHER CO-RESPONSIBILITY MEASURES. PRESIDENT GISCARD HAS MOVED RAPIDLY TO PRE-EMPT ANY REAL DISSATISFACTION DEVELOPING AMONG FARMERS BY ANNOUNCING ON 2 APRIL THAT MEASURES WOULD BE TAKEN TO TOP UP FARMERS' INCOMES IF IT TURNED OUT LATER IN THE YEAR THAT PRICE LEVELS WERE INADEQUATE TO COVER RISING COSTS.
3. WITH HEADLINES ON THE THEME, "EUROPE VOTES FOR GISCARD", SEVERAL PAPERS SAY THAT PRESIDENT GISCARD HAS BENEFITED FROM THE GOODWILL OF HIS PARTNERS, WHICH HAS ENABLED HIM TO GET OVER AN IMPORTANT HURDLE IN THIS CRUCIAL PRE-ELECTION PERIOD. M. MEHAIGNERIE IS QUOTED AS SAYING THAT AGREEMENT RESULTED FROM THE POLITICAL WILL EXPRESSED BY EEC LEADERS AT MAASTRICHT, FROM FRANCO-GERMAN UNDERSTANDING AND FROM THE FACT THAT BRITAIN HAD NOT BLOCKED THE NEGOTIATIONS AS SHE HAD DONE LAST YEAR. GERMANY'S ROLE IN HELPING FRANCE IS PROMINENTLY REGISTERED. GERMAN AGREEMENT TO PRICE RISES AMOUNTING TO ONLY 5.4%, TAKING INTO ACCOUNT THE REDUCTION IN GERMAN POSITIVE MCAS, IS REGARDED AS MAGNANIMOUS. LE QUOTIDIEN DE PARIS PAYS TRIBUTE TO GERMANY FOR ENABLING FRANCE TO WIN AGAINST THE UK, THEREBY SHOWING THAT THE LEADERSHIP OF EUROPE IS IN DOUBLE HARNESS - AND THAT THE PARIS/BONN PARTNERSHIP FOR THE MOMENT IS LEADING THE DANCE. LESS FELICITOUSLY IT COMPARES GISCARD TO SHYLOCK, CLAIMING HIS POUND OF FLESH BY REMINDING SCHMIDT THAT FRANCE HAD RECENTLY TAKEN ACTION IN SUPPORT OF THE MARK. ACCORDING TO LE QUOTIDIEN, GISCARD AND SCHMIDT HAD REACHED AGREEMENT ON THE MAIN ELEMENTS OF THE SETTLEMENT BY TELEPHONE IN THE COURSE OF MONDAY.

RESTRICTED

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4. COMMENT ON THE BRITISH ROLE GENERALLY REFLECTS THE TONE OF M. MEHAIGNERIE'S REMARKS. THE PAPERS PROFESS SURPRISE, WITH AN UNDERLAY OF SATISFACTION, THAT THE BRITISH GOVERNMENT ALLOWED THE NEGOTIATIONS TO BE BROUGHT TO A SATISFACTORY CONCLUSION RELATIVELY QUICKLY. COMMENT IS AT BEST SOMEWHAT GRUDGING. LE FIGARO NOTES THAT THE BRITISH GOVERNMENT STUCK TO THE UNDERTAKING THAT IT HAD MADE IN RETURN FOR THE REDUCTION IN BRITAIN'S BUDGETARY CONTRIBUTION. LE QUOTIDIEN DE PARIS SUGGESTS THAT BRITAIN'S REASONABLE LINE WAS TO BE EXPLAINED PARTLY BY HER WISH TO MAKE THE FRENCH GOVERNMENT MORE AMENABLE OVER FISHERIES. LES ECHOS CLAIM, ON THE BASIS OF COMMENT BY M. GUILLAUME, THE FARMERS' LEADER, THAT THE BRITISH ONCE AGAIN WERE LONERS. AN EDITORIAL IN LE QUOTIDIEN SUGGESTS THAT BRITAIN WAS PREPARED TO AGREE LARGELY BECAUSE OF PRESSURES APPLIED BY AN IRON PRESIDENT GISCARD DURING A PRIVATE TALK WITH MRS THATCHER IN MAASTRICHT, BUT PARTLY ALSO AS A RESULT OF PRESSURES APPLIED BY THE DUTCH PRESIDENCY.

5. REPORTING OF THE AGRICULTURAL PRICE FIXING RECEIVES A FLAVOUR EVEN MORE UNPALATABLE TO BRITISH TASTES FROM OTHER NEWS ITEMS WITH A EUROPEAN THEME. PRESIDENT GISCARD'S INTERVIEW PUBLISHED IN DERNIERES NOUVELLES D'ALSACE OF 3 APRIL (STRASBOURG TEL NO 13) CASTS DOUBT ON BRITAIN'S WILLINGNESS TO ACCEPT THE EEC RULES. THIS IS NOT A NEW THEME, ALTHOUGH THE WAY PRESIDENT GISCARD CHOSE TO EXPRESS IT WAS MORE REMINISCENT OF M. BARRE'S NORMAL STYLE THAN OF HIS OWN. THE TIMING OF THIS INTERVIEW AND THE FAILURE TO GIVE THE BRITISH GOVERNMENT DUE CREDIT FOR ITS PART IN THE SUCCESSFUL OUTCOME OF THE AGRICULTURAL COUNCIL INDICATE THAT, FOR THE TIME BEING AT LEAST, IT SUITS PRESIDENT GISCARD TO GIVE THE IMPRESSION OF HAVING GOT BRITAIN DOWN AND KEEPING HER THERE. SIMULTANEOUS PLAY IS BEING MADE OF M. BARRE'S VISIT TO BONN AS A NEW THICKENING OF FRANCO-GERMAN RELATIONS. LE FIGARO OF 3 APRIL REPORTS THAT AS A CONSEQUENCE OF THIS VISIT FRANCE AND THE FRG MAY RAISE A JOINT LOAN FROM OPEC COUNTRIES TO FINANCE PROGRAMMES TO FIGHT UNEMPLOYMENT.

FCO PLEASE PASS SAVINGS TO ABOVE ADDRESSEES

HIBBERT

REPEATED AS REQUESTED

FRAME GENERAL
FRAME AGRICULTURE

ECD (1)

THIS TELEGRAM
WAS NOT
ADVANCED

2
RESTRICTED

Confidential



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

3 April 1981

M O'D B Alexander Esq.
10 Downing Street
LONDON
SW1

for [unclear]

Dear Michael,

AGRICULTURAL PRICE NEGOTIATIONS

I showed the Chancellor of the Exchequer your letter of 1 April to Kate Timms recording the Prime Minister's meeting on 1 April. He asked me to write to say that there was an important point that he made in discussion which he would like to put on the record.

His point was that, if the common fisheries policy remained unresolved at the time of the price settlement (as has indeed proved to be the case), the French might be tempted to make a link with decisions on our 1982 refunds or on Budget restructuring generally. If they did, the Treasury would be obliged to argue against making financial concessions in the broader context in order to avoid the need for compromise on the details of the common fisheries policy.

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

yours sincerely

John Wiggins

A J WIGGINS
Private Secretary

Modest
61



for Prime

(2)

As President Giscard would say
'Nous venons'.

Prime 3/4

Prime Minister

!!
..
nd

The Secretary General to the Presidency of the French Republic, Monsieur Wahl, rang me this evening.

He said that the President had asked him to convey to you, through me, a personal message of pleasure and gratitude at the good outcome of the Council of Ministers (Agriculture) in its agreement on agricultural prices for 1981.

I said that I knew that the Prime Minister would wish me to ask him to thank the President for his message:

you too were glad that it had
been possible to reach agreement
and would hope that this would
angew well for successful outcomes
on other matters.

REA

3. iv. 81.



Print

Euro PA

MODBA

*to SA + PA
Mr*

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

3 April 1981

Miss Kate Timms,
Ministry of Agriculture, Fisheries & Food

Dear Kate,

CAP STATEMENT : 3 APRIL

The Chancellor has seen the draft statement attached to your letter of 2 April to Nick Sanders. He is somewhat concerned that the overall flavour may give the impression that we shall not still be facing serious difficulties in securing improvements in the CAP. There is bound to be some risk that the more we profess ourselves satisfied with decisions on the CAP, the more difficult we shall find it to convince other members of the Community that we are serious in pressing for the longer term changes we need.

The Chancellor suggests, therefore, that some hint of caution should be introduced into the statement. This could conveniently be achieved by adding a further sentence to the paragraph at the top of page 2 as follows:

"In this and other respects, difficult decisions will be needed to achieve a lasting improvement in the Common Agricultural Policy."

I am copying this letter to the recipients of yours.

yours sincerely

John Wiggins

/ PS over

A.J. WIGGINS



PS.

Effect on gross/net contribution:

"We are sure it is right not to make any reference in the statement to the effect on the UK net contribution to the Community Budget, given the considerable uncertainties surrounding the calculations and the precise position on the 30 May agreement. If this point arises in Supplementary Questions we would be against the mention of any precise figure, but agree that a phrase such as "broadly neutral" could be used, provided it is made clear that this is the result of the substantial savings attributable to the EMS realignment, which is not part of the CAP package.



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

From the Minister's
Private Office

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

PA

MS 3/4

2 April 1981

Dear Nick,

COUNCIL OF AGRICULTURE MINISTERS: 30 MARCH-1 APRIL
1981

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

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

Yours sincerely
Kate

Miss V K Timms
Principal Private
Secretary

STATEMENT ON THE COUNCIL OF AGRICULTURE MINISTERS: 30 MARCH-
1 APRIL

With permission, Mr Speaker, I wish to make a statement on the Council of Agriculture Ministers which took place in Brussels from 30 March to 1 April. My Hon Friend the Minister of State in my Department and I represented the United Kingdom Government.

Agreement was reached upon the prices and related matters for the marketing year 1981-1982 and I shall, in the normal way, be making the full details of this complex package of decisions available in the library of the House.

The price negotiations took place this year with a background of farm incomes having fallen substantially over the last two years throughout the Community, and in the United Kingdom, as my recent White Paper disclosed, farm incomes declined in real terms last year by 24%.

As I stated in the recent debate which took place in the House, we had three main aims in these negotiations - to obtain some budgetary measures to contain the cost of the Common Agricultural Policy; to take proper account of the interests of consumers and to obtain appropriate improvements to benefit the stability and the future of British agriculture.

Important measures were agreed which will assist in restraining the future costs of the Common Agricultural Policy. On the basis of a British proposal, the Council agreed on the need to ensure that the 1981 budget appropriation for milk is not exceeded and the Council of Ministers confirmed that they would take measures, should they prove necessary, to limit surplus production and contain budgetary costs. The 1981 budget provision for milk is fixed at 10% below that of the previous year.

In this & other respects difficult

Securities will be needed to achieve a lasting improvement in the CAP.

Agreement was also reached to bring in co-responsibility arrangements for cereals in the marketing year 1982-1983 which will provide savings estimated at £39 million.

More flexible intervention arrangements were agreed to for beef which will show savings of approximately £38 million, and in one of the areas of fastest growing expenditure - that of processed fruit and vegetables - arrangements were reached which will put a limitation on expenditure and show savings of approximately £40 million.

Therefore in four areas of surplus or potential surplus, important new economy measures were secured.

The overall budgetary effects for the entire European Community in 1981 of the total package will be £186 million

and in a full twelve months £596 million. Such an increase is equal to approximately 8.5% of the current CAP budget.

The Council took note of a Commission declaration which stated that there will be no need for any supplementary budget for agriculture for 1981; and that for 1982 the decisions taken in this package are consistent with ensuring that the rate of increase in agricultural expenditure should remain close to or, if possible, below the rate of increase in the Community's own resources, and the Council undertook to adopt in good time any further measures which should prove necessary to achieve this objective. With the support of the German and Dutch Governments, we recorded very strongly in the minutes of the Council our view that the rate of increase of agricultural guarantee expenditure should, from 1982 onwards, be markedly lower than the rate of growth of own resources.

For the consumer, I am pleased to report that we resisted Commission proposals supported by other Member States to reduce the United Kingdom butter subsidy. We retained the beef premium and of course the lamb premium schemes continue. Next year these three schemes will bring subsidies likely to be worth about £300 million of direct

benefit to the British housewife - benefits that are not available to consumers in other countries in the Community.

The overall effect of the price increases will be less than a quarter of 1% on the retail price index and approximately 1% on food prices as a whole.

We also secured final agreement to continue special arrangements for the import of New Zealand butter and to the passing of the Regulation providing refunds to the whisky industry.

The overall price increases will have an important effect on helping to restore farm incomes. The package will provide £325 million of additional receipts to British agriculture in a full year. I successfully resisted proposals by the Commission strongly supported by other Member States for a revaluation of the green pound, and I obtained for Northern Ireland a special package of additional aid similar to that offered by the Commission to the Irish Republic. This will be worth between £8 million and £9 million.

We obtained agreement that there should be no clawback on exports of British lamb to third countries and an agreement that the Management Committee would consider

arrangements to modify the current clawback provisions for intra-Community trade.

In total, therefore, the package agreed in Brussels was in compliance with all of the requirements I outlined to the House in the debate we had prior to the price fixing. For the consumers we secured the premium and subsidy schemes which are of direct benefit to them and arranged a price fixing that over the course of the full year will increase food prices by only 1%.

We built into the proposals important safeguards for the future which will assist in further reducing the increased cost of the agricultural policy, and we provided important increases in incomes to British agriculture without those increases being dramatically reduced by a revaluation of the green pound. We also resisted measures which would have discriminated against British farmers. It is a package that will enable the British food industry and British agriculture to continue to make an important contribution to the British economy.

Food 12
RPT 0.22

13p. 8-9

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cap

Ref: A04605

With 81 - remedial measures.

CONFIDENTIAL

PRIME MINISTER

99-112
- Competition Levy

Community Affairs

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But Premium.
Lamb Sheep.
Northern Ireland
140-50 - reputations
N.Z. Australia

Ref 5p
Bullin 6A
Bacon

The two key issues this week are the Fisheries/CAP prices complex and Steel, though you may also wish to give Mr. Fowler an opportunity to report on last week's Transport Council.

2. You will want the Minister of Agriculture to report first on the outcome of the Agriculture Council which has been meeting all week in an attempt to settle this year's price and economies package. The Commission revised their price proposals upwards and dropped most of the economy measures. You decided that we should insist on a freeze on expenditure in the milk sector until such time as the Council agreed on measures to contain raising milk production.

3. On fish, the Minister of Agriculture could report on his abortive bilateral talks with the French and the subsequent decision of the 27th March Fisheries Council to attempt a final settlement later in the spring. Mr. Walker did not play the hand in a way which could have established a link between agricultural prices and fish.

4. The Secretary of State for Industry might be invited to report on the outcome of the 26th March Steel Council and the related discussions in the Eurofer producers association. The Council adopted a resolution providing for a steel recovery plan, but stopped short of spelling out all the details pending a decision from Eurofer, who meet again on 2nd April, on a voluntary regime on prices and production to replace the mandatory quotas expiring at the end of June. Discussion will be resumed at the informal Industry Council scheduled for 7th April.

5. The Secretary of State for Transport might report on the 26th March Transport Council, which adopted a resolution setting out transport policy priorities for the period 1981-1983 but made little progress with the other items on its agenda.

6. Next week, there will be an informal Finance Council on 3rd-4th April, and an informal Industry Council on 7th April.

[Handwritten Signature]
(Robert Armstrong)

1st April 1981

[Handwritten Signature]
(Approved by Sr. R. Armstrong & signed G. S. G. G.)

35

FCO

RESIDENT CLERK

PLUS FCO

*Emp'd
C/A*

PS/LORD PRIVY SEAL
MR BULLARD
MR HARRAY
LORD BRIDGES

HD/EGD (1) 2 (E) 2
HD/NEWS D
HD/.....
HD/.....
HD/.....

MR FAULKNER
Ecol

CABINET OFFICE

MR M D M FRANKLIN
MR D M ELLIOTT
MR A M GOODENOUGH
MR S WENTWORTH
MR J RHODES

DOT

MR VINALL

PLUS OGDs

MR AUGUSTO NOLO
Downing St.

H M TREASURY

SIR K COUZENS
MR D R ROBERTS

Mr. Nathan

M A F F

SIR B HAYES
MR D H ANDREWS
PS nos (C)
PS nos (W)
Mrs Pickering
Mr Hanson
Mr Gung
Mrs Bloom

Mr Dickenson
(CWH)

Mr Gordon DAFS
Mr Jones DAN
Mr J. Davies word (U)
Mr I. A. Richards word (ASBY)

GRS 450

ADVANCE COPY

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FRAME AGRICULTURE

DESKBY 010830Z

FM UKREP BRUSSELS 010101Z APR 81

TO IMMEDIATE FCO

TELEGRAM NUMBER 1179 OF 1 APRIL

AND TO PEKING (FOR PS/S OF S)

INFO COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN ATHENS

AGRICULTURE COUNCIL 30 MARCH - 1 APRIL

STATE OF PLAY - EARLY HOURS WEDNESDAY

IMMEDIATE

1. IN VERY RESTRICTED SESSION, COUNCIL SPENT FOUR HOURS PLOUGHING THROUGH THE DETAIL OF THE COMMISSION COMPROMISE PROPOSALS, BREAKING ALLEGEDLY FOR AN HOUR SOON AFTER ONE TO GIVE THE COMMISSION TIME TO REFLECT AND RESUBMIT. THEY HAVE A VERY LARGE NUMBER OF CONFLICTING POINTS TO REFLECT UPON, AND RESUMPTION OF NEGOTIATIONS SEEMS UNLIKELY FOR SOME HOURS.

2. THE UK'S LIST OF RESERVES AND DEMANDS WAS THE LONGEST, THOSE OF GREECE AND ITALY NEXT. A CERTAIN

2. THE UK'S LIST OF RESERVES AND DEMANDS WAS THE LONGEST, THOSE OF GREECE AND ITALY NEXT. A CERTAIN ASPERITY WAS EVIDENT AT TIMES BETWEEN THE NORTHERNERS AND SOUTHERNERS. FRANCE CONTRIBUTED VERY LITTLE. UK WAS GENERALLY ARGUING FOR THE LOWEST PRICE INCREASES, WITH SOME SUPPORT IN SOME FEW SECTORS FROM GERMANY, AND NO SUPPORT AT ALL ON BUDGETARY RESTRAINT. MR WALKER AGAIN LOOKED FOR AN ECHO TO HIS USE OF THE "MARKEDLY LESS" FORMULA, BUT ERTL AGAIN MADE IT CLEAR THAT THE 1 PER CENT CEILING WAS THE ONLY RESTRAINT UPON HIM. UK PRESSED HARD FOR SAVINGS, PARTICULARLY THROUGH THE MAINTENANCE OF CORESPONSIBILITY PROPOSALS, BUT RECEIVED A LITTLE SUPPORT ONLY ON MEDITERRANEAN PRODUCTS (OLIVE OIL, FRUIT AND VEGETABLES).

3. DURING THE BREAK WE HANDED TO THE GERMANS THE FORMULA ON "MARKEDLY LESS" AS DISCUSSED WITH TREASURY AND CABINET OFFICE, AND CHALLENGED THEM DIRECT TO SAY WHERE THEY NOW STOOD. AFTER SOME DELAY, THEY CONFESSED THAT THIS FORMULA STILL REPRESENTED THEIR GOVERNMENTS POLICY, BUT THEY WERE UNABLE TO SAY WHAT THEY PROPOSED TO DO ABOUT IT.

4. MORE DETAIL IN M.I.F.T. (NOT TO ALL).

FCO ADVANCE TO:-

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

CAB - FRANKLIN, WENTWORTH

NO 10 - ALEXANDER

DOT - VINALL

MAFF - PS/MOS(C), PS/MOS(L), MRS PICKERING, HADDOW, GURD, MISS BROWN
DICKENSON (GWH)

TSY - FITCHEW

DAFS - GORDON

DANI - YOUNG

WOAD (I) - J I DAVIES

WOAD (ABER) - I A RICHARDS

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*Beef.
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SUBJECT

CONFIDENTIAL

JS.

cc Kester



File

Euro Pd

10 DOWNING STREET

From the Private Secretary

1 April 1981

Dear Kate,

AGRICULTURAL PRICE NEGOTIATIONS

The Prime Minister had a meeting this afternoon to discuss the stage then reached in the agricultural price negotiations in Brussels. The Chancellor of the Exchequer, the Lord Privy Seal, the Secretary of State for Scotland, the Chief Whip and Mr. Franklin were present.

It was agreed that the proposed price package as described in telegrams from UKREP Brussels would probably be broadly acceptable to the farming industry. However, concern was expressed about the consequences for our negotiations on the Common Fisheries Policy of finalising the package at this stage; about its impact on consumers in this country and its reception by the fishing industry; and about its implications for the future growth of agricultural surpluses and for the restructuring of the budget. It was acknowledged that, given the way the negotiations had developed, it would now be very difficult for the Government to take a line which implied a direct link with progress in the negotiations for a Common Fisheries Policy.

At the conclusion of the discussion, the Prime Minister said that the present package needed to be improved in four respects:-

- (a) the 25 per cent reduction in the butter subsidy should be eliminated;
- (b) some additional clawback should be achieved on sheepmeat. The reference point should be the export quality price as opposed to the ordinary market price;
- (c) there should be effective measures to limit the growth of milk surpluses. The present formula was inadequate. There should be no additional budgetary provision for milk until the Commission had proposed, and the Council had agreed, new measures designed to offset any additional costs and contain the growth of the surpluses;
- (d) given that general agreement on an undertaking to limit the growth of agricultural spending could not be achieved, the UK position should be entered clearly in the minutes of the Agriculture Council Meeting.

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These points were to be pursued by the Minister of Agriculture when negotiations were resumed in the Agriculture Council. If he was unable to achieve them he should report back to the Prime Minister by telephone, if necessary seeking the adjournment of the Council while he did so.

The foregoing was conveyed to the Minister of Agriculture by telephone at 1545 this afternoon.

I am sending copies of this letter to John Wiggins (HM Treasury), Stephen Gomersall (Lord Privy Seal's Office), Godfrey Robson (Scottish Office), Murdo Maclean (Chief Whip's Office) and David Wright (Cabinet Office).

M. O'D. D. ALEXANDER

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

S.

CONFIDENTIAL

MR ALEXANDER

C Sir R Armstrong

CAP Prices

The issues for decision at the Prime Minister's meeting with the Chancellor and the Lord Privy Seal, given the present state of the negotiations in Brussels as reported by Mr Walker this morning, are:-

- (i) is the package acceptable?
- (ii) if so, should Mr Walker settle today or hold out with the intention of trying to press the French on fish.

On (i),

- the price level is less than the 10 per cent we thought likely (but only just, and only because of the possibility for France etc. to raise their own producer prices by green devaluation)
- there would be no revaluation of the Green £ (although OD said it should be considered if prices were higher than the Commission's original proposal)
- we have preserved the beef premium (but may lose some of the butter subsidy).

2. The package is clearly satisfactory from the farming point of view.

On the other hand, it

- brings us closer to the 1 per cent ceiling (but, on the Commission estimates, still within both for 1981 and 1982 - see table attached)
- it contains few real economy measures (except another 0.5 per cent on the ordinary milk levy, which we do not like).

3. The Minister of Agriculture does not appear to have put up much of a fight for the super levy on milk (in spite of some Dutch and Danish support). The Chancellor will probably argue (and be supported by the Lord Privy Seal) that we should insist on some action, either the super levy or something equally effective, being automatically triggered if milk production rises. This would mean strengthening the existing text (copy attached).
Should this be a break point?

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4. On question (ii), Mr Walker's view appears to be that the fishing industry can be held on the basis of the commitment at last week's Fisheries Council to an early settlement, and that any attempt to make a link with fish now would be counterproductive. Given the way the discussion in the Agriculture Council has been allowed to develop, the Lord Privy Seal will probably now share this view. If this is the conclusion, we shall need to reconsider whether there would be any point in the Prime Minister sending a Message to President Giscard about fish as envisaged at Monday morning's meeting. But this question can be left for later decision.

MDM

M D M FRANKLIN
CABINET OFFICE SW1
1 April 1981

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But Premium.

Northern Ireland.

Le Conroy. - Credits none


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*- if, mod^o of milk
anim 4 1/2.*

COMMISSION COSTINGS IN FULL YEAR:

mecu

	<u>Original proposal</u>	<u>Compromise</u>
Prices	+ 1243	+ 204
Coresponsibility	- 514	+ 109
Other measures	+ 304	- 3
(of which butter subsidy)	+ 231	
Agrimonetary	- 189	- 85
	<hr/>	<hr/>
	+ 844	+ 225
	<hr/>	<hr/>
1981 budget provision	12,898	
Add: original proposals and effect of compromise	1,069	
Implied cost in 1982	13,967	
Increase of 1982 on 1981 is	9%	
Forecast increase in own resources base	11%	

These figures take no account of the part year effect of 1982 fixing. On the other hand, they do not allow for the increase in own resources (higher levies) as a result of the compromise (+145 mecu).

Milk

A formula for an additional milk levy if production continues to rise is proposed as follows:-

"If additional costs arise as a result of the growth of milk deliveries by more than 1 per cent in 1981 compared with 1980, the Council will take measures to offset these additional costs by appropriate decisions (for example, a levy on increased production, partial suspension of intervention, change in the intervention price, application of a progressive basic levy or other appropriate means)."

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ks. Punt

NOTE FOR THE RECORD

CAP PRICES

Following my telephone conversation with the Minister of Agriculture in Brussels, Sir Brian Hayes telephoned to say that there appeared to be some difference in Mr Walker's understanding of the outcome of the Prime Minister's meeting and the explanation I had subsequently given to Mr Andrews. The text which Mr Walker had been trying out bilaterally was:-

"There would be no addition to the budget appropriation for milk in 1981 unless the Council decides in advance on measures which will have the effect of offsetting the increase in cost."

2. I said this text implied a concern only to find ways of financing ^{al} addition/milk surpluses and seemed to point in the direction of an increase in the linear co-responsibility levy. What the Prime Minister and the Chancellor of the Exchequer wanted was a firm commitment by the Council to adopt the super levy or some other measure of equivalent effect which would contain the increase in Community milk production. The phrase on ^{al} addition/expenditure was designed to put pressure on the Council to take decisions this year.

3. Sir Brian Hayes said that events were moving rapidly but he would put these points to Mr Walker. We agreed that the following text would meet what Ministers here had in mind:-

"There will be no addition to the 1981 budget appropriat^{ion} for milk until the Council decides on measures which will have the effect of offsetting any increase in cost and of containing further increases in milk production."

hand
M D M FRANKLIN

1 April 1981

cc Mr Alexander No 10
Sir Robert Armstrong
PS/Chancellor of the Exchequer
Mr Fitchew Treasury
PS/Lord Privy Seal
Mr Hannay FCO



10 DOWNING STREET

From the Private Secretary

MR FRANKLIN

Agricultural Price Negotiations

Mr. Walker told the Prime Minister on the telephone this morning that a package of measures on agricultural prices had now been agreed in Brussels by nine members of the Community. Only the UK was holding out.

The contents of the package relevant to the UK as summarised by Mr. Walker were as follows:-

- (a) an overall price increase averaging 9.5 per cent;
- (b) ~~a~~ retention of the beef premium;
- (c) no revaluation of the Green Pound;
- (d) an extension to Northern Ireland of the package of measures agreed for the Republic of Ireland;
- (e) a 25 per cent reduction in the butter subsidy.

The total extra cost of the new measures agreed overnight would be 20 million ecus. The total cost of the entire settlement would be 1052 million ecus. This, according to Mr. Walker, should mean that no supplementary budget would be required in 1981. The price settlement could be comfortably contained within an 11 per cent growth in own resources. Indeed it should be contained within a 9 per cent growth.

The Agriculture Council is due to resume its deliberations at 1700 Brussels time. Mr. Walker has so far withheld his agreement on the grounds that:

- (a) the butter subsidy must be restored in full; and
- (b) we must know in detail the costs of the new proposals.

There is nothing in the present package on economies. There is apparently a clause to the effect that if the milk surplus rises by 1 per cent or more the cost is to be clawed back by "special levy techniques".

/Mr. Wilson

- 2 -

Mr. Wilson is going through the figures with Mr. Tugendhat's cabinet this morning. The outcome of his discussions will be incorporated in a telegram.

We agreed that there should be a meeting here this afternoon at 1445 to discuss the instructions to be given to the Minister of Agriculture for the afternoon session of the Agriculture Council.

M. O'D. B. ALEXANDER

1 April 1981

Top copy: Fishing Ltd, Peter
~~and~~ Fishing Limits.

K.S. Smith

PRIME MINISTER'S TELEPHONE CONVERSATION WITH THE MINISTER FOR
AGRICULTURE, FISHERIES AND FOOD ON WEDNESDAY 1 APRIL 1981

Prime Minister: Hello Peter?

Mr. Walker: Hello, how are you?

Prime Minister: How are you? Have you been going all night? All I have got is some telegrams which I think are a bit out of date and the early news this morning. Because the early telegrams that I have got in my hand say that there is still enormous negotiation to be done.

Mr. Walker: Yes well we've just finished now. And we went on all night. And the form is that nine of the countries have agreed to a sort of package and we're the ones that are standing out and resisting. The Council is going to meet again at 5.00 this afternoon. The form is that they came forward with this original package in which they took out our butter subsidy, took out about a quarter of it and various other nasty things to us and put up the prices to 8.8%. Since then they've increased three other prices by between about $\frac{1}{2}$ and 1% so I should think the average price increase is somewhere between 9% and 9 $\frac{1}{2}$ %. We've got back the beef premium scheme in its entirety. We resisted - they put in for us to have a 3% revaluation - we resisted that and they have now taken out the British revaluation and the Germans have got a 3% revaluation. We've got none. We got on offer the same package for Northern Ireland which the Irish Republic have got and so that will be worth about £10 million finance for the Irish Republic. The total cost of the second compromise amounts to another 20 million ecus over the whole package. So the total cost according to the Commission of the package now on offer is 1,052 million ecus, which means that the 1981 budget is OK and it means no supplementary budget in 1981. And for 1982 it fits in - if you take the expected 11% growth in own resources, if you took it as being 9% growth i.e. below growth resources, it would be within that. We haven't got back our butter subsidy - 25% - but what is, in my view, if we agree to settle obviously we get that back as a condition of settling.

Prime Minister: We've not got back our butter subsidy at all?

/ Mr. Walker:

Mr. Walker: No but I'm quite certain that if, obviously at the moment I've turned it down, I've turned down the package because I want it properly costed by the Commission and I have sent my officials in to see President Tugendhat this morning just to check the figures that the Agriculture Commissioner has given us are correct. And to check all the various changes that have taken place in the night and tot up to the sort of figures they say they tot up to. So I have said I couldn't possibly agree, without knowing in detail all the costs etc of the various changes that have taken place, and I certainly couldn't agree without the butter subsidy being fully restored.

Prime Minister: What about the things in structural surplus - the milk. Because it looks to me as if unless we get something that in one way or another deals with those things that are in structural surplus the French are going to give enormous national aid and its going to . . .

Mr. Walker: On milk there is a provision in that if milk production goes up by 1% or more then it is all clawed back and what they have done is that they have put one of four methods of doing it. So the Commission will have to claw back anything above a 1% increase in production of milk.

Prime Minister: How?

Mr. Walker: Well one of them is, well one of the four methods listed available to us is the special levy technique but when it came to it, when they measured it yes you'd only get that figure by the time you'd got to next year's price fixing anyway in practice.

Prime Minister: Look I understand that the Commission's cost estimates are always based on a static output on this year's output and that they don't take into account in any way how the increased prices plus national aids might increase the surpluses. And what I am worried about is that - well a number of things - first that what actually happens on the increased output resulting from a combination that is of prices (interruption from Mr. Walker) it will go above own resources, it will go up to the 1% ceiling and in fact it will put in jeopardy our budget refund next year.

Mr. Walker: That is why Prime Minister I have sent in with all the detailed proposals our sort of financial chap, who is very good, Gordon he's a Treasury man and he has gone in to Chris Tugendhat's office to go through all the proposals to get them costed including the points I made during the night including any increase in production and points like that so that will be taking place. He will be sending a telegram later this morning on all that. So you will get that coming in, once we've checked it all. Because what I don't want which is what I've had in previous years is that the Agricultural Commissioner says one thing and the Budget Commissioner says another and that's why I have refused to agree a package last night because I wanted to look at all the facts and figures before coming to any decision. And so we're not committed in any way to a decision.

Prime Minister: What about national aids Peter. Do you mean the French are still going to keep on their national aids and we're going to have to pay for the surplus?

Mr. Walker: Well the Commission said that they are going to take a fierce measure against national aids but of course, as always, one has to rely on them acting. The new Commissioner says that if this is going to be meaningful, national aids possibly eliminated, must be fiercely tackled, I mean he has made all those sort of noises and I mean he's pretty anti-French so he might have a go at the French.

Prime Minister: Yes it might be possible to get that as a condition.

Mr. Walker: One thing that really was alarming last night - you'll see in some of the later telegrams - the Germans were of no help at all. I mean they agreed to every price increase. They agreed to every elimination, every levy and in the end I sent in to their delegation and said "look these are the words your Finance Minister agreed with my Chancellor of the Exchequer, are you sticking by them or aren't you?" To which the Germans replied "It still remains the policy of our Government but we have no idea how we are going to implement it".

Prime Minister: Yes the only telegram I had was the one the UK sent out about budgetary implications and ^{Germany} once again registering no concern except about the 1% ceiling.

/ Mr. Walker

Mr. Walker: Yes well you will see later on that I told them to telegram you with the facts, we actually confronted them with Geoffrey's wording and said, is this your policy or is this not your policy?

Prime Minister: Well anyway Peter we'll get all of the figures in telegrams during the morning while you have some sleep. But what I am frightened to death of is two things. One that things go into such structural surplus that it absorbs all up to the 1% ceiling and that we don't get our budgetary contributions next year.

Mr. Walker: One thing that I think we can get in is a wording passed by the Council which says that if it is approaching the 1% ceiling the Commission will take action to see that it is not breached.

Prime Minister: No it is not only not breached Peter but go up to 1% and they will then turn round and say to us I'm sorry there is no room for your budgetary refund so its not merely just not breached but that there is still room within it for our budgetary refund on the same basis as this year. Otherwise it means we are paying and the French are taking.

Mr. Walker: Yes well I think you will find that out of this in total on the basis that we get back the butter and so on and we've got this package for Ireland, out of the package I think you will find that we'll be net beneficiaries again.

Prime Minister: (unintelligible) Well anyway Peter you've sent them all in for the figures, and we'll have a look the moment they come.

Mr. Walker: The other thing I think whatever tactic you decide on you've got to think about is that the Nine have agreed and therefore whatever we disagree on, whatever issue we decide to disagree on, in my judgement its got to be one which we eventually win on because its no use disagreeing now.

Prime Minister: Well it has to be something like structural surplus doesn't it and national aids contributing to mountains and therefore they have got to have some specific formula in for dealing with the structural surplus. If they have knocked out a super levy they have got to have some specific formula in which will hold, otherwise we have no hope of budget restructuring. Anyway lets have a look at it / when

when it comes but the other thing I'm afraid of - you know I had 150 fishermen in here on Monday night and they still feel they are going to be sold down the river and I am just a little bit fearful that if everything just goes through with colossal aids to the French and with nothing for structural surplus, national aids boosting them, we paying and they being the biggest beneficiary and they then don't agree on our fish we'll get the worst combination because they'll say "you sold us down the river".

Mr. Walker: Yes but I mean if you want to do that linkage, I think you've got to get that linkage correct and one^{is} in difficulty on that May 1st 3rd 18th communique . . .

Prime Minister: Yes I know.

Mr. Walker: Yes well its no use you know fighting a battle on agricultural prices which we never actually win, we eventually back down.

Prime Minister: Yes but we have got good grounds on the structural surplus haven't we. And on our budget refund.

Mr. Walker: Well in terms of figures. You will have to look at the figures as they come in.

Prime Minister: We will Peter. We will get all of the figures and you're going off to get some sleep. Thank you for telephoning.

PART

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ends:-

31. 3. 87

PART

8

begins:-

1. 4. 87