

PREM 19/736

PART 9


Confidential Filip

Common Agricultural Policy
(CAP)

EUROPEAN
POLICY

Part 1: May 1979

Part 9: Nov 1981

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
20.11.81		30.3.82					
23.11.81							
24.11.81		- Pt Ends -					
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PART 9 ends:-

Asc to MAFF 30.3.82

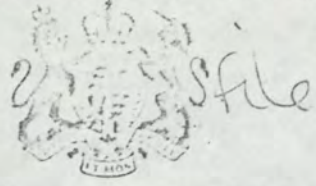
PART 10 begins:-

Brussels to FCO tel: 1330 1.4.82

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Budget Pt 15



cc: FCO
HMT
CO

10 DOWNING STREET

From the Private Secretary

30 March 1982

30 May Mandate and Prices Fixing

You rang me on 28 March to give me an account of Mr. Walker's discussion the previous day with his Belgian opposite number. The Belgian Minister had said inter alia that he understood that it was necessary for the UK to make a link between the agricultural price settlement and the Mandate; but that he nevertheless wished Agricultural Ministers to complete their work on the package urgently so that, as soon as the Mandate problem was solved, it could be implemented. I passed on this message to the Prime Minister.

There was, as you will have seen from the reporting telegram, very little discussion of the Mandate at the European Council and virtually no reference to the Agricultural Price Review. But the line taken by President Mitterrand makes it unlikely that any solution to the budget problem will be found at the next meeting of Foreign Ministers in Luxembourg on 3 April.

In speaking to the press after the European Council, the Prime Minister stressed that the European Council had agreed last November that progress on the three chapters on the Mandate should be made in parallel. She also stressed that the size of the price increase would be a crucial determinant of the UK's contribution in future years.

In this situation the Prime Minister believes that we may be entering a period lasting some weeks in which no agreement can be reached on either the Mandate or on agricultural prices. During that period we shall have to maintain our veto on the implementation of any agreement on prices against a background of mounting criticism from other member states and the Commission. For that reason the Prime Minister is most anxious that the United Kingdom should take a consistent line on the nature of the inherent link between CAP policies and our budget problem in all the relevant Mandate negotiations. I attach as an annex to this letter, a brief on this point which was agreed last week by the officials of the departments concerned.

/ The Prime Minister

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The Prime Minister naturally hopes that Mr. Walker will take a full part in the price-fixing negotiations in order to attain as many UK agricultural objectives as possible, including a low price increase. If the Agriculture Council reaches the point where the other nine Ministers are ready to agree, she thinks that it would be particularly helpful for your Minister, in explaining our continuing veto, to make a special point of stressing to his colleagues (and to the press afterwards) that the reason why the United Kingdom cannot agree to the package is that the price proposals and the other measures that increase our net contribution would, failing a budgetary corrective arrangement, impose an excessive cost on British taxpayers.

I am copying this letter to the Private Secretaries to the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer and Sir Robert Armstrong.

A. J. COLES

Robert Lowson, Esq.,
Ministry of Agriculture, Fisheries and Food

SPEAKING NOTE FOR USE IF IT IS SUGGESTED THAT THE UK SHOULD AGREE TO AN
AGRICULTURAL PRICE SETTLEMENT IN ADVANCE OF AN AGREEMENT ON THE BUDGET PROBLEM

We all agreed last November that progress on the three Chapters of the Mandate should be made in parallel. The measures which are being considered in the context of the price fixing are organically linked with the proposals for CAP reform which have been discussed in the context of the Mandate. For example, the price proposals cover the treatment of Mediterranean products, help for small milk producers, modulation of guarantees for surplus products and the regime for cereals. They also have implications for the proposed guideline on the rate of growth of agricultural expenditure. We should not envisage decisions being taken on the CAP when comparable decisions on the implementation of the other Chapters have yet to be taken. Moreover, decisions taken now on the level of CAP prices will be a crucial determinant of the level of the UK net contribution in this and future years, and some of the current proposals, such as aid for small milk producers, and Mediterranean agriculture, would significantly add to the UK's budget burden. It would not be right to take decisions of this kind when we have still not agreed how that burden is to be alleviated.

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

Prime Minister

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/3.



From the Minister

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

30 March 1982

AGRICULTURE COUNCIL: 31 MARCH

Thank you for your minute of the 26 March concerning the position of the green pound.

We have as you know agreed to discuss this and I note your views that there should be a re-valuation if there is an increase in excess of 9 per cent in common prices.

You will, of course, understand that we cannot make any firm decisions until the final settlement is known. To take an exaggerated view, if there was a settlement of 14 per cent on average, but with only a 6 per cent increase for cereals and milk, a 5 per cent re-valuation would be totally disastrous for British agriculture.

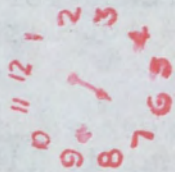
I would suspect that by the end of the week we will have some clearer vision of the type of package that is likely to emerge after agreement has been reached on the budget; and naturally, before final decisions, as previously requested, I will discuss this with colleagues.

One further feature which has of course emerged since we last discussed this, is the very large number of countries which are now going to enjoy increases above the final settlement. France, Belgium, Luxembourg, Denmark, Italy, Greece and Ireland are, in my view, all likely to have farm price increases above the average settlement. I think it would therefore be politically very damaging if, with an 11 per cent rate of inflation, and the past fall in farm incomes, we were seen to be doing very much worse than most of Europe.

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

PETER WALKER

30 MAR 1982



102

Prime Directive

A.F.C. 30/3

MINISTER'S MEETING WITH CHAIRMAN OF THE COUNCIL OF MINISTERS
(AGRICULTURE): 27 MARCH 1982

Present: Mr de Keersmaecker - Belgian Minister of Agriculture and European Affairs
 Minister Mr Andrews

Mr Van der Moortel)
 Mr Dobbelaere) - Ministry of Agriculture
 Mr Fricchionne - Council Secretariat

mf

1. Although this was the last stop on Mr de Keersmaecker's tour of Community capitals, he gave virtually no indication of the positions of other Member States. Nor did he give any indication, except in the most general terms, of the kind of price fixing package which he envisaged as being ultimately negotiable. He said that he thought that the price settlement would need to be at a level "moderately" higher than what the Commission were proposing, and that the package would need to go some way to meet the special demands made by several Member States, particularly the Greeks; the problem was to ensure that this special treatment was as limited as possible.
2. The Minister agreed to hand over the list of UK requirements which had already been passed to Mr Dalsager; I gave copies to Mr Van der Moortel and Mr Fricchionne after the meeting. As regards areas of particular concern to the Minister, the following points emerged.
 1. The Minister stressed that it was impossible to agree on a price settlement before it was known how it would be financed. Nor was it possible for him to accept the Commission's proposal for re-valuation of the green pound, which would leave UK farmers with a price increase substantially lower than the average, especially when so many other Member States were in a position to benefit from recent or imminent currency movements. He pointed out that it had never been the UK that had in the past resisted Member States' freedom to exploit the re-alignment of green currencies towards a neutral position.
 2. The Minister was particularly worried about proposals to give help to small dairy farmers through the co-responsibility system. He was ready to consider the case for a special aid, and a compromise settlement could involve agreement that funds should be made available but not through a market mechanism. Mr de Keersmaecker said no more in response and that he felt that the dairy problem was negotiable.

3. Mr de Keersmaeker said that he recognised the existence of the link between the price fixing and the Community budget. As regards the Mediterranean acquis, he said that there was no scope for an agreement on the whole of this problem because of the absence of proposals on olive oil. He took the Minister's point that it was unreasonable to expect Member States to agree to particular items in the Mediterranean package that would benefit certain Member States while ignoring others, but pointed out that the problem of the acquis was not institutionally related to the price fixing. Nevertheless something probably needed to be done in this area, perhaps by means of general guidelines which could be fleshed out later. The Minister said there were only two possible ways of handling the Mediterranean problem if it were to be linked with the price fixing. Either the whole package could be agreed so that a balance could be struck between the interests of the Member States, or a financial limit could be adopted as a framework for future agreement on those areas not finalised.
4. The Minister then had a short private discussion alone with Mr de Keersmaeker. I understand that Mr de Keersmaeker made it clear that he fully understood the UK's problem on the Community budget, but said that he regarded it as his duty to work towards agreement on an agricultural package at this week's Council meeting. The Minister said that, as he did the last time that the budget was at issue, he would have to reserve on the whole of the agricultural package pending a solution. Some of his reserves would be purely tactical, but others would be on points of real substance, which he had stressed at the meeting and which were described in our note. Nevertheless, he felt that if the meeting was carefully handled, it would not be impossible for agreement to be in sight by the end of this week. As regards the budget issue itself, the Minister stressed that an agreement would only be possible once the UK could see what it would mean in financial terms.
5. Neither the Minister nor Mr de Keersmaeker took seriously the threat of a majority vote on the agricultural package; this was not in the wider interest of the French, nor was it likely to be acceptable to several other Member States. The Minister said that he did not like the idea that the Agriculture Ministers should remain in session until the Foreign Ministers had concluded their meeting; in the event that an agreement was reached on the budget and good progress had been made on an agricultural package, there would be no problem about re-convening the Agriculture Ministers to finalise a settlement quickly. If there had not been good progress on the price fixing, then a couple of weeks breathing space would be necessary in any case.

Robert Lawson

Mr Redfern + 1

R LOWSON
29 March 1982

cc

Ms Nason

Mr Clements

Mr Lebrecht

Mr Robbs

Mr Andrews

Mr Stapleton

Mr Dixon

Mr Parkhouse

Mr Myers

Mr Dawes

Mr Pooley - UK Rep Brussels

Mr Coles - 10 Downing Street ✓

Mr Richards - PS/SOS/FCO

Mr Kerr - PS/Chancellor of the Exchequer

Mr Byrne - UK Embassy Brussels

Copy CAP p. 9.

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Prime Minister.
To me.

Ha Lopez
date clock
26/2/82



MINISTER OF AGRICULTURE, FISHERIES & FOOD

[Handwritten signature]
f.a. 25.
M 3

AGRICULTURE COUNCIL: 31 MARCH

We have discussed next week's Agriculture Council, and the difficult hand you will then have to play. You know my views on the main CAP price issues, and the importance of maintaining the line agreed in OD(E), ie that there should be no increases beyond the Commission's original proposals, and lower increases for certain cereals prices, milk, sugar, oil seeds and Mediterranean products. The purpose of this minute is to add a point about the green pound.

2. If at the end of the day we were obliged to consider price increases beyond the Commission's original proposals, we should need, in my view, to offset any excess above a 9% average by a one-for-one revaluation of the green pound. I quite see that you may be concerned at the risk that such a revaluation could be followed by a further EMS realignment, and a consequential devaluation of the green franc. But the essential criterion which should govern our own decision is that the level of the green pound must strike the right balance between the needs of consumers and of producers. I hope you won't mind my writing at this late stage to put on record once again my firm belief that a revaluation of the green pound to prevent any excess above a 9% increase in common prices will be sufficient to protect the position of producers, while enabling us to ensure that the impact on prices in the shops is kept within defensible limits.

3. I am sending copies of this minute to the Prime Minister, to OD(E) colleagues, and to Sir Robert Armstrong.

[Handwritten signature]

Approved by the Chancellor
and signed in his absence. (G.H.)
26 March 1982

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CAP Pt 9

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

Prime Minister

From the Minister

A.J.C. 26.
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CONFIDENTIAL

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

26 March 1982

Dear Sir Geoffrey

POSSIBLE FURTHER EMS REALIGNMENT: AGRI-MONETARY CONSEQUENCES

I thought it might be helpful if I followed up our discussion at the Prime Minister's briefing meeting on 24 March about the line we should take in the event of a French franc devaluation before the conclusion of the negotiations on the CAP price-fixing.

We agreed that, provided support was forthcoming from Germany and Netherlands at a realignment conference, you would seek to maintain the agreement reached at the February meeting that no green rate devaluations would be sought or proposed until the conclusion of the price-fixing negotiations. Although this cuts across our traditional position on negative MCAs - of which we obtained Council endorsement in May 1980 - we should justify this in the light of this year's particular circumstances.

If, on the other hand, the Germans and Dutch offer no support at the realignment conference, you will clearly not be in a position to insist on adherence to the February agreement. The countries interested in getting Green Rate devaluations through may indeed seek to have the previous agreement set aside. If so, we agreed at the Prime Minister's meeting that you would seek to get it on record that, if others are free to devalue when it suits them, we must be free not to revalue unless and until it suits us.

/I attach ...

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... I attach a possible form of words which could be included in the draft communique. The proviso about the Agreement of eight Member States of 6 March 1979 (the so-called Gentlemen's Agreement) has to be made, otherwise it would be claimed that we were trying to override it. But the point that we want to make is a valid one both for revaluations greater than those required by the Gentlemen's Agreement (including the Commission's current proposals for Germany and the Netherlands) and for revaluations for countries not party to the Gentlemen's Agreement. We should not, of course, want to agree to the first half of the proposed form of words without the second half.

If the weak currency countries do not ask for any reference to the question of Green Rate devaluations and if there is no support from Germany and Netherlands for a specific reference to maintaining the previous agreement, then you may prefer not to poke this issue up at any realignment conference. I would then rely on the February agreement to block the devaluations in the Agriculture Council, so long as the Germans and Dutch would support us.

/ I am sending copies of this letter to the Prime Minister, the Foreign and Commonwealth Secretary and Sir Robert Armstrong.

Yours sincerely

Robert Lacey

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

POSSIBLE EMS REALIGNMENT CONFERENCE
DRAFT PASSAGE ON MCAS FOR COMMUNIQUE

It was agreed that, notwithstanding the agreements reached at the meeting of Ministers and Central Bank Governors on 21 February 1982, Member States with negative monetary compensatory amounts may at any time ask the Commission to propose changes in representative rates leading to the reduction or elimination of these amounts; and that correspondingly, without prejudice to the Agreement of eight Member States of 6 March 1979, Member States with positive monetary compensatory amounts may reject any proposal for changes in representative rates leading to the reduction or elimination of these amounts.

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Prime Minister
to see
Mr. [unclear]
27/3/82

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ATHENS

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AGRICULTURE PRICE FIXING AND THE MANDATE

1. FEITER (KANZLERAMT) SPOKE TO BEAMISH THIS AFTERNOON TO URGE HIS VIEW THAT ALL MEMBER GOVERNMENTS SHOULD MAKE A REAL ATTEMPT TO TRY TO REACH AGREEMENT AT THE PRICE FIXING NEXT WEEK. IF A PACKAGE COULD BE PUT TOGETHER IT COULD THEN LIE TEMPTINGLY ON THE TABLE READY TO BE PICKED UP ONCE AGREEMENT ON THE BUDGET HAD BEEN MADE. HE ARGUED THAT THIS INDUCEMENT WOULD BE THE MOST EFFECTIVE WAY OF FAVOURABLY INFLUENCING THE OUTCOME OF THE SPECIAL COUNCIL ON 3 APRIL.

2. FEITER'S POINTS WERE THAT THERE WAS A GENERAL EXPECTATION THAT AGREEMENT ON THE PRICE FIXING WOULD BE DELAYED. IF AN EXPECTATION COULD BE CREATED THAT THERE WAS A CHANCE OF AGREEMENT NEXT WEEK, THAT WOULD INDUCE THE COUNTRIES WITH THE GREATEST INTEREST IN THE PRICE FIXING - FRANCE, ITALY, IRELAND, ETC - TO SETTLE FOR LESS THAN THEY MIGHT OTHERWISE DEMAND. A RELATIVELY LOW PRICE FIXING, ON TIME, WOULD BE INFINITELY PREFERABLE TO A HIGHER ONE THAT WAS CONSIDERLY DELAYED. HE ADDED THAT HE THOUGHT THAT IF THE BRITISH AND THE GERMANS WORKED IN HARMONY THEY, WOULD, IN THESE CIRCUMSTANCES, STAND A GOOD CHANCE OF SECURING AN AGREEMENT ON THE PRICES IN THE RANGE OF 9 TO 10 PER CENT. WE HAVE HEARD FROM OTHERS, EG THE FINANCE MINISTRY THAT THE FRENCH BID ON PRICES IS NOW 11 PER CENT (EXCLUDING MCA ADJUSTMENTS).

3. FEITER WENT ON TO SAY THAT BY PARTICIPATING IN A DEAL OF THIS KIND BRITAIN WOULD AVOID ISOLATION AND WOULD ALSO BE ABLE TO EXACT BETTER CO-OPERATION FROM OTHER PARTNERS DURING THE BUDGET NEGOTIATION SINCE WHOEVER FRUSTRATED A DEAL ON THE BUDGET WOULD AUTOMATICALLY BEAR THE RESPONSIBILITY FOR UNSTITCHING THE AGRICULTURAL PACKAGE.

4. FURTHER POINTS OF ADVANTAGE THAT HE SAW WERE THAT AN EARLY, EVEN IF NOT IDEAL, SETTLEMENT OF THE PRICE PACKAGE WOULD MAKE IT EASIER FOR THE FRENCH GOVERNMENT TO PRESENT A FRENCH QUOTE DEFEAT UNQUOTE ON THE BUDGET TO FRENCH OPINION. WITHOUT AGREEMENT ON AGRICULTURAL PRICES THERE WAS EVERY CHANCE THAT THE FRENCH GOVERNMENT WOULD LOSE CONTROL OF PUBLIC OPINION. THAT WOULD BE BOUND TO RESULT IN A SHARP DETERIORATION OF THE ATMOSPHERE AND THUS CARRY THE RISK OF MAKING EVENTUAL AGREEMENT ON BOTH THE AGRICULTURAL PRICES AND THE BUDGET MORE DIFFICULT, WITH

CONSEQUENTIAL DAMAGE TO THE COMMUNITY AND PERHAPS ALSO UK INTERESTS.

5. IT IS DIFFICULT TO KNOW HOW MUCH, IF ANY, STEAM LIES BEHIND THIS RATHER LOW KEY APPROACH AND THAT REPORTED IN BONN TELNO 269. AN OUTCOME OF THE SORT FEITER ENVISAGES WOULD

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OBVIOUSLY ACCORD WITH GERMAN HOPES FOR QUICK, CLEAN SOLUTIONS IN THE WIDER EUROPEAN INTEREST. SOME OF THE LOGIC (WHICH CAN OF COURSE BE INVERTED) MAY WELL STEM FROM DISCUSSIONS YESTERDAY WITH MAUROY. PRESUMABLY THE FRENCH ARE KEEN TO TRY ANYTHING THEY CAN TO WEAKEN THE ORGANIC LINK BETWEEN THE MANDATE AND THE AGRICULTURAL PRICE FIXING.

TAYLOR

FRAME ECONOMIC
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PS

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No. 10 DOWNING STREET

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MINISTER'S MEETING WITH GERMAN STATE SECRETARY FOR AGRICULTURE
(HERR ROHR): 19 MARCH 1982Present:

Herr Rohr	Minister
Herr Witt (FRG Ministry of Agriculture)	Minister of State (C)
Dr Baier (FRG Embassy)	Secretary
	Mr Andrews

CAP Price Fixing: General Background

1. The Minister said that he had been surprised by the German attitude at the Council of Ministers (Agriculture) on 15-17 March. They had shown little desire to moderate the overall level of price increases and had seemed concerned to cut Community spending only on items of particular importance to the UK - the butter subsidy, the beef premium scheme (which, incidentally, saved Community expenditure) and the sheepmeat regime. He was left with the impression that France and Germany had at their recent summit meeting agreed on the overall level of price increase, and on a joint attack on items useful to the UK as a means of reducing costs. The CAP was not popular in the UK and it would be very difficult to present domestically any erosion of its few favourable elements. Any settlement which had this effect, and which, as was at present proposed, embodied a revaluation of the green pound which would give UK farmers a price increase half as great as that available elsewhere in the Community would be unacceptable.
2. In reply Herr Rohr said that there had been no discussion of agriculture between the French President and Chancellor Schmidt. All that the German side had said was, in finance ministers' discussion, that a 9% overall price increase was too high; and, in foreign ministers' discussion, that a 4.5% reduction in the German MCA was too great. The Germans doubted the usefulness of the butter subsidy and wanted to remove female animals from the coverage of the beef premium scheme, but these were not their main concerns in the price fixing. Their major worry was that there could be a delay in reaching a settlement within a reasonable time (which Herr Rohr interpreted as during April) which could in turn face the Community with a very difficult situation if the French were to introduce further national aids. The Germans were therefore particularly interested in the question of whether the price fixing settlement could be considered on its own, or whether it would become linked with the Mediterranean Acquis or the Budget settlement.

Community Budget

3. The Minister said that nothing would please him more than a rapid agreement on the price fixing. But the issues of CAP prices and the Community budget were linked both de facto,

because the acceptability of any prices settlement depended upon the way it was to be financed, and in the 30 May Mandate. He was very concerned at the absence of progress on the budget issue over the last 2 months. He was unable to understand how, as suggested by Herr Rohr, Thorn could have given Ertl the impression that the UK would not want to make a link between the prices package and the budget, and would be happy to discuss the budget problem until the end of 1982. In fact, the UK side had repeatedly pressed Thorn to make progress and the Minister was most distressed at his vagueness.

4. The Minister made it clear that this did not mean that the UK's approach to the price fixing would be conditioned entirely by tactical considerations related to the budget problem. In addition to the points mentioned above, he was concerned to find a way to limit the cost of the Mediterranean regime and objected strongly, on grounds of principle as well as of national interest, to proposals for the discriminatory application of the co-responsibility levy on milk.

Overall Price Increase

5. Both sides recognised that monetary instability had introduced a new element into this years' discussions. Herr Rohr's view was that domestic considerations made it impossible for Belgium and Luxembourg to press for greater price increases than had been proposed; prices within Denmark had already been boosted by monetary changes; Ireland, Italy and Greece had special problems that called for measures separate from changes in institutional prices. This meant that only France now wanted prices higher than those currently proposed. There was already scope for French prices to rise following their recent devaluation and a further devaluation was very likely. Herr Rohr had the impression that the French would be satisfied by increases 2-3% higher than those currently proposed; given that the Commission were likely to propose something extra, the German interest was that this should not depart too far from what was currently on offer.
6. As regards the reduction of German MCAs, Herr Rohr said that the proposed cut of 4.5% was too great. A smaller reduction was called for in the light of the German agricultural situation, and he had the impression that Germany would eventually settle for a 50% reduction in its new MCAs.
7. The Minister said that the UK industry clearly needed a meaningful price increase in the light of current inflation, but one which had to be balanced with considerations of the effect on retail prices and on the Community budget. The possibility that other member states would benefit from price increases higher than those proposed by the Commission as a result of green currency movements made it all the more difficult to accept the Commission's proposal for a green pound revaluation; although some adjustment might be tolerable if the eventual size of increase was substantially higher than that at present proposed. But given the unusual monetary situation, member states should not too readily accept that the ultimate settlement

would be higher than the level currently being proposed. If the Germans wanted the overall level of increase to be at about the level proposed by the Commission, they should be pressing for something less, like the UK, not limiting their attack on the Commission's proposals to pressing for a higher minimum price for wheat and lower support levels for sheepmeat.

Dairy Co-responsibility

8. Herr Rohr said that the principle of assisting small farmers had been accepted at the highest level, The only question was how this principle was to be implemented. The Minister felt that the levy did nothing to restrain production or encourage consumption, but understood that as a source of income it met German sensibilities by reducing the cost of the CAP. But, while there were now minor exemptions from the levy, what was now proposed was in effect a social aid. It was not appropriate that such an aid should be financed by a market mechanism; it was always possible to consider a FEOGA contribution to national social aids to deal with the problems of small farmers. It would be very difficult indeed for the Minister to convince Parliament of the acceptability of a system which discriminated in favour of small farmers.

Cereals

9. Herr Rohr said that Germany could agree with the Commission's proposals with two exceptions; first (a view shared by the UK side) they opposed an increase in the specific weight of barley for intervention; and secondly, they wanted the gap between the increases proposed for the minimum price and the reference price to be narrower than currently proposed. The Germans could accept the Commission's proposals for co-responsibility in the cereals sector and felt that a possible mechanism would be to link the quantity eligible for support to the quantity of substitutes imported.

Sheepmeat

10. The German side said that they were suspicious of the Commission's proposals because of the way in which their estimated cost had been decreased since they were originally made. They also had reservations about the system of price reporting, which they felt should be uniform throughout the Community. The Secretary was surprised that the Germans should have chosen this commodity as the target for concern about financial effects, when they appeared to be happy to accept a price increase of 9% for milk, which cost the Community 20 times as much. The Minister pointed out that the Commission's revision of its cost estimates had arisen because of the tight market for meat within the UK, which he expected to continue, and emphasised that the existing sheepmeat regime was part of a very delicate political package which it would not be wise to disturb.

Financial Effects of Price Settlement

In a discussion which continued over lunch, it was clear that the Germans were less suspicious of the Commission's new basis for estimating the cost of their proposals than the UK side. Herr Rohr said that they had two clear requirements; first, a clear declaration that expenditure on the CAP would remain in "a given financial frame"; and secondly, that the increase of agricultural costs would be less than the increase in own resources. / Dalsager's presentation of likely expenditure in 1983 indicated that these two criteria would be met.

Herr Rohr said that

Mediterranean Regime

Herr Rohr said that the Germans' main reason for resisting a link between the price fixing and changes in the Mediterranean Acquis was that such a link would cause unacceptable delays in the price fixing, even though changes were essential in order to make progress in the negotiations with Spain. There were no proposals on olive oil and discussion of the UK suggestions could take months. There was a wide gap on wine and negotiations had not yet started on fruit and vegetables. Herr Rohr felt that the best approach would be to find a solution for fruit and vegetables, to fix a date for agreeing on changes in the wine regime, with the current proposal for exceptional distillation being regarded as sufficient for the time being; and to take no decision regarding olive oil. Neither the Commission nor the majority of member states were seeking rapid movement in this sector. In reply, the Minister pointed out that all the basic data were known and that the price fixing could be facilitated if progress were made on Mediterranean products. A united front between Germany and the UK could give a new initiative to reform with the potential for very large savings, but if the opportunity were not taken now it might not recur.

Wine Distillation

Pressed by the Minister about the absence of German support for the UK line at the Council on 15-17 March, Herr Rohr said that it was difficult to oppose a measure that would resolve a dispute between France and Italy. The problem arose because there was no common alcohol policy and, with the German industry small and concentrated in the form of a state monopoly the domestic German interest was not strong.

Robert Lane

R LOWSON
22 March 1982

Mr Stapleton + 1

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Ms Nason
Mr Clements
Mr Lebrecht
Mr Robbs

Mr Andrews
Mr Kelsey
Mr Dixon
Mrs Archer
Mr Myers
Mr Wilson

Mr Hadley
Mr Parkhouse
Mr A J Coles (10 Downing St) ✓
Mr J O Kear (Treasury)
Mr F N Richards (FCO)
Mr Pooley (UKREP Brussels)
Mr Smith (H M Embassy Bonn)

24 MAR 1982

Mr Cates

To see

W 22/3



LM 19/3

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 19 March 1982

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

mt

A & C. 22/3

h.c.

Dr Peter

CAP PRICES AND FARM INCOMES

TPM'd

Thank you for your letter of 15 March about CAP prices and farm incomes.

Whatever our differences about comparisons between movements in farm incomes and industrial profits, or about the likely impact of farm support measures in increasing total net employment, we are, I think, as one in wanting to keep the concessions we have to make on CAP price increases, in order to get a budget settlement, as small as possible. And we also agree that, in considering our position on a green pound revaluation, we must look to achieve a fair balance between the competing requirements of bringing down the rate of inflation (and thus minimising the impact on the consumer), and of sustaining the incomes and profitability of the farm producer. Where to strike this balance will depend crucially on the likely final outcome on CAP price increases, and for that reason OD(E) is to look at the issues again before final decisions on the price fixing.

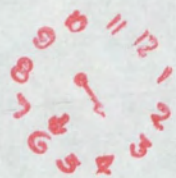
For the moment I do not think we need take these matters any further.

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

[Handwritten signature]

GEOFFREY HOWE

18 MAR 1982



*Copy filed on Germany at the Chancery Schmitt's
Vind to UK 1982*

ANGLO-GERMAN SUMMIT - 19 MARCH 1982

DISCREPANCIES BETWEEN UK AND GERMAN POSITIONS ON THE CAP PRICE-FIXING
AT AGRICULTURE COUNCIL on 15/17 MARCH

A REFORM OF THE CAP

1. FRG did not support UK in pressing for more information on the financial implications of the Commission's price proposals to ensure that the growth in agricultural spending would be held within the growth of own resources.
2. FRG did not support UK in working for an early Community position on the accession of Spain and Portugal through a link between the reform of the Mediterranean acquis and the price proposals.
3. FRG supported the continuation of the basic coresponsibility levy on milk which merely transfers cost of financing surplus to consumers and the Commission's discriminatory proposal to modulate the levy to help small producers.
4. FRG sought a larger increase in the reference price for bread wheat (minimum quality) which is the major determinant of the cost of dealing with the Community's wheat surplus.
5. FRG did not support UK in seeking a lower price for the distillation of the outstanding Italian wine surplus.

B UK INTERESTS

6. FRG took the lead in supporting the Commission's proposal to reduce the UK butter subsidy.
7. FRG supported the proposed reduction in FEOGA financing of the suckler cow subsidy.
8. FRG pressed for a limitation of the variable beef premium.
9. FRG sought to hold the cost of the sheepmeat regime, of which the UK is the major beneficiary, to the 1980 budget figure.

*Original filed on
Germany by Chanc. Schmidt's
Visit to UK 1982*

CONFIDENTIAL



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

From the Minister

PRIME MINISTER

Handwritten signature

ANGLO-GERMAN SUMMIT - 19 MARCH 1982
30 MAY MANDATE: CAP PRICE-FIXING

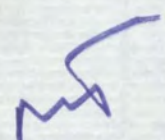
You will have seen from the reporting telegram from this week's Agriculture Council (UKREP Brussels Telno 1036 of 16 March) that in line with our agreed tactical approach Alick Buchanan-Smith made a strong statement criticising the Commission's presentation of the budgetary implications of their 1982/3 price proposals. In particular he insisted that CAP expenditure should be examined against the growth in Own Resources for 1983 compared with the 1982 Budget figures, and not on the basis of an average designed to bring in the effect of favourable world price movements in recent years. Throughout Alick's statement the German Minister, Mr Ertl, conspicuously paid no attention. And although his State Secretary, Mr Rohr, was next to speak, he gave us no support and merely asked for a general assurance that agricultural expenditure would be held within the growth of Own Resources. This despite the importance which the Germans, and Chancellor Schmidt in particular, are supposed to attach to the European Council draft guideline on agricultural expenditure.

In your talks with Chancellor Schmidt on Friday he may once again attempt to adopt a superior attitude on reforming the CAP or to cast doubts on the seriousness of our intentions. I hope that you will not hesitate to point out to him that, while you have taken a firm line on limiting the growth of agricultural expenditure which your Government takes every opportunity to press in the Council, the same cannot be said of him.

✓ I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and to Sir Robert Armstrong.

Handwritten signature
PETER WALKER

18 March 1982


2

PRIME MINISTER

I attach Mr. Walker's very brief statement about the Agriculture Council Meeting.

A very thin House produced, for the most part, entirely predictable supplementary questions. For the Opposition, Norman Buchan strongly supported Mr. Walker's position on distillation of surplus wine, and at the conclusion Gavin Strang from the front bench argued that this must be a permanent position, in order to defend thousands of jobs in central Scotland. Albert McQuarrie and Eldon Griffiths were amongst those who also expressed support on this point.

Norman Buchan, with some support from Dennis Skinner, wanted a much broader picture of the state of negotiations over CAP pricing. Mr. Walker said that this kind of meeting, at which national delegations set out their positions, had now become a regular part of the price fixing process.

The only other point worth recording was an allegation from Mr. Buchan, pursued by Ioan Evans, that Russia was buying Community wine at 5 pence per pint. Mr. Walker was unable to confirm the details.



18 March 1982



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

*Cleared by
None*

*na. (statement
with PM)*

18 March 1982

*M.P.
18/3*

Dear Mike

COUNCIL OF AGRICULTURE MINISTERS:
15 - 17 MARCH 1982

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

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

Yours sincerely

Robert Lawson

ROBERT LAWSON
Private Secretary

AGRICULTURE COUNCIL - 15/17 MARCH 1982

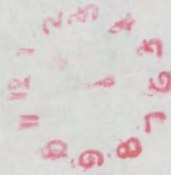
DRAFT PARLIAMENTARY STATEMENT

With permission, Mr Speaker, I should like to make a statement on the Council of Agriculture Ministers' meeting in Brussels from 15th to 17th March.

Ministers resumed their consideration of the Commission's price proposals for 1982. There were wide differences of view in the Council, but some progress was made in clarifying positions on the major products. Work will continue at the Council's next meeting on 31st March and 1st and 2nd April.

An attempt was made to reach agreement on a measure for the distillation of surplus wine into alcohol. With the support of the Netherlands and Belgium, we argued that we were unable to agree upon such arrangements until the consequences for the alcohol market had been studied and ^{until} we were sufficiently assured that there would be no unregulated sales that would have a serious impact on this country's industrial alcohol producers.

18 MAR 1982



The following information is being furnished to you for your information and is not to be disseminated outside your organization. This information is being furnished to you in confidence and is not to be disseminated outside your organization. The information is being furnished to you in confidence and is not to be disseminated outside your organization.

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Mr. Pym: I am not impressed by the suggestion that the time of the House should be taken up by the collection of refuse in Southend.

Mr. Bob Cryer (Keighley): Will the Leader of the House find time to make a statement on the proposal to sack 26 skilled film makers from the Central Office of Information? Is he aware that those film makers have contributed massively to the export drive of this country by making many prize winning films that have demonstrated the quality of our products? Does he agree that the film makers are receiving the reward of being put on the dole queue without any reason being advanced in accordance with the provisions of the Employment Protection Act? Does he agree that the Government and the Civil Service should set an example rather than undermine the legislative position? May we have a statement?

Mr. Pym: I doubt whether a statement is appropriate. That matter must be taken up with my right hon. Friends.

Council of Agriculture Ministers (Meeting)

3.54 pm

The Minister for Agriculture, Fisheries and Food (Mr. Peter Walker): With permission, Mr. Speaker, I should like to make a statement on the Council of Agriculture Ministers' meeting in Brussels from 15 to 17 March.

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Mr. Norman Buchan (Renfrewshire, West): I am grateful to the right hon. Gentleman for coming to the House, even if he did not have much to report, because it gives us the opportunity to pose a few questions.

The Opposition entirely agree with the right hon. Gentleman's opposition to the proposals to convert wine into alcohol. Quite apart from building monstrous lakes and lochs of wine at enormous cost to the British taxpayer, the proposed method of producing ethyl alcohol is expensive, and we must protect our own producers, not least those in Scotland.

Will right hon. Gentleman clarify whether the Soviet Union is purchasing wine from the EEC for 5p a pint?

The statement raises a serious issue. Did nothing happen at the meeting? The *Financial Times* today tells us that not one iota of what was said was new and that the Minister was simply marking time. How much more time will he take? Is he not playing the game wrongly? Rather than allying with those attacking the French, who are attempting to operate national aids, should he not seize the opportunity to open up the Market's tight and stringent regulations to achieve some flexibility, secure independent operation and proper national aids in Britain, support the industry where it should be supported, and thereby give some comfort to our consumers?

Mr. Walker: I thank the hon. Gentleman for his opening remarks. It is right at this time of year, even if there is little to report, to give the House the opportunity to ask some questions. I note the hon. Gentleman's Scottish influence. He is now converting lakes into lochs. We will take that into account in future wording.

With regard to the meeting, as with the previous Government, it is traditional that, before the main attempt to get a price fixing, there should be a meeting at which the various member countries set out their positions and main demands. It was expected that this meeting would be of that kind.

I disagree with the hon. Gentleman about national aids. As he knows, Britain operates legitimate national aids. National aids to hill farms are much better under this

to the Leader of the House, but the hon. Member for Mid-Sussex (Mr. Renton) serves on Standing Committee G together with me and 20 other hon. Members under the Chairmanship of the hon. Member for Plymouth, Drake (Miss Fookes). He raised that matter this morning, at the beginning of our proceedings and made charges of delay—

Sir Derek Walker-Smith (Hertfordshire, East) *rose*

Mr. Speaker: Order. The right hon. and learned Member for Hertfordshire, East (Sir D. Walker-Smith) cannot raise a point of order when the right hon. Member for Chesterfield (Mr. Varley) is raising one. However, hon. Members cannot refer to what has occurred in Committee before it has reported to the House.

Mr. Dennis Skinner (Bolsover): The right hon. Member for Mid-Sussex (Mr. Renton) did.

Mr. Speaker: Order. I do not wish to enter into an argument with the hon. Member for Bolsover (Mr. Skinner), but I am sure that the right hon. Member for Chesterfield will make his point.

Mr. Varley: The hon. Member for Mid-Sussex raised this very matter today and the hon. Member for Plymouth, Drake (Miss Fookes) ruled on it. She told the Committee and the hon. Gentleman—

Mr. Speaker: Order. I am sorry, but it is out of order to refer to what has happened in a Standing Committee before it reports. It is also out of order to charge hon. Members with being part of a conspiracy. I am sure that the hon. Member for Mid-Sussex (Mr. Renton) realises that hon. Members do not conspire for such purposes. I just wish to make that clear.

Mr. Pym: I do not know about conspiracies, but if delaying tactics are being employed it is wrong to describe them as an abuse of our procedures. They are perfectly legitimate. Whether they are wise or will serve the interests of the House or those whom we represent is another matter. I hope that we can make proper and satisfactory progress with this important Bill. I hope that it will conclude its Committee stage in a normal and proper manner so that further aspects of it can be considered on Report.

Mr. Varley: Has the attention of the Leader of the House been drawn to the fact that the Secretary of State for Employment has made it known that he will not accept any amendments to the Employment Bill? How can we make progress when the Government are obdurately telling us that in no circumstances will they listen to our representations or amend the measure?

Mr. Pym: I note what the right hon. Gentleman says. I am not aware of the comment to which he refers. It may be that my right hon. Friend the Secretary of State for Employment was just telling the Committee in advance what his attitude would be. It is neither right nor in order to discuss here the progress in Committee.

I hope that the Committee stage will be completed in a normal manner so that the remaining stages of the Bill can be taken on the Floor of the House in reasonable time to ensure that it reaches the statute book by the end of this Session. That is the Government's declared intention.

Mr. Renton *rose*—

Mr. Speaker: Does the hon. Member for Mid-Sussex (Mr. Renton) wish to refer to my ruling?

Mr. Renton: If you consider that my use of the words "conspiracy of delay" was unparliamentary, Mr. Speaker, I certainly withdraw it.

Mr. Ken Weetch (Ipswich): Will the Leader of the House provide an early opportunity for the Government to make a statement about early day motion 313?

[That this House deplores the deeply offensive and provocative action of the Israeli authorities in issuing a stamp glorifying the assassins of the British Minister resident in the Middle East, Lord Molyne.]

Does he agree that a statement would be appropriate so that the House might hear the Government's view about the Israeli Government's issuing of commemorative stamps in remembrance of the assassination of a British Minister?

Mr. Pym: I have to say "Not next week."

Mr. Dennis Skinner (Bolsover): Does the Leader of the House agree that it is reasonable to make a statement about the privatisation of refuse disposal and collection services by Southend council in view of the early day motion and the amendment, signed by many hon. Members?

[That this House offers congratulations to the Council of the Borough of Southend on Sea for having announced an unchanged borough rate on 15th February 1982, despite inflation and a cut in Government grant, particularly when this unchanged rate follows a reduction in the borough rate last year; notes the benefits which Southend ratepayers are now enjoying from the policy of privatisation pioneered by the council; urges borough councils throughout the United Kingdom to follow the policies of prudence, enterprise and privatisation which have proved themselves in Southend on Sea; and urges Her Majesty's Government to take steps to ensure that ratepayers are levied separately by boroughs and counties so that ratepayers can assess more readily the cost to them of the services provided by each level of local government.]

[Line 1, leave out from 'House' to end and add 'condemns the Tory-controlled Southend Council for deceiving the Southend ratepayers by initially agreeing to a contract to have refuse cleared by Exclusive Cleaning Ltd. from all newly-built homes in Southend at the rate of £15 per hundred dwellings and after the tender had been accepted to change the contract to one of £15 for each new dwelling; draws attention to the fact that Exclusive Cleaning Ltd. did not submit the lowest tender and that some assets of the Southend Council cleansing department were virtually given away; and condemns the British Broadcasting Corporation on their 'Nationwide' programme about Southend on 15th February when it failed to point out any of these matters in a blatantly free-enterprise, Saatchi and Saatchi-type production.']

Does the right hon. Gentleman agree that there should be a statement about the need for a public inquiry when a Tory council has handed over a contract to a firm, one of the directors of which is a leading Tory councillor in a neighbouring authority? Is he aware that the tender was not the lowest and that many of the vehicles were almost given away? Is he further aware that the contract was changed to the benefit of the firm after the tender had been accepted by the Tory council? Bearing in mind that the refuse collection yard was almost handed over free to Exclusive Cleaning Limited, does the Leader of the House agree that there should be a statement and a public inquiry?

Government than they were under the Labour Government. It is our policy to continue that assistance. The aids, which are agreed by the Commission, do not violate the laws of fair competition within the Community. However, our view is that the aids operated by the French are designed purely to give them an advantage over British goods in the market place.

Mr. Buchan: Is it not time that we were given a fairly full disclosure of the nature of the discussions taking place? The Minister still has not told us about that. We have to pick it up from Edith Cresson or President Mitterand. We have no way of knowing whether what they say is correct. It would be useful if the Minister could tell us whether the overall budget is holding matters up. Will he at some time give us a fuller picture? If not, he will understand that next Wednesday we shall have to explore the matter in some depth.

Mr. Walker: Traditionally, before a major price fixing meeting, there is a debate in the House. That debate will take place next Wednesday. The degree to which I report the details of the discussions takes into consideration the patience of the House.

Mr. Albert McQuarrie (Aberdeenshire, East): My right hon. Friend will be pleased to know that members of the National Farmers Union of Scotland are delighted at the strength of his opposition to the demands of other member nations. Will he give a firm undertaking to continue that opposition in order to achieve a proper price review to the satisfaction of the British farming industry?

Mr. Walker: Clearly, the object is to obtain a price fixing which takes into consideration the balance of interest between farmers and consumers and their mutual interest in ensuring that production in this country continues at a suitable pace. That will be our objective in the negotiations.

Mr. John Evans (Newton): Will the Minister answer the question asked by my hon. Friend the Member for Renfrewshire, West (Mr. Buchan) as to whether the Russians are buying wine from the EEC at 5p per pint?

Mr. Walker: I do not know the details of the most recent negotiations, but wine has been sold to the Soviet Union, as it has been for many years.

Sir Marcus Kimball (Gainsborough): Is my right hon. Friend aware that, however long, protracted and even alcoholic the negotiations may be, any revaluation of the green pound would be unacceptable to the industry and, I suspect, to Conservative Back Benchers?

Mr. Walker: I think that the Government's reversal of the green pound policy has been of considerable benefit to British agriculture and to the economy as a whole. That is why we have made it clear that the Commission's proposals to revalue the green pound are entirely unacceptable.

Mr. Tom Ellis (Wrexham): Does the right hon. Gentleman accept that one of the most effective and practical ways of reforming the CAP would be to ensure that proposed price increases are below prevailing rates of inflation? Will he try to establish a general rule that no individual price increase should exceed the minimum rate of inflation in any Community country?

Mr. Walker: I think that it is wrong to make a rule about every commodity, as there may be times when it is

of advantage to depart from it, but during the Government's period of office price increases in the annual price fixing have been well below the annual rate of inflation and below the inflation in food prices and wages in the same period.

Mr. David Crouch (Canterbury): I congratulate my right hon. Friend on his strong line on a matter in which British Agriculture Ministers are often less interested. There could have been a trade-off if the Minister had been more interested in apples, lamb and butter. I am glad that we have a British Minister who is concerned about wine. Many millions of gallons are involved. If the proposal had been accepted, the weight of alcohol would have greatly disturbed the balance of production opportunity for industrial alcohol in this country. It is a very serious matter. Will my right hon. Friend consider putting to the other members of the Council, when he meets them again at the end of the month and in April, the suggestion that this alcohol could be turned to uses other than wine, such as food or possible admixture with petrol?

Mr. Walker: We have already made it clear to the Council that we believe that there are better methods of disposing of the surplus than that at present envisaged. We have suggested conversion into animal foodstuffs—a project that one major British company has developed to quite a high degree. The rather ill prepared proposals before us in the past two days were not agreed, because in that form they could have done considerable damage to British industry.

Mr. Stanley Newens (Harlow): Was the equalisation of fuel costs to glasshouse growers discussed? If not, can the Minister give us any information about current progress on this vital issue?

Mr. Walker: I know that the hon. Gentleman has a great interest in this topic. Bilateral talks and negotiations on this matter took place with Denmark, the United Kingdom, France, Germany and Holland. Having had talks, the Commissioner reported that he felt that there was no reason why agreement should not be reached within the next week and that he would report to the Commission to that effect next week.

Mr. John Farr (Harborough): Was any progress made towards solving the problem facing British producers with regard to the co-responsibility levy? Secondly, was any progress made on the illicit aid of more than £500 million given by the French to their farmers?

Mr. Walker: Discussions took place on the co-responsibility levy. We made it clear that we opposed the giving of any preference to smaller producers and that on balance we favoured abolition of the levy and a lower price for milk. That view, however, was not shared by the Commission or by many member States. Nevertheless, we made it clear that that was the United Kingdom's position.

On French national aid, since I last reported to the House the Commission has announced that it has commenced legal proceedings against the French Government.

Mr. Dennis Skinner (Bolsover): Will the Minister get away from all these obscure answers and tell us straight what is happening? Will he guarantee that there will be no overall increase in prices greater than that offered for nurses' wages? If a Treasury Minister can say that, because of the recession and other problems caused by the

[Mr. Dennis Skinner]

Government, nurses can have no more than 6 per cent. as that is in the so-called national interest, why should another Minister go to the Common Market and agree with Sir Henry Plumb, leader of the Tories in the European Assembly, to a possible deal of 16 per cent. or a patched-up deal of just below the inflation rate of 12 per cent.? Why does he not tell him that he cannot have more than 4 per cent.?

Mr. Walker: First, I am glad to say that during the Government's period of office nurses' incomes have risen very much more than those of farmers. [HON. MEMBERS: "Oh."] Secondly, I shall not agree any price increases which would raise the food price index to anything like the levels that occurred under the Labour Government.

Several Hon. Members *rose*—

Mr. Speaker: Order. I shall call those hon. Members who have been rising in their places.

Sir Anthony Meyer (Flint, West): Is my right hon. Friend aware that there is great sympathy for the almost impossible task that he faces in seeking to protect the long-term interests of British farmers and consumers within the framework of the extremely complicated budget negotiations, which are greatly affected by his own private set of negotiations? Is he further aware that support for his firm stand will extend to any further steps that he may take to achieve agreement?

Mr. Walker: I am grateful for my hon. Friend's support. As always, it is a difficult negotiation of great importance to the agriculture industry and to the British economy as a whole.

Mr. Robert Parry (Liverpool, Scotland Exchange): Has the Minister received any representations from the heads of our oil industry about the EEC and economic problems? What plans has he to protect the industry?

Mr. Walker: I have made it clear that in no circumstances will we agree to a tax on oil.

Mr. David Myles (Banff): As the talks drift closer to the start of the livestock marketing year, I am sure that my right hon. Friend is aware of the concern of livestock

producers about the level of support for the next marketing year. Will he make a statement on any alteration in prices and the date for which it will apply?

Mr. Walker: I cannot give assurances about dates from which anything will apply as I do not know when agreement will be reached. However, I can give assurances that the livestock sector in this country will continue to obtain substantial benefit from the sheepmeat regime. The Commission, at our behest, has advocated continuation of the beef premium scheme, so important assurances can be given to British livestock producers on both those matters.

Mrs. Elaine Kellett-Bowman (Lancaster): Does my right hon. Friend agree that a formula connecting the revaluation or devaluation of green currencies with national inflation rates would be fair both to member States and to farmers and consumers?

Mr. Walker: I know that such a proposal has been floated in the European Parliament. Certainly, it would be most unfair to British farmers to have a revaluation which in real terms would give British farmers a far lower increase than those of other countries in Europe.

Mr. Eldon Griffiths (Bury St. Edmunds): Will my right hon. Friend in his discussions take account of the small but growing wine industry in this country, which is improving in quality, especially in the Eastern counties? With regard to his answer about Soviet wine purchases, is he aware that the Soviet Union actually sells wine to the EEC—although I regret to say that some of it has been used as paint remover?

Mr. Walker: Unlike my hon. Friend, I am not a connoisseur of Soviet wines, nor, I must confess, of English wines either, but I hope they will improve, expand and have great success.

Mr. Gavin Strang (Edinburgh, East): Will the Minister ensure that the proposal to convert wine into industrial alcohol, at huge cost to the British taxpayer and other taxpayers, is totally rejected? Is he aware that it threatens thousands of jobs in this country, particularly in central Scotland? May I make it clear to him that there must be a permanent solution if we are to secure future important investment in this area?

Mr. Walker: I am grateful for the hon. Gentleman's support for the view and stand that we take on this issue.

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



Prime Minister

From the Minister

A.F.C. 15/3

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

A.F.C. 24/3

15 March 1982

h.a.

Thank you for your letter of 8 March on the subject of CAP prices.

I believe it is misleading to compare farm incomes simply with profits in manufacturing industry and commerce since farm incomes have to provide a return to the farmer for his labour and management as well as any return on capital invested in the business. Although it is difficult to allocate income to these various factors it must be the case, assuming a reasonable return to the labour and management effort, that scarcely any return to farmers' own invested capital has in fact been achieved over the last year or so.

Therefore a comparison of profits, narrowly defined, from farming and manufacturing could well lead to the opposite conclusion from that you have drawn. Concerning employment, there is no dispute that this has "held up more strongly" in agriculture than manufacturing, a development I would have thought was to be welcomed. Even so, numbers in farming have declined by about 6 per cent since 1978 and although appreciably less than the 16 per cent fall for manufacturing, this can surely be no reason for jeopardising future farming output and employment by decisions taken over the next month or so.

I also question your argument that jobs retained in agriculture as a result of the price settlement would be offset by losses elsewhere in the economy arising from diversion of consumer expenditure from consumer durables etc to food purchases. This seems to ignore the fact that at the margin probably more than half of consumers' expenditure is devoted to imported items whereas agriculture's propensity to import is relatively low. I would also add that

/given stability ...

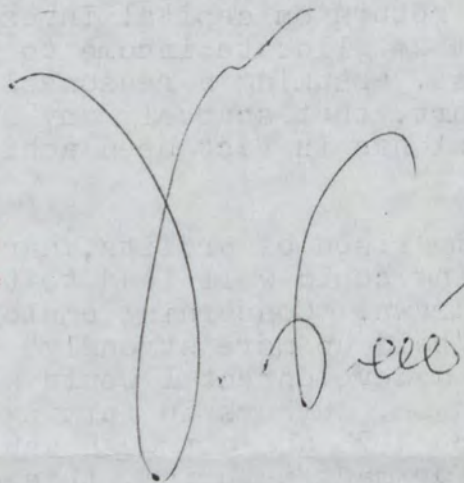
given stability of demand for food a change in domestic farm output would almost inevitably be reflected in the current account. I, of course, fully accept the need to bring down the rate of inflation. And agriculture has made a significant contribution to the recent slowing down you describe, a contribution which is associated with the pattern of depressed farm income figures. Such a contribution cannot continue indefinitely without further severe damage to investment and the industry's future viability. I therefore believe the time has come when the industry must be allowed to recover some of the lost ground.

Concerning your statement that the fundamental cause of inflation and unemployment has been the burden of public sector borrowing and public expenditure, this seems to me too definite a statement. The oil price increase and the power of the unions to extract a higher return for labour than the market would bear have surely been important factors. But the real causes of the nation's employment problem are difficult to disentangle, a fact which underlies the Prime Minister's commissioning of a study by CPRS into this matter.

I am copying to Members of the Cabinet and to Sir Robert Armstrong.

15 MAR 1962

10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31



PETER WALKER

Nationalised Industries (Performance)

Mr. Teddy Taylor asked the Prime Minister if she is satisfied with the performance of the nationalised industries towards the fulfilment of the targets set by Her Majesty's Government.

The Prime Minister: There is always room for improvement.

Race Relations

Mr. Stanbrook asked the Prime Minister whether it is the policy of Her Majesty's Government to designate a Minister in each Department as specifically responsible for race relations; and if she will make a statement.

The Prime Minister: No. My right hon. Friend the Home Secretary is responsible for these matters in so far as the Government have a role. Ministers in charge of some other Departments have an interest, and I leave it to my Cabinet colleagues to make their own arrangements for the allocation of work between junior Ministers in their Departments.

Common Agricultural Policy

Mr. Garel-Jones asked the Prime Minister which Government Department has responsibility for United Kingdom participation in the common agricultural policy regimes for tobacco, cotton, flax, hemp and silkworms.

The Prime Minister: The Agriculture Ministers have, with effect from 5 March 1982, assumed responsibility for the EC common agricultural policy regimes in these commodities, and will act as sponsor Department for United Kingdom producers, if any. The Secretary of State for Industry will continue to have general policy responsibility for these commodities and there will be close liaison between all the Departments to ensure that full account is taken of the interests both of any United Kingdom producers and of the user industries.

ENERGY

Gas Explosions

Mr. Skeet asked the Secretary of State for Energy how many gas explosions have occurred in homes and commercial industrial premises which were attributable to the use of natural gas.

Mr. John Moore: For the five years from 1977 to 1981, a total of 484 explosions attributable to the use of natural gas occurred in homes and commercial and industrial premises, of which 146 were caused by gas leaking into the premises from outside.

Gas Levy

Mr. Henderson asked the Secretary of State for Energy what changes he proposes to make to the gas levy and to the British Gas Corporation's external financing limit in respect of the freeze on industrial gas prices announced by the Chancellor of the Exchequer in the Budget.

Mr. Lawson: I intend to lay before the House shortly an order under the Gas Levy Act 1981 to reduce the rate of the levy by 1p per therm in 1982-83. This reduction will compensate the British Gas Corporation for the effect on

its profits of both the freeze on industrial contract prices announced on 9 March, and the similar freeze announced in last year's Budget. The corporation's external financing limit for 1982-83 is being reduced by £73 million to minus £75 million to allow for the adjustment in respect of the earlier freeze.

Combined Heat and Power

Mr. Cook asked the Secretary of State for Energy what progress has been made on the development of combined heat and power since the publication of energy paper No. 35.

Mr. Mellor: Government action following the recommendations of the Marshall group contained in energy paper No. 35 was announced by my right hon. Friend the Secretary of State on 2 April 1980. Further announcements about progress with the combined heat and power district heating feasibility programme were made by my hon. Friend the Under-Secretary of State on 7 August 1980, 12 March 1981 and 23 June 1981. Work on the feasibility programme is taking a little longer than originally envisaged, but our lead consultants on the programme now expect to present their report in April 1982.

DEFENCE

Republic of Ireland Citizens

Mr. Marlow asked the Secretary of State for Defence how many citizens of the Republic of Ireland are currently serving in Her Majesty's Forces.

Mr. Wiggin: There are 687 Service personnel who, at the time of their entry to the Army and Royal Air Force, held citizenship of the Irish Republic and no other citizenship. Figures for the Royal Navy are not available. All citizens of the Republic of Ireland who join the British Armed Forces are required to register as citizens of the United Kingdom and Colonies on entry.

RAF Kemble

Mr. Needham asked the Secretary of State for Defence if he will make a statement about the future of RAF Kemble.

Mr. Wiggin: The studies into the feasibility of transferring tasks from RAF Kemble have been completed and the findings were made available to the trade unions sides, with whom full consultations have taken place, and other interested parties on 1 December 1981.

It has now been concluded that it would be feasible to redeploy the aircraft servicing and storage tasks carried out by No. 5 maintenance unit from RAF Kemble at RAF Abingdon, RAF St. Athan and RAF Shawbury. A decision about the new location for the RAF aerobatic display team must await the outcome of other deployment studies, but no difficulty is foreseen about finding a suitable alternative base. It is therefore planned to close RAF Kemble by 31 March 1983. Considerable financial savings will accrue as a result of closure.

Every effort will be made to minimise the number of redundancies resulting from the closure and also actively to encourage other potential uses for the facilities.



A.J.C. 2/3.

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 8 March 1982

h.a.
MR 10/3.

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

mt

Dear Peter

Thank you for your letter of 19 February, about CAP prices and their effect on farm incomes.

The fact that real net farm incomes have fallen from the high levels reached in the mid-1970s, following our accession to the EC, is both unwelcome and regrettable. But the fall in real incomes is not a phenomenon peculiar to the farm sector, still less to the farm sector in this country. There was indeed no way in which either our farmers or other parts of the economy could have been guaranteed full protection against the combination of high inflation and the world recession that followed our return to office. The fact is, as you will know from our earlier discussions, that both farm incomes and employment held up more strongly in recent years than have profits and employment in manufacturing and commerce generally. Most recently in 1981 farm incomes stabilised at a time when profits in manufacturing and commerce were still falling.

I certainly recognise that we will need, this year as every year, to take account of the impact of our decisions on farmers' incomes. As I understand it, a net price increase of the order of 6-7 per cent would be sufficient to prevent a further erosion of real farm income in 1982. We should, however, be under no illusions as to the job-saving effects of the CAP price increases. To the extent that these price increases syphon off from the consumer money which would otherwise have been spent on other goods and services, then any jobs saved in agriculture will be likely to be at the expense of jobs lost elsewhere in the economy. And, unlike increases in nationalised industry prices, the loss to the consumer is not offset by any saving to the taxpayer; on the contrary, our net contributions to the Community Budget will go up as a result.

/The main point



The main point of my earlier minute, which I now repeat, is simply that there are other relevant considerations as well as farm income levels. One is, of course, to resist price increases which will make the problems of CAP surpluses even worse. My chief concern, however, is that this year's CAP price package should contribute to the present slowing down in the rate of inflation and not retard it. For that reason, when we come to take our decisions on the price settlement and on the question of a green pound revaluation, we must pay full regard to the impact on consumers and on the domestic price level.

Your letter also mentioned the rate of increase in different components of the retail price index. It is certainly true that public sector prices have tended to rise more rapidly than the average. This has in part been due to factors which, despite all our efforts, we have not been able to control, such as excessive increases in local authority rates, or to the more than doubling of world oil prices in 1979 and 1980, which had a disproportionate impact on nationalised industries' prices.

A second factor has been our agreed policy decision to remove the apparatus of artificial restraints we inherited and to return to economic pricing across the nationalised industries as a whole. (This policy of removing distortions which has kept prices artificially low was, as you will recognise, paralleled in the agriculture sector by our rapid devaluation of the green pound in implementation of the Manifesto commitment to remove negative MCAs). The removal of distortions of this kind inevitably involves painful adjustment. But the alternative could only have been a further growth in the burden on the taxpayer, which was estimated to be costing at least £1 billion a year when we came into office. This extra burden could only have been financed through higher taxation or higher interest rates. I frankly cannot see how either of these courses was to have been preferred. The burden on our productive industry, and so on employment, as well as on the household sector, would in the end have been no less; and the misallocation of resources inherited from our predecessors would have continued.

The two factors I have described have now largely worked their way through; and the rate of nationalised industry price increases started to fall back quite quickly in the second half of last year, coming more closely into line with the retail price index. To sustain this progress will depend on the industries' ability to control their current costs, including pay; hence our continuing efforts to promote efficiency throughout the public sector.

/For, as we all agree,

CONFIDENTIAL



For, as we all agree, it is the heavy burden of public sector borrowing and public expenditure that has been the root cause of the inflation and the unemployment which the Government's policy is designed to reduce.

I am copying this letter to Members of the Cabinet and to Sir Robert Armstrong.

Handwritten signature and initials, possibly "J. H." or similar, written in dark ink.

GEOFFREY HOWE

3 MAR 1982

12 2 3 4 5 6 7 8 9



10 DOWNING STREET

From the Private Secretary

5 March 1982

Ministerial Responsibility for the CAP Regimes
for Tobacco, Cotton, Flax and Hemp and Silkworms

The Prime Minister has seen your Secretary of State's minute of 4 March, in which he proposes that responsibility for the CAP regimes described above should be transferred to Agriculture Ministers. The Prime Minister is content for this transfer of responsibility to go ahead, and for it to be announced by means of an arranged Parliamentary Answer, on the lines of the draft attached to your Secretary of State's minute.

I am sending a copy of this letter to Robert Lawson (MAFF), Stephen Boys-Smith (Northern Ireland Office), Muir Russell (Scottish Office), John Craig (Welsh Office) and David Wright (Cabinet Office).

W. F. S. RICKETT

Ms. Caroline Varley,
Department of Industry.

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IMMEDIATE

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~~MR HULLARD~~

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MR HANNAY
LORD BRIDGES

HD/.W.E.P..

Mr Goodison

HD/.....

HD/.....

PS/No 10 DS

CABINET OFFICE

D O T

PLUS OGDS

MR D HANCOCK
MR D M ELLIOTT
MR A M GOODENOUGH
MR S WENTWORTH
MR J RHODES

H M TREASURY

M A F F

SIR K COUZENS
MR G E FITCHEW

SIR B HAYES
MR D H ANDREWS
MR M HADDON
MR M RING
Mr Stapleton

ant

CONFIDENTIAL

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TO IMMEDIATE FCO

TELEGRAM NUMBER 195 OF 05 MARCH

AND TO ROUTINE UKREP BRUSSELS AND PARIS

FISCHER/BRIDGES TALKS: AGRICULTURAL PRICE FIXING

1. FISCHER REPORTED ON THE FRANCO-GERMAN CONSULTATIONS ON 24 FEBRUARY THE FRENCH SAID THAT IT WAS ESSENTIAL FOR THE PRICE FIXING TO BE COMPLETED ON TIME, I E ON 1 APRIL BUT THEY RECOGNISED THAT DIFFICULTIES WITH THE MANDATE MIGHT PREJUDICE ATTAINING THAT OBJECTIVE. IN THAT CASE THERE WOULD BE A CHOICE OF FOUR COURSES OF ACTION:

- (I) REACHING AGREEMENT ON PRICES INDEPENDENTLY OF THE MANDATE:
- (II) IF THAT WAS NOT POSSIBLE AND ONE MEMBER DISAGREED THE POSSIBILITY OF REACHING AGREEMENT BY A VOTE, FOR WHICH THERE WAS PROVISION IN THE TREATY, COULD BE EXAMINED:
- (III) MEMBER STATES MIGHT AGREE TO ACCEPT A CERTAIN PRICE LEVEL AND BE PERMITTED TO APPLY IT, THOUGH THERE MIGHT BE LEGAL PROBLEMS:
- (IV) MEMBER COUNTRIES COULD FOLLOW PURELY NATIONAL SOLUTIONS.

~~(IV) MEMBER COUNTRIES COULD FOLLOW PURELY NATIONAL SOLUTIONS.~~
FISCHER SAID THE GERMANS HAD NOT PURSUED THAT DISCUSSION AND HAD STRESSED THE IMPORTANCE THEY ATTACHED TO GIVING FIRST PRIORITY TO THE SEARCH FOR AGREEMENT BY THE TIME OF THE EUROPEAN COUNCIL ON THE GUIDELINES.

2. ON THE GERMAN POSITION, VAN EDIG (AUSWAERTIGES AMT) SAID THAT MINISTERS HAD NOT YET REACHED A DECISION BUT THAT OPINION AT OFFICIAL LEVEL WAS THAT THOUGH HIGHER THAN DESIRABLE, THE LEVEL PROPOSED BY THE COMMISSION WAS NOT UNREASONABLE. FROM THE POINT OF VIEW OF FARMERS' INCOMES, THE COMMISSION'S PROPOSALS WERE IN GENERAL SATISFACTORY THOUGH AS FAR AS GERMANY WAS CONCERNED THE LEVEL OF ANY ADJUSTMENT TO THE MCA WOULD BE CRITICAL. THEY COULD NOT ACCEPT IN FULL WHAT THE COMMISSION PROPOSED. THE GERMANS THOUGHT THE CO-RESPONSIBILITY PROPOSAL WAS A GOOD STARTING POINT BUT THAT GREATER PRECISION WAS NEEDED AND, IN REGARD TO SURPLUSES, GREATER AUTOMATICITY. AS FAR AS EXPORTS WERE CONCERNED, ON THE QUESTION OF IMPORTING CEREAL SUBSTITUTES, AN ESSENTIAL PREREQUISITE WAS FOR THE COMMISSION TO CONDUCT EXPLORATORY TALKS. ON TIMING, THE GERMANS FEARED THAT UNLESS THE PRICE FIXING WAS COMPLETED ON TIME PRESSURE ON GOVERNMENTS WOULD GROW TO AN INTOLERABLE LEVEL THAT COULD PROVOKE SOCIAL UNREST AND LEAD TO THE ADOPTION OF NATIONAL MEASURES. ON THE FINANCIAL IMPLICATIONS, THEY THOUGHT THAT IT OUGHT TO BE POSSIBLE TO GET THROUGH 1982 WITHOUT A SUPPLEMENTARY BUDGET BUT WERE MUCH MORE SCEPTICAL ABOUT THE 1983 FIGURES AND WONDERED WHETHER, TAKING INTO ACCOUNT THE NEED FOR COMPENSATION FOR BRITAIN, THE 1 PERCENT CEILING COULD BE RESPECTED. THEY PROPOSED TO ASK THE COMMISSION FOR A CLEAR OPINION. IN SUBSEQUENT DISCUSSION, VAN EDIG ACKNOWLEDGED THAT A MORE SENSIBLE WAY OF APPROACHING THAT QUESTION MIGHT BE TO ASK THE COMMISSION WHETHER THEIR PROPOSALS WERE *must be* IN KEEPING WITH THE POLICIES OF PRUDENT PRICING AND KEEPING THE GROWTH OF AGRICULTURAL EXPENDITURE BELOW OWN RESOURCES AS OUTLINED IN CHAPTER 2 OF THE MANDATE. WITH REGARD TO THE FRENCH INSISTENCE THAT THE MEDITERRANEAN ACQUIS ON WINE, FRUIT AND VEGETABLES SHOULD BE DISCUSSED IN THE PRICE FIXING, VAN EDIG ALSO TOOK THE POINT THAT IN AGREEING TO INCLUDE THAT IN THE PRICE FIXING, THE PROSPECTS FOR EARLY OPENING OF NEGOTIATIONS WITH THE SPANIARDS AND PORTUGUESE UNDER THIS HEAD THE CONTEXT OF ENLARGEMENT, WOULD BE IMPROVED AND IN CONSEQUENCE, THE DANGER OF A SEPARATE NEGOTIATION, SUBSEQUENT TO THE PRICE INCREASE, WITH THE FRENCH, WHICH MIGHT HAVE THE EFFECT OF MAKING THE MEDITERRANEAN ACQUIS MUCH MORE COSTLY, COULD BE AVOIDED.

3. WITH REGARD TO CEREALS, VAN EDIG SAID THAT THE FINAL INCREASE AND THE IMPACT OF FARMERS' INCOME HAD TO BE SEEN IN THE CONTEXT OF WHAT WAS AGREED ON THE MCAS. A DECREASE IN REAL TERMS IN CEREAL PRICES WOULD MAKE THEM MORE COMPETITIVE IN WORLD MARKETS.

OF WHAT WAS AGREED ON THE MCAS. A DECREASE IN REAL TERMS IN CEREAL PRICES WOULD MAKE THEM MORE COMPETITIVE IN WORLD MARKETS.
4. IN RESPONSE TO A QUESTION FROM HANCOCK ON THE PROSPECTS FOR FARMERS' INCOMES IN THE HIGH INFLATION COUNTRIES AND HOW THAT PROBLEM SHOULD BE DEALT WITH, VAN EDIG SAID THAT THE GERMANS ATTACHED IMPORTANCE TO MAINTAINING THE COHERENCE OF THE CAP AND THOUGHT THAT THE ONLY POSSIBILITY OF A SOLUTION TO THAT VERY DIFFICULT PROBLEM LAY IN THE CONTINUATION OF ADJUSTING GREEN PARITIES AND ADOPTING SPECIAL MEASURES IN THE CASE OF IRELAND AND GREECE FOR WHOM MCA ADJUSTMENT WOULD PROVIDE NO SOLUTION.

FCO PASS ADVANCE COPIES TO:

ANDREWS MAFF

STAPLETON MAFF

WENTWORTH CABINET OFFICE

FITCHEW TREASURY

TAYLOR

NNNN

SENT AT 05/2055Z DW

END OF MESSAGE

EXCLUDED TO THE DEPARTMENT OF AGRICULTURE BY THE LINE OF THE DIVISION
AND THE DEPARTMENT OF THE ENVIRONMENT LOCAL BUREAU TO GIVE A COPY
TO THE DEPARTMENT OF THE ENVIRONMENT AND THE DEPARTMENT OF THE ENVIRONMENT
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PRIME MINISTER

Prime Minister 1 *SI*

Content for this transfer of responsibility to go ahead, and to be announced by means of the attached ?

Yes
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4/3

MINISTERIAL RESPONSIBILITY FOR THE CAP REGIMES FOR TOBACCO, COTTON, FLAX AND HEMP AND SILKWORMS

Peter Walker and I have agreed, subject to your approval, that responsibility for the EC Common Agricultural Policy (CAP) regimes for tobacco, cotton, flax, hemp and silkworms should be transferred to the Agriculture Ministers (though general policy responsibility for these commodities is to remain with my Department). A copy of the memorandum of understanding setting out the terms of the proposed transfer is attached.

2 We believe that it is right to make this change because decisions on price fixing under the CAP are determined primarily by agricultural policy considerations, in respect of which the expertise and financial responsibility lie in MAFF. Further, it is the Agriculture Ministers who represent UK interests at EC agricultural meetings.

3 If you agree I suggest that the transfer could be announced by means of an arranged Parliamentary Answer, on the lines of the attached draft.

4 I am sending copies of this minute and of the attachments to



Peter Walker, Jim Prior, George Younger, Nicholas Edwards and to
Sir Robert Armstrong.

PJ

P J

4 March 1982

Department of Industry



Ms Hayter
Please type up the
necessaries for answer on Wednesday.

TGR
8/3

DRAFT (22.2.82) PARLIAMENTARY QUESTION AND ANSWER FOR THE
PRIME MINISTER

Ministerial Responsibilities

Q. To ask the Prime Minister which government department has responsibility for UK participation in the Common Agricultural Policy regimes for tobacco, cotton, flax, hemp and silkworms.

A. The Agriculture Ministers (~~will~~) (have), with effect from 5 March 1982....., assume(d) responsibility for the EC Common Agricultural Policy regimes in these commodities, and ~~will~~ act as sponsor Departments for United Kingdom producers, if any. The Secretary of State for Industry will continue to have general policy responsibility for these commodities and there will be close liaison between all the Departments to ensure that full account is taken of the interests both of any UK producers and of the user industries.

[Reference: Department of Industry CT 9279]



INTER-DEPARTMENTAL MEMORANDUM OF UNDERSTANDING
RESPONSIBILITY FOR THE CAP REGIMES FOR TOBACCO,
COTTON, FLAX, HEMP AND SILKWORMS

It is proposed that responsibility for EEC Common Agricultural Policy (CAP) regimes for tobacco, cotton, flax, hemp and silk worms be transferred from the Secretary of State for Industry to the Ministers of Agriculture, Fisheries and Food. The Secretary of State for Industry will, however, retain general policy responsibility for the raw materials concerned.

Background

At present the sponsorship role of the Department of Industry for the tobacco and textile industries includes the policy lead on the EEC CAP regimes for the necessary raw materials. However, since the representation of the UK interests is undertaken by the Minister of Agriculture and his staff at most EEC Agricultural meetings, etc, this is an inconvenient arrangement.

The Proposed MAFF Role

As from the agreed date MAFF will undertake:

- a. UK representation at Management Committee and Council working groups;
- b. briefing for the Special Committee on Agriculture and the Agricultural Council;
- c. preparation of explanatory memoranda; and associated matters, including answering Parliamentary questions.

MAFF will act as sponsor of domestic producers (if any) of these commodities.

A continuing and close liaison will be maintained between the departments concerned to ensure that full account is taken of the interests of the United Kingdom user industries.

Consultation

After discussion with DoI, MAFF will either consult UK industry representatives directly, or through DoI if this seems more appropriate. DoI will continue to receive copies of agendas and other documents (including briefs) for meetings where these issues are to be discussed, and all 24-hour reports; their views will be sought on new initiatives by the Commission or by other Member States. DoI will attend negotiating meetings in a back-up capacity if they consider this desirable.

Transfer of Functions

Since the function is non-statutory, a Transfer of Functions Order is not required; but an appropriate announcement will be required by means of an arranged Parliamentary Answer. This will confirm that the Agriculture Ministers will answer to Parliament on the new responsibility of their Ministries.

4 MAR 1982

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10 DOWNING STREET

THE PRIME MINISTER

25 February 1982

Thank you for your letter of 9 February about the proposal to revalue the green pound as part of this year's CAP price settlement.

I can assure you that I am well aware of the importance of the agricultural industry in Scotland and of the valuable contribution it makes to the economy, and it is a matter of great concern to me that it has taken us rather longer than we would have liked to reverse the downward trend in farming income which we inherited on taking office. I am pleased that there has been a significant improvement in Scotland in the past year. As you say, this is due in part to our negotiation of a favourable sheepmeat regime and I am grateful for your recognition of our efforts. I think you would agree that it is also due to last year's CAP prices settlement and to the additional help we have provided for the livestock sector, for example, through increases in hill livestock compensatory allowances.

As you may know, we have already registered our opposition to the Commission's proposals for 1982/83 on the grounds that

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they do not do enough to discourage the growth of surpluses and because they would give UK farmers an average support price rise of less than 4% compared with 8-9% for other Member States. I can assure you that we shall take fully into account the legitimate needs of our producers, along with other relevant considerations, when we come to consider the shape of the overall settlement for 1982/3 and its effects in the United Kingdom.

(SGD) MARGARET THATCHER

J.B. Cameron, Esq.

Qz.02467

MR COLES

DRAFT REPLY TO THE NATIONAL FARMERS' UNION OF SCOTLAND

As requested, I have spoken to the Treasury (Mr Fitchew) and to Mr Russell about the draft reply for the Prime Minister to send to Mr Cameron - Mr Russell's letter to you dated ~~22~~ February refers.

TPM
ATC

2. Both would be content if the following amendments were made to the draft:-

(i) Amend the 9th line of the 2nd paragraph to read:
". . .would agree that it is also due to last year's CAP prices settlement . . ."

(ii) Replace the last sentence of all by the following:
"I can assure you that we shall take fully into account the legitimate needs of our producers, along with other relevant considerations, when we come to consider the shape of the overall settlement for 1982/83 and its effects in the United Kingdom."

3. When thus amended the reply will be fully consistent with that sent by the Prime Minister to Sir Richard Butler on 20 February.



4. I am copying this to Robert Lowson (MAFF), Francis Richards (FCO), John Kerr (Treasury) and David Wright.

D.H.

D J S HANCOCK

23 February 1982

CONQUEROR
LONDON



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LONDON



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

John Coles Esq
Private Secretary
No 10 Downing Street
LONDON SW1

22 February 1982

Dear John,

Robert Lowson forwarded to me your letter of 10 February covering a letter of 9 February from Mr John Cameron, the President of the National Farmers' Union of Scotland to the Prime Minister about the proposal to revalue the green pound.

The Prime Minister received a similar letter dated 5 February from Sir Richard Butler. I enclose for consideration a draft reply to Mr Cameron in similar terms to the letter put forward by MAFF for issue to Sir Richard.

I am copying this to Robert Lowson (MAFF), Francis Richards (FCO), John Kerr (Treasury) and David Wright (Cabinet Office).

A MUIR RUSSELL
Private Secretary

CF.

Type please.

ADL 24/2.

DRAFT LETTER FOR THE PRIME MINISTER'S SIGNATURE:

J B Cameron Esq
President
National Farmers' Union of Scotland
17 Grosvenor Crescent
EDINBURGH
EH12 5EN

Thank you for your letter of 9 February about the proposal to revalue the green pound as part of this year's CAP price settlement.

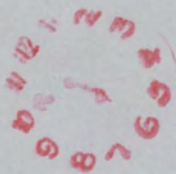
I can assure you that I am well aware of the importance of the agricultural industry in Scotland and of the valuable contribution it makes to the economy, and it is a matter of great concern to me that it has taken us rather longer than we would have liked to reverse the downward trend in farming income which we inherited on taking office. I am pleased that there has been a significant improvement in Scotland in the past year. As you say, this is due in part to our negotiation of a favourable sheepmeat regime and I am grateful for your recognition of our efforts. I think you would agree that it is also due to ^{last year's} a ~~good~~ CAP prices settlement ~~last year~~ and to the additional help we have provided for the livestock sector, for example, through increases in hill livestock compensatory allowances.

As you may know, we have already registered our opposition to the Commission's proposals for 1982/83 on the grounds that they do not do enough to discourage the growth of surpluses and because they would give UK farmers an average support price rise of less than 4 per cent compared with 8 to 9 per cent for other Member States. ~~It is our aim to negotiate a settlement which will meet the legitimate needs of our producers and will not put them at a disadvantage in comparison with their competitors in the rest of the Community.~~ I can assure you that we shall take fully into account the legitimate needs of our producers, along with other relevant considerations, when we come to consider the shape of the overall settlement for 1982/83 and its effects in the United Kingdom.

SCOTTISH OFFICE
22 February 1982

ADL 24/2

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10 DOWNING STREET

THE PRIME MINISTER

20 February 1982

Dear Sir Richard,

Thank you for your letter of 5 February about the green pound.

I gladly acknowledge British agriculture's excellent productivity record which has led to continued growth of output in volume terms, taking one year with another, at declining real prices. I want to see this productivity record maintained and agriculture thereby making its full contribution to our economic recovery.

I, of course, recognise the important part which investment has played in agriculture's post-war success and I am aware of the fall in investment and in farming income in real terms in recent years. There are I think now signs of some recovery in income, due in part no doubt to last year's CAP price settlement.

In the Council negotiations on the 1982/83 price-fixing Peter Walker will be opposing the Commission's proposals both on the grounds that they do not do enough to discourage the growth of surpluses and because, as a result of the green pound revaluation proposed, they would give British farmers and growers an average support price rise of less than 4% as compared with between 8% and 9% for most other Member States; and I can assure you that we will take fully into account the need to maintain profitability and encourage investment in British agriculture, along with other relevant considerations, when we come to consider the shape of the overall settlement for 1982/83 and its effects in the United Kingdom.

Yours sincerely,

MT

The Hon. Sir Richard Butler, D.L.,

of the inquiry into the way in which hostels and homes are run in Northern Ireland should be left until all trials and police investigations are concluded. We could then see the full picture of what has happened and what is required.

Mr. Prior: What the hon. and learned Gentleman says is correct. In the meanwhile, ever since 1980, when the problems first arose at Kincora and at other homes, the necessary steps have been taken to supervise them much more carefully. That is another reason why the professional and administrative help that will be made available from the DHSS must be put in train immediately.

Mr. Dean: Will the Secretary of State give an undertaking that if, when the due processes involved in the statement have been completed, it is found that there are publicly elected representatives in the Province who have deliberately withheld information from the appropriate authorities that would have prevented the sordid episode at Kincora from continuing for so long, they will be subject to the due processes of law?

Mr. Prior: That must always be a matter for the police, the Director of Public Prosecutions and the courts. It cannot be a matter for me as a Member of the House or of the Government. However, no doubt when the inquiry is undertaken such points will be raised.

European Community (Agriculture Ministers' Meeting)

4.7 pm

The Minister of Agriculture, Fisheries and Food (Mr. Peter Walker); With permission, Mr. Speaker, I should like to make a statement on the Council of Agriculture Ministers' meeting in Brussels on 15 and 16 February.

The Council began its consideration of the Commission's price proposals for 1982. Reactions varied widely. The United Kingdom urged the need for prudent price increases on products in surplus, and Germany adopted a similar approach. Other countries called for much higher increases than the Commission's 9 per cent. average.

I expressed our rejection of the Commission's present proposal for a revaluation of the green pound that would, taken together with its other proposals, result in British farmers obtaining price increases of less than 4 per cent. on average, with severe consequences for their income levels. The United Kingdom made it clear that the price settlement would have to keep the growth of guarantee spending below that of the increase in the income of the Community under present arrangements.

The Commission recognised the importance of taking early action to deal with the preferential gas tariff available to Dutch glasshouse growers. On United Kingdom insistence, supported by Denmark and Germany, the Commissioner undertook that he would take proposals to the Commission next week. The Dutch Minister implied that, prior to this, he would endeavour to put proposals to the Commission that could result in an agreement without resort to the European Court.

In accordance with his promise made to the United Kingdom at the last Council meeting, the Commissioner reported on the question of recent French national aids. He stated that France had not supplied the information required and that he would have to take legal action if this was not forthcoming.

The French Minister promised that the information would be forthcoming and I obtained a declaration from the Commissioner that if any of the cash announced in this aid was paid prior to being cleared by the Commission, such payments would be illegal and the Commissioner stated that he would be recommending to his colleagues next week action under articles 92 and 93 of the Treaty for those elements of aids that were not legal.

In a discussion on Mediterranean products, we urged the need for effective measures to deal with a surplus of table wine in a way that would not add to the Community budget or harm the existing alcohol producers.

On olive oil, we, together with Germany, the Netherlands and Denmark, made it clear that we were opposed to any tax on competing oils and fats in order to make the market easier for olive oil.

The Council will resume its consideration of the price proposals at its meeting in March.

Mr. Norman Buchan (Renfrewshire, West): I must say that, considering the problems at present facing British agriculture, with the increase in indebtedness and the high interest rates brought about by this Government and the fall in capital investment of 23 per cent. in plant and

[Mr. Norman Buchan]

machinery alone, together with the sound and fury coming out of Brussels, this is a very, very small mouse of a statement.

There is apparently one significant change from the earlier versions in that there is to be no revaluation of the green pound. This will be unwelcome news for British consumers. How does the 9 per cent. tie up with the Minister's comments in the statement on the need for prudent price increases when he has apparently wiped out the revaluation? What does he mean when he talks of the "present" proposal for a revaluation? What has he in mind for that?

Those of us who support an expanding home agriculture recognise the dilemma we face on the question of prices but we do not believe that the Government have the answers. Certainly, continually escalating prices have not solved the problem for the farmers, as the borrowing figures have shown, and have positively harmed all other consumers and taxpayers. What were the reasons for the breakdown? Was it because of the French desire for higher prices, along with their own individual actions, or was it because it was tied up with the general budgetary arguments that are taking place? Will he give a commitment that there will be neither a general trade-off in relation to that nor a sell-out on either the agricultural front or the budget argument?

The right hon. Gentleman will also have seen from the price review this week that, as opposed to the 14 to 15 per cent. increase in farm income, farm workers have obtained an increase in real terms of only ½ per cent. It might be useful if he would now tell us what steps he is taking to ensure that that can be rectified in the light of the 9 per cent. increase that he is negotiating.

Were the variable beef premiums discussed and will the Minister will give us a commitment that they will continue? The same question applies to the butter subsidy.

The Minister will have noticed that an election took place in Brussels in the last week or two and that Sir Henry Plumb has now been elected leader of the Tory group. Will this help him in his search for prudent price increases? Will it help him in any way in trying to reform the common agricultural policy?

We believe that this continual reliance on end prices, cash prices, at the necessary expense of the consumer and taxpayer, is no solution to the problems caused by the need to expand British agriculture. As events have shown, it is not, in the long run, beneficial to whole sectors of British agriculture either. We require national aids, if only to restore the balance between different sectors of our agriculture. I hope the Minister agrees with that and also agrees that perhaps the best national aid we could devise, after the events of the last few weeks, is that of coming out of the Market.

Mr. Walker: As to the opening remarks of the hon. Member for Renfrewshire, West (Mr. Buchan), I find it extraordinary that he in any way should criticise the position of British agriculture and its problems with borrowing and so on, as the only two proposals from the Opposition since the last election have been that we should not go into a positive position on the green pound—which would have been absolutely disastrous for British farming—and that we should rate agricultural land, which would be equally disastrous for British farming.

As regards the effects on the consumer, in contradiction of the opening remarks of the hon. Gentleman, the 9 per cent. increase without any green pound revaluation—and I am totally against a green pound revaluation that would mean that British farmers would get lower price increases than all the other farmers in Europe—would add 1 per cent. over the course of a year to the food index. Since the Labour Party, during its period of office, increased the food index by 120 per cent.—an average of 2 per cent. a month—I would not have thought they would be particularly concerned about a 1 per cent. increase over a year.

As to the beef premium scheme, I am glad to say that those proposals are part of the Commission's proposals and, of course, we shall insist that they continue. Turning to the question of butter subsidy, I made it perfectly clear at the meeting that we could not possibly agree to price fixing without the continuation of the British butter subsidy which, I am glad to say, is twice as high as it was when I took over.

As to the point about Sir Henry Plumb, I think he will give very good leadership to the Tory group in the European Parliament.

Mr. Buchan: We seem to have drifted on to a slightly more general view. The Minister referred to the revaluation of the green pound. Would he not agree that this merely emphasises the difficulty, which is that every time he seeks to support British agriculture, it must be at the expense of the consumer and taxpayer? He then referred to a 1 per cent. increase in the food index figure as being minor and unimportant. I suggest that he goes to the Central Lobby and tells that to some of the old age pensioners.

Mr. Walker: I suggest that the hon. Member should have gone to the Central Lobby every month that the food index went up by 2 per cent. We do not see him doing that very often. As to the green pound, it has been of immense advantage to British agriculture. It has meant that we have saved £1,000 million worth of imports and it has saved jobs. I am sorry that the Labour Party is still so wrong in its thinking as to support the other policy.

Mr. Peter Mills (Devon, West): Will the Minister bear in mind that British agriculture and the consumer are proud to have a Conservative Minister of Agriculture, both as regards the protection of food prices and the supplying of their needs? Will he bear in mind, too, that the industry is right behind him in his desire not to revalue the green pound and that the scandal of the French national aid must be dealt with? In the interests of the consumer—and most agriculturists accept this—9 per cent. is about right.

Mr. Walker: On the last point made by my hon. Friend, if one takes an average over all commodities one can give a wrong impression, because there must be a variation in the price increases between those items seriously in surplus and other items the production of which needs to be encouraged.

I note the views of my hon. Friend on the question of the green pound. On French national aids, I am pleased to say that we forced out of the Commission a firm declaration that any cash paid by the French Government under these aids before obtaining the permission of the Commission will be illegal and, in the event of such aids being paid in such circumstances, the Commissioner will take the French Government to court.

Mr. Stephen Ross (Isle of Wight): The Secretary of State is obviously in for a long, hard haul. Can he give us some idea when he thinks he might reach agreement? We support the stand he is taking on Dutch gas prices. We are absolutely sick of being fobbed off. Can he assure us that this time we really will get somewhere?

Mr. Walker: I can only say that the hon. Gentleman is nowhere near as sick of it as I am. I did recite to the Council of Ministers the 16 occasions on which this has been raised at the Council of Ministers. All I can say is that we now have a firm declaration by the Commissioner that next week he will be going to the Commission with proposals unless the Dutch Government have put to him proposals that he believes are acceptable to all member countries. I therefore hope that within the next week we shall have firm proposals that will at last bring to an end the very unfair disadvantage that British glasshouse growers have suffered.

Sir Marcus Kimball (Gainsborough): Will my right hon. Friend bear in mind the great confidence, based on his past form in these negotiations, that the whole agricultural industry places in his ability to come to a satisfactory conclusion during the course of the next month? Will he also bear in mind the growing need in the English countryside for the background to the present settlement to be clarified?

Mr. Walker: The hon. Member for Renfrewshire, West mentioned farm incomes and the incomes of others, but during the past few years it has been almost impossible to identify any sector that has contributed more to the battle against inflation than farming, with the very low level of farm gate prices during the period. The retail price index has risen by about 45 per cent., the food index has gone up by about 28 per cent., and farm gate prices have increased by only 19 per cent., which illustrates that fact.

Several Hon. Members *rose*—

Mr. Speaker: Order, I propose to call those hon. Members who have been rising and then to call the Front Bench speakers to conclude.

Mr. John Home Robertson (Berwick and East Lothian): Is the Minister aware that in real terms the income of Scottish agriculture has been almost halved since the Government came to power? While the industry will no doubt welcome his efforts to ensure that United Kingdom agriculture receives its fair share of any European price rises, is he aware that the Commission's present proposals fall far short of what will be necessary to re-establish confidence and get investment going again in British agriculture? In such circumstances, are there not strong arguments for national aids, particularly in the marginal, upland and highland sectors?

Mr. Walker: The hon. Gentleman might like to compare my record on national aids to Scotland with that of his party when it was in power and measure the percentage increase in hill farm subsidies over the period. If he does, he will realise the present Government's very good record. If the hon. Gentleman feels as he does about the importance of agricultural incomes and the fall in them, he should persuade his party to drop its proposals for rerating agricultural land and doing away with the positive green pound.

Mr. David Myles (Banff): I must declare an interest with regard to my question. The beef cow herd in this

country has continued to decline—witness my right hon. Friend's White Paper. Will my right hon. Friend resist the Commission's proposal to reduce the suckler cow premium and press for its increase?

Mr. Walker: We are against the reduction of the suckler cow premium. We favoured the introduction of the premium and have operated it in this country. As my hon. Friend well knows, we have substantially improved the hill farm subsidies for the suckler cow, an improvement which has been of considerable advantage in the constituency that my hon. Friend represents.

Mr. Stanley Newens (Harlow): I welcome any progress towards the harmonisation of the energy costs of glasshouse producers, but does the Minister recognise that it will still be a considerable time before the objective is achieved? Has he therefore considered introducing in the interim what the industry requires, which is restrictions on imports or an increase in the subsidy to enable the industry in Britain to survive until it is placed on a fair basis alongside Dutch glasshouse growers?

Mr. Walker: The hon. Gentleman, with his considerable knowledge on the subject, will know that I have announced a subsidy for the present year. If there is any deferment of the bringing of prices into alignment beyond that period I shall consider it necessary that the Commission allows the continuation of national aids for the interim period.

Mr. Christopher Brocklebank-Fowler (Norfolk, North-West): In view of the widespread interest of the horticultural industry at home in the outcome of the current dispute with the Dutch over fuel prices, will the right hon. Gentleman undertake to report back to the House next week when he knows the contents of the Commissioner's report, to enable us to discuss further the future of horticulturists in this country?

Mr. Dennis Skinner (Bolsover): The SDP wants time for a ballot.

Mr. Walker: I do not know in what form the Commission's proposals will eventually see the light of day. The normal procedure is that after a Commission meeting the proposals agreed by it are made by the Commissioner at the next Agriculture Council meeting. If that normal procedure is followed I shall of course make a statement in the normal way.

Mr. Tony Marlow (Northampton, North): Has my right hon. Friend seen the interesting article in one of today's newspapers saying that a settlement of the agricultural prices problem, together with our budget problems, will require an increase in the VAT ceiling of 1 per cent.? Will he confirm that the Government will set their face, as flint, against any increase in the ceiling?

Mr. Skinner: Of course he will not.

Mr. Walker: Yes, Sir, and I would point out to the hon. Member for Bolsover (Mr. Skinner), with his keen interest in European affairs, that since the present Government have been in power the proportion of the European Budget devoted to the common agricultural policy has fallen from 80 per cent. when the previous Government were in power to 66 per cent.

Mr. Douglas Jay (Battersea, North): Does not the further deadlock in Brussels on prices prove yet again that no real reform in the common agricultural policy acceptable to this country is remotely possible?

Mr. Walker: The drop from 80 per cent. to 66 per cent. in three years in the CAP's share of the budget and the fact that the rate of increase in expenditure on the CAP in the last four years of the previous Government was 350 per cent. compared with 35 per cent. in the first three years of the present Government show that considerable reforms have taken place.

Mr. Speaker: Am I mistaken in thinking that the hon. Member for Bolsover (Mr. Skinner) was trying to catch my eye? I see that I made a mistake.

Mr. Mark Hughes (Durham): It is with great reluctance, Mr. Speaker, that I intervene between you and my hon. Friend the Member for Bolsover (Mr. Skinner).

Will the Minister confirm that he will not allow a tax to be imposed upon rice imports into this country in order to support a minuscule Italian rice industry?

Does the right hon. Gentleman accept that his statement contained areas of mutual incompatibility? One cannot use the price mechanism as one's sole mechanism to control agricultural incomes and simultaneously argue that a price settlement will have to keep the growth of guarantee spending below that of the increase in the Community's income under present arrangements and satisfy the proper requirements of British farming. The right hon. Gentleman is put in an intolerable dilemma. He cannot satisfy simultaneously the British taxpayer as a contributor to the European Community's budget, the British consumer and the British farmer, so long as the price proposals are the only mechanism for controlling agricultural activity.

Mr. Skinner: Sort that out.

Mr. Walker: We did not discuss any proposals on rice at the last meeting. If any proposals are made I shall look into them carefully and consider their importance to the exporting countries for which we are a traditional market.

My answer to the hon. Gentleman's general appraisal of the situation and the difficulties is that in any system of agricultural pricing there are balances and difficulties in reaching the overall balance and assessment. The position of the British taxpayer has been substantially improved in the past few years by the big transformation in budgetary contributions that my right hon. Friend the Prime Minister achieved two years ago. The cost to the British taxpayer has been substantially reduced.

As for the consumer, the rate of increase in food prices is massively below what it was when the previous Government were in power.

As regards the farmer, I am glad to say that, with all the difficulties of recession, we are now seeing some upturn in farm incomes, which I hope will continue.

Bill Presented

TRAVEL CONCESSIONS (LONDON)

Mr. Secretary Howell, supported by Mr. Secretary Heseltine, Mr. Secretary Fowler, the Attorney-General, Mr. Leon Brittan and Mr. Kenneth Clarke presented a Bill to confer on the Greater London Council the same powers in respect of travel concessions as those exercisable by the councils of London boroughs and the Common Council of the City of London: And the same was read the First time; and ordered to be read a Second time tomorrow and to be printed [Bill 72].

BUSINESS OF THE HOUSE

Ordered,

That, at this day's sitting, if proceedings on the Motions relating to National Health Service have not been disposed of by Ten o'clock, Mr. Speaker shall, notwithstanding the provisions of Standing Order No. 4 (Prayers against statutory instruments, &c. (negative procedure)) put forthwith any Questions necessary to dispose of the said Motions.—[Mr. David Hunt].



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

Euro P/ 2

18 FEB 1982

Prime Minister

From the Minister
CONFIDENTIAL

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

A.P.C. 18.2

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February 1982

[Handwritten signature]

*R. Geoffrey Howe
11.2.82*

Further to your minute to the Prime Minister on the subject of CAP prices, perhaps it would be interesting to have a more detailed examination of the elements that have provided the 43 per cent rise in retail prices in the period of this Government up to December.

If food prices have only contributed 28.8 per cent and household durables have only contributed 23 per cent we should perhaps consider in more detail the factors that have contributed substantially more than 43 per cent in order to arrive at the current average.

It could be that such analysis would show that the worse inflationary effects have been due to decisions that we have made in areas such as energy pricing, our contribution to the rate support grant and council house rents.

What certainly is obvious from your minute to the Prime Minister is that farmgate prices added only 18.9 per cent to November - the figure will be somewhat higher for December due to the sharp rise in seasonal foods - being very much towards the bottom of the league in their inflationary effect.

The price paid for this has been a heavy one in terms of declining farming funds and increasing bank overdrafts.

We did actually fight the election with clear promises on farm incomes clearly expressed when the Prime Minister, prior to the election, told the National Farmers' Union "We believe that better prices for farmers, albeit at the cost of slightly higher food prices, are in the best interest of producers and consumers and the nation".

/It will be ...

18 FEB 1982

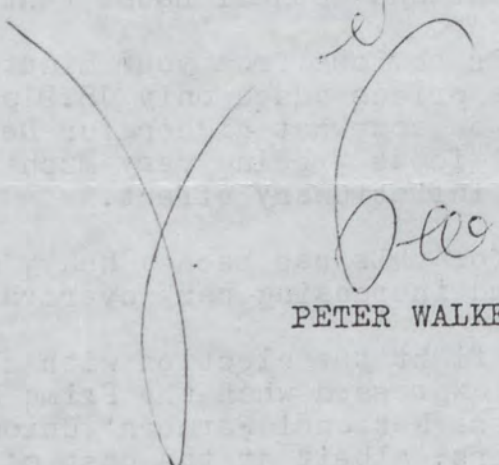


CONFIDENTIAL

It will be very difficult indeed to see a return to anything like the real value of the levels of farm incomes we inherited, levels that we condemned during our election campaign.

Whilst agreeing with the importance of the fight against inflation, I hope we will always remember that deflationary policies through their effect on the level of output and on unit costs of production will have themselves a significant effect on price increases. And to pursue policies that result in 3 million unemployed, costing the Government around £14 billion, but producing nothing is a cost ultimately borne by the taxpayer and by the producers of the remaining output. This must also have some inflationary effects. I hope therefore we will do our best to stimulate production in agriculture and not diminish it, for not only will such stimulation save jobs that would otherwise go, it will also save imports and as you know the CAP price levels have a small direct effect upon the retail price index.

I am sending copies of this letter to the Prime Minister, other Cabinet colleagues and to Sir Robert Armstrong.



PETER WALKER

PRIME MINISTER

cf Mr Gow 2

mb

Agriculture Price Fixing Statement

The House was quite empty for Mr. Walker's statement. Norman Buchan, leading for the Opposition, attacked Mr. Walker's approach at length, both in broad terms and on details. Mr. Walker suggested that Mr. Buchan had not a leg to stand on, since the Opposition had put forward only two proposals in the field since the Election - a positive position on Green Pound revaluation and the demand to rate agricultural land.

Mr. Walker's performance and negotiating aims were supported from the Government side by Mr. Mills, Sir Marcus Kimball and Mr. Myles. Tony Marlow demanded an assurance that the Government would not contemplate an increase in the one per cent VAT ceiling. From the Opposition benches, Stephen Ross, Stan Newens and Christopher Brocklebank-Fowler were particularly concerned about Dutch subsidised gas for the glass-house industry. Mr. Walker pointed out that he had raised it seventeen times in Brussels. Douglas Jay argued that acceptable CAP reform was impossible. Mr. Walker pointed out that the CAP now absorbed 66 per cent of the budget, compared with 80 per cent three years ago.

Closing for the Opposition, Mark Hughes argued that Mr. Walker could not satisfy at the same time our taxpayers, our consumers and our farmers when the only mechanism for controlling European agriculture lay in the price proposals.

MP

✓ ASC.



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

European Policy

From the Minister's
Private Office

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

18th February 1982

Dear Mike MP

COUNCIL OF AGRICULTURE MINISTERS:
15-16 FEBRUARY 1982

I attach a final version of the statement which Mr Walker will make in the House today.

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

Yours sincerely

Robert Lawson

ROBERT LOWSON
Private Secretary

AGRICULTURE COUNCIL - 15/16 FEBRUARY 1982

PARLIAMENTARY STATEMENT

With permission, Mr Speaker, I should like to make a statement on the Council of Agriculture Ministers' meeting in Brussels on 15th and 16th February.

The Council began its consideration of the Commission's price proposals for 1982. Reactions varied widely. The UK urged the need for prudent price increases on products in surplus, and Germany adopted a similar approach. Other countries called for much higher increases than the Commission's 9% average.

I expressed our rejection of the Commission's present proposal for a revaluation of the green pound that would result in British farmers obtaining price increases of less than 4 per cent on average, with severe consequences for their income levels.

The United Kingdom made it clear that the price settlement would have to keep the growth of guarantee spending below that of the increase in the income of the Community under present arrangements.

The Commission recognised the importance of taking early action to deal with the preferential gas tariff available to Dutch glasshouse growers. On United Kingdom insistence, supported by Denmark and Germany, the Commissioner undertook that he would take proposals to the Commission next week.

The Dutch Minister implied that prior to this he would endeavour to put proposals to the Commission which could result in an agreement without resort to the European court.

In accordance with his promise made to the United Kingdom at the last Council meeting, the Commissioner reported on the question of recent French national aids. He stated that France had not supplied the information required and that he would have to take legal action if this was not forthcoming.

/The French

The French Minister promised that the information would be forthcoming and I obtained a declaration from the Commissioner that if any of the cash announced in this aid was paid prior to being cleared by the Commission, such payments would be illegal and the Commissioner stated that he would be recommending to his colleagues next week action under Articles 92 and 93 of the Treaty for those elements of aids that were not legal.

In a discussion on Mediterranean products, we urged the need for effective measures to deal with a surplus of table wine in a way which would not add to the Community budget or harm the existing alcohol producers.

On olive oil, we, together with Germany, the Netherlands and Denmark, made it clear that we were opposed to any tax on competing oils and fats in order to make the market easier for imported olive oil.

The Council will resume its consideration of the price proposals at its meeting in March.



The French Minister stated that the information would be forth-
 coming and I obtained a copy of the information from the German Embassy that it
 was of the kind announced in this report and that it was to be treated
 by the Commission, which programme would be held at the Commission
 stated that the work of the Commission would be to examine the
 action under Article 11 and 12 of the Convention for the
 of this that will be held.

In a discussion on the Commission's programme, the French
 representative suggested that the Commission should be set up in a way
 which would not add to the Commission's burden of work the existing
 of the Commission.

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in other words, we (together with Germany, the Netherlands and
 Norway), were in fact not opposed to any tax on capital
 and this in order to make the market easier for imported
 goods.

The Council will examine the consistency of the above proposals
 at its meeting in March.



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Treasury Chambers, Parliament Street, SW1P 3AG
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18 February 1982

R. Lawson, Esq.,
Private Secretary,
Ministry of Agriculture,
Fisheries and Food

Dear Robert,

FEBRUARY AGRICULTURE COUNCIL: GREEN POUND

You sent me a copy of your letter of 17 February to John Coles at No.10 about your Minister's statement in the House today on the Agriculture Council.

The Chancellor has seen the draft, and is not happy about the third paragraph, which deals with our attitude to the revaluation of the green pound. He would wish it to be revised to read:-

"I expressed our rejection of the Commission's present proposal for a revaluation of the green pound that would, taken together with their other proposals, result in British farmers obtaining price increases of less than 4 per cent on average, with severe consequences for their income levels."

This is closer to the formula which I understand was agreed by officials yesterday morning.

The revision would of course remove the comparison between the price increases received by UK farmers and those received by farmers in other Member States. The Chancellor thinks this right, because any revaluation of the green pound as part of this year's price fixing must by definition involve UK farmers getting price increases lower than those received in other Member States which do not currently have positive MCAs. This of course reflects the fact that, in terms of the ECU, the level of UK farm prices has for some time been higher than that in other Member States (and would still be so even if the Commission's proposals were fully accepted).

In the Chancellor's view, the factors relevant to a decision on whether to revalue the green pound are the effects on farmers' incomes and on consumers and the inflation rate. He finds the comparison with other Member States no more relevant than it would be, for example, in determining public sector pay increases. The passage in the draft statement would prejudice the decision,

/and is



and is therefore not in accordance with the agreement at OD(E) last week.

Moreover, the Chancellor considers that the draft does not reflect the OD(E) agreement that our attitude to the green pound must depend upon the eventual level of the increases in common prices, since it is the two together which determine the impact on domestic prices. This is why he proposes the addition of the words "when taken together with their other proposals"; and is a further reason for including the "less than 4 per cent" phrase.

I am copying this letter to the other recipients of yours.

Yours ever
J.O. Kerr.

J.O. KERR

18 FEB 1982





cc AJC.

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

From the Minister's Private Office

John Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
WHITEHALL
London

Prime Minister (has seen)

I understand that the Chancellor is likely to take issue with parts of Mr Walker's draft. We will let you have details in the morning, but Mr Walker's assessment of green revaluation as it would affect

17 February 1982

our farmers is the main point at issue. Different reasons for opposing revaluation were agreed at OOCs

MAF 2/2

Dear John

... I enclose a statement which my Minister intends to make in the House tomorrow. I am sending copies of this letter and enclosure to Nick Huxtable, Murdo Maclean, John Kerr, Francis Richards and David Wright, and should be grateful for any comments to be sent here as early as possible tomorrow morning.

Yours sincerely

Robert Lawson

ROBERT LOWSON
Private Secretary

AGRICULTURE COUNCIL - 15/16 FEBRUARY 1982

PARLIAMENTARY STATEMENT

With permission, Mr Speaker, I should like to make a statement on the Council of Agriculture Ministers' meeting in Brussels on 15th and 16th February.

The Council began its consideration of the Commission's price proposals for 1982. Reactions varied widely. The UK urged the need for prudent price increases on products in surplus, and Germany adopted a similar approach. Other countries called for much higher increases than the Commission's 9% average.

I expressed our rejection of the Commission's proposal for a revaluation of the green pound that would, if accepted, result in British farmers obtaining price increases that were less than most half of the increases that/other Member States would receive.

I demanded the maintenance of the United Kingdom butter subsidy.

The United Kingdom made it clear that the price settlement would have to keep the growth of guarantee spending below that of the increase in the income of the Community under present arrangements.

The Commission recognised the importance of taking early action to deal with the preferential gas tariff available to Dutch glasshouse growers. On United Kingdom insistence, supported by Denmark and Germany, the Commissioner undertook that he would take proposals to the Commission next week.

The Dutch Minister implied that prior to this he would endeavour to put proposals to the Commission which could result in an agreement without resort to the European court.

/....

No -
then was
not what
Pete Lemmings
wanted to
achieve

17 FEB 1982



In accordance with his promise made to the United Kingdom at the last Council meeting, the Commissioner reported on the question of recent French national aids. He stated that France had not supplied the information required and that he would have to take legal action if this was not forthcoming.

The French Minister promised that the information would be forthcoming and I obtained a declaration from the Commissioner that if any of the cash announced in this aid was paid prior to being cleared by the Commission, such payments would be illegal and the Commissioner stated that he would be recommending to his colleagues next week action under Articles 92 and 93 of the Treaty for those elements of aids that were not legal.

In a discussion on Mediterranean products, we urged the need for effective measures to deal with a surplus of table wine in a way which would not add to the Community budget or harm the existing alcohol producers.

On olive oil, we rejected a French proposal that a tax should be put on imported oils and fats in order to make the market easier for olive oil and we received total support for our view from Germany, Netherlands and Denmark all of whom agreed that it would be totally wrong to increase the cost of materials the Community needed in order to tackle this problem.

The Council will resume its consideration of the price proposals at its meetings in March.

CONFIDENTIAL

Top copy on
Eno Rd
London SW1

Ref. A07541

PRIME MINISTER
_____;

Cabinet: Community Affairs

The Chancellor of the Exchequer could report on the outcome of the 15th February Finance Council, at which the United Kingdom was represented by the Financial Secretary, Treasury. The only item on the formal agenda was the further development of the European Monetary System, in preparation for the expected discussion of this subject at the March European Council. The discussion focused on technical improvements in the mechanisms of the EMS, on which the Commission were asked to make proposals for consideration at the next Finance Council. In the margins of the Council it was agreed that the Belgian Presidency should convey to President Reagan, during a visit to Washington this week, the Community's concern at the impact of American economic and monetary policies on world interest rates and seek consultations with the United States on these questions.

2. The Minister of Agriculture should report on the first round of discussions on the CAP price fixing proposals at the 15th-16th February Agriculture Council. The Germans did not take a position; all other member states except the United Kingdom pressed for higher prices than those proposed by the Commission. Mr. Walker also pressed the Commission to take further action on the most recent package of French national aids and the Netherlands differential gas pricing measures favouring their horticultural industry.

3. Next week the Foreign Affairs Council meets on 22nd-23rd February and the Special Textiles Council on 25th February.

ROBERT ARMSTRONG

17th February, 1982

CONFIDENTIAL

Canada Bill
10/1/82

Euro 209

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

Prime Minister (through P.C.)

*Mr Pym intends to hold
out against any statement
tomorrow*

MAD 16/2

16 February 1982

From the Minister

The Rt Hon Francis Pym MC MP
Leader of the House of Commons
House of Commons
London
SW1A 0AA

mf

LEADER OF THE HOUSE OF COMMONS

I hear that you have a desire that there should be no statement on the Community agricultural Ministerial meeting because of the debate on the Canada Bill taking place tomorrow. I can only say that over the last three years we have always made a statement on the day after my return from Brussels, other than on one or two occasions when no important business has been conducted and by agreement with the opposition. The meeting that took place this week is a meeting that has aroused immense public interest. It has been a major item on most of the BBC news programmes. It has claimed substantial coverage in the newspapers. It is probably the most important meeting since the last price fixing in that this was the meeting in which the first discussions took place on this year's price fixing.

I am only anxious to help with the easy passage of the Canada Bill, but it may well be that unless you have the opposition's agreement to make this statement on Thursday rather than Wednesday you will have a long series of points of order and complaints at no statement being made. Naturally I leave the decision to you.

I am sending copies of this minute to the Prime Minister and the Chief Whip.

Robert Lauer

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



The Rt Hon Sir...
Member of the House of Commons
London
SW1A 0AA

LETTERS OF THE HOUSE OF COMMONS

I have had your letter of 11th February 1982 regarding the Community...
I am sorry that I cannot give you a more definite answer at this time...
I will be happy to discuss this further if you wish to contact me...

16 FEB 1982

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I am sorry to hear that the...
I will be happy to discuss this further if you wish to contact me...

I am sorry to hear that the...
I will be happy to discuss this further if you wish to contact me...



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

From the Minister's
Private Office

John Coles Esq
The Private Secretary
Prime Minister's Office
10 Downing Street
Whitehall
SW1

15 February 1982

Dear John

I am writing on behalf of the Minister to acknowledge and thank you for your letter of 10 February enclosing copy correspondence from Mr J B Cameron, President of the National Farmers Union of Scotland on revaluation of the Green Pound.

This is, in fact, a matter for the Scottish Office and I have therefore passed the correspondence to Muir Russell in Mr Younger's office for attention.

✓ I am copying this to the recipients of yours.

Robert Lawson
Robert Lawson

ROBERT LAWSON
Private Secretary



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

From the Minister's
Private Office

John Coles Esq
Private Secretary
Prime Minister's office
10 Downing Street
London SW1

Type letter please

AR 17.2

12 February 1982

Dear John

Thank you for your letter of 5 February enclosing a copy of one from Sir Richard Butler, President of the National Farmers' Union, about the green pound.

--- I enclose a draft that the Minister has approved for the Prime Minister to send.

I am sending copies to John Kerr (Treasury), Francis Richards (FCO) and David Wright (Cabinet Office).

Yours sincerely
Robert Lawson

ROBERT LOWSON
Private Secretary



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DRAFT LETTER FOR THE PRIME MINISTER'S SIGNATURE

The Hon Sir Richard Butler DL
President
The National Farmers' Union
Agriculture House
Knightsbridge
London SW1X 7NJ

Thank you for your letter of 5 February about the green pound.

I gladly acknowledge British agriculture's excellent productivity record which has led to continued growth of output in volume terms, taking one year with another, at declining real prices. I want to see this productivity record maintained and agriculture thereby making its full contribution to our economic recovery.

I of course recognise the important part which investment has played in agriculture's post-war success and I am aware of the fall in investment and in farming income in real terms in recent years. There are I think now signs of some recovery in income, due in part no doubt to last year's CAP price settlement.

In the ~~forthcoming~~ Council negotiations on the 1982/83 price-fixing Peter Walker will be opposing the Commission's proposals



both on the grounds that they do not do enough to discourage the growth of surpluses and because, as a result of the green pound revaluation proposed, they would give British farmers and growers an average support price rise of less than 4% as compared with between 8% and 9% for most other Member States; and I can assure you that we will take fully into account the need to maintain profitability and encourage investment in British agriculture, along with other relevant considerations, when we come to consider the shape of the overall settlement for 1982/83 and its effects in the United Kingdom.



about the Community average and is falling. It is clearly desirable that the CAP price package should contribute to that deceleration, not retard it. For that reason I welcome yesterday's agreement that we must give thorough consideration to the scope for a green pound revaluation before any final agreement can be reached on CAP prices. And I believe we must make it clear in all our statements on this issue that our final decision will have to take account of the interests not only of producers, but also of consumers.

5. I am copying this minute to Cabinet colleagues and to Sir Robert Armstrong.

(G.H.)

12 February 1982



1957 FEB 13 11 12 AM
CORPORATION





Foreign and Commonwealth Office

London SW1A 2AH

11 February 1982

Sir Robert Armstrong KCB CVO
CABINET OFFICE*Dear Robert*

ANGLO-GERMAN SUMMIT: 19 MARCH

1. The next in the series of six-monthly Anglo-German consultations between the Prime Minister and Chancellor Schmidt will be held in Chequers/London on 19 March. The Private Secretary will be writing separately to John Coles about ministerial participation and the administrative arrangements, on which no decisions have yet been taken by the Prime Minister.
2. Since we are the home team on this occasion it is up to us to propose an agenda (or check-list of subjects for discussion, as the Germans prefer to call it). A suggested list at Annex A, which has been cleared at desk level around Whitehall, has been given to the German Embassy here on the understanding that it is subject to revision in the light of responses from the recipients of this letter. The Germans may come up with some ideas of their own and we shall keep your office informed if they do. It is as usual not intended that the Prime Minister cover all the subjects: we shall, nearer the time, draw up a schedule (along the lines of that enclosed at Annex D to the Steering Brief prepared for the last Summit) identifying the subjects which individual participants are expected to cover.
3. At Annexes B and C, I attach an assessment of British and likely German objectives for the meeting, and at Annex D a suggested list of briefs, the preparation of which will, I imagine, be coordinated in the usual way by the Cabinet Office. It would be useful to have an early indication of the deadline by which briefs will have to be with you. As the meeting is on a Friday it might perhaps be best to aim for a deadline of close of play on Monday 15 March; experience has shown that there is advantage in making this as close to the date of the Summit as is possible. Alternatively, the Prime Minister may prefer the briefs to be in her weekend box on Friday 12 March, even if some last minute additions/revisions then became necessary. It would also be useful to have an early indication of the timing of the Prime Minister's briefing session.



4. I understand that you propose to rearrange the postponed meeting of Permanent Secretaries for around the last week in February. Although this was originally intended to concentrate on follow-up to the last Summit and on the possible scope for greater inter-departmental coordination of policy towards the Federal Republic of Germany (David Wright's letter of 23 December 1981 to Andrew Burns), it can now also serve as the forum for discussion of the Steering Brief for the Summit. We shall therefore aim to circulate a draft in good time beforehand. The main Community briefs will, of course, be cleared through the Cabinet Office European Secretariat in the usual way.

5. I am sending copies of this letter to the Permanent Secretaries whose Ministers may be attending.

T. W. W.

Michael

Michael Palliser

cc: Sir Douglas Wass GCB
HM TREASURY

Sir Brian Hayes KCB
MAFF

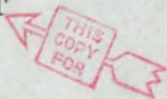
Sir Frank Cooper GCB CMG
MINISTRY OF DEFENCE

Sir Peter Carey KCB
DEPARTMENT OF INDUSTRY

Sir Kenneth Barnes KCB
DEPARTMENT OF EMPLOYMENT

Sir Donald Maitland GCMG OBE
DEPARTMENT OF ENERGY

C A Whitmore Esq
10 DOWNING STREET





ANGLO-GERMAN SUMMIT: 19 MARCH

DRAFT CHECK LIST OF SUBJECTS FOR DISCUSSION

1. European Community Questions

- (a) 30 May Mandate
- (b) CAP Price-Fixing
- (c) Enlargement of the Community
- (d) The internal market of the Community (including liberalisation of air transport, insurance services, 'reconquest' of French market)
- (e) Community Steel Policy
- (f) European Union
- (g) External trade issues (including textiles, EC/Japan, EC/USA, International Tin Agreement)

2. East/West and West/West Questions

- (a) Poland
- (b) Transatlantic relations in the light of the Polish crisis
- (c) The NATO Summit
- (d) The future course of East/West relations
- (e) CSCE/CDE

3. Defence/Arms Control

- (a) Defence Resource Issues including:
 - (i) UK Defence Programme
 - (ii) FRG Defence Programme
 - (iii) Defence equipment collaboration
- (b) Spain/NATO
- (c) Greece/NATO
- (d) INF/START
- (e) MBFR

4. World Political Issues

- (a) Afghanistan: how to keep the pressure on the Soviet Union
- (b) Arab/Israel
- (c) Turkey, Greece and the Eastern Mediterranean
- (d) Iran/Iraq and its repercussions in the area
- (e) Southern Africa/Namibia
- (f) Central America

5. International Economic Questions

- (a) International economic and monetary questions (including prospects in the UK and the FRG)
- (b) US economic policy



ANGLO-GERMAN SUMMIT: 19 MARCH

Primary United Kingdom Objectives

1. To keep the Germans as far as possible in step with the British approach to the Mandate negotiations, and to press our interests on other Community topics.
2. To reach agreement on the best way to preserve Alliance unity in the light of recent and possible developments, especially in Poland, and to discuss the future course of East/West relations.
3. To strengthen the UK/FRG relationship in the defence field, and to confirm our commitment, through the stationing of British Forces in Germany, to the defence of Europe, in spite of budgetary constraints.
4. To build on the goodwill generated at the last Summit (the tenth in the series).

Subsidiary United Kingdom Objectives

5. To exchange views on the international economic situation, with particular reference to US interest rate and trade policy.
6. To ensure that the German approach to nuclear arms control, particularly INF, remains closely aligned with our own.
7. To explain Her Majesty's Government's economic policies.



ANGLO-GERMAN SUMMIT: 19 MARCH

Likely German Objectives

1. In view of their concern at current divergences of policy and view within the Alliance, and in particular between the US and Europe, to review and reach the widest possible agreement on:
 - (a) Current world political issues (especially Poland, arms control issues, East/West relations, Middle East, Southern Africa, Central America).
 - (b) Current economic issues (especially US and French economic policies - in particular US interest rates and their effect on the world economic situation - protectionism, inflation and unemployment, energy and North/South issues).
2. To further the prospects for an early conclusion to the discussion of the Mandate within the Community, and to promote their interests in other Community issues.
3. To review and reach the widest possible agreement on defence policy and planning issues in the light of the serious pressures on defence expenditure in both countries and with an eye to the handling of the NATO Summit in June.
4. To improve and strengthen their relationship with British Ministers, building on the present community of interest between the two governments.
5. To assess for themselves the prospects for Her Majesty's Government's policies in the light of current political and economic developments in the UK.



ANGLO-GERMAN SUMMIT: 19 MARCH

PROPOSED LIST OF BRIEFS

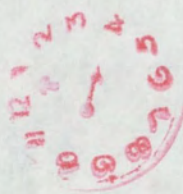
	<u>Lead Department</u>	<u>In Consultation with</u>
1. Steering Brief	FCO [WED]	As appropriate
2. European Community Questions		
a. Steering Brief on the European Community	FCO [ECD(I)]	MAFF, Treasury Trade
b. 30 May Mandate	FCO [ECD(I)]	Treasury, MAFF
c. CAP Price-Fixing	MAFF	FCO[ECD(I)] Treasury
d. Common Fisheries Policy [Defensive]'	MAFF	FCO [ECD(I)]
e. Enlargement of the Community	FCO[ECD(E)]	Treasury, Trade, MAFF, Employment
f. EMS [Defensive]	Treasury	FCO [ECD(I)/ESID]
g. Internal Market of the Community (including liberalisation of air transport, insurance services, 'reconquest' of French internal market)	Trade	FCO[ECD(I)], MAFF, Industry
h. Community Steel Policy	Industry	FCO[ECD(I)]
i. European Union	FCO[ECD(I)]	As appropriate
j. External Trade Issues (including textiles, EC/Japan, EC/USA, International Tin Agreement)	Trade	FCO[ECD(E)/TRED] Treasury
3. Poland	FCO[EESD]	Treasury, Trade, MOD
4. NATO Summit and Transatlantic relations in the light of the Polish crisis	FCO[Defence Dept/Planning Staff]	As appropriate



5.	The future course of East/ West relations	FCO[EESD]	As appropriate
6.	CSCE/CDE	FCO [CSCE Unit]	
7.	Defence Matters	MOD	FCO[Defence Dept]
8.	Arms Control and Disarmament	FCO [Defence Dept]	MOD
9.	World Political Issues		
	a. Afghanistan: how to keep the pressure on the Soviet Union	FCO[SAD]	
	b. Arab/Israel	FCO[NENAD]	
	c. Turkey, Greece and the Eastern Mediterranean	FCO[SED]	
	d. Iran/Iraq and its reper- cussions in the area	FCO[MED]	
	e. Southern Africa/Namibia	FCO[SafD]	
	f. Central America	FCO[MCAD]	
10.	International Economic and Monetary Questions	Treasury	FCO[ESID/ERD]
11.	US Economic Policy	Treasury	FCO[ESID/ERD]
* 12.	Franco-German relations	FCO[WED]	As appropriate
* 13.	FRG Scene		
	a. Political	FCO[WED]	
	b. Economic	Treasury	

* Background Brief

12 FEB 1982



etc
file
EWC/CHP



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

Prime Minister

I understand that the channels will be
commenting on the last paragraph.

From the Minister

CONFIDENTIAL

PRIME MINISTER

Please keep
for our work
h.a. 16. 1/2

A.S.C. 12. 1/2

11 February 1982

Bread 3/4 p.
Butter 7p per lb.
Eggs 3p per 1/2

CAP PRICES

At this morning's meeting of OD(E) I was asked to circulate a note indicating the effect of the Commission's farm price proposals upon retail food prices. I believe the subject is of general interest and I am therefore writing to you, with a copy to all members of Cabinet.

The CAP is not the only factor determining food prices. Of the £28.5 billion that the British consumer spends on food, approximately half is for the cost of the raw materials coming from our farms and from imports whilst the other half is payment for the costs of food processing, distribution and retailing. There is a common misconception that there is a direct one for one relationship between price increases decided as part of the Common Agricultural Policy and the overall increase in the price of food. It is important to recognise that the CAP price fixing is but one ingredient in the formation of food prices. Increases in world prices of such foodstuffs as vegetable oils, coffee, tea and tropical fruits, and fluctuations in commodity prices such as eggs, fruits, vegetables, many meats, arise not from CAP price fixing but by forces of supply and demand including, of course, the weather. Wage increases of the retailers and the food processors, energy and other costs have a major impact on food prices. Subsidies or taxes affect the retail price. It is therefore difficult accurately to calculate what any specific change in a common agricultural price will do to the overall price of food.

Since the end of 1978 the retail price index has risen by 51%. Food prices have risen by 37%. Of the 37% rise in food prices, some 24% was attributable to the rise in labour and other costs and the margins of processors, distributors and retailers. Only 13% was due to the rise in the cost of the basic products, and only the smaller proportion of this 13% can be directly attributable to changes in the CAP prices. The reason is that much of the 13% was due to

/increases in the ...

CONFIDENTIAL

increases in the price of foodstuffs not affected by CAP price fixing; in fact not much more than one quarter of the retail cost of food is directly affected by CAP support mechanisms, and the quarter that is controlled by CAP price mechanisms has tended to rise less rapidly than other main elements in the retail cost of food.

Turning now to the effects of the Commission's proposals for this year's price fixing, and excluding any variation in the green pound, it is only possible to provide a general indication, and any increases which do take place will, of course, take place over a period of time. On individual commodities the position is as follows:

There are proposals to increase the support prices for cereals by between 5.3% and 7.05%. But cereal raw material costs account for only one quarter of the retail price of bread, which inevitably will be much more affected by the costs relating to the remaining three quarters than by the price fixing for wheat. The proposed rise in the support price, if it were fully reflected in market prices, would be less than ¼p on a standard loaf.

For butter, there is a proposal to increase the intervention price by 8.58%. But in practice the market price will depend upon market circumstances including changes in commercial stocks, opportunities for export, the price levels of competing products such as margarine, and, of course, the figure that is agreed upon for the future level of the consumer butter subsidy. Therefore, whilst a straight increase of 8.58% could represent 7½p per pound on butter, there are many other factors that will determine the price in the shops.

There are no direct support prices for cheese, and it is likely that any increase in the manufacturing price paid for milk would result in a somewhat smaller increase than the equivalent price effect for butter.

The Commission has proposed an increase of 9% in the minimum price of sugar beet. If reflected in the first hand selling price of refined sugar, this would be about 3p per kilogram. But it must be recalled that such are the violent fluctuations of world sugar prices that, as we saw in 1980, the Community price can protect Community consumers from the effect of world price fluctuations.

In present marketing conditions it is unlikely that the Commission's proposals for beef and lamb will have any impact upon the market price. There is therefore no immediate retail price effect that can be identified.

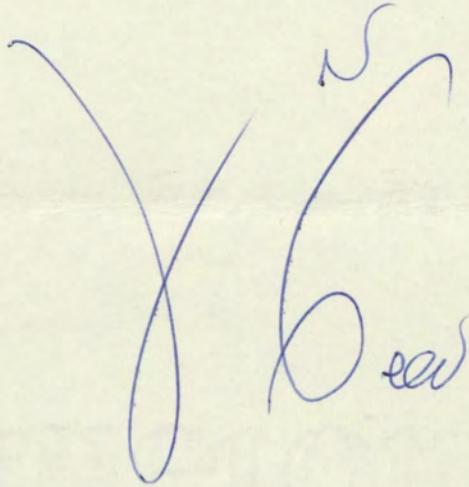
There is no price fixing as such for pork, bacon, poultry and eggs and prices fluctuate according to supply and demand circumstances, although it can be argued that any increases in cereal feed costs would have an impact on the input costs of these producers.

/As far as the ...

CONFIDENTIAL

As far as the overall impact of the CAP and food prices are concerned, it can only be said that during the lifetime of this Government, between May 1979 and December 1981 whilst the retail price index went up by 43%, the price of food only went up by 28.8% and farmgate prices (to November) by only 18.9%.

I am sending copies of this minute to all members of the Cabinet and to Sir Robert Armstrong.



PETER WALKER

11 FEB 1982





10 DOWNING STREET

Prime Minister

CAP Price-Fixing

You decided to discuss these
pages with the Foreign Secretary
at 0945 on Thursday before he
leaves OD (E).

A. J. C. $\frac{10.}{2}$



10 DOWNING STREET

From the Private Secretary

10 February 1982

I enclose a copy of a letter which the Prime Minister has received from the President of the National Farmers' Union of Scotland. This like the letter of 8 February from Sir Richard Butler argues strongly against the proposal to revalue the green pound.

B/F.1 I should be grateful if you could let me have a reply for signature by the Prime Minister by 17 February.

I am copying this letter and its enclosure to Francis Richards (Foreign and Commonwealth Office), John Kerr (H.M. Treasury) and David Wright (Cabinet Office).

A. J. COLES

Robert Lawson, Esq.,
Ministry of Agriculture, Fisheries and Food.

10 February 1982

I write to thank you for your letter of 9 February to the Prime Minister. Its contents are being considered and a substantive reply will follow as soon as possible.

JOHN COLES

J.B. Cameron, Esq.

MFJ

Enno - 1A

~~Richard Butler~~

10 February 1982

I am afraid that two days ago I signed a letter addressed to you as "Mr Butler". Will you please accept my sincere apologies for this silly mistake. Our records here are not often out of date but they were on this occasion.

JC

CS

The Hon. Sir Richard Butler, D.L.



R 10/2

Telex 727672
Telephone 031-337 4333/6

PPS
F. checking

NATIONAL FARMERS' UNION OF SCOTLAND

Director and General Secretary
D S Johnston

17 Grosvenor Crescent
Edinburgh EH12 5EN

OUR REF ECON/2/3
JBC/RIS/JBM YOUR REF

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

9th February 1982

Dear Prime Minister,

Sir Richard Butler has already written to you conveying his great concern at the proposal to revalue the green pound as part of the E.E.C. farm price package for 1982/83. I am writing now to support him in all he has said, and to indicate why I am convinced that such a development would have particularly serious consequences in Scotland.

The economic position of Scottish farming has become progressively more precarious in recent years. This is reflected in rapidly declining net income, and huge increases in the amounts borrowed by farmers from banks. Interest charges, once a relatively small item, now dominate the accounts.

Between 1976 and 1980 - the most recent year for which official figures have been published - net farm income fell from £201.4 million to £33.1 million, a drop of 84%.

Over the same period indebtedness to banks increased threefold, from £204 million to £618 million. In 1981 it rose still further, to £709 million, three and a half times the 1976 figure.

In 1976 interest charges on commercial debt, excluding land purchases, were £21.3 million, equivalent to 10% of net income. In 1980, at £83.4 million, they were two and a half times higher than net income.

Not surprisingly, investment in the industry has now dropped to unprecedentedly low levels.

It is anticipated that the figures for 1981 will indicate some recovery in the net income position, but I would think that even so, our income in that year will in real terms be perhaps half the level of 1978. And as the continued increase in bank borrowing indicates, the overall economic trend remains downward.

Significant increases in farmers' prices offer the only prospect of arresting this trend. The E.E.C. Commission's basic proposals which would increase our support prices by 8.6% on average, are in themselves insufficient to restore the position. If reduced by the proposed revaluation, they will result in a wholly inadequate basis of support for the industry, and a widening of the competitive advantage to our competitors.

In Scotland/

In Scotland the potential effect on the sheep industry may serve as an illustration of what I mean.

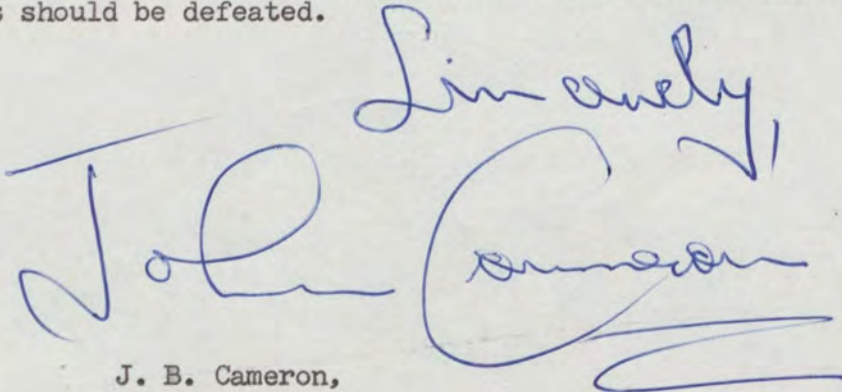
Over the last year, largely as a result of the successful negotiation and introduction of the E.E.C. sheepmeat regime, there has been evidence of expansion and a new dynamism in seeking markets abroad. This has been particularly welcome in its effect on the economy of our hills and uplands, which account for 80% of the land area of Scotland, and in which agriculture is the main and often the only industry. May I add that producers recognise the very significant part which your Government has played in securing a new and improved economic environment for the sheep industry.

But the proposed revaluation, if it is allowed to happen, will reduce by half the value to our producers of the present price proposals. Our competitors, particularly in France and Ireland, unaffected by revaluation, will be given an invaluable breathing space in which to make up lost ground and consolidate their position in the market. In what is only the second full year of the new regime, the challenge being mounted by our sheep farmers will be choked off by doubts and uncertainties about the continuity of policy and by lack of resources.

Although I have chosen sheep as an example, the effect of revaluation on the terms of competition will be almost identical for all major commodities affected by the C.A.P.

In his letter, Sir Richard makes the points that the effect of revaluation on consumer prices would be about half of one per cent on the food price index, and about one-eighth of one per cent on the retail price index. He also refers to the relationship between retail prices generally (up 84% in the last five years), food prices (up 64%), and farmers' prices (up 37%). I strongly endorse all that he has said on these matters.

Agriculture is Scotland's largest industry. It has contributed substantially to the economy at large by continuously increasing its productivity over many years. It has proved extraordinarily resilient at the hands of governments determined to keep food prices down in the fight against inflation. But the industry's performance cannot be sustained on the basis of the under-recoupment and increasing indebtedness of recent years. It is a matter of total priority that the revaluation proposals should be defeated.


J. B. Cameron,
President

PRIME MINISTER

Handwritten initials and a circled '1' in the top right corner.

Common Agricultural Policy
Price Fixing, 1982

This is to be considered by OD(E)
on Thursday, 11 February.

I attach papers circulated by the
Minister of Agriculture and the Chancellor
of the Exchequer.

OD(E)'s conclusions could well have
considerable importance for both our
negotiating tactics on the EC Budget problem
and for domestic price levels. Would you,
therefore, like me to ask that the Foreign
Secretary, who is Chairman of OD(E), should
report its conclusions to you?

A. J. C.

9 February, 1982

*I really think this
should come to
OD(E).*



10 DOWNING STREET

From the Private Secretary

8 February 1982

REVALUATION OF THE GREEN POUND

I enclose a copy of a letter which the Prime Minister has received from the President of the National Farmers' Union urging the Government to oppose that element in the European Commission's proposals for CAP prices for 1982/83 which concerns the revaluation of the green pound.

I should be grateful if you could let me have a reply for signature by the Prime Minister by the end of this week.

I am copying this letter and its enclosure to Francis Richards (FCO), John Kerr (HM Treasury), and David Wright (Cabinet Office).

A. J. COLES

Robert Lowson, Esq.,
Ministry of Agriculture, Fisheries and Food.



10 DOWNING STREET

From the Private Secretary

8 February 1982

I am writing on behalf of the Prime Minister to thank you for your letter of 5 February. This is receiving attention and a reply will be sent to you as soon as possible.

A. J. COLES

SIR
The Hon. Richard Butler, DL.

AGRICULTURE HOUSE · KNIGHTSBRIDGE · LONDON SW1X 7NJ

01-235 5077



THE
NATIONAL FARMERS'
UNION

FROM THE PRESIDENT
RICHARD BUTLER

5 February 1982

The Rt Hon Mrs Margaret Thatcher, PC, MP
Prime Minister
10 Downing Street
LONDON

Dear Prime Minister,

The UK Farmers' Unions will be putting their views to the Agriculture Ministers over the coming weeks on the Commission's proposals for CAP prices for 1982/83. But I thought I should write to you immediately on one particular issue - the proposed revaluation of the green pound - since this is of the greatest importance to the financial position of British agriculture and could have a crucial effect on the industry's ability to play its full part in our economic recovery.

The facts of the economic difficulties which agriculture faces are very simple:-

- Farming income (the Government's measure of the return to farmers for their work, their managerial skills and the return on their capital) was halved in real terms between 1977 and 1980 and has made no significant recovery in 1981.
- Farmers' indebtedness to the banks has more than trebled from about £1.1 billions to some £3.6 billions over the past five years.
- The volume of investment in agriculture has fallen very sharply in the last two years and is now at historically low levels.

Even after allowing for improved productivity, the price increases which the Commission is proposing (averaging 8.6% for the UK mix of products) barely covers cost increases which agriculture has incurred over the past year and would leave net income and investment at the present severely depressed levels. A much bigger increase is needed to restore the resources which have been lost over the last few years and to enable investment to recover.

/..

But if the Commission proposals were to be agreed, including the green pound revaluation, there would be a further fall in real farming income and in the industry's investment funds. This would push agriculture into a continuing decline and would rule out any prospect of the recovery in investment which is badly needed if improved productivity is to be maintained. The revaluation would give an unjustified advantage to our competitors elsewhere in the EEC, who would get bigger price increases than British farmers even though their costs and incomes are no worse. This would aid them in their objective of winning a greater share of our domestic market and would damage our export prospects.

The benefit of the revaluation in terms of consumer prices would be trivial, amounting to no more than one half of one per cent on the food price index (or about one-eighth of one per cent on the RPI) in a full year. Misleading comparisons are sometimes made between food price increases and wage increases in other sectors and I appreciate that these can give rise to political difficulties. I only wish that farm incomes had risen in line with wages in the period since your Government came into office. I would also like to make two further points to you. First, while retail prices generally rose by 84% over the five years up to December 1981, the food price index rose by only 64%. Secondly, the prices achieved by farmers in 1981 were on average only 37% higher than in 1976.

British agriculture has a superb record for improved productivity in the period since the war and has won a substantial increase in its share of our market. But all this will be thrown away if farmers cannot afford to invest. My members fully support the Government's economic objectives and in particular the need to bring inflation under control. But they would inevitably see any revaluation of the green pound as a conscious decision by the Government to run down agriculture and to reduce the industry's contribution to the British economic effort.

Yours sincerely

Richard Butler

5 FEB 1962

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

RESTRICTED

5



10 DOWNING STREET

From the Private Secretary

February
3 January 1982

Parliamentary Questions on the Green Pound

The Prime Minister has seen the letter of 2 February on the above subject from the Chancellor to the Minister for Agriculture and agrees that it is desirable that no option in relation to the proposed green pound revaluation should be foreclosed in advance of OD(E) discussion next week.

I am copying this letter to John Kerr (HM Treasury), Michael Arthur (Lord Privy Seal's office) and to David Wright (Cabinet Office).

A. J. COLES

Robert Lowson Esq
Ministry of Agriculture, Fisheries and Food.

cc Treasury
LPS
CO

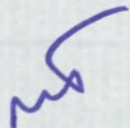
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Prime Minister

It seems wrong that Mr. Walker should make any public commitment on the government's attitude towards a green pound revaluation before Ministers have considered collectively their attitude to the annual price negotiations as a whole. O.D. is due to do this next week.

2. Agree that Mr. Walker should be asked not to foreclose any option in advance of O.D.?

Agreed 

A. S. C. $\frac{L}{2}$

✓ MAP

cc CST
 FST
 EST
 MST(C)
 MST(L)
 Sir D Wass
 Mr Ryrie
 Mr Quinlan
 Mr Littler
 Mr Lovell
 Mr Fitchew
 Mr Edwards
 Mr Gray

Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000 2 February 1982

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

Dear Minister,

PARLIAMENTARY QUESTIONS ON THE GREEN POUND

I understand that you have an oral question from Hector Monro for answer on Thursday asking you to "ensure that British farmers are in no way disadvantaged by any adjustment in the green pound"; and that your present intention is to answer briefly and affirmatively. I believe you also have a similar written question for tomorrow, which you propose to deal with in the same way.

Our attitude towards the Commission's proposal for a green pound revaluation seems to me one of the key issues for our discussion at OD(E) next week on the price fixing. Bearing in mind the very high level of common price increases proposed by the Commission, I am most concerned about the potential domestic inflationary implications, and I believe that we must bear this aspect in mind when we consider our approach to the green pound proposal.

In view of this, I hope that you will not, in advance of our OD(E) discussion, answer these questions in a way that would foreclose any option in relation to the proposed green pound revaluation. I would of course be entirely content for you to reply along the lines of, or by reference to, your answer on 20 January to Albert McQuarrie.

I am sending copies of this letter to the Prime Minister, the Lord Privy Seal, and Sir Robert Armstrong.

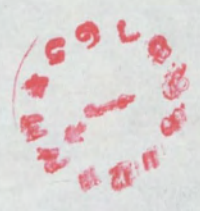
Yours sincerely,

Geoffrey Howe

PP

GEOFFREY HOWE

(seen and approved by the Chancellor)



3 FEB 1982

CONFIDENTIAL

PRIME MINISTER

Community Affairs

You will wish the Lord Privy Seal to report on the outcome of the discussion of the mandate guidelines at the informal meeting of Foreign Ministers on 25th January, and the results of the Foreign Affairs Council on 26th January.

2. Milk was discussed briefly at the beginning of the informal Foreign Ministers' meeting and left unresolved. Most of the day was spent on the Budget chapter and no progress was made, mainly because the other member states insisted on an interpretation of degressivity that was unacceptable to the United Kingdom. M. Tindemans and M. Thorn will now take soundings with the member states to explore the possibilities for a solution. It is likely that the next phase will enter into figures, and virtually certain that it will become entangled with the price fixing negotiations. Meanwhile the rest of the provisional mandate conclusions remain unagreed pending a settlement of the Budget issue.

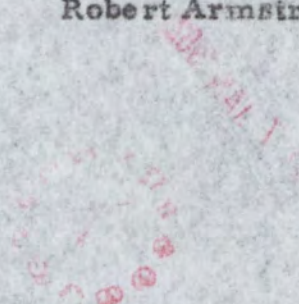
3. The Foreign Affairs Council reached agreement on an ACP sugar package satisfactory to the United Kingdom; registered the essential concerns of the United Kingdom on textiles but postponed a decision on acceptance of the Multi-Fibre Arrangement protocol and the global ceilings to a special Council on 11th February; and exposed the proposed French internal market measures for additional state aid and discriminatory action on imports to strong criticism from most member states. On the dispute with the Parliament relating to the 1982 Community Budget, the French proposed that all member states should pay their contributions in full and seek to resolve the conflict through a dialogue with the Parliament, but take joint legal action in the European Court meanwhile to protect the Council's position. Member states agreed to reflect on this proposal and inform the Presidency of their final positions by noon on Friday. (So far United Kingdom Ministers, on the advice

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of the Attorney General, have taken the view that our February contribution to the 1982 Budget should be abated by the disputed amounts; the Ministers concerned are meeting on Thursday afternoon to review the situation.)

ROBERT ARMSTRONG

Robert Armstrong



27th January 1982

CONFIDENTIAL

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ROBERT AT METROPHO

77 JAN 1982
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Euro P.O. Budget Pt 13

PRIME MINISTER

Cabinet: Community Affairs

1. You will wish the Foreign and Commonwealth Secretary to report on the discussion of the four outstanding mandate issues at the 14/15 January informal meeting of Foreign Ministers. The guideline texts which emerged on the Mediterranean and the control of agricultural expenditure do not pose major problems for the United Kingdom, and the new budget text contains a number of welcome features. But it still refers to degressivity in unacceptable terms; and the draft guideline on milk, on which the Dutch and the Danes deserted us in the later stages of the meeting, goes too far towards a commitment to income aids for small producers without any linkage to price restraint or effective measures to curb the milk surplus. The Foreign and Commonwealth Secretary accordingly reserved the United Kingdom's position on the entire milk passage and made clear our refusal to accept the formula on degressivity. Discussion will be resumed at a further meeting of Foreign Ministers on 25 January, and you have convened a meeting of the Ministers concerned on 22 January to settle the UK line.

2. The Foreign and Commonwealth Secretary might also inform the Cabinet of the result of the European Parliament's Presidential Election on 19 January. Mr Dankert, a Dutch Socialist, was elected to succeed Madame Veil, Sir J Scott Hopkins having been defeated at the penultimate voting stage.

/3.

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CONFIDENTIAL

3. The Minister of Agriculture might report on the 19 January Agriculture Council, which reached agreement on a beef package that should resolve the Community's problems with Australia on beef imports. The Commission withheld their price fixing proposals until after the next discussion on the mandate.

4. The Minister of Agriculture might also report on his Minister of State's talks with Commissioner Contogeorgis on fish on 19 January. It emerged that the Commission were aiming for the Common Fisheries Policy negotiations to resume at a Fisheries Council early in March, to be preceded by further Anglo-French talks with some involvement of the Commission.

5. Next week the Foreign Affairs Council meets on 25/26 January.

D.H.

D J S HANCOCK

20 January 1982

14/12

Eno Pol

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



From the Minister

The Rt Hon Humphrey Atkins MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

ECJ (E) *[Signature]* 14/12
cc PS
PS/UPS
PS/PUS
herald Bridges
Mr. Hamway

14 December 1981

14/12/81

As Young

Dear Lord Privy Seal,

ACP SUGAR

Thank you for your letter of 10 December.

You seem much concerned that we are in a minority of one on this issue, but this was always the case. We get rather used to this on CAP matters, simply because of the nature of the questions involved. We are in a minority of one because it is only the UK which has a sugar refining industry of any significance - just as, for example, Italy (before Greece joined) was the only member state with an olive oil or rice producing industry. This is why CAP decisions usually have to be taken as a package deal. We got it agreed in the aftermath of the price-fixing that the increase in the ACP price should be limited to 7½%, and we gave up other points in order to secure this agreement. There are probably several other decisions taken as part of the price-fixing which, if they could now be reopened in isolation, would be found to be supported by only one member state.

We should not be in any doubt as to the motives of other member states. Nearly all of them produce a surplus of sugar. They would like to see our refining industry contract or disappear, so that they could sell some of their surplus here instead of having to put it all on the world market. This is why they want to put the ACP price up without offering any compensation - except an inadequate amount confined to the current year. The ACP have gone along with them, not because they are unconcerned about the fate of the refining industry, but because they believe that the Government would, if necessary, prop it up through a subsidy. No doubt we would have to, in the last resort. But we should do everything possible to prevent that point being reached.

/In fact, I do not ...

In fact, I do not believe that the ACP really feel as strongly about the issue as they pretend. When the Prime Minister put our case to Ratu Mara, she got an understanding reaction. As you say, they have evidently been stirred up by the Commission, who have made no serious attempt to carry out their mandate.

There is no logical case for maintaining the storage arrangements for ACP sugar. The others insisted on applying them in the first place, simply in order to make life difficult for the refiners, and they want to retain them for the same reason. Nor would the case become any clearer by being deferred. The only effect of putting off the question of abolishing the storage scheme until the next price fixing, as you advocate in your letter, would be that we would be obliged to pay a further price then in order to achieve it, if indeed we could achieve it at all. We would thus be paying twice over. The next price-fixing will be difficult enough in any case - especially if it has to be negotiated in conjunction with a budget corrective mechanism - without needlessly erecting further objectives for ourselves. I have found from bitter experience that forms of words to be used as pegs on which to hang further efforts to obtain an objective simply do not work, at least in the Agriculture Council.

To conclude, I am certainly ready to make a real effort to settle at tomorrow's Council, just as we have been making real efforts all along. But I must get lasting compensation if I am to give up a lasting benefit negotiated at the 1981 price-fixing. If we do not succeed in settling, I trust that you will continue to uphold this important UK interest at and beyond a Joint Council should this prove to be necessary.

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

Yours sincerely
Kate Timmins

for PETER WALKER

(Approved by the Minister
and signed in his absence)



010

PRIME MINISTER

ACP SUGAR

1. I am concerned about the situation we are getting ourselves into following recent correspondence between myself and Peter Walker, resting with the latter's letter of today.
2. I have discussed this with Peter Carrington, following a further telephone conversation I had this afternoon with Peter Walker, and he has asked me to minute to you to say that it is clear to us that if at tomorrow's Agriculture Council Peter Walker sticks to the line he recommends in his letter there will be no possibility of agreement on a revised mandate for the Commission in their negotiations with the ACP. There will be no possibility of an agreement because at this stage all we are going to be able to get is an undertaking that the cane refiners, ie Tate and Lyle, will get some compensation this year (perhaps 4 mecu, perhaps a bit less). We shall not get anything concrete for subsequent years now, though we should be able to get a form of words providing for 'review' of the arrangements during the remaining 4 years of the life of the current 5 year internal sugar regime.
3. If there is no agreement in the Agriculture Council tomorrow, a meeting of the Joint EC/ACP Council (at ministerial level) cannot be avoided in the near future (the ACP are pressing hard for a meeting before the end of the year, ie during our Presidency). At that meeting it will be the UK, and the UK alone, which will bear the responsibility, in ACP eyes, of failure by the Community to improve its offer on the guaranteed minimum price for ACP sugar to 8.5%, in line with the increase given this year to the Community beet producers. I cannot predict what the ACP would do after that.

/But

But there must be a real possibility of some direct retaliation (cf Indonesia) against our own commercial interests, whether trade or investments, by at least some of the ACP countries concerned. Peter Carrington is firmly of the view that that is not a risk worth taking in order to have the certainty of about 15 mecu (on the basis of current sugar prices) over 5 years for Tate and Lyle, as compared with the certainty of 4 mecu (or something near it) for this year and the chance of in the end securing something similar also in future years.

4. Peter Walker's meeting takes place in Brussels tomorrow. If you agree with the point that I have made an urgent message can no doubt be delivered to his people before the Council starts.

5. I am sending copies of this minute to other members of OD(E), to Patrick Jenkin, and to Sir Robert Armstrong. John Biffen and Patrick Jenkin, in particular, may have views.

P.A.



①.

10 DOWNING STREET

Prime Minister

1. I think the Cabinet Office advice in par. 3 is right.

2. If we cannot get agreement at the Agriculture Council tomorrow then it would be right for OD (E) to consider. We do not want another Malaysia.

3. Agree Cabinet Office advice?

A.S.C. $\frac{14}{12}$

MR COLES


cc Sir R Armstrong

ACP Sugar

1. The Prime Minister may wish for advice on the Lord Privy Seal's minute of 14 December on the line that the UK should adopt on the Community's price offer for ACP sugar at the Agriculture Council tomorrow.

2. The Foreign and Commonwealth Secretary and the Lord Privy Seal are concerned that, if agreement is not reached on this issue tomorrow, the United Kingdom will be isolated within the Community and will face retaliation from some ACP countries if the inevitable EC/ACP Joint Council then founders on the Community's refusal to improve its price offer to an increase of $8\frac{1}{2}\%$ instead of $7\frac{1}{2}\%$. They therefore urge that we should settle for $8\frac{1}{2}\%$, with compensation of some 4 MECU for Tate and Lyle for this year, and work for a review of these arrangements in later years. The Minister of Agriculture on the other hand is concerned that we should strongly defend the benefit we obtained at the 1981 annual CAP price fixing for the UK sugar refining industry and only give it up in return for long-term compensation for Tate and Lyle's refining margin (Mr Walker's letter of 14 December and Mr Atkins' earlier letter of 10 December refer).

3. The Prime Minister might see advantage in encouraging the Minister for Agriculture to dispose of this problem tomorrow if he can find some way of doing so without serious prejudice to United Kingdom sugar refining interests. If in the event it should prove impossible to reach agreement at the Agriculture Council, then the issue should go to OD(E) in time for a line to be agreed for use in the Joint Council.


D M ELLIOTT



Emo Pol 10/12

Foreign and Commonwealth Office
London SW1

10 December 1981

p.a.
15/12

Dear Peter

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Ad Hg
that's all

ACP SUGAR

As you will know, the position reached after the meetings of the Special Committee for Agriculture and the Foreign Affairs Council on 7/8 December is that the Commission's proposal (for an 8.5% increase in the minimum guaranteed price to be offered to the ACP, together with abolition of the storage levy and refund system backdated to 1 July 1981), though acceptable to the UK, is unacceptable to any other member state.

A Commission proposal which would give the UK some 4 mecu in the current year was not acceptable either to the UK or to other member states (who could only accept a one year solution which would offer the refiners marginally over 2 mecu).

In these circumstances I think that we should make a real effort at the Agriculture Council on 15 December to find a solution which will enable us to agree to an 8.5% increase in the price offer, even if it does not give us the cast iron and 100% compensation on the internal side on which we have so far insisted. In particular, I suggest that we should in the last resort be prepared to accept something like the Commission compromise proposal of 4 mecu in the current year plus wording which would provide us with a peg on which to hang efforts (eg in the price fixing?) to secure continued satisfaction in some form in future years (the Italians, for example, think that something like this should be possible).

If we cannot agree at the Agriculture Council I cannot be optimistic about holding the line on 7.5%. There will be increasing difficulty with our Community partners and increasing hostility from the ACP, no doubt spurred on by the Commission. And at the EC/ACP Joint Council, which would then be inevitable (though we are trying to choke off the ACP request for a meeting during what remains of our Presidency) we would find ourselves in real trouble. I therefore think that on 15 December we should make a real effort to settle; a better opportunity will not recur.

I am copying this letter to members of OD(E) and Sir R Armstrong.

The Rt Hon Peter E Walker MBE MP
Minister of Agriculture Fisheries
and Food
Whitehall Place

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bus ser

DD



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Euro 29,

10 DOWNING STREET

THE PRIME MINISTER

24 November 1981

Dear Sir Richard,

Thank you for your letter of 17 November about the Committee of European Agricultural Organisations. I am afraid that my diary is simply too full in the period between now and the European Council to permit a meeting. However I know that the Foreign and Commonwealth Secretary would be happy to meet the delegation. His office have probably already been in touch with yours.

*Yours sincerely
Margaret Thatcher*

The Hon Sir Richard Butler, D.L.

2/8



10 DOWNING STREET

THE PRIME MINISTER

23 November 1981

Dear Count Di Capodilista,

Thank you for your letter of 13 November setting out COPA's views on the agricultural aspects of the 30 May Mandate. It is very useful for the Council to have your views in advance of the important discussions on the common agricultural policy which are to take place at the European Council next week. I have taken note of the views expressed in your letter and am arranging to circulate both your letter and this reply to other Member States of the Community.

Yours sincerely
Margaret Thatcher

Count Emo Di Capodilista

ds.



Foreign and Commonwealth Office

London SW1A 2AH

Type for Post signature

Rich

20 November 1981

Dear Michael,

You wrote on 16 November enclosing a copy of the letter of 13 November which the Prime Minister had received from the President of the Committee of Agricultural Organisations in the European Community. We have discussed the nature of the Prime Minister's reply with officials of the Ministry of Agriculture and have agreed that a simple acknowledgement would be the best response. Count Emo Di Capodilista's letter raises a number of important points on agricultural aspects of the Mandate negotiations which will be considered at the European Council next week. It would not be appropriate to attempt a detailed reply on behalf of the Council at this stage.

It would also be desirable and in accordance with normal Presidency practice to circulate COPA's letter and the Prime Minister's acknowledgement to other Member States through the normal Council machinery.

Could you therefore please let me have a copy of the Prime Minister's reply so that we can set this in hand.

Yours ever,

Francis Richards
(F N Richards)
Private Secretary

M O'D B Alexander Esq
10 Downing Street

DSR (Revised)

DRAFT: minute/letter/teleletter/despach/note

TYPE: Draft/Final 1+

FROM:

Reference

Prime Minister

DEPARTMENT:

TEL. NO:

SECURITY CLASSIFICATION

TO:

Your Reference

Top Secret

Secret

Confidential

Restricted

Unclassified

Council

~~Sig. U~~ Emo Di Capodilista

Le Président

Comite des Organisations Professionnelles

Agricoles de la Communaute Europeenne

B-1040 BRUXELLES

Rue de la Science 23-25 B.P.3

Copies to:

PRIVACY MARKING

SUBJECT:

.....In Confidence

CAVEAT.....

Thank you for your letter of 13 November setting out COPA's views on the agricultural aspects of the 30 May Mandate. It is very useful for the Council to have your views in advance of the important discussions on the common agricultural policy which are to take place at the European Council next week. I have taken note of the views expressed in your letter and am arranging to circulate both your letter and this reply to other Member States of the Community.

Enclosures—flag(s).....



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

From the Minister's Private Office

✓
Katie

Michael Alexander Esq
Private Secretary
10 Downing Street
London SW1

20 November 1981

Dear Michael,

Thank you for sending us a copy of the letter which the Prime Minister has received from the President of the National Farmers' Union requesting her to meet a delegation from COPA before the European Council meeting next week. I advised you on the telephone that although we would regard a meeting with COPA as desirable, it was not essential that the Prime Minister should meet this delegation.

You suggested that the delegation might be offered a meeting with the Foreign and Commonwealth Secretary instead of the Prime Minister before the European Council. We welcome this idea.

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

Yours sincerely,
Katie

KATE TIMMS
Private Secretary

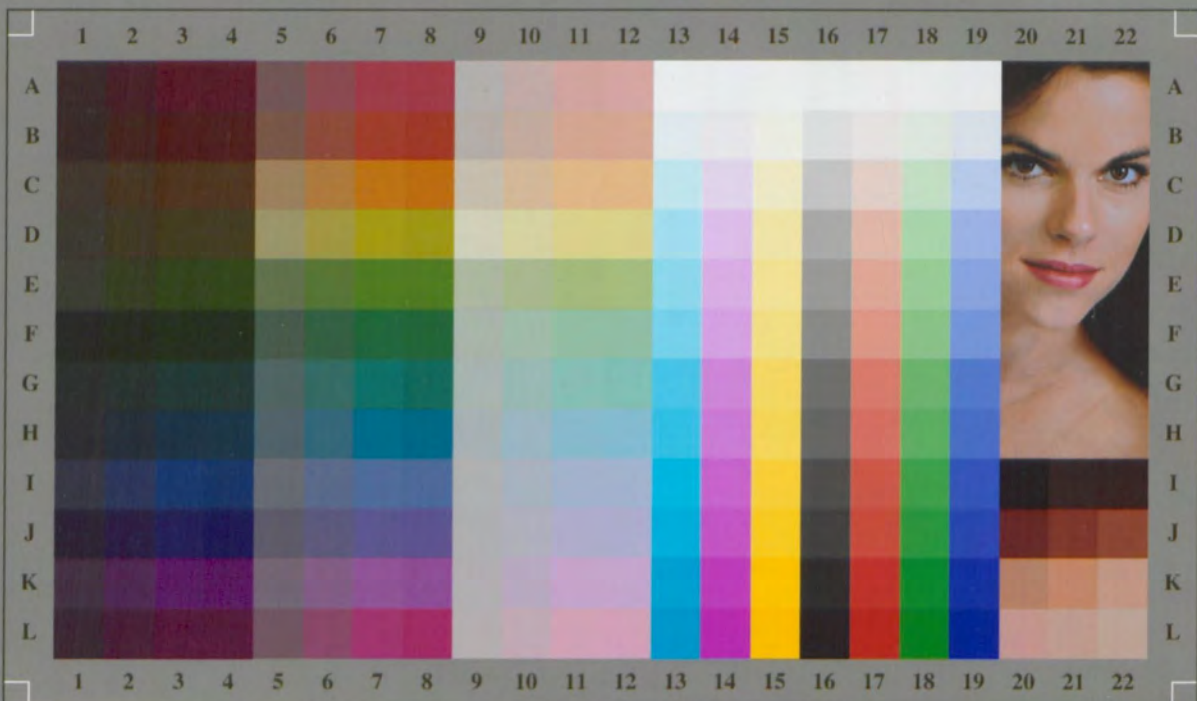
PART 8 ends:-

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PART 9 begins:-

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