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PART ONE

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Agricultural Expenditure.

Agriculture

Part One.

September 1983

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PREM 19/1418

PART 1 ends:-

Scottish Office to FERR 31.10.85.

PART 2 begins:-

CST to min/MAFF 6.11.85

*CCBG*



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Robin Butler Esq  
Private Secretary to  
The Prime Minister  
No 10 Downing Street  
LONDON

31 October 1985

*Dear Mr Butler,*

EMERGENCY AID FOR FARMERS

*In PM's Box*

Further to my Secretary of State's letter of 24 October to the Prime Minister, rainfall statistics are now available and Mr John MacKay has asked me to send you the enclosed map.

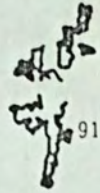
I am sending copies of this letter and the map to the Private Secretaries of Mr Michael Jopling, Mr Nicholas Edwards, Mr Tom King and Mr John MacGregor.

*Yours sincerely,*

*DA Stewart*

D A STEWART  
Private Secretary

RAINFALL AS A % OF AVERAGE,  
JULY - SEPTEMBER, 1985





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DA



10 DOWNING STREET

*From the Private Secretary*

31 October 1985

Dear Ivor,

FORESTRY

The Prime Minister was grateful for your letter of 30 September about the report your Secretary of State has received supporting the case for privatisation of the estate administered by the Forestry Commission. She has also seen the Chancellor's comments in his minute to her of 21 October.

The Prime Minister is very glad that you will be discussing how to take further the proposal for full-scale privatisation, and she would like this to be pursued quickly and thoroughly. However she believes that the question whether and how commercial forestry and farm woodlands should be encouraged is separate from the question of privatisation.

I am copying this letter to Peter Ricketts (FCO), Philip Wynn Owen (HM Treasury), Joan MacNaughton (Lord President's Office), John Graham (Scottish Office), Colin Williams (Welsh Office), Jim Daniell (Northern Ireland Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office) and Michael Stark (Cabinet Office).

Yours sincerely,

David Norgrove

(David Norgrove)

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.

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PRIME MINISTER

30 October 1985

EMERGENCY AID FOR FARMERS

The Treasury have offered "well below" £10 million; Michael Jopling has now put in a bid for over £30 million.

We are in the process of reversing the modest economies in agricultural support, which took a year's hard grind to secure. We trimmed £40 million from capital grants in the last Expenditure Survey, but have lost £30 million of these through overruns. The intervention fund is way over budget. Now we are thinking of an extra £30 million rescue operation.

The Summer's disasters call for some help, but we should see this in perspective. We did not withhold assistance to farmers during the good years, when they didn't need it. Why then should they expect assistance during a bad year? The hoteliers would not dream of asking for compensation for the effects of the disastrous Summer on their businesses, nor would the Government consider providing it if they did.

A package which you might recommend for consideration would be:

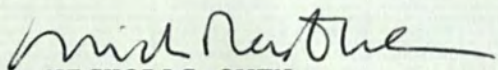
1. Treasury to increase their offer to £10 million, to be paid, as MJ suggests, in the form of headage payments (so much per cow and per sheep).

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2. Advance some of next year's (ie 1986-87's) hill livestock compensatory amounts (HLCAs) to the farmers in the affected Less Favoured Areas. The HLCAs are reviewed in the Autumn and paid in January. Michael Jopling wants this review to be kept separate from the relief. He is right, but for reasons which the Chief Secretary has put forward: we don't want to establish a baseline for future HLCA payments on the basis of an exceptionally bad year.
  
3. Press the Commission harder for grain relief, as the Irish, Italians and French have done. MAFF have been diffident about this, partly because they fear that grain relief will "spoil the market". But since reduction in cereal prices is an avowed objective of our policy, why should we be concerned?

  
NICHOLAS OWEN

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*Pmie Quinter*  
*Agree to write a*  
*Memorandum?*

PRIME MINISTER

30 October 1985

FORESTRY

*31/10.*

*Yes not*

Michael Jopling's spontaneous offer to consider the privatisation of the Forestry Commission's estate is a welcome contribution - one which deserves your encouragement.

This is the right course. It would separate the Forestry Commission's regulatory function from its business activity. It would give an overdue return to the taxpayer, who has stood by the FC for so long and currently puts in £40 million a year to assist its forestry enterprise. Proceeds would exceed £1 billion.

The FC will, of course, resist. It may well get support. Independent analysis suggests that the Forestry Commission is an efficient operator. Its losses are primarily due to the immaturity of its standing timber. The major surge of planting took place after World War II, and will generate increasing revenue as these trees mature (conifers require 50-60 years). The FC has a good environmental record. Sensitive to environmental criticisms about its monstrous regiments of conifers, the FC has taken imaginative steps to landscape its forest, conserve wildlife and provide the fullest public access. This last point may worry the environmental lobby. The FC has judged it not worthwhile to write in covenants guaranteeing public access when selling off its assets. The FC also claims to offer industrial

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advantages because, by virtue of its size, it can encourage new investment in paper mills by guaranteeing long-term supplies of timber. These factors suggest that the FC could expect support from the Departments of Scotland, Environment and Industry.

However, none of these considerations justify Michael Jopling's bid to  earmark the proceeds to subsidise private forestry. The existing tax and grant régime will probably cost the Exchequer an additional £20 million at least, if the FC is privatised. The tax treatment of forestry was described by the previous Chief Secretary as a "tax scandal". Foresters can opt for Schedule D in early years, and offset the costs of planting and maintenance against tax from other activities, and then switch to Schedule B, which levies a piffling, nominal charge on forestry land, but not on timber, the moment any income appears. Schedule B ought to be abolished (the PAC recommended as much in 1979-80, but we resisted in order to assist disposals). If we retain this régime, is there any reason to increase grants as well?

We recommend that you:

1. Welcome Michael Jopling's initiative.
2. Observe that the question of whether and how commercial forestry and farm woodlands should be encouraged further

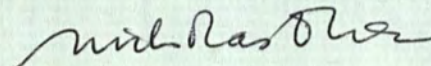
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is unconnected with the privatisation question, and should be considered separately. Colleagues will first want to consider whether funds currently devoted to supporting commodities in surplus should be diverted to forestry.

This can be considered only when we have cut the support for commodities in surplus. ✓

NRW

  
NICHOLAS OWEN

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[Continuation from column 788]

## Farming (Northern Ireland)

*Motion made, and Question proposed, That this House do now adjourn.—[Mr. Lang.]*

9.43 pm

**Mr. James Nicholson** (Newry and Armagh): I welcome this opportunity to bring before the House the serious plight that has faced Northern Ireland agriculture during the summer as a result of adverse weather conditions. This summer has certainly been the worst in living memory. Indeed, many of the most elderly among the farming community cannot remember a worse situation facing the farmers in that part of the United Kingdom.

From June to mid-October there has been no dry spell, not even for two consecutive days throughout that time. A major cause of the problem lies in the fact that there was continuous rain day and night which, on occasions, culminated in flooding in various parts of the Province. Coupled with that the temperature of the soil and of the air was about 2 deg. C lower than might have been expected in the summer. The continuous bad conditions caused all aspects of agriculture to suffer.

I want to outline, but not exaggerate, some of the difficulties. The prolonged periods of wet weather have wreaked havoc on the cereal and potato crops. Cereal farmers responded to the calls of Ministers who came to grain trade dinners and told them that, because of the cuts in dairy quotas, they should increase grain production. Although in Europe as a whole grain was in surplus, Northern Ireland was a deficit area. Northern Ireland is a net importer of grain. Farmers were encouraged to expand cereal production, and as a consequence many of them face ruin. Grain producers are professionals in their own right and they know how to grow cereals. They are important and must be kept in business if cereal production in Northern Ireland is to have any future.

Most of the winter wheat has been lost, as is acknowledged even by the figures of the Department of Agriculture. The winter barley has also suffered seriously. There were extra spraying costs and high drying costs. After difficult harvesting conditions, there is a poor yield. Spring barley has finally been salvaged, but again, with high drying costs and low yields, with only a limited amount of straw saved. The result is poor profits for those who depend on grain growing for their livelihood. Harvesting was most difficult, protracted and expensive.

Successive Secretaries of State and Ministers of Agriculture have encouraged the growth of alternative crops. Farmers were told not to put all their eggs in one basket. They were encouraged to produce oil seed rape—disaster. They were told to grow peas—disaster. Flax production this year has been a disaster. There is a catalogue of crop failures. So much for alternative crops in Northern Ireland.

In fairness, potato growers struggled valiantly against great odds to try to harvest their crops. Ground conditions were atrocious. Some potatoes lay under 12 to 18 inches of water for a long time. Eventually some farmers got the potatoes home. But what did they find? The potatoes looked good when they were brought from the field, but

within three weeks they began to rot in their boxes. Part of the problem was caused by the weather. Blight was rampant. Even continuous spraying had no effect. In some cases, before the farmers were out of the fields, the rain had started and the day's work was washed into the ground.

A problem that I found out about only a short time ago—water slade—occurs when potatoes consume so much water that they cannot absorb any more and cannot stand against germs. When potatoes are brought to the farm, they are so weakened that germs attack them and soon the potatoes are a rotting mess.

I recently visited Rathfriland in the constituency of my right hon. Friend the Member for South Down (Mr. Powell) where I met a farmer who had been working all year to produce 250 tonnes of potatoes. They were the sole source of his livelihood. He stood on top of those potatoes and sank into them. They were a rotting mess.

Everyone has great sympathy for the farmers, but sympathy is not enough. The farmers in South Down said that £2.5 million or £3 million was available under a stockfeed scheme, and they asked why the money could not be given to those who had ended up putting their potatoes on dumps or in bogs. They got no return for the capital invested and the work put into producing those potatoes over a whole year.

We face a difficult and serious problem. I do not denigrate officials in the Department of Agriculture in Northern Ireland who have given farmers advice, but that advice has not helped. One farmer spent £30,000 on new boxes and a forklift truck to handle them. His potatoes rotted. Another farmer bought drying equipment and did everything right—even the departmental officials agreed that he did everything right—but his potatoes rotted as well.

We are speaking of farmers' livelihoods, and we must have every sympathy for them. I ask Ministers to help men who have lost their whole production of the past year.

My constituency is known as the orchard of Ireland, but the apple producers have had difficult times because of the weather. Apple scab has been a difficult problem for the apple growers. Even though they used extra spraying, they faced similar problems to those experienced by the potato growers. Before the farmers got through the orchard gate, the day's work was lost. Up to 40 per cent. of the apple crop is virtually unmarketable this year. This is a high-cost industry, and the growers face grave difficulties.

One would not expect mushrooms to have been affected by the weather, but mushroom growers require straw, the raw material for mushroom production. Growers in my constituency employ 1,000 people—the industry is an important source of employment in my constituency. Like the apple producers, they have a large marketing organisation. I implore Ministers to ensure that both those sectors receive help. Jobs are at stake and markets that have been fought for and won over many years may be lost. Consideration should be given to bringing in straw for the mushroom growers from outside Northern Ireland and the Republic.

The majority of farmers in Northern Ireland are dependent on the grass-based sector for their living. There has been much discussion about dairy farmers recently, but in a different vein. Today the problem is not quotas, but insufficient fodder to carry the dairy cows through the winter. Many dairy farmers in Northern Ireland have had their cows inside since the middle of August. As much

[Mr. James Nicholson]

silage has already been consumed as would normally have been consumed by mid or late January. I understand that by mid-February or March they will be unable to feed the animals with the silage that they have managed to salvage.

During the past two weeks better weather in Northern Ireland, has partly helped to relieve the problem. Farmers have not sat on their thumbs waiting for help. They have done their best in those two weeks to try to salvage what little they can. However, that is not enough. There is an estimated shortfall in forage of up to 40 per cent. That problem must be dealt with in the coming months.

Beef producers have also had a serious time during the past four or five months. The grass did not have the feeding value required to help cattle to thrive, and the prices offered by the plants were much lower than last year. It was very much a buyer's market. One would have thought that the period of intervention would have eased the problem. When farmers tried to sell their cattle during the short period of intervention they rang up the local plants but were told that nothing was required. They did not require anything because more than 50 per cent. of the plants in Ireland are owned by factories originating in the Republic of Ireland. They brought thousands of cattle over the border and killed them in the plants in Northern Ireland.

If intervention is to work and provide support for the farmer, the farmer must be seen to be receiving that support. An intervention period must ensure a domiciliary period for cattle coming from the Republic of Ireland. Cattle should be kept on grass in Northern Ireland for a month, six weeks or even two months before they can be slaughtered. The Government should address themselves to the problem, because during that period farmers did not receive the benefit of intervention. The benefit went to the plant and the buyers who went to the Republic of Ireland, bought the cattle, and brought them north. They, not the farmers received the profit. At least 50 per cent. of the plants did not indulge in that practice, and I congratulate them on sticking by the people who supported them through thick and thin over the years. Those plants stuck with the farmers who had referred cattle to them in the past. However, the other plants should be condemned for bringing cattle from the Republic of Ireland. No doubt it was more profitable for them.

According to Department of Agriculture figures, in the less-favoured areas only 20 per cent. of the hay was saved, whereas in lowland areas, 30 per cent. was saved—

*It being Ten o'clock, the motion for the Adjournment of the House lapsed, without question put.*

*Motion made and Question proposed, That this do now adjourn.— [Mr. Neubert.]*

**Mr. Nicholson:** I assume that there is no argument with those figures, which show how serious the fodder problem is.

**Mr. James Molyneux (Lagan Valley):** I do not doubt the accuracy of the figures quoted by my hon. Friend. However, even in the south of County Antrim, which is reckoned to be good agricultural land, many farms have no hay at all. Not even one bale has been saved.

**Mr. Nicholson:** I thank my right hon. Friend for that intervention. What he says is correct. In the county of Fermanagh, which has a higher rainfall than any other part

of the United Kingdom, the farmers are used to such conditions and can say, "We have faced this before." However, this time the problem has spread throughout Northern Ireland. No area has been left untouched by it.

Many small farmers, especially in hill areas, depend completely on hay as fodder for their animals during the winter. They are in an impossible position. Many of them have no hay, and find it too expensive to purchase hay or silage. The most serious problems will arise during January, February and March next year, when no fodder will exist. Indeed, much of the silage and hay that has been saved is of such poor quality that farmers will need to augment its protein value with grain.

I have always been a keen supporter of intervention grain being brought to Northern Ireland, and I welcome the announcement to bring it there now. However, intervention grain will not solve the problem. I am worried about how that grain will be distributed, and I wish to be assured that it will reach those in the greatest need. I am worried that, at the end of the day, all that we shall have achieved will be to give the merchants a rich harvest at the expense of those who need grain. I want assurances that the grain will not go into silos in Belfast and never be seen again. I want assurance that the grain will be given to small hill farmers and to farmers most in need.

I am glad to see the new Secretary of State on the Front Bench tonight. He has shown great interest in the matter since it first came to his attention. When we visited the former Secretary of State, he told us that he would have discussions with the millers about producing a low-cost ration to be sold to farmers, but to date we have heard nothing of that. Are those negotiations continuing, or have the millers refused to co-operate?

I have spent much time talking about the difficulties of farmers. However, because Northern Ireland depends so much on agriculture, its problems affect many others. It affects the ancillary industries. For example, creamery workers are being let off work, and in other sectors of agriculture people are losing their jobs. When farmers do not have that little extra to spend, local shops suffer. Lime distributors, who last year told me that they could not manufacture and distribute lime fast enough, have not sold a ton this year, and they have no work.

The Government's initial response to the problem was extremely slow and left much to be desired. They may have hoped that the position would improve and that the problem would disappear. At the end of June many farmers told me that July would be better, and then that August and September would be better, and perhaps Ministers and officials thought the same. But the problem has not disappeared. It will not be good enough for them to say today that they will not know how bad the position is until the end of 1985. Farmers require today an early sign of what the Government propose to do to relieve the present crisis.

At present little winter grain has been planted. The Government should seriously consider an acreage payment to cereal and potato producers to get them back in business because many of them cannot afford to replant next year. That way those people can continue to produce and to do what they do best. There should be additional payments of the hill land compensatory amounts for the current year. Early payments of suckler cow and ewe premiums should be made, and a suspension of the six months' retention rule for suckler cow payments should be invoked. That way the Minister will at least put money into the hands of those

require it most—those who must buy the dear fodder and dear meal. There will be no cheap grain or meal.

There is serious shortage of hay in Northern Ireland. The Government should consider making a transport subsidy to bring hay by sea to Northern Ireland to help us over the present problem. Small dairy farmers who need to buy fodder also require extra aid. Hon. Members must remember that 20 per cent. of dairy farmers depend on hay, and that not all have switched to silage. The co-responsibility levy should be abolished. That would assist all dairy farmers and would not cost the Government any extra money because the legislation has outlived its useful purpose. The Government should announce immediately the extension of the former agricultural and horticultural grants scheme to enable work to be finished because farmers have been unable even to reach their land to carry out work. As many pastures have been seriously damaged and need to be renewed, a new and higher grant rate should be introduced for a short time to ensure that the pasture is renewed and extra reseeding carried out.

I know that the Government are monitoring the position effectively, and I wish them well. I hope that they will make early recommendations on those proposals.

I suggest that a subsidised intervention is required for the apple growers in my constituency for the pulping of apples. The pulped apples should be made available to livestock farmers at an attractive price.

I have suggested some ways in which the Government could assist hard-pressed farmers. I have thrown out ideas merely as suggestions and I appreciate that other approaches could be adopted. However, I feel that some of my suggestions are worthy of urgent and immediate action.

Farmers cannot look forward to the future with any confidence, especially this coming winter. The time for talking has passed and it is now time for positive action. The Government have dragged their feet long enough. Farmers are proud and hard-working people. They do not want handouts, the dole or supplementary benefit. They want to work for a proper return on their input. I implore the Government to give them the encouragement that they require if they are to continue in business.

10.11 pm

**Mr. J. Enoch Powell** (South Down): It is an occasion resonant with historical echoes when hon. Members from Northern Ireland come to tell the Government and the House about the potatoes that have rotted in the clamps. Now in 1985, unlike 1845, we have no difficulties in persuading Ministers of reality and the seriousness of what we are telling them. It is not usual for Adjournment debates to be attended by the Minister of State and the Secretary of State. The right hon. Gentleman's presence will be marked and appreciated as a sign of his personal interest in the circumstances that have been described so vividly by my hon. Friend and neighbour the Member for Newry and Armagh (Mr. Nicholson).

I shall take only a short time to underline one item in the long a la carte menu which my hon. Friend the Member for Newry and Armagh displayed and from which Ministers will have to select a policy that is consistent with their other obligations and with more general considerations, but whereby they may be seen to be, in the words of my hon. Friend, bringing help now to where it is needed most.

My hon. Friend referred to intervention grain. Despite what has happened in Northern Ireland and some other places, opinion seems to be agreed that the coming year will be an even more bumper year for intervention. Hitherto, the economics of utilising storage in Northern Ireland for intervention grain have not been regarded by the Department of Agriculture as favourable. Even in the coming year there may be a balance which tips slightly on the calculations against utilisation of storage in Northern Ireland. Nevertheless, the utilisation of Northern Ireland storage could be at least one method whereby assistance could be given within the framework of existing arrangements to those farmers in Northern Ireland who are most in need of it. We shall be faced with massive intervention in the coming months. Let us use what is an evil offspin of the common agricultural policy in a manner that is helpful to one part of the United Kingdom.

10.14 pm

**Sir Hector Monro** (Dumfries): I join the hon. Member for Newry and Armagh (Mr. Nicholson) and the right hon. Member for South Down (Mr. Powell) in their plea for assistance for agriculture in Northern Ireland. I add my plea for Scotland. Every inch of rain that fell in Northern Ireland fell with added ferocity in Scotland. If the atrocious conditions needed any elaboration I am sure that my hon. Friend the Member for Galloway and Upper Nithsdale (Mr. Lang) would give it. July, August and September were the worse months for agriculture generally that anyone in the north can remember. This has resulted in shorter supplies of hay which is of poor quality and a poor harvest of grain which is of low quality and quantity. The same goes for all other classifications of fodder.

There is sometimes no fodder in the less-favoured hill areas. That is why it is important that we should know as soon as possible the form of Government assistance that will be made available. My right hon. Friend the Minister of Agriculture, Fisheries and Food has said that assistance will be forthcoming but, the sooner we know what it is the better. It may come through the hill livestock compensatory amounts, the suckler cow grant system and the ewe premium. I appreciate that that does not help the dairy farmer who is in dire straits, with poor quality silage in small quantities. We may have to consider a form of headage payment for dairy cattle and an extension of the co-responsibility levy.

Every section has been hard hit, including horticulture. The only crop that seems to have done well is turnips. We must not underestimate the damage that has been done to grassland and undersown crops. The difficulty of operating combine harvesters and balers in the soft ground have serious long-term implications. I assure my hon. Friend the Minister that the conditions are as serious as hon. Members have said. I know that he has seen for himself what happened in Northern Ireland. These conditions have been duplicated in Scotland and northern England. I hope that my hon. Friend has some good news. The sooner we can plan ahead for the difficult winter, the better.

10.17 pm

**The Minister of State, Northern Ireland Office (Dr. Rhodes Boyson)**: The hon. Member for Newry and Armagh (Mr. Nicholson) has put on record the serious consequences for farming in Northern Ireland of the

[Dr. Rhodes Boyson]

terrible weather during the summer months. My hon. Friend the Member for Dumfries (Sir H. Monro) referred to Scotland. I have been in the constituency of the hon. Member for Newry and Armagh and can bear out what was said by the right hon. Member for South Down (Mr. Powell). Fields of hay were not gathered in. I have seen farms on my way to Newcastle and there is no doubt that this year there has been widespread destruction of the hay crop. Other areas in Northern Ireland have been similarly hard hit.

Farming in Northern Ireland is difficult enough in normal circumstances with high rainfall and a short growing season, but the continuous and exceptionally wet, dull and unsettled weather this year has hit farming extremely hard. The longer-term implications have not yet been fully evaluated, but the repercussions for many sectors of production will be serious throughout the coming winter and into 1986. I have no magic formula to solve this problem. During the past few months the weather has improved. As the old song says, spring is a little late this year. Summer this year came a little late so it has not been warm enough to dry out the ground.

I shall add to the facts given by the hon. Member for Newry and Armagh and put the situation into clear perspective by telling the House that the summer of 1985 in Northern Ireland was the wettest for 25 years and in some areas of the Province the wettest for a century. There was measurable rain practically every day from mid-June to late September. I was in the area at that time and I know that it was perhaps the wettest 40 days for a long time. Rain fell almost every day. Rainfall during July was 27 per cent. to 70 per cent. above average, during August 63 per cent. to 169 per cent. above average, and during September 21 per cent. to 117 per cent. above average. During three separate periods in September, rainfall figures were so high that we would normally expect them to occur only once in 600 years. Speaking almost in competition my hon. Friend the Member for Dumfries said that the rain fell harder in Scotland. It certainly fell harder than some of us saw in Northern Ireland. There were numerous violent thunderstorms, with substantial flooding in many areas, and no sustained dry spells.

In August I went to a farm not far from Belfast where one had to be wearing gumboots before walking on what was normally a hayfield. The strongest wind and the warmest climate were the only things that could have dried out the field before the autumn cold set in. Sunshine was around 25 per cent. below average for most of the summer and average temperatures were one degree below normal in July and September and two degrees below normal in August. I recognise that the extreme bad weather also happened in Scotland, as we have heard tonight. Bad weather also occurred in parts of Wales and northern England, in my own area of the Pennines. Rainfall in central and west Scotland was generally two to two and a half times the normal. Sunshine was 25 per cent. less than average over most of Scotland and temperatures were generally below average. Northern England and the Pennines suffered similar weather to that experienced in Scotland—twice the usual amount of rain, 25 per cent. less than average sunshine and temperatures around one to two degrees lower than average.

It has to be borne in mind that there is one particular issue that we would be remiss to forget about Northern

Ireland. Agriculture represents a much more significant part of the economy in Northern Ireland than for the United Kingdom as a whole, so the impact of the adverse weather and the relative scale of losses and disadvantage are bound to be greater than elsewhere. The extreme livestock orientation of farming in Northern Ireland also leaves the industry more vulnerable to abnormal weather or other major influences on production.

As was said by the hon. Member for Newry and Armagh, the hardest hit sector is undoubtedly cattle production because of the losses of hay and silage, particularly on the small farms in the less-favoured areas which account for most of the cattle produced in Northern Ireland. The Department of Agriculture estimates that fodder production will be some 700,000 tonnes of hay equivalent below requirement, which in a normal year is 0.5 million tonnes of hay plus 5.8 million tonnes of silage. To compensate for that would require an extra 300 to 400,000 tonnes of compound feed. In that connection, I commend the initiative taken by the industry whereby the Ulster Farmers Union and certain agricultural co-operatives are trying to arrange a consignment of hay from Canada.

With regard to arable crops, the bulk of the winter wheat and a considerable proportion of winter barley, peas and flax have been lost. It was a great tragedy about flax. One thousand acres were put down to flax this year and 500 acres were put down the previous year. The whole question is linked to the revival of the linen industry in Northern Ireland. There is a shortage of flax in the world, and one cannot have a linen industry without the raw material. In Europe there is talk of butter mountains and meat mountains. We did not have a flax mountain in Northern Ireland because we had the worst possible weather at that time.

The moisture content of all grain is high. Northern Ireland depends very much on imported cereals and some farmers have been attempting to expand arable cropping to diversify out of milk because of milk quota problems, so that this year's weather has been an unfortunate setback, following the two good cereal harvests in 1983 and 1984. There are reduced yields and higher rates of disease in potato production and much of that has rotted underground or rotted when collected.

Harvesting is well under way at present although 10 per cent. of the crop may not be worth lifting. It is expected that the inelastic demand for potatoes will mean that reduced supplies of ware potatoes are likely to be compensated by higher prices later in the year. The impact of disease losses during storage cannot yet be assessed. There may be losses in certain varieties of early seed potatoes. That again is unfortunate because Northern Ireland has a valuable export trade in seed potatoes and prices are determined by world markets rather than the quantity of local supply. The cutback will not be compensated by higher prices for what has been harvested.

The hon. Member for Newry and Armagh also referred to the small apple crop, which is probably unsaleable in many places. There is also a shortage of the straw that is required for mushrooms.

We cannot say exactly what the position is, but my right hon. Friend the Secretary of State, who is with us this evening, and my noble Friend in the other place, who takes responsibility for agriculture, share the concern about the enormous difficulties affecting farmers. Along with other Agriculture Ministers, they will be taking measures to

viate the losses and disadvantages. The Government cannot, of course, be expected to compensate farmers for what must be recognised as the ups and downs of farming and the fact that every year the size of the crop is different. Problems are normally created by the weather from year to year. However, we recognise that the scale of the problems that have hit Northern Ireland this year is such that it threatens the fabric of this most important and essential industry. The matter is being considered. Everything that has been said in the debate will be checked by my right hon. Friend the Secretary of State and my noble Friend.

Last week there was a debate on the matter in the Northern Ireland Assembly, in which the hon. Member for Newry and Armagh spoke. He spoke for 27 minutes tonight and 17 minutes last week. I listed 11 matters that we shall have to examine. The hon. Gentleman expanded on eight tonight.

The position of growers who have suffered heavy crop losses is being considered. Quantitative assessment of abnormal losses by individuals is particularly difficult. Normal market forces should in some sectors compensate for shortages in supply. Certain sectors benefited from exceptionally good harvests in 1983 and 1984. Much work must be done to justify the use of public funds to compensate fairly farmers who have been careful in what they have built up over the years compared to others who have not preserved crops as they were asked to by the Department some years ago.

The hon. Member for Newry and Armagh referred to intervention grain. A transfer to Northern Ireland of 40,000 tonnes of wheat from intervention stores for use as animal feed is proposed. The grain is being made available at 25 per cent. discount and will be transported to Northern Ireland at EC expense. The EC will insist that that grain goes to the people who require it. I am not putting one part of the community against the other. The hon. Gentleman referred to millers in his speech last week. Our Department

in Northern Ireland will insist that the grain goes to the people who need it. The EC will also make sure that that happens. I give the hon. Gentleman an assurance about that.

The hon. Gentleman also mentioned fat cattle coming from the Irish Republic. He said that 50 per cent. of meat plants in the north are Republican-owned. I appreciate the points that he makes, which farmers in his area must have raised with him. However, the EC regulations make it clear that there must be a free trade in live animals and beef. Market forces thus apply, sometimes to the advantage, sometimes to the disadvantage, of Northern Ireland. Imports of fat cattle from the Republic during the first nine months of this year were 71,000 compared with 58,500 during the same period in 1984. Therefore, the increase is by no means excessive.

My right hon. Friend the Secretary of State and I have listened carefully to what has been said about Northern Ireland, as well as about Scotland. A careful debate took place in the Assembly, which was followed by Ministers with responsibility for agriculture in Northern Ireland and the rest of us who take an intense interest in agriculture. I reassure the hon. Member for Newry and Armagh, the right hon. Member for South Down and my hon. Friend the Member for Dumfries that there will be full recognition of all that has been said. In the Department we shall consider the matter to see what can be done, knowing that these are exceptional circumstances and that, whatever happens, we must maintain the agriculture industry in Northern Ireland.

**Mr. Tam Dalyell** (Linlithgow): On a point of order, Mr. Deputy Speaker.

*The Question having been proposed at Ten o'clock and the debate having continued for half an hour, MR. DEPUTY SPEAKER adjourned the House without Question put, pursuant to the Standing Order.*

*Adjourned accordingly at half-past Ten o'clock.*



ce/br

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



From the Minister

The Rt Hon John MacGregor OBE  
Chief Secretary to the Treasury  
Treasury Chambers  
Parliament Street  
London SW1

Opp's

25 October 1985

**EMERGENCY RELIEF FOR LIVESTOCK SECTOR**

You wrote to me on 4 October and I have since, of course, made the statement you agreed at the Party Conference. We now need to decide urgently on the action to be taken to deal with the serious situation facing the livestock sector.

I have reviewed the effect to this summer's weather on the industry with George Younger, Nick Edwards and Tom King. We are entirely agreed that your suggested figure of "well below £10m" would be a totally inadequate response to the scale of the problem facing large numbers of farmers, following a quite exceptional period of sustained bad weather. The meteorological office has confirmed that the weather patterns in many areas have been the most extreme for the summer months for the past 30 years. Rainfall has been 2 - 2½ times normal in many areas with 3 times normal in mid September in central Scotland. At the same time, average temperatures and sunshine hours have been exceptionally low. All this has had a devastating effect on the winter fodder supplies of the livestock sector in particular, with the hay crop much reduced in quantity and quality; and much of the silage crop of low quality also.

The problem is particularly concentrated in upland areas and in the lower ground areas of south west Scotland and the north west England. In the England and Wales LFAs, the overall shortage of hay is estimated at 25%, but some farmers managed to get in no hay at all. Scotland's hay crop suffered very badly and is some 80% down on normal; while Northern Ireland has only 10% of its intended crop in the LFAs and only 30% elsewhere. In some areas the problem has been made worse by the need to bring cattle indoors early to avoid permanent damage to waterlogged pastures.

Because of the overall shortage, hay has become very expensive. Figures of £140 or more per tonne for good quality hay are now quite commonly being quoted and in remoter areas quotations are much higher than this. In many areas hay prices are running at twice the levels which farmers have normally been paying in recent

years. Against this background and with each cow requiring 1 - 1½ tonnes of hay for the winter, the £10 million you mentioned would go nowhere and would be seen as a derisory response to a very serious situation.

Although there are many producers outside the Less Favoured Areas who have suffered badly, the livestock producers in the upland regions are the most vulnerable and we consider that the payments should be concentrated there. But the dairy producers in the south west of Scotland and the north west of England have had fodder losses no less substantial and costly to replace than the worst hit upland producers. The most straightforward way of implementing help would be to make a straight headage payment on cows and sheep, though we wish to skew the aid towards the cattle sector.

Our proposal is, therefore, that we should make available an aid package calculated on the basis of £20 per head per beef cow/50 pence per head per sheep in the Less Favoured Areas; £10 per head per dairy cow in the Less Favoured Area of Northern Ireland and in the old Less Favoured Area in Wales; and £10 per head per dairy cow and beef cow in Dumfries and Galloway, Strathclyde and Central Region of Scotland; the Less Favoured Areas in Northern England and in the lowland area of Cumbria. /and

The costing of this aid package is set out in the Annex attached.

We have considered whether arrangements could be made to identify producers who have been most affected. We have concluded that this would result in a lot of arguments and ill feeling, as well as a heavy additional administrative cost. We think that this across the board approach is both the most straightforward and defensible.

To give you some idea of what this payment would mean for individual producers, a typical beef cow herd in Scotland of 40 cows could well be facing increased costs of over £3,000. This producer would receive help amounting to only about a quarter of the additional costs he might be facing. The other 75% he would be left to find himself.

We would implement these arrangements, except for dairy cows, by using the HLCA machinery. The payments would need to be funded under the Appropriation Act. Since it will be necessary to proceed with payments as quickly as possible, we will need to have access to the Contingencies Fund.

In putting the special aid package proposal to you, I must make it clear that the review of the HLCAs has to proceed in the normal way and that we shall need to decide on what increases in the basic HLCA rates are required for 1986 in the light of that review. We could not accept that the emergency package in the current year should prejudice the outcome of the review which must be properly and objectively carried through on the basis of the data which is now being prepared. We agreed this approach in our PES round. I shall be writing to you shortly about the results of the HLCA review.

Because of the weather conditions, some farmers are having problems about completing work in time to claim grant aid under the Agriculture and Horticulture Grant Scheme by 31 December 1985 and it would clearly be impossible to defend in equity depriving farmers from grant aid because they were prevented from meeting the deadline by the havoc caused by the weather. My colleagues and I would wish to extend the closing date to 30 June 1986. This does not involve extra expenditure; the extended deadline simply means that farmers who entered into commitments before 9 July will have longer to complete their work and make their claims.

We are also proposing to provide for free testing of conserved fodder on farmers in the worst affected areas. It is estimated that the cost of this in England and Wales would be around £10,000.

We do not need to notify the Commission of State aids which fall under Article 92(2) of the Treaty which, as in this case, compensate for the effects of exceptional events. But we have, in any case, been keeping them informed of the scale of the problems facing us. I would not foresee any difficulties with the Commission unless we decided to alter the HLCA rates for 1985. But I am not proposing this since I concluded from your letter that you would see objections to this.

I hope that we can have your early agreement to the measures outlined above. My officials are ready to go over details with yours.

I am copying this letter to the Prime Minister, Willie Whitelaw, Nicholas Edwards, Tom King and George Younger.

A handwritten signature in dark ink, appearing to read 'James E. ...', written in a cursive style. Below it is another handwritten signature, appearing to read 'Michael', also in a cursive style.

MICHAEL JOPLING

## EMERGENCY RELIEF FOR LIVESTOCK SECTOR

Beef cattle in LFAs	918,000 x £20	18.4
Sheep in LFAs	10,317,000 x 50p	5.2
Dairy cows		
(i) in Northern Ireland LFA	170,000 x £10	1.7
(ii) in Dumfries and Galloway, Strathclyde and Central Regions	200,000 x £10	2.0
(iii) in Wales old LFA	50,000 x £10	0.5
(iv) in Northern England LFA and in the lowland area of Cumbria	320,000 x £10	3.2
Beef cattle in (ii) and the lowland area of Cumbria under (iv) above	50,000 x £10	0.5
		<hr/>
		31.5
		<hr/>

Expenditure: AGRICULTURE  
Sept 83.



→ NW

cc BG

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



From the Minister

2 pps

Prime Minister

**EMERGENCY AID FOR FARMERS**

I have seen a copy of the Secretary of State for Scotland's minute to you of 24 October on this subject.

As he correctly says, the weather has had devastating effects on the agricultural industry, and particularly the livestock sector, in many parts of the United Kingdom. There have been detailed discussions between the four Agriculture Departments as a result of which I am writing now to the Chief Secretary with our proposals on the aid that should be made available.

As to our stance in Brussels, we have referred to the problems in the UK at each Agriculture Council since the summer. As soon as Ireland approached the Commission for assistance I arranged for the Agriculture Commissioner to be informed that we also had severe problems in this country, and I subsequently sent him a note on 24 September about the difficulties facing Northern Ireland, and seeking changes to the suckler cow subsidy rules to help producers affected by the weather throughout the United Kingdom. At that stage, the full extent of the damage in Great Britain had not become evident. In discussion between the four Agricultural Ministers on 3 October, we agreed to put a further note to the Commission describing the situation in the UK as a whole. George did not suggest at that time that we should do more than this. Indeed, we agreed at our meeting that it would not be appropriate specifically to seek special aid from the Community except for the movement of grain to Northern Ireland.

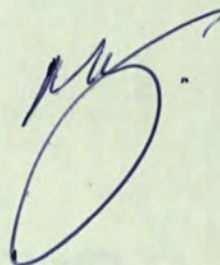
The only actions which Mr Andriessen has shown any readiness to contemplate has been the movement of grain, first to Ireland and Northern Ireland and subsequently within France. He has also said that he will consider a request from the Italian Minister. When the arrangements for moving grain in France were under discussion in the Management Committee, my Department consulted the Scottish Office on whether we would want similar provisions relating to Scotland. We were advised that the situation in Scotland was not comparable with that in France and that a similar action would not be helpful. Nevertheless, my officials have kept open the possibility that we might want to come back to this.

The approach that I have followed in discussions in Brussels has reflected consultations between the four Agriculture Departments and I do not accept that we have missed any opportunity for securing help. I understand, of course, the argument that we should be seen to be pressing for any help that may be available. But Mr Andriessen

has made it clear that he is not ready to contemplate any assistance other than for the movement of intervention grain. Indeed, he has rejected requests from the Irish Republic for other types of financial assistance. I think we must recognise that the Commission would be unlikely to respond positively to a special request from the UK, particularly in view of our general attitude to Community expenditure. Moreover, the risk is, that if we press for more expenditure in the UK, others would seek to jump on the bandwagon. This is not to argue that we should necessarily be holding back. If the Treasury are content, I am certainly ready to mount an argument with the Commission and have laid the necessary ground work. But we need to be very clear what it is we are asking for.

As to the Carse of Stirling problem, we have not had a detailed proposal put to us by the Scottish Office. We should clearly need to consider whether there is a special problem there which can be distinguished from the problems facing others outside the livestock sector, such as cereal producers and fruit and vegetable growers in some of the areas affected by the adverse weather.

I am copying this minute to George Younger, Nicholas Edwards, Tom King and John MacGregor.

A handwritten signature in blue ink, consisting of a stylized 'M' and 'J' followed by a large loop.

M J  
25 October 1985

Expenditure : AGRICULTURE Sept 83.







NW ofr

CE 10

SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Prime Minister

24 October 1985

#### EMERGENCY AID FOR FARMERS

As you know I have to be abroad in Japan for the next 14 days or so and one of the pieces of business which is as yet unfinished as I leave is that of a relief package for our farmers affected by the disastrous weather. The Agricultural Departments are presently in the process of putting together such a package which I hope will be put to the Treasury within the next few days.

It is now clear that conditions in many parts of Scotland have been the worst for over a century; September was wetter even than the months which preceded it and the situation which you saw for yourself in early September deteriorated still further thereafter. Against that background there are two points which I would like to stress.

First, the seriousness of what has happened particularly in Scotland and to varying degrees in certain other parts of the North and West of the UK which has put in jeopardy the livelihood and futures of many producers must be reflected in the size and the shape of any package of aid. We will not be able to - nor should we - help everyone who has suffered loss but we must be seen to be assisting sectors and areas where the greatest damage has occurred. If we fail to do so there will be a severe penalty - in terms of legitimate grievance and political damage - to pay in the months and even the years ahead.

Second, we must be seen more clearly than has been the case so far to be making our case to the EC for their understanding and assistance wherever it can appropriately be given. I appreciate the difficulties in this, but the contrast between the stance taken in the Community by the Irish, and more recently by the French, and the relatively restrained position of the UK, despite the fact that conditions here are now quite widely recognised as at least as bad as anything that has happened anywhere this year, is difficult to defend and explain. I consider therefore that we should make, and be clearly seen to be making, a direct approach to the Commission to discuss possible measures of assistance. The important thing is to protect our own backs by being seen to be doing this, almost regardless of the outcome; we shall I hope be able to demonstrate the UK Government's concerned action whatever the outcome.

E.R.

I have one particularly acute problem area which you will recall from your farm visits in Scotland last month, that of the producers who grow hay as a cash crop in the Carse of Stirling. I am having the position examined at the moment but it is already clear that losses from the 100 or so farms in the area will be well in excess of £1m, some say more than £3m. If we cannot include the arable sector in our domestic aid package, it seems to me that this case is one at least which we can submit to the Commission for their consideration as a one-off disaster area.

I am copying this letter to Michael Jopling, Nicholas Edwards, Tom King and to John MacGregor.

C.Y.



CCND  
Await PV  
Advice.

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

PRIME MINISTER

I have seen Michael Jopling's letter to you of 30 September enclosing a paper about the privatisation of the Forestry Commission's estate and George Younger's recent minute in which he proposes to convene a meeting to commission a thorough study of the options.

The proposals presented by the authors of the paper are most interesting and I am strongly in favour of a prompt and thorough study of the options for privatising the Forestry Enterprise. In view of our experience with the privatisation programme generally and the important public expenditure and tax aspects of this particular case I should like John Moore to participate in George's meeting and to have Treasury and Inland Revenue officials closely involved in the follow-up work. At some stage Ken Baker and his people should be brought into the discussions.

I must, however, record at the outset that I cannot agree with Michael Jopling's proposition that proceeds from selling the Forestry Enterprise could be earmarked to launch new and continuing expenditure programmes to encourage commercial forestry and farm woodlands. Indeed, as it is, the effect of privatisation would be a continuing cost to the PSBR from both the planting and maintenance grants available to private forests and the very generous tax reliefs they enjoy. The proceeds would have to be treated as special sales of assets, as in all other privatisation cases.

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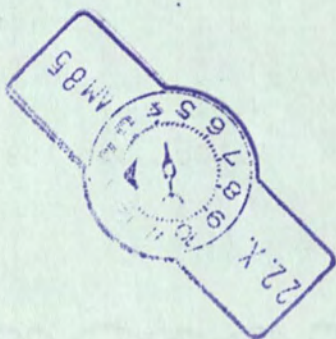
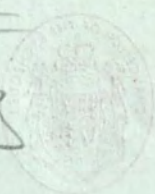
I am sending copies of this minute to Willie Whitelaw, Geoffrey Howe, Nick Edwards, Michael Jopling, Norman Tebbit, Tom King and to Sir Robert Armstrong.

*N.L.*

N.L.

21 October 1985

AGRICULTURE  
EXPENDITURE  
SEPT 23



COMPTROLLER



CDND (2)  
Prime Minister  
C.D.P.

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

PRIME MINISTER

C.A.P. →

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with DN/NW

I have seen Michael Jopling's minute to you of 30 September, your Private Secretary's reply and the comments of Norman Tebbit and Willie Whitelaw.

I agree that it is necessary to be aware of the structural adjustment which an effective reform of the CAP would entail but, like you, I believe that at this stage our efforts should be concentrated on securing reform rather than on detailed contingency planning for dealing with the consequences.

The analysis in the MAFF paper assumes substantial progress towards reducing surpluses over the next few years. This must be our aim but the attitude of the Germans during this year's price fixing negotiations shows how difficult this will be to achieve. The adjustment which British agriculture has to face may therefore be slower than Michael assumes. The exodus of labour from the industry would probably be less than in the late 1960s.

Even if Michael's analysis were borne out by events I cannot accept his view that the Government should assume a significant amount of responsibility for facilitating the necessary structural adjustment. I agree very much with Norman Tebbit's views on this. We should not underestimate the adaptability of British agriculture on the one hand or the potential for change in rural economies on the other. Moreover, the adjustment required is likely to be both slower and much less geographically concentrated than many parts of manufacturing industry have had to face. To the extent that there is a role for the public sector in the transition we already have a wide range of agencies and programmes operating in this area and we should think primarily in terms of maximising their combined impact.

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Norman is also right to stress the gains to the economy at large from reductions in agricultural prices and expenditure on the CAP. Any savings would not 'belong' to agriculture; rather they would represent a reduction in the burden which the CAP imposes upon the non-agricultural economy. And it is surely an overstatement to argue that a move to less intensive agriculture would cause difficulties for landscape and wildlife in the countryside; many would argue the contrary and I would expect such changes to make it possible to achieve some of our environmental objectives more easily and with less resort to financial inducements.

Among the measures which Michael considers is a "major strengthening of support measures ... building on the foundation of present HLCAs". HLCAs are already very costly (some £100 million a year) and I would be strongly opposed to Michael's suggestion on public expenditure grounds. Moreover income support, insofar as it is needed, should be provided through the social security system and should not differentiate between economic sectors; and the payments Michael proposes would tend to offset the disincentive effects of any CAP price cuts on production.

I agree with Willie Whitelaw that the speculation in these papers about the future course of British agriculture and rural communities should not be aired in public. On the other hand we cannot shirk telling the farming community that adjustments will be needed. It is to Michael's credit that this message is beginning to be well understood.

I am sending copies of this minute to Geoffrey Howe, Nick Edwards, Tom King, Norman Tebbit, George Younger and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'N.L.' with a flourish.

N.L.

14 October 1985

Agriculture 9/83

Expenditure



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15.10.85

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Prime Minister

## CONSEQUENCES OF PRICE RESTRAINT FOR BRITISH AGRICULTURE

With his letter of 30 September conveying our paper on the consequences of price restraint for British agriculture, Michael Jopling enclosed one on the question of privatising the Forestry Commission's estate.

I am grateful to Michael for his contribution to this important question and for the group's report, which will provide us with a useful starting point. We shall, however, need to weigh carefully a number of important matters not fully considered by the group.

As lead Forestry Minister, I intend to convene a meeting of the Forestry Ministers and the Chairman of the Forestry Commission, Sir David Montgomery, following which I intend to put in hand a thorough study of the options and their ramifications.

I am copying this letter to Geoffrey Howe, Nigel Lawson, Willie Whitelaw, Nick Edwards, Michael Jopling, Tom King, Norman Tebbit and to Sir Robert Armstrong.

G.Y.

Agriculture 9/83

Expenditure

F.R.





cc no

②

Prime Minister

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mt

PRIME MINISTER

I have read the Minister of Agriculture's important paper on the consequences of Price Restraint for British Agriculture. I very much support your views as reported by your Private Secretary. Like the Chancellor of the Duchy of Lancaster, whose minute I have also seen, I should welcome the opportunity to take part in any discussions. I believe that the outcome of these will have very profound consequences for the rural areas and indeed for the Government and the Conservative Party. In the meantime I hope that the relevant papers will be treated with the utmost confidence. Any premature disclosure could have very serious repercussions and could place us all in an extremely damaging position.

I am sending copies of this minute to Geoffrey Howe, Nigel Lawson, George Younger, Nick Edwards, Norman Tebbit, Tom King, Michael Jopling, and to Sir Robert Armstrong.

hs/w

\_\_\_\_\_

9 October 1985



10 DOWNING STREET

*From the Private Secretary*

7 October 1985

**CONSEQUENCES OF PRICE RESTRAINT FOR BRITISH AGRICULTURE**

The Prime Minister has considered the Minister of Agriculture, Fisheries and Food's minutes of 30 September and the Chancellor of the Duchy of Lancaster's comments in his minute of 2 October on the consequences of price restraint for British agriculture.

The Prime Minister regards it as useful to have clarified both the problems which may arise for British agriculture from successful measures of price restraint and the possible advantages. She sees the first priority as being to achieve real reform of the CAP. This will clearly be a very difficult task; and it is impossible to say now how successful we shall be. Against this uncertain background the Prime Minister considers that it would be premature to prepare ourselves to pay for adjustments which either may not happen or with which the market itself may be able to cope. She thinks, therefore, that it would be better to postpone working up the paper in more detail until we have a clearer idea of the rate at which the reduction of CAP surpluses can be achieved.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, Chancellor of the Exchequer, Lord President, Secretaries of State for Scotland, Wales and Northern Ireland, Chancellor of the Duchy of Lancaster and to Sir Robert Armstrong.

(Charles Powell)

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.

lvj

CONFIDENTIAL

PRIME MINISTER

4 October 1985

THE CONSEQUENCES OF PRICE RESTRAINT FOR BRITISH AGRICULTURE

Michael Jopling is right to be thinking ahead about this question, but it is early days yet to be planning a response.

He refers in his note to "a surplus land area the size of Yorkshire". But MAFF's analysis (at Annex A) is less dramatic. The arable acreage might fall by 10%. Agricultural land will become cheaper. Some of it will revert to pasture. Lower land prices will encourage less intensive stocking practices. It is not clear, then, that there will be a "land problem" in the sense that large tracts of land will be abandoned to nature.

The impact on the rural economy: would it "clearly be profound"?

MAFF envisaged that the exodus from the land would rise from 5,000-10,000 to, perhaps, 25,000 a year, or 4% of the total agricultural labour force. But this assumes that the CAP surpluses could be eliminated within a space of only 4 years. Would that this were possible. Given our partners' resistance to price reductions, we may need a 10-year adjustment period. This would imply a rate of exodus from the land no higher than present levels.

What matters is not the size of the exodus, but the capacity of the local economies to absorb it. Agricultural

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redundancies are, by their nature, spread fairly thinly, in contrast to the very lumpy industrial closures. Nowhere does farming account for more than 10% of a labour force. So even a 4% annual exodus won't amount to  $\frac{1}{2}$ % of a local labour force. This makes for easier adjustment.

The effects would be patchy. In some rural areas, the population is growing quite strongly. One of the surprises of the last 10 years is the reversal of rural depopulation. Several factors contribute to this: decentralisation of manufacturing, in search of lower costs and better industrial relations; earlier retirement; dissatisfaction with urban life; the pursuit of leisure. These movements create rural - but non-farming - jobs, in providing services and repairs.

Agriculture and forestry may themselves have potential to adjust. We may increasingly adopt the continental habit of part-time farming. Woodlands could help. Farms which convert part of their land to forestry increase their employment.

The aggregate picture may, therefore, be less bleak than Michael suggests.

### Conclusions

Before reaching for the cheque book to solve problems which may not exist, or may be magnified unduly, we must first secure real reform of the CAP. We don't want to prepare to

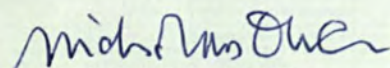
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- 3 -

pay for adjustments which either won't happen or which the market may be able to cope with.

I recommend that you reply to Michael Jopling, rather than have a meeting, making the observation that reducing CAP surpluses must be our priority. When we have a clearer idea of the rate at which this is achievable, it would be appropriate to work up this paper in more detail. The themes below might then be explored, in conjunction with other departments.

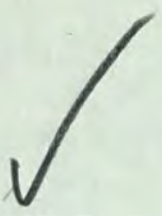
1. Local Employment Implications: In which counties and travel-to-work areas will farming workers be displaced? What are the local unemployment rates and job prospects? (MAFF and Department of Employment)
  
2. The opportunities which land availability offers: Many people in our overcrowded island are itching to acquire some land and live on it. We need to consider whether the planning system can accommodate these hopes. Can the planning system be relaxed to allow farmers, and others, to develop non-farm businesses? (DoE)
  
3. Government Assistance: Have we got the right mix of assistance for rural non-farming businesses, with our various quangos and grants? (MAFF, DTI, DoE and Treasury)

  
NICHOLAS OWEN

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cc NO



Pine Nivalo<sup>2</sup>

The Jopling's office thinks it likely that

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Jopling MP  
Minister of Agriculture, Fisheries and Food  
Ministry of Agriculture, Fisheries and Food  
Whitehall Place  
London  
SW1A

he will accept this.

N.L.W

4.10.

4 October 1985

Dear Secretary of State

*[Handwritten initials]*

**EMERGENCY RELIEF FOR FARMERS**

I have considered carefully the draft form of words on emergency relief for farmers which you sent to me.

As I said in my letter on Wednesday, I regard it as essential to keep separate the issues of emergency relief this winter and the regular review of HLCAs later in the autumn, which concerns not only expenditure this year but sets a base for expenditure in future years. Your draft tends to merge these two issues and I must ask you to accept some amendments designed to avoid this. These are incorporated in the attached revised draft.

On the understanding that your statement will relate to temporary relief measures, I am prepared exceptionally to try to find some money from the Reserve this year. Bearing in mind the other pressures on the Reserve (which I return to below), I could only accept a bid well below £10 million.

I would greatly prefer you not to mention the HLCA review at all. If nevertheless you feel that it is essential to do so I must ask you to keep to the form of words in square brackets in the attached revised draft.

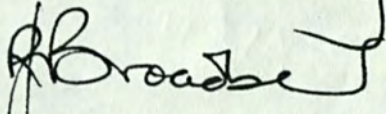
As regards this year's review of HLCAs I cannot now enter into any commitment to find resources for an up-rating, and you accepted in our PES bilateral last week that this question must be set aside until the results of the review are available. The first year cost of an up-rating would be likely to be a further call on this



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year's reserve. We already have claims of well over £400 million for agriculture in prospect (£350 million for IBAP, £37.5 million for capital grants and up to £30 million for compensating French turkey producers) which is getting on for 10 per cent of the entire Reserve. I shall be bound to take this fact, as well as the emerging picture on the Survey, into account when considering any bid for HLCAs.

I am sending copies of this letter to the Prime Minister, Willie Whitelaw, Nicholas Edwards, Tom King and George Younger.

Yours sincerely  
  
for JOHN MacGREGOR

[Approved by the Chief Secretary]

CONFIDENTIAL

## DRAFT PASSAGE FOR INCLUSION IN MINISTER'S SPEECH

We have been reminded once again that farming is not an easy business. The farmers accept that the weather is sometimes kind and sometimes not, but this year the wet summer has brought enormous difficulties to many farmers particularly in Scotland, Northern Ireland, Wales and parts of Northern England. I want to tell you this afternoon that the Government is well aware of the problem. We plan to do something about it. The details must still be worked out but by one means or another we intend to provide temporary help - extra money - where it is most needed; and we aim to try to help farmers as soon as possible to cope during winter months. There will also be help to Northern Ireland through the transfer of cereals from intervention stocks. [Incomes in the less favoured areas - where the worst affected areas are - are of course always considered in the annual review of the rates for Hill and Livestock Compensatory Amounts which will take place this Autumn.]

Agriculture : Expenditure 9/83.



## PRIME MINISTER

## CONSEQUENCES OF PRICE RESTRAINT FOR BRITISH AGRICULTURE

You will remember that we had a meeting in July at which Agriculture Ministers were asked to prepare a paper on the implications of price restraint for land use.

A. Michael Jopling's paper attached paints a slightly alarmist picture: an increased exodus from the land putting an extra 100,000 on the labour market and having a severe impact on the rural economy: declining profitability for agriculture generally: particular problems for farms in hill and marginal areas. He therefore predicts a need for major strengthening of support measures as well as policies for alternative land use.

B. Norman Tebbit has commented, putting more weight on the wider economic benefits of lower agricultural prices.

C. The Policy Unit see Michael Jopling's minute as putting the cart before the horse. We've first got to get the price restraint before we worry too much about the longer-term consequences of it. At best significant restraint is likely to be attainable only over a long period which will diminish the sharpness of the readjustment for the rural economy.

Michael Jopling wants a meeting to launch studies of his ideas. The purpose seems to be to prepare a case for good fat subsidies to protect the farming community from a future fall in prices. I agree with the Policy Unit that its too early to reach for the cheque books and we would be better to concentrate our energies on reducing CAP surpluses.

Agree that I should minute in this sense, with the aim of cooling the MAFF's enthusiasm for expensive new schemes?

C.D.P.  
C D POWELL

Yes  
ms

4 October 1985



FILE

Rog

10 DOWNING STREET

*From the Private Secretary*

3 October, 1985

PARTY CONFERENCE: AGRICULTURAL POLICY

The Prime Minister has seen your Secretary of State's letter of 1 October, proposing that he should use next year's Annual Review White Paper to include some material of a policy kind, and asking the Prime Minister's agreement that this might be mentioned in his speech to the Party Conference next week.

The Prime Minister fears that to promise a policy element of this kind in the White Paper would raise expectations which it may not prove possible in the end to fulfil. She would prefer that your Secretary of State should not mention the idea in his speech next week.

I am copying this letter to John Graham (Scottish Office), Colin Williams (Welsh Office), Jim Daniell (Northern Ireland Office), Joan MacNaughton (Lord President's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office) and Richard Broadbent (Chief Secretary's Office).

(David Norgrove)

C. Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.

DSS



CONFIDENTIAL

CCND

Chancellor of the Duchy of Lancaster

Tel: 233 3299  
7471

2 October 1985

PRIME MINISTER

THE CONSEQUENCES OF PRICE RESTRAINT FOR BRITISH AGRICULTURE

I have read with great interest Michael Jopling's minute of 30 September and the paper which he attached. I should welcome the opportunity to be involved in any discussions arising from this.

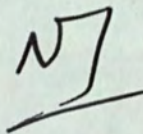
with COP?

Michael's paper speaks of the extent of the difficulties in rural areas consequent on price reductions. I agree that these should be not under-estimated, nor the limitations of direct measures by Government to ameliorate the effects. But the economic benefits to be won by establishing a more real market in agricultural produce are very substantial and will themselves bring major political benefits through lower food prices, reduced surpluses of agricultural produce and a transparently more rational approach in the Community.

I believe that we should also look beyond the experience of the agricultural departments for countervailing measures to offset the changes foreseen. Wider economic movements, such as the urban-rural shift of manufacturing units, will bring benefits to the rural economies, and combined with support measures for the tourism and leisure industry in these areas could take up much of the labour resources freed in these areas, and sustain the service economy. In this, as in other areas of industry, we should not shrink from allowing the market to release resources which are currently under-utilized, just because we cannot see the ways in which the resources will be re-deployed. Our task should be to ensure that the transition is not an unreasonably difficult or painful one, and to introduce special support where there is a wider public interest in keeping land for particular use, be it for conservation or to continue in a less economically advantageous agricultural use.

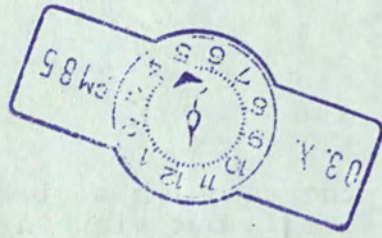
I do not wish to seem to take too sanguine a view; but I believe that we, at least, should be firm in our view in the Community that we should work for lower agricultural prices. Some of the benefit in lower costs of the CAP could be used to cushion the impact of the changes which Michael foresees in the rural areas.

I am copying this to Willie Whitelaw, Geoffrey Howe, Nigel Lawson, George Younger, Nick Edwards, Tom King, Michael Jopling, and to Sir Robert Armstrong.



NORMAN TEBBIT

CONFIDENTIAL



FORNAN TBBLL





10 DOWNING STREET

Prime Minister

Charles Powell and I  
agree with the Policy Unit  
advice.

Agree I may write to say  
you fear that a policy to  
promise a policy element  
could raise expectations  
which may not be fulfilled,  
and that you would prefer  
it not to be mentioned?

DHS

2/10

Yes no.

CONFIDENTIAL

PRIME MINISTER

2 October 1985

PARTY CONFERENCE: AGRICULTURAL POLICY

It would be unwise for Michael Jopling to promise a policy element in the 1986 Annual Review White Paper.

The time for this kind of paper is past. In 1975, when our entry into the Common Market guaranteed rising prices, it was safe and politically attractive to publish an up-beat White Paper (Food from Britain). An attempt to write such a paper today would have to emphasise that prices are likely to fall in real - and perhaps nominal - terms, and moreover that it is our policy to prosecute that policy. The paper would have to explain our tough domestic policies towards agriculture - charging for ADAS, reducing agricultural R&D, reducing and eliminating capital grants. Why put down all this gloom in cold print? It would be politically inept.

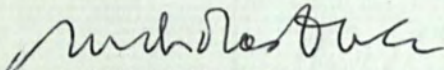
Michael Jopling will not, by January 1986, be able to offer specific guidance on price levels. If he tries, he will probably get it wrong and be justly blamed for misleading the farmers. We do not want a repeat of Peter Walker's mistake.

No other industry is given specific guidance on its future. Let farmers make up their own minds about this, as they are doing. We should always remember that we do not owe it to farmers to tell them what is in store for them. Farmers farm by choice.

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I suggest that the reply should encourage Michael Jopling, and other Agriculture Ministers, to discuss the future of agriculture in a series of speeches, and possibly seminars. You are concerned that a White Paper would promise guidance which we are not in a position to give. It would have little to say that was politically attractive.

  
NICHOLAS OWEN

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 NBP7

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Jopling MP  
 Minister of Agriculture, Fisheries and Food  
 Ministry of Agriculture, Fisheries and Food  
 Whitehall Place  
 London SW1A

20 October 1985

Dear Minister,

**EMERGENCY RELIEF FOR FARMERS**

— with ON?

Thank you for your letter of earlier today.

I understand your desire to say something positive at the Party Conference about the plight of those farmers worst affected by this year's very bad weather. I hope you for your part will see my problems in agreeing to anything in the nature of an open-ended commitment to provide government assistance. The position on public expenditure this year gives very little room for manoeuvre and, as I shall be reporting to Cabinet tomorrow, the outlook over the Survey period is very difficult. We must also have regard to the impact on opinion if what might be regarded as specially favourable treatment is seen to be given to farmers to cope with unforeseen problems outside their control when many other businesses which suffer similar vicissitudes are unable to obtain any Government assistance at all. One example is the manufacturing industry affected by the miners' strike.

As you explained in your minute to the Prime Minister the problem concerns mainly this season's winter feed and is geographically concentrated. I consider therefore that any aid which we decided to provide should be carefully targetted and confined to the present financial year.

The measures which you have been pressing the Commission to authorise - provision of a quantity of intervention grain in Northern Ireland and a change in the arrangements for paying the suckler cow premium - meet these criteria. I hope your lobbying will be successful and that you could refer to these measures in your Conference speech. Is there scope for pressing the Commission for further aid on these or other lines?

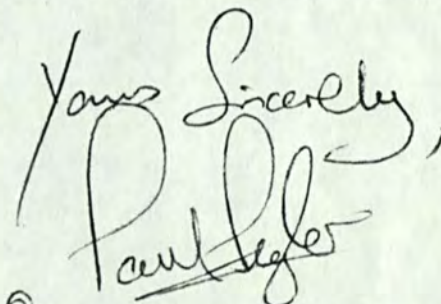
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Your specific proposal of channelling aid through a substantial up-rating of HLCAs does not seem to meet my criteria. I accept that HLCAs have to be reviewed this autumn, as every autumn, but I do not think we should confuse the issue of temporary relief this year with decisions about up-rating HLCAs which would have knock-on effects on public expenditure through the Survey period and beyond. I would, however, be willing to consider Willie Whitelaw's idea of bringing forward HLCA payments. Any proposal to use HLCAs to provide emergency relief would have to be examined carefully by our lawyers for consistency with Community Regulations, and quite probably cleared with the Commission.

My strong preference would be for our officials to explore very urgently other ways in which limited and temporary relief might be provided so that we could be in a position at the end of this week to agree a form of words for your Conference speech which is reassuring to the farming community, avoid integrating any aid into HLCAs and is acceptable to me from a financial viewpoint. I hope you can agree to proceed on this basis.

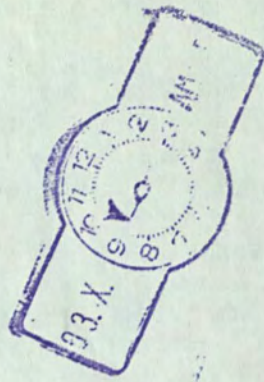
I am sending copies of this letter to the Prime Minister, Willie Whitelaw, George Younger, Nicholas Edwards and Tom King.

Yours Sincerely,  


 JOHN MacGREGOR

(Approved by the Chief Secretary  
and signed in his absence)

CONFIDENTIAL





10 DOWNING STREET

From the Principal Private Secretary

2 October 1985

Dear Ivor,

WINTER FEED: PROBLEMS FACED BY FARMERS AS A RESULT OF  
THE BAD WEATHER

The Prime Minister has seen the Lord President's minute of 1 October in which he suggests that the Minister for Agriculture might consider whether it would be possible to pay to hill farmers before the winter sets in the subsidies which are due early next year. She has also seen the Secretary of State for Scotland's letter of 30 September to your Minister about the problems of Scottish farmers.

The Prime Minister would like your Minister to pursue with the Chief Secretary the Lord President's suggestion for the early payment of hill area subsidies.

I am sending a copy of this letter to John Graham (Scottish Office), Colin Williams (Welsh Office), Jim Daniell (Northern Ireland Office), Richard Broadbent (Chief Secretary's Office), Murdo Maclean (Chief Whip's Office) and to Michael Stark (Cabinet Office).

*Nigel W. D.*

Ivor Llewelyn Esq  
Ministry of Agriculture, Fisheries and Food.

SRW

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cc No.



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

From the Minister

The Rt Hon Margaret Thatcher MP  
10 Downing Street  
LONDON  
SW1

1 October 1985

*My Dear Prime Minister*

PARTY CONFERENCE: AGRICULTURAL POLICY

The agriculture debate next Tuesday morning takes place on a resolution asking the government to formulate a long term strategy for agriculture. I have, as you know, been feeling for some time that we need to give an indication of where we stand on the key issues which affect the agriculture and food industries and indeed the rural sector generally. There is a great feeling of uncertainty in the rural areas. My original idea was a White Paper but I have hesitated about that, not least because of the constantly changing situation with the CAP, which of course crucially affects the fortunes of the industry. The alternative of a series of policy speeches, while giving greater flexibility, might not have the impact that I think we need. I have therefore concluded that the best plan would be to use next year's Annual Review White Paper to include some material of policy kind. At present, the White Paper is little more than a statistical document describing the current state of the industry. It is normally published in February. By adding the 1986 version a statement of current Government thinking both on the CAP and on domestic issues we would leave ourselves free to update or revise our thinking in subsequent White Papers if it suited us. If you agree with this approach, I would say in my speech next week that the Government intends to make greater use of the Annual Agriculture Review White Paper to set out more of its strategy towards the agriculture and food industries. The content of the eventual White Paper would of course be the subject of consultation with the colleagues in the usual way.

I should also mention that I am writing to John MacGregor about the assurances we can give to farmers in the uplands and on marginal land that the acute fodder problems they are facing because of the wet summer will be taken into account in our autumn review of hill farming incomes and the special allowances paid on hill sheep and cattle.

/Finally, ...



Finally, I intend to scotch the story which the Daily Telegraph ran that the Ministry of Agriculture is to be absorbed into the Department of the Environment!

I am copying this letter to the Secretaries of State for Scotland, Wales and Northern Ireland, The Lord President, The Chancellor of the Duchy of Lancaster and the Chief Secretary.

*James Erskine*  
*Michael*

MICHAEL JOPLING



CC ~~10~~

PRIME MINISTER

WINTER FEED: PROBLEMS FACED BY FARMERS AS A RESULT OF  
THE BAD WEATHER

I have read your Private Secretary's note of 25 September recording your concern that all possible action should be taken to help the farmers affected by the poor weather. I would strongly urge, from the limited point of view of farmers in parts of the North West, in Scotland and in Northern Ireland (and I suspect possibly in Wales too), that action should be taken to assist. Perhaps the Minister of Agriculture could consider whether it would be possible to pay to the farmers in hill areas the subsidies which are due early next year before the winter sets in, which would do much to ease their problems.

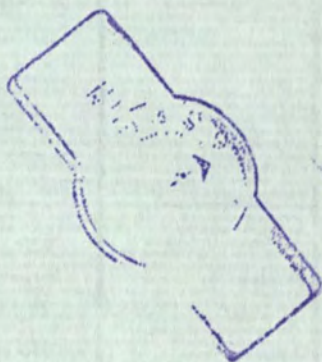
I am sending a copy of this minute to the Secretary of State for Scotland, the Secretary of State for Wales, the Secretary of State for Northern Ireland, the Minister for Agriculture, Fisheries and Food, the Chief Secretary, and the Chief Whip.

lwl.

1/10

1 October 1985

AGRICULTURE EXPENDITURE



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PRIME MINISTER

WINTER FEED: PROBLEMS FACED BY FARMERS AS  
A RESULT OF THE BAD WEATHER

Lord President's minute below.

The Chief Secretary wants, so his office tells me, to do something to help hill farmers this year. But he does not want the expenditure consequential to spill over into future years, causing difficulties with the Survey.

I suggest that, in response to the Lord President's minute, you ask the Minister of Agriculture to pursue his suggestion in consultation with the Chief Secretary.

N.L.W.

Yes mt

NIGEL WICKS

1 October 1985

See also (W Young) attached  
mt

070

cc 10

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



From the Minister

**CONFIDENTIAL**

The Rt Hon Mrs Margaret Thatcher MP  
10 Downing Street  
London SW1

30 September 1985

*My Dear Prime Minister*

*attached*

I have sent you separately today a paper on the consequences of price restraint for British Agriculture. There is, however, one point on forestry which I would like to mention; my colleagues felt that, in view of its sensitivity, it would be better not included in the paper itself.

Paragraph 19 of the paper mentions that commercial forestry presents a promising possibility for alternative use of agricultural land; it goes on to say that if this possibility is to be realised some further stimulus is likely to be required and that further consideration will have to be given to the source of the public funding needed. At our meeting on 26 June I mentioned that one option would be to privatise the existing nationally owned forestry estate administered by the Forestry Commission; this has a recent book value of £1.3 billion and a further sales programme - going way beyond the present one - would release funds that could be used to encourage both commercial forestry and farm woodlands.

Privatising the Forestry Commission is, of course, being considered in the context of the Government's privatisation programme. I have also asked a small outside group, comprising Oscar Colburn, Ian Coutts (who you know and who is a member of the Forestry Commission), Lord Dulverton and the Hon James Galbraith, for their views. I have just received their report; encouragingly, this supports the case for privatisation - the first time, to my knowledge that representatives of the private forestry interest have come out in favour of full-scale privatisation. I will now be discussing with my forestry colleagues how to take this issue further.

I am copying this letter to Geoffrey Howe, Nigel Lawson, Willie Whitelaw, George Younger, Nick Edwards, Tom King, Norman Tebbit and to Sir Robert Armstrong.

*James Ewart*  
*Michael*

MICHAEL JOPLING

MILITARY DEPARTMENT, WASHINGTON, D.C. 20315  
WHITENHALL PLACE, LONDON, W.1

30.11.55  
30.11.55  
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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

**CONFIDENTIAL**

Prime Minister

**THE CONSEQUENCES OF PRICE RESTRAINT FOR BRITISH AGRICULTURE**

....

At your meeting on 26 June with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and myself, you asked me, in collaboration with the other Agriculture Ministers, to prepare a paper on the implications of price restraint for land use and population in rural areas of the United Kingdom. I enclose such a paper, which we would be happy to discuss with you.

I should like to call attention to two aspects. First, the paper proposes that we should continue with our prime objective of getting CAP prices reduced so that supply and demand come more into balance, in accordance with market requirements. I am quite sure that we must keep the pressure up on this - that is the way that we shall achieve benefits for our economy as a whole. But I am under no illusion about how difficult that will be. The arguments we had with the Germans on cereal prices earlier this year make that crystal clear. We are bound to be under great pressure (both at home and abroad) to mitigate our demands for a rigorous price policy, and to rely on other measures such as quotas on cereals.

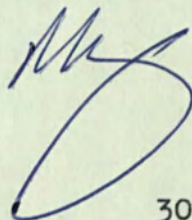
It was not appropriate for the paper enclosed to go into this matter in detail. Suffice it to say that reduction in support for agriculture by means of quotas or any device other than reduced prices must still bring about considerable reductions in rural profitability (though the geographical incidence may vary), but without many of the compensating advantages of a rigorous price policy.

Secondly, the territorial Secretaries of State and I agree in thinking that the domestic political repercussions of changes on the scale outlined in the paper would be very serious. After all, we are talking about a surplus land area nearly as big as Yorkshire. In those circumstances the countervailing measures suggested in the paper might well be regarded as quite insufficient Government response. This criticism would be particularly acute in Scotland, Wales, Northern Ireland, and parts of Northern and South Western England, where, for geographical reasons, a higher percentage of our farmers operate at the margin of viability. The various ideas mentioned in the papers as alternative sources of income are unlikely to come anywhere near to replacing the income lost. There are hints of this towards the end of the paper. But the Secretaries of State and I feel it essential to point out to our colleagues that the scenario in the paper could spell disaster for the party in the rural areas of all the UK countries unless we make it absolutely

---

plain that we are prepared to counterbalance the effects by positive  
and imaginatives action. *what?*

I am sending copies of this minute and its enclosure to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Pesident, the Secretaries of State for Scotland, Wales and Northern Ireland, the Chancellor of the Duchy of Lancaster, and to Sir Robert Armstrong.



M J

30 September 1985



CONFIDENTIAL

## THE CONSEQUENCES OF PRICE RESTRAINT FOR BRITISH AGRICULTURE

1. This note discusses the implications of a Community policy of price restraint for land use and population in the rural areas of the United Kingdom.

### BACKGROUND

2. Technological progress in Community agriculture continues to advance rapidly. Developments already in the pipeline will ensure for the next few years that yields, feed conversion rates and overall input to output ratios steadily improve. Without countervailing action production is likely to increase by around 2 per cent per annum. This would considerably exacerbate problems with surpluses, and lead to the almost certain overwhelming of any budgets set within the financial guidelines.

3. The adoption by British farmers of new varieties and more efficient husbandry practices, leading to improved productivity, is of itself desirable. But production in the Community as a whole must be allowed to adjust so that supply meets a genuine market demand, or the wider benefits, to the consumer and taxpayer, of the increased productivity will never be realised; nor indeed will production be concentrated where it would be most efficient.

4. Support prices should therefore be reduced, and all the more rapidly as productivity and production increase. Whilst other solutions, including quantitative controls, are widely canvassed, the preferred one must be to work for lower agricultural prices which would trim away higher cost output and begin to bring supply closer to genuine demand. Success in this aim, over a number of years, would require agriculture in the European Community to follow a quite different path from that pursued for the past 40 years. Experience, however, has shown how difficult it will be to secure the necessary price reductions.

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There is bound to be the risk that calls for quotas, in the case of cereals for example, will become difficult to resist. But either the price or quota approach (and the economic effects of each would certainly differ) would mean that the adjustments to be made in attitudes and in economic terms would be substantial. These adjustments would be required in the UK as well.

SCALE OF ADJUSTMENT IN THE UK

5. If production of those commodities in surplus is to be reduced and new surplus products avoided, fewer hectares under cereals, sugar beet and potatoes will be needed. New crops, some still in the development stage, may emerge but the area of these is likely to remain relatively small in the foreseeable future. On the livestock side fewer dairy cows will be required and hence fewer hectares needed for our dairy herds, although further expansion of sheep seems likely. In the Annex a possible land use pattern for the early 1990s is set out, together with a summary of the assumptions underlying it. These include allowance for some continued transfer of land to housing, roads, commercial forestry, etc.

6. The consequences could be very significant if current agricultural practices were to continue unchanged. Allowing for some expansion of the newer crops, the total tillage area might decline by some 550,000 hectares, or by about 10 per cent. Allowing for land lost from agriculture, the area available for grassland would increase by some 300,000 hectares, but at present stocking rates the area required by cattle and sheep could be perhaps 700,000 hectares less. Consequently around 1,000,000 hectares of pasture could become available for grazing in excess of that needed with present stocking practices. This is equivalent to 15 per cent of pasture land, excluding rough grazings. Such figures can only be indicative, but if the downward pressure on production were sustained, the scale of the land use changes would become larger as the 1990s progressed. The problem of adjustment, which could well involve a drastic reduction in stocking densities and in the general intensity of production, would thus be a continuing one.

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#### AGRICULTURAL IMPLICATIONS

7. Sustained pressure on prices would be bound to depress farmers' cash flow. Those already operating at the margin of profitability, or with substantial debts, would be forced to introduce drastic economy measures or sell up. Those who remained would have to reduce their cash outlays by cutting back on investment and by reducing their input bills, particularly labour (including contract labour). Farming generally would move to a lower input, lower output regime. In some arable areas, less productive fields might initially revert to pasture or even be left derelict (though probably not to the extent they were in the 1930s). On livestock farms, predominant in the west and north, grassland would become more extensively grazed. The problems of these areas could be exacerbated with the likelihood of some arable farmers in the south and east reacting to falling returns by establishing livestock enterprises, both grazing and cereal-based (so seeking to add value to their grain by converting it into meat). Production would tend to be concentrated on the better land and possibly result in the poorer land elsewhere being used in an even more extensive fashion.

8. The financial position of the majority of farm businesses is currently sound. Most farmers have not over-extended their borrowing, although indebtedness has been increasing and a small proportion of farmers may already be in difficulty. However, as prices are reduced and farming income is squeezed, many will find it increasingly difficult to service their debts and many more smaller farmers might claim social security payments. Financial pressures are likely to be most acute for those producers who have already borrowed quite heavily. These are concentrated mainly in dairying, and smaller mixed and cropping farms. If the value of their land, often the collateral for their borrowing, were to fall significantly, many could be in real difficulties.

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9. The value of the output from the land and its profitability would be bound to decline. Rental values would fall, as would the price of land as more farms came on the market. The market for land is relatively thin - only about 1½ per cent changes hands each year - so a modest increase in the number of farms for sale could have a dramatic effect on land prices, particularly if prospective buyers, mostly other farmers, were themselves facing cash flow pressures.

10. With lower rents and lower land values, more extensive farming practices, as already mentioned, involving pure beef herds and grass-fed beef and sheep, could become more widespread; though, if these were to do more than just keep the grass down, they might require inputs of labour and capital that might not be worth-while. Forestry could become a more worthwhile proposition on some land presently down to grazing. Lower land prices could also lead to an acceleration of structural change. As more farms come onto the market, at ever lower prices, larger or more efficient neighbours could be expected to grasp the opportunity to enlarge their own units, thus speeding up the trends of the last 40 years. Alternatively smaller farms may be purchased by non-farmers, with another income, who would then farm the land extensively as a part-time occupation.

11. Farming in the hill and marginal areas, which account for 53 per cent of our agricultural area - much of it rough grazing - is already assisted through special support arrangements. Without these aids farming in these areas could not be sustained at anything like the present levels. The numbers of farms, farmers and workers would decline rapidly; the present balances within the rural economy would alter considerably; and in many parts the viability of the whole economy of the area would be threatened. The countryside and its visual character would change, and not for the better. Current levels of aid to hill and upland farming would not be enough to protect upland agriculture from the economic pressures facing the industry in

general. The market for hill store cattle and sheep, the main output of the hills, would inevitably be weaker. As many hill farms are small and already operating just on the edge of viability, structural changes and an accelerated exodus from the land should be expected.

12. The number of persons employed in agriculture, including part-time and casual workers, is presently about 620,000. The pace of the exodus from the land has slowed down markedly in recent years, to only about 5-10,000 per annum. Agriculture's ancillary industries, such as transport, suppliers of machinery, feed and fertilisers, slaughterhouses, milk processing plants, are estimated to employ approximately the same number as those directly employed in farming. The greater proportion of these are employed away from our main industrial conurbations. The impact of price pressure, reduced output and generally a lower input and output regime would be bound to affect the numbers employed directly by agriculture and in the ancillary occupations. It is difficult to predict the pace of an increased exodus but it could revert to the 4 per cent per annum rate of the late 1960s when the volume of agricultural net output barely expanded. If so, an extra 100,000 would be shed from the farm work-force by the early 1990s, to which would be added a substantial number from the ancillary sectors. The impact on the rural economy would clearly be profound and threaten the viability of the service sector in some rural areas; though in places this may be offset by the development of service industries based on new information technology.

13. As with land use, the effects on the rural population would vary throughout the country. In the extensive hill and marginal areas, much would depend on the scale of special assistance given. At the other extreme, there would be farms on the good all-purpose arable soils mainly in the east and south which, while seeing their profitability decline, could be expected to cope, though probably with a reduced labour force. This might also be true, while quotas last, of the dairy sector mainly in the western half of the country. In between there are

CONFIDENTIAL

the farms on less adaptable soils, comprising most of the central and south western parts of England, some of the better - but still agriculturally peripheral - parts of Wales, and the intermediate areas of Scotland, and it is here that the pressure could be most severely felt. They would be forced to revert to more extensive, lower output regimes. This "middle ground" would need particular attention.

POLICY IMPLICATIONS

14. Against these adverse consequences for farming, for economic activity in rural areas and the quality of the rural environment, it should be remembered that, if we succeed in our aim of bringing Community surpluses down to sensible proportions through the use of the price mechanism, significant gains would accrue to the economy generally. The benefits of recent and future productivity growth would be shared with consumers, whose food prices would be lower than otherwise. Resources now devoted to the production of foodstuffs which can only be disposed of at substantial cost - a cost borne by the taxpayer - would no longer be so employed. Problems caused by a high price regime to our international trade policy would be alleviated. These benefits could be substantially achieved even if countervailing measures to alleviate rural economic problems were felt necessary.

15. Particularly for the smaller farmer in the middle areas and all farmers in the uplands, there may be opportunities to combine a necessary level of agricultural activity with other forms of economic activity which will make profitable use of farm resources. If they can be assisted to succeed in this way then the existence of their businesses would help sustain the rural economy. These opportunities may obtain for a relatively small number of farms, but will need to be grasped nonetheless.

16. In the hills and uplands, the Hill Livestock Compensatory Allowances (HLCAs) have been particularly effective in ensuring the continuation of farming and limiting population decline in areas

handicapped by serious natural disadvantage. Rigorous price restraint will call for major strengthening of support measures in these Less Favoured Areas, building on the foundation of present HLCAs. In particular other forms of land use and new employment opportunities need to be encouraged and assisted, to assure farm families of continuing prospects for earning reasonable livelihoods. For a limited number of farmers, this could be either through diversification of the farm business or through family members taking, as available, part-time employment off the farm.

17. The Government has already decided to introduce assistance in these areas for farm tourism and craft industry under the new Agriculture Improvement Scheme, at a projected annual cost of up to £2 million. Agriculture Departments believe that there is scope for an expansion of farm woodlands which would provide a means of diversifying farm businesses as well as providing downstream employment. But since there is no tradition of farm forestry amongst UK farmers, strong and imaginative measures are needed to provide the necessary impetus. More generally, there is potential for the expansion of on-farm processing to add value to traditional food products, which suitable support measures could stimulate.

18. Substantial support for farm woodlands and value-added activities on the farm, useful though they would certainly be, would without doubt be insufficient to mitigate the impact of falling farm prices in many areas, particularly in the uplands. Nor could they possibly offer alternative uses for land and employment for those now working upon it on the scale that is likely to be needed. The only exception might be in the case of extensive hill farms in Scotland where farmers might plant quite large blocks at their own hand, or under lease or partnership arrangements with the commercial forestry companies.

19. Commercial forestry and conservation offer two of the most promising possibilities for alternative non-agricultural use of land. The UK has to import about 90 per cent of its timber

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requirements, and current annual rates of forest planting are still well below the targets which the Government set in 1980. The greater availability of land at markedly lower real prices could act as a spur to increased new farm woodlands and commercial forestry, but some further stimulus is likely to be required. Further consideration will have to be given to the source of the public funding needed. Care would be needed to ensure that forestry was developed in a way consistent with maintaining the viability of rural communities and with conservation and amenity considerations.

20. Declining agricultural prosperity will create severe difficulties for both landscape and wildlife in the countryside. Tourism and recreation need an attractive and accessible countryside, which in the main is related to the continuing agricultural management of the land. At the same time lessening agricultural pressure on the land could be put to good environmental purpose; the reconciliation of agricultural and conservation objectives could be made easier; and the concept of "environmentally sensitive areas", introduced at our insistence into the Community's new Agricultural Structures Regulation, where agricultural support measures encourage low intensity systems of agricultural management to preserve the special conservation interest, could be developed. In some areas - particularly in the hills and uplands farmers should be encouraged to tap new sources of income arising from increasing leisure pursuits in the countryside and from conservation.

21. More generally, it would be possible to identify particular areas where, by reason of lack of alternative employment opportunities, poor farm structure, or particular natural or infrastructural deficiencies, special measures were needed. An integrated package, covering a spectrum of economic and social



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?  
issues, could be tailor-made to each situation. Agriculture would clearly be a central element, but associated with complementary action covering other key facets of rural activity.

22. It would be idle to assume that any remedies, however well-conceived and well funded, could be brought into effect in such a way and on a time scale which could eliminate the risk of considerable rural, social and political disquiet. The implications of price restraint amount to a progressive reversal of the expansionist policies which have influenced British (and European) agriculture over virtually the whole of the post-war period. The effects are likely to be most apparent in regions of greatest farming difficulty (including Wales, Scotland, Northern Ireland, the Pennines and South West of England) and/or among small farmers and those - not always the least efficient - with a relatively high level of borrowing. They will also be seen, or be caricatured, as an attack on the farming industry at large; and could give rise to accusations of callousness and bad faith on the part of the Government, and to claims that its true objective is to "destabilise" the industry.

#### CONCLUSIONS

23. i. The changes in the CAP which we wish to foster will, if achieved, bring benefits to the economy in general, but cause severe problems of adjustment for British agriculture.
- ii. To mitigate the consequences for employment in rural areas, complementary national policies should be devised. These will need to be compatible with our Community objectives. They should not have the effect of forgoing the benefits of technological progress, nor of reducing the competitiveness of British agriculture vis-a-vis our Community partners.
- iii. The farming community itself must be encouraged to seek out and develop new sources of revenue from tourism, food

processing, craft industries and farm woodlands, combined with local off-farm employment. These would all help, albeit modestly, to slow down the rural exodus, but they would involve considerable challenges to the technical and business management abilities of individual farmers.

iv. To ensure the viability of the rural economy, the following measures should be pursued:-

- a. maintenance of adequate special assistance in the less favoured areas;
- b. encouragement of new farm crops and livestock enterprises for which sensible markets can be found;
- c. extension of commercial forestry; more farm woodlands;
- d. development of new conservation measures;
- e. encouraging development of facilities for leisure pursuits and for part-time employment off the farm;
- f. creation of tailor-made programmes for rural areas with particular problems.

Further work on these measures should be commissioned.

v. A balanced policy along these lines could achieve the wider economic benefits of a more market-orientated CAP without unacceptable consequences in certain areas of the country. Even with a balanced policy there will be risks of economic, social and political disruption; if we pursue a more market-orientated CAP without a counterbalancing policy, those risks would become certainties.

September 1985

## POSSIBLE CHANGES IN UK LAND USE IN EARLY 1990s

The attached table summarises possible adjustments to land use patterns in the UK by the early 1990s on the assumption that the Community succeeds in reducing the production of surplus commodities.

## ARABLE CROPS

Cereals provide the greatest potential adjustment problem for the Community given rising yields and fairly stagnant consumption. The expected level of production in the early 1990s, if present trends continued, would need to be reduced by about 15% through restrictive pricing policy in order to contain surpluses at levels approximating to EC net exports in recent years. This takes account of EC enlargement and increased consumption of cereals - mainly for animal feed - as price levels fall. This could lead to a reduction in the UK cereals area of over 600 th hectares.

Sugar production in the EC is significantly in surplus and yields are rising; a reduction in the area of one-fifth would alleviate this situation, possibly reducing the UK area by 30 th hectares. Yields of potatoes and many horticultural crops are rising and the area devoted to these two groups of crops would be reduced in the UK by 30-40 th hectares each whilst still meeting market requirements.

Policies to reduce cereals production would permit expansion of other crops, including established crops (such as oilseed rape, peas and beans for stockfeed) as well as some novel crops - many still in the development stage - or ones currently of little significance. It is difficult to gauge the degree of expansion but almost certainly it would be insufficient to offset the fall in the cereals area. An expansion of 100 th hectares of oilseed rape and up to 100 th hectares of other crops has been assumed. The above changes would result in a reduction in the tillage area of around 550 th hectares (about 10%) all of which, it is assumed, would be put down to grass.

## GRAZING LIVESTOCK

Despite the introduction of quotas, milk production remains in substantial surplus: consumption in the EC is virtually stagnant. A reduction in production to levels some 7 or 8% below existing quotas would represent a step towards achieving market balance.

A reduction of this order, allowing for further yield growth, would result in a decline in the size of the dairy herd. A smaller dairy herd, and the loss of associated beef production from surplus calves, would mean that 750 th hectares or more might no longer be required to sustain these livestock at existing stocking intensities.

The EC is in surplus for beef and there is no reason to suppose that encouragement would be given to make good the fall in beef production deriving from the dairy herd. There remains scope for further expansion of sheep production, the other main grass based enterprise, though this is unlikely to exceed 100 th hectares at current stocking rates. In total some 650-700 th hectares of pasture would no longer be required at present stocking rates to sustain grazing livestock.

## GRASSLAND AREA

The total area of pasture land is forecast to increase by some 440 th hectares. The area of rough grazing land is assumed to decline by over 140 th hectares, largely transferred to commercial forestry. The net increase in pasture and rough grazing of some 300 th hectares would be associated with a reduced demand for grazing land of about 650-700 th hectares making possible a reduction in intensity of stocking of pastures of nearly 20%.

## AGRICULTURAL AREA

This has been declining in recent years due to transfers to housing, roads etc and to commercial forestry, most of the latter in Scotland. The total area has been assumed to decline by

some 250 th hectares by the early 1990s, more than half of which might be expected to be planted for commercial forestry operations.

LAND USE IN THE UK ('000 hectares)

	1984	Forecasts Early 1990s	Changes	
<u>Arable Crops</u>				
Cereals	4036	3400	- 636	
Sugarbeet	200	170	- 30	
Potatoes	198	170	- 28	
Horticulture	218	180	- 38	
Oilseed Rape	270	370	+ 100	
Other crops	<u>278</u>	<u>360</u>	<u>+ 82</u>	
Total tillage	5200	4650	- 550	
<u>Grassland</u>				
Temporary and permanent pastures	6900	7340	+ 440	
Rough grazings	sole-right common	4889) 1214)	4750) 1210)	- 143
Other land <sup>(a)</sup>	<u>517</u>	<u>520</u>	<u>+ 3</u>	
<u>Total UK Agricultural Area</u>	<u>18720</u>	<u>18470</u> <sup>(b)</sup>	<u>- 250</u>	
<u>Commercial Forestry</u> <sup>(c)</sup>	2257	2400	+ 143	

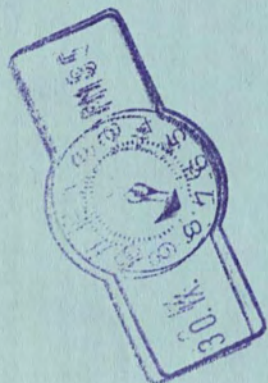
CHANGES TO GRAZING LIVESTOCK/GRASSLAND BALANCE ('000) hectares)

1. <u>Grazing requirements of Livestock</u>		
Smaller Cattle herd (dairy and beef)		- 750
Larger Sheep flock	up to	<u>+ 100</u>
		- 650 to 700
2. <u>Grassland available</u>		
Pastures		+ 440
Rough grazings		<u>- 140</u>
		+ 300
3. <u>Net additional grassland available</u>		
		950 to 1000*

Note\* Approximately 1 million ha of grassland would be surplus to requirements unless stocking rates were reduced by almost 20 per cent.

- Notes
- (a) Other land includes that on farms under buildings etc, woods, copses and also derelict.
- (b) the agricultural area is assumed to decline due to transfers to roads, housing and to commercial forestry.
- (c) assumes new plantings of about 20,000 ha/year; to allow for this a downward adjustment has been made to the rough grazings total.

AGRICULTURE  
EXPENDITURE





NEW ST. ANDREW'S HOUSE  
ST. JAMES CENTRE  
EDINBURGH EH1 3SX

*Pme Hunter*<sup>2</sup>

*New*  
*1.10.*

The Rt Hon Michael Jopling MP  
Minister of Agriculture, Fisheries and Food  
Ministry of Agriculture, Fisheries and Food  
Whitehall Place  
London SW1

30 September 1985

*Dear Michael,*

EFFECT OF WEATHER ON FARMING

I have read with interest Tom King's letter of <sup>23</sup> September and gladly respond to his suggestion that I should set out the Scottish position. I have not previously intervened because although it has been apparent for some time that conditions were bad there was up to the weekend of 20-23 September a good chance that enough could be salvaged to avoid terms like disaster and catastrophe. Last weekend, however, saw some 72 hours of almost continuous rain and over much of Scotland more rain fell in that period than is normal for the whole of September. Like Tom King I am now under severe and increasing pressure from the National Farmers' Union of Scotland (NFUS) and our own backbenchers to provide some tangible relief for what is every day more clearly emerging as a serious and quite abnormal situation. My view is that action is now amply justified and politically imperative.

All sectors of our industry have been hit but the biggest single problem is the unprecedented and in some cases almost total failure of the hay crop and consequent shortage of winter fodder for livestock. In this regard I have been following with particular interest the EC proposals for the supply of intervention grain, apparently at a subsidised price, to the Irish Republic and the request which you have already made to Brussels for parallel treatment for Northern Ireland. I am quite clear that if assistance is given to Ireland, north or south, to help meet a fodder shortage I shall need to be able to announce some form of aid for Scotland. The provision of subsidised grain, however, ie making it available out of intervention at a lower price than normal, would not really meet the problem that Scottish livestock producers face. Our livestock industry is almost exclusively in the west and north-west of the country, including the Islands while our intervention grain stores are with one exception in the east. Nor is feed grain the only commodity in shortage. There is an equal need for roughage and the signs are that straw will need to be imported from further afield eg the Midlands or south-east of England. The overriding problem is transport costs. On average it might cost about £5 per tonne



to move grain from east to west (but much more to the Islands) whereas prices of £40 per tonne are being spoken of for the transport of straw to the west of Scotland from the east Midlands of England.

Livestock is among the least profitable sectors of agriculture and our hill producers in particular can ill afford to meet additional costs of this order. This is the problem which I must tackle and what I would like to see in Scotland, rather than the provision of subsidised feed grain, is a scheme of assistance with transport charges. It is not easy to estimate the cost of this and obviously a scheme would need to operate within defined limits and would need to have the usual safeguards against abuse. But I have no doubt that such a scheme more than any other single measure would be welcomed by the industry in Scotland and convince them that we had appreciated their difficulties and responded sensibly and sympathetically.

Fodder shortage is not of course the only problem and the NFUS have provided me with a shopping list of measures that would assist more widely. It appears to be very similar to the list that the Northern Irish representatives have given Tom King and I would join with him in urging that we give these suggestions sympathetic consideration. Most important will be the Autumn review of the hills and the consequent rates of HLCA for 1986. But I think other suggestions also deserve careful attention eg relaxing the suckler cow eligibility criteria and extending the period for claiming drainage grant under the AHGS.

But I would stress that these measures do not exclude the case for immediate action on transport costs. Above all this would bring relief where it is most needed and have a presentational impact that would be both speedy and enduring.

I very much welcome Tom King's suggestion that you, he, Nicholas Edwards and I should have an early meeting to discuss these matters. I am sending copies of this letter to Tom King and Nicholas Edwards and also, in view of the interest which she has expressed in the situation, to the Prime Minister.

Yours Wc,  
George

AGRICULTURE : Expenditure : Sept 83





10 DOWNING STREET

*From the Principal Private Secretary*

27 September 1985

THE CONSEQUENCES OF THIS SUMMER'S BAD WEATHER  
ON FARMERS IN NORTHERN IRELAND

The Prime Minister has read your Secretary of State's minute of 26 September in which he reports about the serious impact of the weather on farmers in Northern Ireland.

The Prime Minister was grateful for this report. No doubt your Secretary of State will continue to keep her in touch with developments.

I am copying this letter to Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food).

Jim Daniell Esq  
Northern Ireland Office.

EW



2 CCND

Pone Minute

You have already asked to be kept in touch with developments. N.C.W.

PRIME MINISTER

mf

I have seen Michael Jopling's minute to you about the serious impact on the weather on farmers and indeed also now seen your reply. 26-9

2. My purpose in writing is to advise you that while there are obviously problems in certain other parts of the United Kingdom the position in Northern Ireland is really quite disastrous. Quite apart from the rainfall throughout July, August and September being well above average, the really difficult point is that there has been measurable rain practically every day throughout these three months. The ground is now in many cases absolutely sodden so that it is not possible for the farmers even if there is one day's fine weather to actually get on to the ground and whole crops of corn and potatoes are being destroyed. So far from the weather now improving, I was in fact in Londonderry on Saturday on a very wet day and heard that two more rivers there had also burst their banks flooding further crops.

3. Agriculture does of course represent a much more significant part of the economy in Northern Ireland than in the average for the United Kingdom as a whole and so the seriousness of these developments is very real indeed and I am urgently considering the best ways in which to respond. I have already made clear to the farmers that there is no way in which a Government can be expected to compensate them for what must be recognised as the ups and downs of farming and problems of the weather. But at the same time we are forced to recognise the scale of the problems that have hit Northern Ireland this year with the weather, not least because of the very real animal welfare problems that we could face since there is generally in Northern Ireland simply not enough fodder to provide for the existing stock this winter.

/....



4. I am therefore in urgent discussion with Michael Jopling and John MacGregor about these problems. Michael has already secured some helpful response from the European Commission. However I face the added problem that the Republic has just announced a substantial scheme to help those farmers who are in the greatest need in the present time. And the truth is that while the weather in much of the Republic has also been extremely bad there is no question that the weather in Northern Ireland as a whole has been as bad as the worst hit areas there and in many cases I suspect far worse.

5. I will continue my discussions urgently with Michael Jopling and John MacGregor about the most appropriate way in which to respond to the present situation. I have of course copied this minute to George Younger and Nick Edwards because of the undoubtedly similar problems that they must face in certain parts of Wales and Scotland; but I thought I should let you know this quite exceptional difficulty that we are facing at the present time in Northern Ireland.

T K

26 September 1985



Agriculture 9/83  
Expenditure.





10 DOWNING STREET

From the Principal Private Secretary

25 September 1985

Dear Tom,

WINTER FEED

The Prime Minister was grateful for your report, enclosed with your letter of 24 September on the problems faced by farmers as a result of this summer's poor weather.

She finds this a worrying report and she does wonder whether all possible action is being taken to help the farmers. She would like to be kept in touch with developments.

I am copying this letter to John Graham (Scottish Office), Jim Daniell (Northern Ireland Office) and Colin Williams (Welsh Office).

Yours sincerely  
Ayd Wicks

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.

089



2  
C/W

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

From the Minister's Private Office

Nigel Wicks Esq  
Principal Private Secretary  
10 Downing Street

24 September 1985

Dear Nigel

**WINTER FEED**

... As requested in your letter of 12 September, I enclose a note for the Prime Minister on winter feed and the problems faced by farmers as a result of this summer's poor weather. This was prepared with the co-operation of the other Agricultural Departments.

I am copying this letter to John Graham, Jim Daniell and Colin Williams.

Yours Sincerely  
*C I Llewelyn*

C I LLEWELYN

Prime Minister

I commissioned this following our visit to Scotland. A worrying report, though farmers do tend to look on the gloomy side. In practice, not much the Government can do.

ASK to be kept in touch? *Hardy on - Yes*

N-CW

24-9

mf

A worrying report  
but the depth does not  
seem to be taking much action - mf





**WINTER FEED: PROBLEMS FACED BY FARMERS AS A RESULT OF ADVERSE WEATHER**

1. The wet weather conditions this year have seriously reduced the supplies and quality of winter fodder for animal feed. There are large differences between regions and farms within regions but the hill and upland areas in particular are badly affected and there are serious difficulties of shortage of roughage on farms where the hay is a major component of the winter feed programme. Some may yet be able to harvest some fodder as silage but such opportunities will be few for the worst affected farms and any extra fodder harvested is unlikely to do much to alleviate the overall position.

2. In England, a significant number of farms in the hill and upland areas have made little or no hay; some are also short of silage and the quality of silage is suspect on others. Similarly, the upland and hill farms in Wales are in difficulties, with less than half the winter fodder requirements having been harvested in the worst affected areas. In Scotland, the quantity of hay secured is well below requirement, and the quality is generally poor, with the difficulties again being greatest in the hill and upland areas. Northern Ireland has a particularly difficult situation in that the hay crop is estimated to be only 20% of normal volume (5% in the Less Favoured Areas), and of poor quality. Moreover, there is an anticipated shortfall of other 20% in the silage crop. This shortage of fodder is of special significance for Northern Ireland which even in normal years has to import cereals to augment its home-produced livestock feed.

3. Another important consideration is that the Republic of Ireland has also been badly affected and that farmers there are already being forced to sell stock because of inadequate winter feed supplies. Even in normal times, the Republic is a notoriously weak seller in the livestock sector and the likelihood of "distress" sales due to fodder problems poses a threat to the market in Great Britain



because of the "knock-on" effect. Some of our own stock may also need to be marketed early due to feed problems, and the adverse effects on the market are likely to become worse as farmers in the United Kingdom start to sell extra stock. So far as sheep are concerned, there is also some lack of confidence due to the possibility of restrictions on ewe exports to France and this too may add to the difficulties. Low prices in the market have adverse economic effects on all livestock farmers, even those who have secured a reasonable proportion of their winter fodder supplies.

4. The conditions for harvesting cereals have been exceptionally difficult particularly in Northern Ireland and the west of Britain. In some areas crops are a total write-off. In general however, grain farmers have surmounted the problems of collecting the harvest and our initial estimates suggest a total harvest figure which, while not as large as last year's record, will nevertheless be the second largest harvest ever. But the high cost of drying grain to acceptable standards, and the markedly lower quality of this year's wheat production will have a serious effect on grain farmers' incomes.

#### Conclusions

5. It is already clear that many livestock producers, especially in the more remote parts of the United Kingdom will have inadequate supplies of winter keep. Those who have not secured adequate supplies will either have to buy in feed or to dispose of stock on markets which are likely to be weak. The advisory services are already making suggestions to producers as to the most effective ways of coping with the situation but farmers will be looking to the Government for some help. In particular, we shall need to take full account of the likely situation of hill livestock farmers in the annual autumn review of the hill livestock compensatory allowances which precedes the determination of the rates for 1986. In addition, we are approaching the EC Commission to try to secure some modifications in the suckler cow subsidy scheme to help producers who may be forced to cut down on their stock numbers.



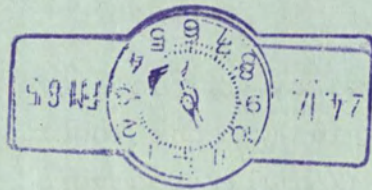
Northern Ireland

6. The position in Northern Ireland is made worse by the loss of part of Northern Ireland's own small cereal crop and by the lower crop in the Republic from which Northern Ireland normally recovers part of her deficit. We are approaching the Commission for agreement to transfer a quantity of intervention grain to Northern Ireland at Community expense from Great Britain. The effect would be to make the grain available in Northern Ireland at about the same price as in Great Britain. The Irish Republic have sought emergency help from the EC, and Northern Ireland would look for help comparable to whatever is done for the Republic. We would also hope to ensure that any grain transferred to the Republic comes from Great Britain. Northern Ireland has also suffered severely as far as potatoes, and particularly seed potatoes, are concerned

MINISTRY OF AGRICULTURE,  
FISHERIES AND FOOD  
24 September 1985

AGRICULTURE: Exp

Sept 83



CONFIDENTIAL



*flex*

10 DOWNING STREET

*From the Private Secretary*

24 September 1985

The Prime Minister has seen your Secretary of State's minute of 9 September seeking her agreement to the transfer of responsibility for certain MAFF expenditure to the Department of Agriculture for Northern Ireland. The Prime Minister is content with your Secretary of State's proposals.

I am copying this letter to Jim Daniell (Northern Ireland Office), Richard Broadbent (Chief Secretary's Office, H.M. Treasury), and Michael Stark (Cabinet Office).

MARK ADDISON

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.

CONFIDENTIAL

*✓*

Prime Minister ①

Ref. A085/2418

MR ADDISON

Content that responsibility for the transfer of responsibility from MAFF to Dept of Agriculture for NI? Annex A of the attachment to the MAFF note sets out the responsibilities to be transferred. MAFF 23/9 attached

The Minister of Agriculture, Fisheries and Food's minute of 9 September sought the Prime Minister's approval for a transfer of responsibility for certain agricultural and fisheries expenditure in Northern Ireland from MAFF to the Department of Agriculture for Northern Ireland (DANI).

2. The proposed transfer has been under discussion for some considerable time and has now been agreed by the Departments concerned (Treasury, MAFF, Northern Ireland Office and DANI). It appears to be a sensible means of ending the present awkward split of responsibilities, under which MAFF carries accounting officer responsibility for expenditure effectively controlled by DANI. The proposal would not involve any transfer of staff or any change in the level of expenditure on the schemes concerned. The necessary legal changes would be accomplished by an Order in Council under the Northern Ireland Act 1974 (a rather lengthy process, but a necessary one).

3. Sir Robert Armstrong is content that this transfer of responsibility should go ahead.

*MS*  
M C STARK

23 September 1985

AGRICULTURAL  
EXPENDITURE.



CONFIDENTIAL



10 DOWNING STREET

*From the Principal Private Secretary*

12 September 1985

**WINTER FEED**

When the Prime Minister was in the North of England and Scotland, it was represented to her forcibly by various farming interests that many farmers would have great difficulty in providing feed for their livestock during this coming winter because of the ravages wrought by this summer's intemperate weather. The Prime Minister simply took note of the points raised and, of course, did not hold out any prospect of extra Government help. But I think that she would find interesting a note on the Agricultural Department's assessment of farmers' problems and I should be grateful if MAFF could coordinate the preparation of a short note.

I am copying this letter to John Graham (Scottish Office), Jim Daniell (Northern Ireland Office) and Colin Williams (Welsh Office).

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.

h



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



From the Minister

**CONFIDENTIAL**

*Mark*

*Pl see att which  
has only just arrived  
from north.*

*Awaiting advice from RTA.  
11/9*

*NGT 12/9.*

**PRIME MINISTER**

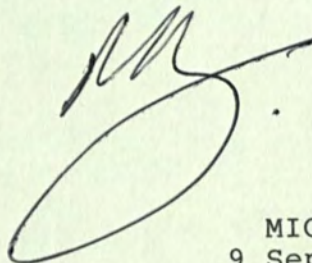
**NORTHERN IRELAND AGRICULTURE AND FISHERIES: TRANSFER OF RESPONSIBILITY  
FOR CERTAIN MAFF EXPENDITURE**

1. During the past 12 months, Douglas Hurd, Peter Rees and I have been reviewing the long-established arrangements under which certain agricultural and fisheries expenditure in Northern Ireland is borne on the Votes of my Department. We concluded that these are an anachronism in the current public accounting and financial management climate, and agreed that I should seek your approval to a transfer of responsibility for the expenditure concerned to the Head of the Department of Agriculture for Northern Ireland (DANI).

2. Full background details are set out in the enclosed paper, which formed the basis of our tripartite discussions. Under the present arrangements, my Accounting Officer is responsible to Parliament for expenditure administered by DANI over which he has only indirect control, not least when, as with the Northern Ireland Agricultural Development Programme, such expenditure relates entirely to the Province but appears in my Votes. At the operational level, the arrangements give rise to a substantial duplication of effort between my Department and DANI on Estimates and PES preparation and in-year monitoring and control, and cause problem cases to be referred by DANI officials to mine. Particular difficulties arise when in-year increases in DANI's agency costs have to be met from elsewhere within my Department's relevant cash-limited Vote; and at the insistence of the National Audit Office, my auditors are obliged to undertake inspections in Northern Ireland. All this is neither economic nor effective administration, and the Comptroller and Auditor General has already focussed on these weaknesses in the course of one of his value for money studies.

3. Our legal advice is that the appropriate mechanism for a transfer of responsibility from my Accounting Officer to the Head of DANI would be an Order in Council under the Northern Ireland Act 1974, on which Tom King would now take the lead. Such an Order necessarily involves careful and extensive consultations with the Assembly, and this suggests that it would be realistic to look to introduce the new arrangements for the 1987/88 financial year.

4. I should be grateful for your approval to this transfer of responsibility on the lines proposed above. I have copied this minute to Tom King, John MacGregor and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'MJ', written in a cursive style.

MICHAEL JOPLING  
9 September 1985

DRAFT

NORTHERN IRELAND AGRICULTURE & FISHERIES: TRANSFER OF  
RESPONSIBILITY FOR CERTAIN MAFF EXPENDITURE

(Paper by officials)

Introduction

1. This paper recommends that for reasons of accountability and effective financial management responsibility for certain agricultural and fisheries expenditure in Northern Ireland should be transferred from the Minister of Agriculture, Fisheries & Food to the Department of Agriculture, Northern Ireland (DANI). It also proposes revised PES and Estimate arrangements to operate after the transfer of responsibility.

2. Although the changes proposed are essentially of a technical nature, Ministers will wish to assess the likely political reactions to them in the Province before reaching any decisions. Against that background Ministers are invited to endorse transfer of responsibility recommended by officials and to decide on the form of legislation to be adopted and the timing of any change.

Background

3. Under the present arrangements, although domestic agricultural and fisheries expenditure in Northern Ireland is administered by DANI, Vote and PES responsibility is divided between DANI and MAFF. MAFF's votes include provision for expenditure of about £80 million a year on UK-wide agricultural support measures (mainly capital

grants and livestock subsidies) in Northern Ireland and for an agency payment to DANI for administering them (ie 1985-86 main Estimate provision of £4.85 million). DANI votes carry expenditure of some £18 million for agricultural support schemes (including some EC schemes) which apply only in Northern Ireland and which in certain cases operate through enhancements to UK wide grant schemes. A full list of the measures in Northern Ireland for which MAFF and DANI are currently accountable is set out in Annex A.

4. In PES terms the expenditure on MAFF's Votes is included in programme 3 and considered on a UK basis together with equivalent domestic expenditure in Scotland and Wales, borne on Scottish and Welsh Office Votes and PES programme 15 and 16 respectively. This latter expenditure is not therefore considered as part of the territorial blocks for Scotland and Wales.

5. By contrast, DANI's expenditure currently forms part of the Northern Ireland Secretary's territorial block and is discussed with the rest of programme 17.

#### The Case for Change

6. The accountability arrangements in Northern Ireland described in paragraphs 3 and 4 above are unsatisfactory for the following reasons:

(i) it is no longer defensible either in public accounting or financial management terms for the MAFF Accounting Officer to be held responsible for expenditure in Northern Ireland over which he has only indirect control through an agency agreement with DANI. During 1983-84 and 1984-85, MAFF was obliged to find nearly £1.2 million from its own programme within a cash limited vote to offset in-year increases in DANI's administrative costs;

(ii) the arrangement under which expenditure on some agricultural schemes is split between the MAFF programme and the Northern Ireland block is unsatisfactory because it allows the Secretary of State to take decisions in the context of the Northern Ireland block without having to accept full expenditure consequences (part of which will fall on MAFF's Votes);

(iii) moreover some expenditure for which MAFF is presently accountable relates only to Northern Ireland such as, for example, the Northern Ireland Agricultural Development Programme.

(iv) The present arrangements have given rise to problems of different perceptions of responsibilities and risks that should be borne by MAFF in respect of Northern Ireland claims.

To resolve these problems we recommend that Vote and PES responsibility for UK-wide agricultural and fisheries support expenditure in the Province currently retained by MAFF should be transferred to DANI.

#### Future PES and Estimates Arrangements

7. The detailed changes to the present PES and Estimates arrangements which we recommend are set out in Annex B. In brief we propose that the expenditure transferred from MAFF should be included in DANI's Votes and in PES programme 17. It should not, however, be included within the Northern Ireland territorial block and should continue to be considered alongside the rest of the UK agriculture programme in the Survey discussions. This is the same treatment as for the equivalent expenditure in Scotland and Wales and recognises the extent to which agricultural expenditure is determined in the EC context and needs to be considered on a UK-wide basis in the Survey.

8. We considered whether agricultural support expenditure which is currently included in the Northern Ireland territorial block should be removed from the block and brigaded with the ex-MAFF expenditure so that the arrangements should exactly parallel those in Scotland and Wales. The Northern Ireland Departments, however, considered that any diminution of the Secretary of State's flexibility within his territorial block might arouse political controversy in the Province. In the circumstances we concluded that this change would not be necessary, provided that DANI undertakes to continue to consult with the other Agriculture Departments and through DFP the Treasury before taking any decisions on block expenditure which might have repercussions on expenditure in the rest of the UK.

9. As far as in-year expenditure control is concerned, we recommend that the arrangements for the transferred expenditure should as far as possible parallel those in Scotland and Wales. Thus the ex-MAFF expenditure would be included in a non-cash limited Vote. Any shortfall in expenditure would not be available for use for other purposes and should be surrendered to the Consolidated Fund. In response to a forecast of excess expenditure offsetting savings would in the first instance be sought from within the Northern Ireland block. If sufficient savings cannot be found the need for additional resources would fall to be considered as a claim on the Reserve under the arrangements introduced in 1984.

#### Legislation

10. A transfer of responsibilities between UK Ministers can usually be effected (if legislation is needed at all) by secondary legislation - ie by a Transfer of Functions Order under the Ministers of the Crown Act 1975. This option is not available in the present case as the Act defines "Ministers of the Crown" as meaning the holder of an office in Her Majesty's Government in the United Kingdom. A Northern Ireland Department does not come within that definition.

11. Legal advisers agree that primary legislation would be required to effect the transfer in the form of either an Order in Council under the Northern Ireland Act 1974 (which is the equivalent of primary legislation) or a separate UK Act. Ministers' decision on which alternative to choose will depend on the degree of urgency which they attach to the need for a transfer and their political assessment of which course is likely to command most support both in the Northern Ireland Assembly and in the House of Commons.

12. The procedure for laying an Order under the Northern Ireland Act is set out in Annex C. It specifically provides for consultations with the Assembly and for debates in both Houses of Parliament. With a UK Bill it would be difficult to consult the Northern Ireland Assembly and moreover, there might well be problems about securing a place in the legislative programme for a technical measure of this sort. Parliament's passing of the Northern Ireland Act 1974 could be interpreted as providing a mechanism for reducing demand upon legislative time which use of the UK Bill procedure would frustrate. In "transferred" matters, which includes agriculture and fisheries, the Government seeks to maintain a separate body of law in Northern Ireland which could become the responsibility of a devolved Assembly with legislative powers. To meet these aims primary legislation for Northern Ireland in the "transferred" field is normally enacted by Order in Council, which has the effect of embodying the legislation within the corpus of Northern Ireland law. On balance we consider that it would be desirable for the transfer to be effected by Order in Council.

#### Timing

13. For reasons of administrative simplicity any change in responsibility would need to take effect from the beginning of a financial year. The earliest opportunity therefore to effect the change is 1 April 1986. For the new arrangements to be reflected in the 1986/87 Main Estimates legislation (whether by Act of Parliament or

Order in Council) would have to be presented to Parliament before January 1986 with reasonable certainty of adoption before 1 April. If there was an unavoidable delay which prevented presenting the legislation before 1 January, the Main Estimates could be drawn up on the present basis and a revised Estimate could be presented in June providing that the legislation had been adopted before then.

14. The Northern Ireland Departments estimate that the normal procedure for approval of Orders in Council under the Northern Ireland Act 1974 takes between 64 and 84 weeks from the decisions to proceed (cf Annex C). However, in MAFF's view it would be possible to shorten that timetable by at least 20 weeks if Ministers decided that sufficient priority should be given to this work. The Northern Ireland Act 1974 also provides for Orders in Council to be made by the urgent procedure in an emergency. This precludes all prior public consultation and Parliamentary consideration and would clearly be inappropriate in this case.

15. MAFF and Treasury officials consider that a target date of 1 April 1986 for the transfer would be practical, provided that Ministers reach an early decision on the principle of the transfer. The Northern Ireland Departments consider that, in view of the possible political sensitivity in the Province of legislation which could have constitutional implications and the likelihood that Ministers may not consider this measure a top priority politically, it would be safer to aim to implement the change with effect from 1 April 1987.

#### Political Considerations in Northern Ireland

16. Before reaching decisions on these issues Ministers will wish to consider the likely political reaction in the Province both to the specific proposals under the consideration and in the wider context. The transfer itself is a technical matter. The arguments for such change in terms of accountability and financial management are



clear-cut. The proposed change may be interpreted as "devolutionist" underlining the status of Agriculture as a transferred matter and increasing the role of the Northern Ireland authorities. However, as Northern Ireland would be put on exactly the same footing as Scotland and Wales, the proposal ought not to attract the criticism that it in any way weakens the link between Northern Ireland and the rest of the United Kingdom. From the MAFF/HMT point of view, there are no good reasons for not making the change but because any change in such matters is unusual and capable of misinterpretation in Northern Ireland, Ministers would need to be satisfied that the timing of the proposed change is acceptable in relation to any wider political developments.

#### Conclusions

17. Ministers are invited:

(i) to agree that responsibility for the measures listed in Annex A should be transferred from MAFF to DANI and that the PES and Estimates arrangements described at Annex B should be adopted from the date of the transfer;

(ii) to decide whether to proceed by Order in Council under the Northern Ireland Act 1974 or by a UK Bill (and, if the latter, whether the Minister of Agriculture or the Secretary of State for Northern Ireland should take the lead in sponsoring the legislation);

(iii) to decide on a target date for implementation of either (a) 1 April 1986 (if necessary, by means of a revised Estimate); or (b) 1 April 1987.

## I EXPENDITURE IN NORTHERN IRELAND TO BE TRANSFERRED FROM MAFF TO DANI

SCHEME	MAFF VOTE AND SUBHEAD		EXPENDITURE (1984-85 Provision) <sup>(1)</sup> £ million
	CLASS III, VOTE	SUBHEAD	
Sheep Annual Premium	3	A1(2)	8.8*
Suckler Cow Premium	3	A2(2)	4.7*
Premium schemes for the non-marketing of milk and for the conversion of dairy herds	3	A3(2)	0.8*
Potato Support Arrangements	3	A4(2)	1.4
Farm and Horticultural Development (including Guidance premiums for beef and sheepmeat production and Farm accounts grants)	3	B1(2), B2(2) & B3(2)	11.6
Northern Ireland agricultural development programme	3	B4	23.3
Aid to Producer Organisations	3	B5 (part)	Negligible
Farm Structure (Payments to Outgoers) (EC)	3	B6(2)	Negligible
Agriculture and Horticulture Grants	3	B7(2)	16.6
Farm Structure (Payments to Outgoers) (National)	3	B8(2)	0.04
Aid to Production Groups	3	B11 (part)	Negligible
Miscellaneous payments	3	B12 (part)	Negligible
Hill Livestock Compensatory Allowances	3	C1(2)	10.1
Grants to Forage Groups	3	C2 (part)	Negligible
Grants for Marketing and Processing projects	4	C6(2)	0.1
Agency Payments on behalf of EC Commission Marketing and Processing projects and improvement of agricultural structures	4	C7(2) & C8(2)	2.2*
Fishing Vessels: grants for decommissioning and laying up	4	E1(2) & E2(2)	0.4
Agency Payments on behalf of EC Commission fishing projects	4	E6(2)	0.3*
Fishing Industry Grants to Producer Organisations	4	E8 (part)	Negligible

## II EXPENDITURE ALREADY BORNE ON DANI AGRICULTURAL SUPPORT VOTE

SCHEME	DANI VOTE AND SUBHEAD		EXPENDITURE (1984-85 Estimate Provision) <sup>(2)</sup> £ million
	VOTE	SUBHEAD	
Production, processing and Marketing schemes and grants	2	A1	0.7
Northern Ireland agricultural development programme (top-up payments)	2	A2	4.9
Agency payment on behalf of EC Commission	2	A3	0.7*
Improvement of livestock	2	A4	Negligible
Animal Health	2	A5	1.2
Plant Health	2	A6	Negligible
Control of vermin and pests	2	A7	Negligible
Seed potato improvement	2	A8	Negligible
Calf premium	2	A9	7.0*

## Notes

- \* Gross expenditure passing through net £1000 subheads
- (1) Final provision
- (2) Main Estimate provision only (PES provision £28 million).

PROPOSED PES AND ESTIMATES ARRANGEMENTS  
AFTER TRANSFER OF CERTAIN MAFF SCHEMES

PES

1. DANI's present expenditure will remain within the NI block.
2. Ex-MAFF expenditure will remain outside the NI Block.
3. Resource levels for the Agriculture & Fisheries programme outside the NI Block will be determined in the same way as those for Scotland and Wales, that is through Survey discussions between HMT and representatives of MAFF, DAFS, WOAD and DANI. The resulting allocations will be agreed between HMT and DFP in the course of their normal Survey exchanges and will be shown in the PEWP as a separate sub-programme within the main Northern Ireland programme but outside the Block and separate from the Agriculture sub-programme within the Block.
4. Resources for the NI Agriculture sub-programme within the NI Block will continue to be allocated by the Secretary of State for Northern Ireland out of the global sums made available to the Block through the operation of the comparability formula. DANI will consult MAFF, DAFS, WOAD and the Treasury on any proposals for this programme which are or could be repercussive in relation to the rest of the UK. These include in particular any changes in grant rates under the Grasslands Scheme or the Northern Ireland Agricultural Development Programme, policy initiatives such as the Northern Ireland special aids package and any new policy initiative.

Estimates

5. The ex-MAFF items will be within NI votes. DANI's present expenditure will be held in separate votes from the ex-MAFF funds so as to distinguish between expenditure which is inside and outside the NI Block.

6. DFP will control all such votes and assume the powers of approval etc formerly vested in HMT.

#### NI Consolidated Fund

7. As a consequence of the transfer, the grant-in-aid payable to the NI Consolidated Fund from NIO (Class XVII Vote 2) will increase by the total amount of the ex-MAFF expenditure.

A considerable level of EC receipts in relation to NI expenditure are carried on MAFF Votes and are presently brought in as appropriations-in-aid to MAFF. Following a transfer such receipts will become a credit in NI Estimates and will flow via NIO Estimates. However the Estimates treatment of EC receipts is currently under review and this point may need to be looked at again in the light of the results of that review.

#### Within-year Changes

8. For the NI Agriculture & Fisheries sub-programme outside the NI Block the arrangements will mirror those for Scotland and Wales, viz:
  - (a) resources not required will fall to be surrendered to HMT as shortfall and will not be available to the NI Block;
  - (b) in response to a forecast of excess expenditure offsetting savings will in the first instance be sought from within the Northern Ireland block. If sufficient savings cannot be identified, then need for additional resources would fall to be considered as a claim on the Reserve
  - (c) when expenditure on the non block programme is increased as a result of a decision taken on block expenditure (eg an increase in top up grants) full offsetting savings will be sought within the block.
9. The NI Agriculture sub-programme within the NI Block will continue to be managed in the same way as the rest of the Block.

#### Audit

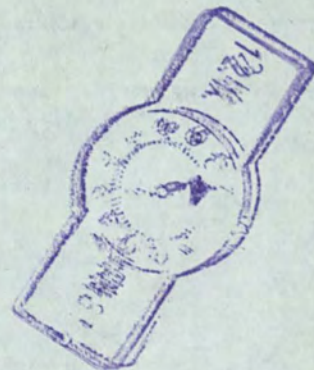
10. The audit of all Northern Ireland Agriculture & Fisheries expenditure will be the responsibility of the Comptroller and Auditor General for NI as part of his examination of appropriation accounts.

Stages in the making of an Order in Council under the Northern Ireland Act 1974 by Normal Procedure  
showing the minimum period to be allowed between stages

(Note by the Northern Ireland Department of Finance and Personnel)

2 WEEKS	Stage 1 Initial submission to Policy Coordinating Committee (PCC)
2 WEEKS	Stage 2 Initial submission approved by PCC
3 WEEKS	Stage 3 Initial submission to Legislation Policy Committee (LPC)
4 WEEKS	Stage 4 Initial submission approved by LPC 4A Secretary of State's approval to prepare draft order
12 WEEKS	Stage 5 Instructions to Legislative Draftsman
2 WEEKS	Stage 6 Draft Order to PCC
2 WEEKS	Stage 7 Draft Order approved by PCC
3 WEEKS	Stage 8 Draft Order to LPC
4 WEEKS	Stage 9 Draft Order approved by LPC or Secretary of State
6 WEEKS	Stage 10 Publication of the Proposal for a draft Order 10A Referral of the Proposal to the N.I. Assembly for consideration
4 WEEKS	Stage 11 Closing date for comments 11A Laying of Assembly Report before Parliament
4 WEEKS	Stage 12 Debate by Northern Ireland Committee and consideration of comments 12A Issue of letters to Speaker of the Assembly and N.I. MPs setting out any changes made as a result of comments received
4 WEEKS	Stage 13 Draft Order sent to London for laying
4/6 WEEKS	Stage 14 Draft Order laid
	Stage 15 Affirmative Resolution - House of Commons or Consideration in Standing Committee House of Commons
UP TO	Stage 16 Affirmative Resolution House of Lords
4 WEEKS	Stage 17 Making of Order at Privy Council Meeting
Minimum 54 WEEKS	

Agriculture: Expenditure





DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215  
GTN 215 5147  
(Switchboard) 215 7877

From the Minister of State  
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Michael Jopling MP  
Minister of Agriculture,  
Fisheries and Food  
Ministry of Agriculture,  
Fisheries and Food  
Whitehall Place  
LONDON  
SW1A 2HH

7<sup>th</sup> August 1985

Dear Minister,

Earlier this week Sir John Harvey-Jones and Charles Reece of ICI called to see me about their wish to purchase the National Seed Development Organisation and at least part of the Plant Breeding Institute in Cambridge. Previously I had also received representations on this issue from AGC Ltd. ICI of course are well aware that the responsibilities for these organisations lie with you and DES but requested my assistance as Chairman of the Industrial Consultative Committee on Biotechnology and because of my Department's responsibility for the sponsorship of biotechnology.

I understand discussions between ICI and officials have been going on for about 9 months and there is a danger that further delay will reduce the value of the assets and cause ICI to transfer their research activities overseas. Listening to ICI's case I am convinced that UK plc would benefit from a transfer of both these organisations to the private sector and I urge you to come to a decision with respect to the National Seed Development Organisation as quickly as possible. This Department has considerable experience in transferring business and research organisations to the private sector and would be most willing to assist you if you thought it would be helpful.

JY5/JY5AAD



I realise that once a decision is made to privatise NSDO then it would be appropriate to invite bids from many organisations from the private sector. This is accepted by ICI and they are most anxious that the competition should begin. ICI have discussed their long-term commitment to this area with me and other things being equal I have no doubt we could make better use of current national resources through transfer to them or a similar organisation which has the extensive technical and financial resources necessary to compete in international markets in the agri-food business area.

I am copying this letter to Keith Joseph.

*Yours sincerely,*

*Timothy Abraham*

pp. GEOFFREY PATTIE

*(approved by Mr Pattie  
and signed in his absence)*



M12/M12AES





comp

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215  
GTN 215 5147  
(Switchboard) 215 7877

From the Minister of State  
for Industry and Information Technology

GEOFFREY PATTIE MP

Rt Hon Sir Keith Joseph Bt MP  
Secretary of State  
Department of Education  
and Science  
Elizabeth House  
York Road  
LONDON  
SE1 7PH

W  
8/12

7<sup>th</sup> August 1985

Dear Secretary of State,

Earlier this week Sir John Harvey-Jones and Charles Reece of ICI came to see me about their wish to purchase the National Seed Development Organisation and at least part of the Plant Breeding Institute of the Agricultural and Food Research Council. They are aware that I am not directly responsible for either of these organisations but requested my help as Chairman of the Industrial Consultative Committee on Biotechnology and because of my Department's responsibility for the sponsorship of biotechnology.

Officials have been discussing these matters with ICI for approximately 9 months and there seems to be some reluctance to come to a decision. In the case of the Plant Breeding Institute it has an excellent record and is renowned internationally for its scientific achievements. However, to exploit properly this research base internationally requires the marketing skills and financial resources of a major corporation like ICI. This Department has considerable experience of trying to privatise research organisations and it is rare to find industrial companies beating a path to the door of public institutions. In this case if the AFRC were able to retain the funds generated by the sale of assets for the germ bank as well as the land and other tangible assets and reduce its operating costs by not having to support up to 250 staff at the Institute I would have thought that this would help considerably in their restructuring programme and avoid cuts in some other research activities.

JY5/JY5AAC



I urge you to give serious consideration to this issue and, if appropriate, invite bids from the private sector before the assets reduce in value or ICI transfers its research activities in plant biochemistry and breeding overseas. If I or any of my officials can help in any way please let me know.

I am copying this letter to Michael Jopling.

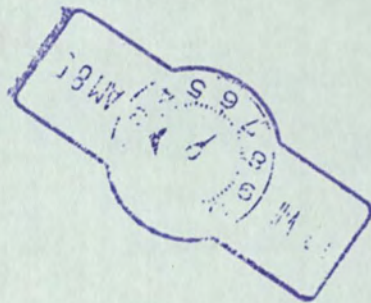
*Yours sincerely,*

*Timothy Abraham*

*pp.*

GEOFFREY PATTIE

*(approved by the Minister  
and signed in his absence)*



**CONFIDENTIAL**

D8



DEPARTMENT OF THE ENVIRONMENT  
 2 MARSHAM STREET LONDON SW1P 3EB  
 01-212 3434

My ref: W/PSO/31243/85

Your ref:

11 February 1985

*De Peter.*

*Notes  
 Emb  
 12/2*

LANDSCAPE SPECIAL DEVELOPMENT ORDER (LASDO)  
 AND 'A BETTER FUTURE FOR THE UPLANDS'

Thank you for your letter of 29 January.

We accept the general principle that any extra costs to this Department, in the event of our proceeding with an extension of LASDO, should be met from within existing expenditure programmes. However, I think your point about the extra administrative costs or section 44 grant costs falling on local authorities is a little premature.

First, my letter to Sir Derek simply announced our intention to issue a consultation document covering proposals for a new, extended LASDO: it made it clear that any extension will depend on the cost implications for local authorities, and emphasised that consultations will enable the arguments for and against an extension to be exhaustively examined. Second, we in fact believe that an extension to LASDO would not produce any additional administrative burden on local authorities, and the estimate of an additional £25,000 in section 44 grants (England and Wales) is a maximum which we do not think will occur in practice. Now that the proposed consultation document has been announced, the way is open to us to consult the national park authorities and the local authority associations on our estimates of the cost implications, before issuing any formal consultation document. This is entirely in accordance with the new burdens arrangements that we have recently agreed. If the local authority side disagreed with our estimates of the resource implications then we would have to reconsider our position.

However, whilst we are agreed that any central government initiative which requires additional expenditure by local authorities must be covered by an increase in the PES provision for local authority current expenditure, the question of where those resources come from is a matter for discussion on the merits of any particular case. I do not accept that the resources

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**CONFIDENTIAL**

should automatically be found from within a Department's own programmes. Patrick Jenkin's letter to you of 21 December set this out. In this case we are not yet at the stage of negotiating resources cover: that will depend on the outcome of our consultations with local government; but on present estimates a transfer of £25,000 maximum would have no discernible effect on provision for local authority relevant current expenditure in England and Wales.

My officials will, of course, be in touch with yours as soon as the results of their initial consultations with the national park authorities and local authority associations are known.

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

*W. Waldegrave*

WILLIAM WALDEGRAVE

**CONFIDENTIAL**

AGRICULTURE: Expenditure Sept 83

12 FEB 1983

12 FEB 1983

*copy*

SWYDDFA GYMREIG  
GWYDYR HOUSE  
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Tel: 01-233 3000 (Switsfwrdd)  
01-233 7172 (Llinell Union)



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

From The Minister of State

30 January 1985

*Oddi wrth y Gweinidog Gwladol*

*nbpm sub 31/1*

*Dear Peter,*

*attached.*

I have seen a copy of your letter of 29 January to William Waldegrave about LASDO.

I would be content with what is proposed on the basis that additional costs of the order discussed in your letter can be met within existing PES provision.

/ I am sending copies of this letter to the Prime Minister, the Lord President, Michael Jopling, George Younger, John Selwyn-Gummer, John Belstead and William Waldegrave.

*Yours ever,*

*John.*

JOHN STRADLING THOMAS

The Rt Hon Peter Rees QC MP  
Chief Secretary  
HM Treasury  
Parliament Street  
LONDON

~~CCND~~

pa  
amb  
50/.



Prime Minister (2)

To note. The cost of extending  
planning control to the other  
seven National Parks is likely  
to be small - less  
than £ 1/2 m.

Treasury Chambers, Parliament Street, SW1P 3AG

William Waldegrave MP  
Parliamentary Under Secretary of State  
Department of the Environment  
2 Marsham Street  
London  
SW1P 3EB

29 January 1985

Sub  
29/1

Alan Williams

LANDSCAPE SPECIAL DEVELOPMENT ORDERS (LASDO)  
AND 'A BETTER FUTURE FOR THE UPLANDS'

will request  
if required

You sent me copies of your letters of 14 and 21 January to Michael Jopling about the proposed extension of LASDOs and the Government's response to the Countryside Commission's Uplands Report. Since then we have discussed these questions at the Prime Minister's meeting on 23 January.

We agreed at that meeting that LASDO should be extended to all national parks, subject to a more detailed assessment of the costs involved. I understand from discussions between our officials that you believe formal planning approval under LASDO would not cost the authorities more to operate than the present prior notification of grant eligible work. However, Section 44 grants, although discretionary, could be expected to cost an extra £25,000 a year. I understand also that additional agricultural grants could lead to additional costs of £100,000 - £250,000 a year falling on the agriculture programme.

I have no objection to your undertaking to issue the consultative document proposing to extend LASDO providing these costs are met from within existing expenditure programmes. In particular, any extra administrative or Section 44 grant costs falling on local authorities would be a 'new burden on local government' and would need to be considered under the 'new burden' arrangements. This means that unless other ways are found of alleviating the burden on local authorities, I will have to ask you to be ready to make a PES transfer if and when costs do arise into the provision for local authority current. I should be grateful if you

/could



could confirm you agree to this approach.

I should also be grateful if Michael Jopling and Nicholas Edwards confirm that they are prepared to meet any additional costs which may arise from within their existing PES provisions.

Subject to these points, I have no objection to you announcing the consultation exercise.

I am copying this letter to the Prime Minister, the Lord President, Michael Jopling, George Younger, Nicholas Edwards, John Selwyn-Gummer and John Belstead.

*Yours with kin  
Peter Rees*

PETER REES

29 JAN 1965

29 JAN 1965  
44  
65

MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND  
FOOD AND THE ITALIAN MINISTER OF AGRICULTURE: ROME  
8 JANUARY 1985

AT no see

NBPM  
EDP n/iPresent

Minister  
Sir Michael Franklin  
H M Ambassador  
Mr Llewelyn  
Mr Evans

Signor Pandolfi  
Signor Moroni  
Signor Fontana-Giusti  
Signor Calabro

Price Fixing

Signor Pandolfi said that, as President of the Council, he aimed to conclude the price fixing negotiations by the end of March. If he was not successful, he feared that agricultural problems would be drawn into discussions in other areas, such as enlargement, which would greatly complicate matters. On the other hand, if the Agriculture Council could show political will and reach decisions this month, as it did last year, open the door to major political decisions. He hoped that the Minister was ready to help reach a settlement rapidly and would be prepared to attend additional meetings of the Council in March.

The Minister agreed that we should certainly aim to conclude the price fixing as rapidly as possible; after the shocks of last year, the less uncertainty the industry faced over the price fixing, the better. Sir Michael Franklin commented that much would depend on the complexity of the Commission's price proposals. If these were expressed principally in terms of price changes, a rapid settlement would be possible. If, on the other hand, they included a large number of additional proposals, such as cereal quotas, quick decisions would be difficult to achieve. Signor Pandolfi agreed; after the complexities of last year's package, the Commission would be wise to make simple proposals this year. The CAP should not face major upheavals every year.

On procedure, Signor Pandolfi said that he wished to avoid repetitious tours de table. After preliminary expositions of national positions, therefore, he intended to move straight to bilaterals. He intended to make a tour of all Community capitals once the Commission's proposals were available. So far as the February Council was concerned, he would be concentrating on structures and wine, in the hope of deciding both before the price-fixing.

Turning to financial discipline, the Minister said that it was essential, now that a system had been agreed, that Agriculture Ministers kept to its rules and made it work. Sir Michael Franklin added that in this respect it was important that the

Commission made proposals that fell well within the guideline, leaving the Council some room for manoeuvre. Signor Pandolfi replied that, legally, the financial guideline did not apply until 1986. However, he acknowledged that decisions taken this would influence the workings of the guideline. He then asked for the UK's view on the best way of dealing with the European Parliament over the 1985 budget. He felt that it was essential that this dispute was resolved rapidly, as it would be difficult to reach a price settlement if other Councils were still discussing this issue. He added that the UK refunds also depended on the 1985 budget being settled. Personally, he was in favour of the rapid implementation of the refund agreement and he had been making a certain effort on the Italian side to resolve the dispute. He also made the point that the growing involvement of ECOFIN in agricultural issues made it essential to maintain close links between the two Councils; the Presidency would do its best to ensure that such co-ordination took place. The Minister said that he did not feel that there was much that the Agriculture Council could do to deal with the question of the 1985 budget, but he agreed that the present uncertainties should be resolved as rapidly as possible.

On prices, the Minister said that last year we had gone a long way to accustom farmers to a restrictive price policy; it would be foolish now to give the impression that all the CAP's problems had been solved and that production could be expanded once more. We needed to maintain a very strict price policy, with no increase for milk and minus 5% for cereals (ie full implementation of the guarantee threshold). For other commodities we would need to see what the Commission proposed, but, as he had said at his meeting with Signor Pandolfi in October, we did not believe that there was any case for increasing prices for Mediterranean products by more than for northern ones.

Signor Pandolfi said that the Italian position on milk was close to that of the UK. They had accepted a price reduction for wine, and would have been prepared to do so for milk. A substantial increase now would be quite wrong. For other commodities, he did not feel that there should be a single, across-the-board price increase; instead, prices should be modulated to take account of the circumstances affecting individual commodities. So far as Mediterranean products were concerned, it should be borne in mind that support for these had been weakened. The price for compulsory distillation for wine had been reduced, the regime for olive oil had been altered and a guarantee threshold had been introduced for processed tomatoes. Before, there had been a danger that increased prices would lead to increased costs. Now that support arrangements had been weakened, there was some scope for movement. Indeed, given these reductions in support it would be difficult to have no price increase.

The Minister said that it was essential that the guarantee threshold system should be implemented fully. In particular, the effects of the thresholds should not be diluted by making compensatory price increases. Signor Pandolfi replied that

he accepted that the decisions taken last year must be confirmed. However, he did not feel that a small price increase would be inconsistent with a much larger price cut derived from a guarantee threshold.

Signor Pandolfi went on to say that the Community needed to consider other ways of reducing the cost of the CAP. One would be to reduce the scope for fraud. On this point, he hoped that the olive oil control agency would reduce the cost of that regime by 10%. The planned vineyards register should have similar effects. Another possibility was to adopt new policies for the disposal of surpluses. For milk powder for example, the study on enrichment had nearly been completed and it should in future be possible to send much greater quantities to third countries. Even more promising was the use of grain for the production of ethanol. Studies had shown that 1 ton of wheat could produce 288 kg of ethanol and 350 kg of gluten feed, and the current Community wheat surplus of 24 million tonnes would thus produce enough ethanol to add it, at a rate of 10%, to all petrol sold in the Community. This would reduce the cost of the surplus from 2.5 billion ecu to 1.5 billion ecu.

In further discussion on this idea, Signor Pandolfi explained that the purpose of adding ethanol to petrol would be to replace lead. The Community had already decided to move towards lead-free petrol, and research in the USA and France had shown that ethanol (or, indeed, methanol) could be substituted for lead in petrol. Use of ethanol required no modifications to be made to car engines, and in Italy car manufacturers, (including Fiat) and the oil industry were in favour. Moreover, wheat was not the only product that could be used in this process; any sort of cereal was suitable (he particularly mentioned sorghum) and reeds. At the end of this discussion, the Minister said that we would be interested to study this idea, and to see any material that Italy could provide. However, we would have to look carefully at the costs involved; we would not wish to see a process of this sort used to maintain surplus levels of production artificially.

### Agricultural Structures

Signor Pandolfi said that in his view it would be technically difficult now to modify the draft regulation in order to introduce provisions on conservation. However, a possible solution to this problem might be for the Council, when it finally adopted the new regulation, to mandate the Commission to put forward a specific new regulation providing for assistance to farmers for environmental reasons; this would include a financial commitment by the Council to fund such a measure. He added that in Italy there was growing interest in the link between agriculture and the environment.

The Minister that he was most interested in this idea, but he needed something in the draft regulation that would enable him to adopt measures for conservation reasons immediately.

A possible way forward might be for the Council to acknowledge that money was not available now for conservation measures but nevertheless to include in the regulation a provision enabling member states to introduce schemes on conservation grounds, provided that these were approved by the Commission. This would be pending a more comprehensive long term measure, of the kind suggested by Signor Pandolfi. He handed Signor Pandolfi the latest text of our proposed new Title in the regulation. Signor Pandolfi commented that this would be an excellent solution.

The Minister reminded Signor Pandolfi that it would not be possible for the Council to adopt the proposal on structures until ECOFIN had reached a decision on the question of finance. Signor Pandolfi said that he it was his intention to reach final decisions on the structures package at the Council meeting on 25/26 February; this would give ECOFIN two opportunities to discuss the matter. At next week's Council he anticipated only a brief discussion on structures. He would explain his ideas for handling this dossier and invite comments but he would try to avoid an extensive debate.

On other aspects of the draft regulation, the Minister made it clear that he could not accept any ceiling on HLCAs; this was a crucial point. He also ran briefly over our other points of difficulty.

#### Review of Medium Term Agricultural Strategy

Signor Pandolfi said that he believed that such a review was essential, after the turning point in agricultural policy reached last year. It was now generally accepted that the Community could not continue to provide unlimited guarantees for agricultural production but Ministers had to show that this did not mean the death of European agriculture. What was needed was a positive, as well as a negative, approach to future agricultural policy. Most of his Community colleagues shared this view. On procedure, he thought that the Council should give a mandate to the Commission or possibly to the Commission and other independent experts, to prepare guidelines for future policy. The European Council itself should be involved in this initiative, given the importance of the CAP to the Community. He intended to put a short Presidency paper to the Agriculture Council in due course, setting out these ideas.

The Minister noted what Signor Pandolfi had said. He commented that in his view the Commission was not the body to undertake such a review, as their views would be tempered by their past mistakes. A small group of outsiders would be better, although the Commission would, of course, have to be involved. Signor Pandolfi said that the Commission could not be excluded. However, this would be a Council initiative. He added that he had already discussed his ideas with a number of his colleagues and he would be raising it again during his tour of Community capitals.

## Wine

Signor Pandolfi said that no problems of substance remained on this issue. The task of implementing the guidelines agreed in Dublin was essentially a technical one. It was essential to reach agreement on regulation before the price-fixing marathon, he would be seeking to do this in February. This would enable the Community to settle the agricultural chapter in the enlargement negotiations in March.

## IMPs

Signor Pandolfi said that the Agriculture Council had only a limited role so far as IMPs were concerned. The main decisions on this issue would be political and financial and would have to be reached by Foreign Ministers. The Minister replied that the UK stood by the commitment reached by the European Council, but the potential costs of these measures did present a problem. ECOFIN would need to consider the financial aspects, as for agriculture the necessary resources would have to be included within the structures budget.

Signor Pandolfi replied that the European Council at Stuttgart had agreed that IMPs should be funded from a separate chapter. Signor Fontana-Giusti added that the proposal for IMPs had raised high political expectations in Italy. He had recently discussed this issue with Signor Andreotti, who was convinced that it was politically essential for Italy to preserve its proposed share of total expenditure (44.5%). However, Italy might be able to concede payment of the total over a longer period or modulation of the rates of payment to enhance the initial impact of the programmes in Greece, provided that, Italy's total share over the period of the whole scheme was preserved. Signor Pandolfi concluded that the Agriculture Council would not be directly involved in these discussions. It would be responsible for implementing the agricultural elements of the IMPs, but not for deciding total expenditure or the proportion to be devoted to agriculture.

## Milk Supplementary Levy

Signor Pandolfi said that Italy would have no problem in implementing the quota system fully for the next four years. He was still considering the details, but he would probably choose Formula A, with provision for quotas to be allocated to associations of producers, at least in some parts of the country; such a system was provided for by the regulations. He hoped to be in a position to make an announcement within a month. However, it was absolutely necessary to reach a solution that would legitimise the arrangements that Italy, and France, had made in the current year. He was confident that milk production in Italy would remain within the national quota, but he was not able to allocate individual quotas. One possible solution, which would help other member states as well as Italy, would be to have a derogation throughout the Community, cancelling all liability to supplementary levy in the first year.

The Minister replied that such a solution would be very difficult for the UK to accept. We have already cut back milk production by more than was necessary to fulfil our quota, and would benefit only to a very limited extent from a cancellation of liability to levy. It would be inequitable if those who had not cut back their milk production now escaped without any penalty. Signor Pandolfi suggested that some way would have to be found to compensate producers in the UK and others in similar circumstances. Nevertheless, it was clear that an equitable solution would have to be found to deal with the problems that had arisen throughout the Community in the current year.

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C I LLEWELYN  
January 1985

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BT 23/10

2 MARSHAM STREET  
LONDON SW1P 3EB

01-212 3434

My ref:

Your ref:

22 October 1984

Dear Mr Jopling

Thank you for sending me a copy of your letter of 25 September to the Prime Minister about the need for a Government statement on the future direction of agricultural policy.

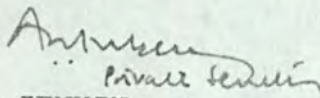
You refer to the call by Sir Derek Barber for a White Paper on the management of "the rural estate", which I understand he repeated at the Annual National Parks Conference on 29 September, and to the policy statement recently published by the National Farmers Union. I will be lunching with the Country Landowners Association on 23 October at their request, when I shall have the opportunity of exploring further their attitude to countryside conservation, which would appear to be changing in various positive ways.

These different initiatives make it clear that there is indeed a general air of expectancy and concern, and considerable pressure for some re-drawing of the boundaries between agriculture and countryside conservation spending priorities. The publication of a Government statement could indeed clear the air and help maintain control of events. I therefore understand your objective of issuing a White or Green Paper early in the New Year, but I can well understand why the Prime Minister is anxious that Ministers should see a draft before deciding to publish. I think we would all want to look at any draft very carefully; and we should bear in mind that the Select Committee is looking at the Wildlife and Countryside Act and intends to report at the turn of the year.

Given the hopes and fears that have been expressed by the Conservation lobby, the terms of the document will be of major concern to me. I hope therefore that you will agree that my officials should be consulted by yours about the framework of the paper before drafting begins, and have an opportunity to be closely associated with the drafting. We must get the balance between agriculture and conservation right in a policy statement that is likely to dominate the rural scene for some years to come.

I am copying this letter to the Prime Minister, Willie Whitelaw, Nigel Lawson, George Younger, Nicholas Edwards, Douglas Hurd, John Biffen, John Wakeham and Sir Robert Armstrong.

Yours sincerely,



for PATRICK JENKIN

(copy by Mr Jenkin, and  
signed in his absence)

The Rt Hon Michael Jopling MP



610

NBPM  
AT 5/10

ce 7/10



Prime Minister

AGRICULTURE AND FOOD POLICY

I am writing in Nick Edwards' absence in the Far East to express support for Michael Jopling's proposal to look again at agricultural policy. I am sure that this is right, especially now that - as he and George Younger point out - the National Farmers Union and Country Landowners Association are coming out with their own proposals for policy changes. These deal with rural economic development, conservation and control of pollution as well as with agricultural policy and support measures (as did the Countryside Commission's document "A Better Future for the Uplands", to which a Government response is due). Any White or Green Paper would need to follow suit. I therefore agree that we should see what might be said before committing ourselves to publishing a White Paper. But I am confident that Nick would support George Younger's view that we shall be expected to give a lead on these matters.

/ I am copying this minute to the Minister of Agriculture, the Chancellor of the Exchequer, the Secretary of State for Scotland, the Secretary of State for the Environment, the Secretary of State for Northern Ireland, the Lord President of the Council, the Lord Privy Seal, the Chief Whip and Sir Robert Armstrong.

*J. S. J.*

JST

9 October 1984

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9 OCT 1984

COMMERCIAL

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MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Agricultural and Food Policy

1. Thank you for sending me a copy of your letter of 28 September to the Prime Minister.
2. I welcome the idea of a policy statement on your longer term approach to agricultural and food policy. This would clearly be helpful to the farming community. At the same time, I agree with Peter Rees that this exercise must be set in the context of our overall economic policy and, of course, of our approach to the European Community. In particular anything you say would need to reflect the eventual agreement on budget discipline as well as practical experience with the milk superlevy.
3. I also see some value in the idea of an independent enquiry into the future development of the CAP, which you aired at the informal Agricultural Council last month and in your speech to the Farmers' Club on 3 October. Some hard facts about the likely escalation of the future costs of the CAP if no corrective action is taken now would be a useful weapon in our campaign to achieve a better balance between production and demand.
4. Both exercises are clearly of considerable importance to

/our relations



our relations with other Member States. I should be grateful if you would ensure that colleagues are consulted about your ideas and about key texts in sufficient time for them to comment before papers are finalised.

5. I am sending copies of this letter to the Prime Minister, the Chancellor of the Exchequer, the Secretaries of State for Scotland, Wales and Northern Ireland, the Secretary of State for the Environment, the Lord President, the Lord Privy Seal, the Chief Whip and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office  
9 October 1984

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SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

PRIME MINISTER

**AGRICULTURAL AND FOOD POLICY**

I have seen Michael Jopling's letter to you of 28 September in which he attached the text of a passage which he is proposing to include in the speech he is making at the Farmers' Club on Wednesday, foreshadowing the publication of an agricultural policy document in the New Year.

I would support Michael in what he is proposing. There are indeed ample indications of a growing and quite widespread awareness throughout the agricultural industry of a change of direction in community and domestic agricultural and food policies. The Government must grasp the opportunity to influence these views and to be seen to be giving an early lead.

I think too that Michael is right to avoid a 'numerical' approach and to leave substantial detail for later discussion and evolution as more precise policies take shape. I suspect nevertheless that it will be necessary to be reasonably forthright in the document as to what we see as the broad objectives for the coming years.

I am copying this minute to the Minister of Agriculture, the Chancellor of the Exchequer, the Secretary of State for Wales, the Secretary of State for the Environment, the Secretary of State for Northern Ireland, the Lord President of the Council, the Lord Privy Seal, the Chief Whip and to Sir Robert Armstrong.

G.Y.

G.Y.

1 October 1984



SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

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PRIME MINISTER

**AGRICULTURAL AND FOOD POLICY**

*attached*

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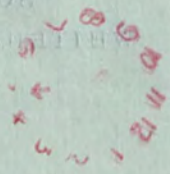
I am copying this minute to the Minister of Agriculture, the Chancellor of the Exchequer, the Secretary of State for Wales, the Secretary of State for the Environment, the Secretary of State for Northern Ireland, the Lord President of the Council, the Lord Privy Seal, the Chief Whip and to Sir Robert Armstrong.

SM

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

1 October 1984

SCOTTISH OFFICE  
HAMILTON, FORT GEORGE, HIGHLANDS



12 OCT 1984



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FROM: CHIEF SECRETARY  
DATE: 1 October 1984

PRIME MINISTER

**AGRICULTURAL AND FOOD POLICY**

NBPM  
- written by  
PMS [unclear]

*attached*  
I have seen a copy of Michael Jopling's letter to you of 28 September proposing that he announce this week that the Government intends to publish in the New Year a Green or White Paper on agricultural policy.

2 It must be for Michael to judge whether it is politically desirable for us to produce a statement of the kind he envisages over the next few months. My concern is that any statement should set agricultural policy firmly in the context of our policy towards other parts of the economy and avoid commitments to continue the arrangements for supporting agriculture which we have inherited from previous Administrations.

3 I hope therefore that officials will be able to begin work at an early date on considering a first draft of the proposed Paper, and in doing so to take full and proper account of the work which has been done in recent months in analysing United Kingdom agricultural policy. It might also be helpful if officials could have a look at the full draft text of the speech which Michael Jopling intends to make to the Farmers' Club on Wednesday. I understand that an interdepartmental discussion of policy towards the CAP is already planned for later this month.

4 I am copying this minute to the Minister of Agriculture, Fisheries and Food, the Secretaries of State for Foreign and Commonwealth Affairs, Trade and Industry, Scotland, Wales, Northern Ireland, and the Environment, the Lord President, the Lord Privy Seal, the Chief Whip and Sir Robert Armstrong.

*PR*

*PP* PETER REES

[Approved by the Chief Secretary]



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COMMUNIST

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# FARMERS WEEKLY



## OPINION

### NEW UNION POLICY LACKS VITAL DETAILS

THE long-awaited National Farmers' Union policy document was gradually launched via a series of leaks and broken embargoes this week. When it arrived the substance of the document did not justify the cloak of secrecy and anticipation which surrounded it.

The promise of a decisive statement and radical thought is largely unfulfilled. As it stands, it will not please the produce-and-be-damned right wing of the union nor will it appease those on the left who have become increasingly convinced of the need to acknowledge the case of farming's critics.

Predictably, the "new" policy calls for the maintenance of commodity support. It wants to see the beef and sheep premium schemes retained; it wants no truck with set-aside or quota arrangements for cereals, preferring price reductions as a means to control surplus and bridge the corn-horn gap: it demands equality in dairy quotas. All of that will gain near-universal support.

The union favours direct income aids, biased towards the smaller producer, as a means of redressing the balance where measures to curb production or limit budgetary spending endanger the structure of farming. Central to the whole document is this support for the family farm and the viable smaller farming unit.

In general, the union accepts that change may be appropriate in some areas and fights shy of it in others. It hints at measures to assist new entrants. It recognises the need for an overhaul of the grant system. In short, the document has tried to mention every sector, and yet has failed to draw tight guidelines for anyone.

That, sadly, will be seen as its failure. Grass roots members of the union were braced for a clearer lead. They must now press the union top brass to be more specific on vital issues. It is possible that this document could form the basis of a policy behind which the industry can unite and re-establish its place in the hearts and minds of the public. We will need far more details from Agriculture House before we can be certain.



Ready... steady... go... the world's ploughmen break out the first furrows on Mr Bob Craven's farm at Wispington, Lincs. Full report of the championships is on page 22.

### NEXT WEEK



A smart, stock-proof job at the price; a matter of professional expertise.

### FIELD BOUNDARIES A NEW EVENT

• Hedges, fences, walls... a which divides one piece of land from another has been neglected in years when it comes to new events. Now FARMERS WEEKLY invites you to Banbury, Oxfordshire for a new event.

### DAMLIN: THE PER SHEEP AT LAST?

• A Derbyshire farmer was some ewes by the Animal Research Organisation. The only one thing wrong, he did he had not bought enough.

### TALKING TURKEY WITH SIMMENTALS

• For 30 years Hugh Arnold was heavily involved in turkey production. He applied his experience to his simmental herd and now breaks Livestock Commission weight records.

### PROFILE — JACK WILKERSON

• A Hertfordshire arable farmer, Jack has his feet planted in the past, looks to the future but still has time for the present.

### FARMLIFE...

...helps you choose home... meets Whittling William, a farmer creating a museum in... and learns why a Yorkshire... been making tourists see... Reader's Spot and Letters; Y... sonalities; and Farm Women

file



CCMO

10 DOWNING STREET

From the Private Secretary

1 October 1984

XV

Agricultural and Food Policy

The Prime Minister has seen your Minister's minute of 28 September proposing that he announce an intention to publish a Government document in the New Year on the future direction of agricultural policy. The Prime Minister has commented that Ministers must see such a document in draft before deciding whether it should be published. She therefore considers that it would not be appropriate to make any commitment now to publishing such a document.

I am copying this letter to Janet Lewis-Jones (Lord President's Office), David Peretz (HM Treasury), John Graham (Scottish Office), Colin Jones (Welsh Office), John Ballard (Department of the Environment), Graham Sandiford (Northern Ireland Office), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.

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

From the Minister

CONFIDENTIAL

The Rt Hon Mrs Margaret Thatcher MP  
10 Downing Street  
London SW1

CC NO

28 September 1984

Dear Prime Minister

AGRICULTURAL AND FOOD POLICY

1. The steps we took at this year's price fixing were abundantly justified by the need to contain the costs of the CAP but you will know from the representations you have received from many quarters that they caused deep concern to our agricultural industry. In part this was simply the natural reaction of any interest group when steps are taken by Government that are likely to reduce their income in the short term. But we cannot ignore the political consequences of producers' reaction as our backbenchers have made clear to us.
2. But the industry's reaction also has a more profound basis to which we need to be sympathetic. The more thoughtful producers realise that the days of unlimited agricultural expansion are over. They realise that the growing surpluses normally involve a substantial budgetary burden on the Community especially the United Kingdom, and know that the Community is in the process of taking important new steps to impose budgetary discipline. This can only be done by methods that will have major repercussions for them. In other words they suspect that we are at a turning point in agricultural policy of which the 1984 price fixing was a first indication.
3. This has led to calls from our own backbenchers and others that there is now a need for a Government statement about the future direction of agricultural policy so that producers can better know where they stand. The organisations concerned with agriculture are aware that the situation is changing and are starting to put forward their own ideas of what should be done. The National Farmers' Union is launching its own policy statement on 28 September. The Country Landowners Association will be

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/publishing a ....



publishing a paper in October. The Chairman of the Countryside Commission has recently called for a Government White Paper - in fact two.

No  
--- 4. It is clear that a major debate on future agricultural policy will be - and perhaps has been - launched. I am concerned that Government should not be seen as merely responding to the lead of others. Clearly we ought to guide such a debate and this will necessitate putting out a statement of our own views if we are to maintain control of events. I had in mind announcing this at the Party Conference but in view of the current interest I think it best to use the occasion of a major speech I am making to the Farmers' Club on 3 October when I expect to comment on a number of current major problems. I attach the relevant passage from my draft speech. As you will see, I am not being specific about the content (which will obviously need to be discussed and cleared in the usual way) but I think there would be great advantage in my announcing then that we intend to publish a statement of Government views on agricultural policy in the medium term. The speech also makes it clear that we are not proposing to produce any sort of numerical plan for agriculture.

5. I do not think we need take a view at this stage on whether a White or Green Paper would be appropriate, though I think it will be necessary to include at least some fairly definite statements on where we are going. I am aiming at publication after Parliament reassembles from the Christmas recess.

6. I am copying this letter to the Chancellor of the Exchequer, the Secretary of State for Scotland, the Secretary of State for Wales, the Secretary of State for the Environment, the Secretary of State for Northern Ireland, the Lord President of the Council the Lord Privy Seal, the Chief Whip and to Sir Robert Armstrong.

Yours Sincerely  
C. H. J. J.

for

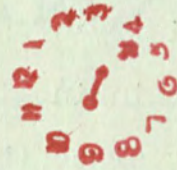
MICHAEL JOPLING  
Approved by the  
Minister and signed  
in his absence

I have attempted to set out this afternoon some assessment of the present state of agriculture and to establish some principles which we wish to carry forward in the new situation. I am very pleased that the industry itself has shown its readiness to contribute to the debate. In the last few days, we have seen a major contribution from the National Farmers' Unions. I welcome this and my Department is exploring their implications at a series of meetings. I know that the CLA is also giving thought to the change affecting their members. At the same time, interests on the conservation side are making their own contributions. I detect a readiness to talk and perhaps a greater meeting of minds, than has applied for some time past.

Earlier in my speech, I warned of the dangers of being too busy to think. The Ministry of Agriculture has been busy, but we have been doing a lot of thinking too. Both before last spring's price-fixing, and increasingly since that time, we have been giving most intensive thought to future directions. I have indicated to you today some principles underlying our approach. We shall shortly be taking the process further. I have to warn you that I see it as no part of my task to embark on indicative planning on behalf of the industry, to do its thinking and to make its decisions for individual businesses and producers. The last 20 years are littered with the debris of unfulfilled numerical plans. What I intend to offer, I hope in the New Year, is a document which builds on the principles I have discussed today, pulls together the various strands in the debate and gives some policy orientations for future directions in British agriculture. The importance of your industry to our nation deserves no less.



28 SEP 1964



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PRIME MINISTER

GOVERNMENT STATEMENT ON AGRICULTURAL AND FOOD POLICY

Mr. Jopling wishes to announce now an intention to publish a Government document about the future direction of agricultural policy "so that producers can better know where they stand".

*It will be torn apart and ... make matters worse*

It may or may not be a good thing to produce a White Paper, though I rather doubt it:

*And I heard it discussed on the Radio this morning - I think it was anticipated*

- (i) It is unlikely to satisfy producers - see the reception given in this week's Farmers Weekly to the NFU's reasoned policy document.
- (ii) To the extent that such a document gave any market signals they could be wrong. We won't know in January what the next price fixing round will bring, how the US dollar will move and so on. The Government should be moving away from this guidance approach altogether.

But whatever the merits of such a document, it surely cannot be right to announce the intention now without having any idea of its content? With the public expenditure round still to be gone through, a great deal can happen between now and then.

Agree?

*AT*

28 September 1984

*We must see any document in draft before deciding whether any document should be published. I find the suggestion both damaging and a hoax to fool us*

SECRET

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Sir Keith Joseph Bt MP  
Secretary of State for Education and Science  
Department of Education and Science  
Elizabeth House  
York Road  
LONDON  
SE1 7PH

28/8.

23 August 1984

*John Korten*

**UK DOMESTIC SUPPORT FOR AGRICULTURE: RESEARCH**

Thank you for your letter of 3 August.

As you say, the changes in the arrangements for agricultural research which were suggested in the report of the Official Group on Agricultural Expenditure could have significant implications for the AFRC. On the other hand it would be premature to assume that the changes suggested there would necessarily involve the AFRC in meeting substantial redundancy and superannuation costs. Much depends both on the pattern of any reductions in expenditure undertaken by the Agricultural Departments and on whatever new arrangements are devised to increase the proportion of the cost of agricultural R and D which the agricultural industry itself bears: as you will recall, a shift from Government funding to producer funding is an important element in the changes suggested in the MISC 100 report.

I doubt whether a collective discussion of the kind you suggest would be productive at this stage. I shall naturally want to discuss the Agricultural Departments' spending on research in my bilateral discussions with the Agriculture Ministers; and you and I will need to take account of the implications of those discussions for the AFRC when we consider the DES programme.

I am copying this letter to the Prime Minister, the Lord President, the Chancellor of the Exchequer, the Secretaries of State for Northern Ireland, Scotland, Wales and Trade and Industry, the

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Minister of Agriculture, Fisheries and Food and Sir Robert  
Armstrong.

*Yours very truly*  
*Peter Rees*

**PETER REES**

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Agriculture Expenditure Sept 83

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12 AUG 1984

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DEPARTMENT OF EDUCATION AND SCIENCE

ELIZABETH HOUSE, YORK ROAD, LONDON SE1 7PH

TELEPHONE 01-928 9222

FROM THE SECRETARY OF STATE

The Rt Hon Peter Rees QC MP  
Chief Secretary  
Treasury  
Parliament Street  
London SW1P 3AG

14 2  
B/f with papers for meeting  
with MRC  
NRPET  
AT 318

3 August 1984

*Peter Rees*

**UK DOMESTIC SUPPORT FOR AGRICULTURE**

I refer to the report discussed at the Prime Minister's meeting with some of us on 26th July. DES officials were not involved in the preparation of that document. I write to register an important point which affects the Department's responsibilities for the funding of basic research and the grant-in-aid for the AFRC.

It appears that the objective of Treasury officials, when they excluded the DES grant-in-aid to the AFRC from their proposal for a drastic cut in research expenditure, was to protect basic and strategic research from the effect of the cut. That aim I, of course, applaud. But basic science would be likely to be very seriously damaged if there were a massive cut in the contracts placed by the Agricultural Departments with the AFRC. The reason is one which is, I believe, familiar to you. The only way in which the AFRC could reduce their scientific effort would be by making staff redundant - it is the characteristic of the AFRC that its expenditure is in-house rather than by grant. The redundancy and superannuation costs of the cuts would fall on the AFRC's budget and would thus become a first charge on the grant-in-aid from the DES. The restructuring already being undertaken by the AFRC has, for this reason, had such serious implications for the basic and strategic research conducted by that Council that the ABRC has recommended a "levy" on the MRC and the SERC to mitigate the effects. The consequences of that levy for basic science funded by the MRC were illustrated by my minute to the Prime Minister of 27 July which I copied to you.

I hope therefore that you will agree that the full financial, administrative and political implications of a massive cut in agricultural Department contracts with AFRC are examined and discussed by Ministers collectively before any final decisions are taken.

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On a point of fact arising from the fifth paragraph of the No.10 letter of 26 July recording our meeting, it is not accurate to say that more is spent on agricultural research than by SERC and MRC. The attached table shows the budgets of the three councils and distinguishes grant-in-aid from other sources of income. AFRC expenditure does not only benefit the agricultural industry but also the food and chemical industries. And basic research knows no frontiers - for example, work now going on at the AFRC's Plant Breeding Institute at Cambridge could have a big effect on the pharmaceutical industry.

I am sending copies of this minute to the Prime Minister, the Lord President, the Chancellor of the Exchequer, the Secretaries of State for Northern Ireland, Scotland, Wales and Trade and Industry, the Chief Secretary, the Minister of Agriculture and Sir Robert Armstrong.

*Evans,*

*Hein.*

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RESEARCH COUNCIL BUDGETS 1984-85

	Total Budget (capital + Current)	£m Grant-in-Aid	Other Receipts
AFRC	103.585	46.538	57.047
MRC	123.818	117.152	6.666
SERC	288.157	278.827	9.330

Source: 1984-85 Supply Estimates (Class X).

AGRICULTURE: Expenditure

Sept 83

3 AUG 1983



Five (RAMABT)

S/C: M. OWEN ✓



CC MASTER SET

10 DOWNING STREET

From the Private Secretary

26 July, 1984

UK DOMESTIC SUPPORT FOR AGRICULTURE

The Prime Minister held a meeting today to discuss the report of officials on UK Domestic Support for Agriculture attached to Sir Robert Armstrong's minute of 3 July. Present were the Lord President, Chancellor of the Exchequer, Secretaries of State for Northern Ireland, Scotland, Wales, Education and Science, Trade and Industry, Chief Secretary, and the Minister of Agriculture. Also present were Sir Robert Armstrong, Mr. Gregson and Mr. Owen.

The Minister of Agriculture said he felt the report failed to take account of major developments of agriculture in the UK since work on it had begun. He believed the idea of a major initiative directed specifically at reducing the level of UK agricultural support was unrealistic. The emphasis should be on reforming the CAP, though major reductions in UK support could make it more difficult to achieve their acceptance. He drew attention to the chart showing the development of agricultural incomes in recent years. Following a rise between 1980 and 1982, agricultural incomes had fallen and, as guarantee thresholds began to bite, a further fall was foreseen for next year. This would take agricultural incomes below even the low point of 1980. He noted that the report had concluded that agricultural support in the UK was not out of line with that of that found in other industrial countries. He believed the right approach was to examine the various elements of agricultural support in the normal way without imposing the added impetus of a special drive to secure savings. He had instituted a number of studies into parts of the agriculture programme - ADAS was being reviewed by Professor Bell and a new Priorities Board had been set up to look at agricultural research and development.

The other agricultural Ministers shared the Minister's concerns. The Secretary of State for Wales said it was wrong to approach the question of agricultural support solely in the context of seeking savings as part of the PES exercise. Nor did he think comparisons with support

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to other sectors gave much guide to the savings which could be made. What was needed was an effort to examine the objectives of each element of agricultural support to see whether it was best designed to achieve these objectives. He warned that a major reduction in agricultural support could have adverse effects not just in agriculture narrowly defined but through the whole of rural society and the rural environment.

The Secretary of State for Scotland argued that a greater distinction needed to be made between poor and prosperous farms. Account also needed to be taken of the competition which the UK agricultural industry faced from abroad. Agriculture was universally subsidised and it would be wrong to adopt a policy of unilateral disarmament.

The Prime Minister said the report demonstrated that agriculture enjoyed very substantial support, far beyond that available to other sectors of the economy. Why, for example, was more spent on agricultural research than by SERC and MRC. Why were advisory services made available without charge? She questioned the logic of making capital grants available to support so many forms of production, many of which were in surplus.

In discussion it was argued that the figures on farm incomes did not take adequate account of the changing value of agricultural land; nor were the figures underlying the chart corrected for the falling number of farms. It was noted that capital grants were available not only in less favoured areas, as was the case with regional grants to industry, but for lowland agriculture as well. The Agriculture Department acknowledged that in many cases capital grants had encouraged extravagant investment spending. Many forms of support were justified by the need to keep marginal farms in business but in doing so their effect was to over-reward farms on good land.

The Chief Secretary said the search for savings in agricultural support had to be considered in the context of the overall public expenditure position. If agriculture were to be given favourable treatment, either on the grounds that changes were under negotiation in Brussels, or that there were special factors relating to agriculture, the burden of public expenditure cuts on other sectors would be increased. It was no use tempering the wind to the rural economy if industry and the towns had to be hit harder.

Summing up the discussion, the Prime Minister said it was agreed that it was wrong to single out agricultural support as a target for special savings; equally it was wrong to regard any part of the agricultural programme as sacrosanct. The Chief Secretary, in his bilaterals with

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Agricultural Ministers should review all aspects of agricultural support, examining the purpose of each and seeking to establish whether the objectives, whether social or environmental, could be achieved at lower cost. Further work should be to refine the figures on farm incomes to take account of the changing value of agricultural land and of the decline in the number of farms.

I am sending a copy of this letter to Janet Lewis-Jones (Lord President's Office), David Peretz (HM Treasury), Derek Hill (Northern Ireland Office), John Graham (Scottish Office), Colin Jones (Welsh Office), Elizabeth Hodgkinson (Department of Education and Science), Callum McCarthy (Department of Trade and Industry), John Gieve (Chief Secretary's Office) and to Richard Hatfield and Peter Gregson (Cabinet Office). I would be grateful if this letter could be retained in Private Offices and should be seen only by those who have already participated in the work of the Official Group (MISC 101), or who are specifically authorised by their Minister to see it for the purpose of carrying forward the further work described above.

(A. Turnbull)

I. Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.

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P.01352

PRIME MINISTER

UK Domestic Support for Agriculture

A

You persuaded the Minister of Agriculture to agree to a review by a group of officials of United Kingdom domestic support for agriculture to be completed in time for the 1984 Ministerial discussions on public expenditure. The report by the Official Group (MISC 100) under my chairmanship was submitted to you and other Ministers under cover of Sir Robert Armstrong's minute of 3 July. The purpose of your meeting is to have a general discussion of the issues raised by the report so as to condition the Chief Secretary's bilateral discussions on public expenditure with the Minister of Agriculture and the three territorial Ministers.

2. Expenditure on domestic support for agriculture (which, unlike that under the Common Agricultural Policy (CAP) is at our own discretion) amounts in 1984-85 to some £830 million, of which the main elements are:

Capital Grants	(£167 million)	→
Drainage	(£ 66 million)	—
<u>Research and Development</u>	<u>(£170 million)</u>	→
Agricultural Development and Advisory Service (ADAS)	(£ 42 million)	
Animal Health	(£ 52 million)	
Less Favoured Areas	(£154 million).	

B

3. You will recall that in his paper for the Cabinet on the 1984 Public Expenditure Survey (C(84)18) the Chief Secretary has explained that he is faced with additional public expenditure bids rising from £5 billion in 1985-86 to £8½ billion in 1987-88 and that some of these bids cannot be resisted (eg local authority



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current expenditure, pay review body awards, and the EC budget contribution). As you know the Treasury is looking for substantial savings in expenditure on domestic agricultural support as a contribution to meeting the planning totals approved by the Cabinet on 5 July.

#### MAIN ISSUES

4. The main issues are:

i. should there be a substantial reduction in the overall level of domestic support for agriculture?

ii. if so: in which of the specific areas of support should reductions be pursued?

#### Overall level of support

5. It is agreed in the Officials' report (paragraph 8.2) that support given to agriculture is seven to ten times that given to manufacturing measured in relation to their respective contributions to GDP, but that it is comparable to the levels of support for agriculture given by many other developed countries.

6. The arguments about whether there should be a substantial reduction are summarised in paragraphs 8.6 to 8.10 in the Officials' report. It would be consistent with the whole thrust of UK domestic economic policy and with our efforts to reform the CAP to reduce UK domestic support. But the agricultural departments think that it would be politically difficult to make substantial cuts, because the farmers consider that they are being badly treated already. It is argued that the first priority should be to reduce CAP support costs and that it would be more difficult to get UK farmers to acquiesce in those changes if we try to tackle UK domestic support at the same time. Much turns on whether the UK should aim to maintain its share of Community agricultural production. The economic argument is that we should not seek to do so and that if other countries choose to misallocate resources by subsidising agriculture, we should be





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happy to receive the benefit of the subsidised food. The political argument is that the burden of bringing Community production into a better balance with demand should not fall disproportionately on UK producers. The meeting needs to provide some steer as to which of these two views should be given the greater weight.

7. After discussing the general issue, it may be convenient to go through the specific areas of support working from the summary in paragraphs 8.11 to 8.26 of the report where various options are identified. The issues can be summarised as follows:

Capital grants (£167 million excluding the less favoured area supplements)

The economic case for such grants is weak; arguably they are either ineffective or encourage surplus production. Ignoring the higher rates in less favoured areas, the rates of grant are in the range 20-32½ per cent. Should they be generally reduced to around 10 per cent, as favoured by the Treasury?

Land drainage (£66 million)

No need to discuss. It is agreed that expenditure is to be reduced in the light of reactions to a consultative document.

Agricultural Training Board (£8 million)

Not worth discussing at length because the amount involved is small. The Treasury's favoured option of trying to make the ATB self-financing, while admirable in principle, could create controversy disproportionate to the savings achievable.

R & D (£170 million)

The unusual extent of public funding of public sector R & D, by comparison with R & D in manufacturing and support for R & D for agriculture in France and Germany, has been commented on by ACARD. Should the expenditure be halved (or at any rate substantially reduced) as recommended by the Treasury?



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ADAS (£120 million)

Should a decision of principle be taken now to end free advisory services, or should we wait for Professor Bell's report, as the agricultural departments would prefer?

Animal health (£50 million)

No need to discuss. It is agreed that we should wait for Professor Bell's report.

Less favoured areas (£154 million)

There is no dispute that some support for the less favoured areas is justified. But the level of present support is very high. Paragraph 6.12 of the report says that, if both CAP support and UK domestic support are taken into account, "... public expenditure on agriculture in the LFAs is comparable to the total net farming income in these areas". Should we therefore pursue the Treasury option of reducing capital grant rates in these areas and also the rates of the Hill-Livestock Compensatory Allowances?

Tax reliefs (£25 million)

This does not arise in the public expenditure bilaterals and can be pursued by the Treasury with the agricultural departments as a fiscal matter in due course.

8. In looking at the specific areas of support it should be borne in mind that no substantial reduction in UK domestic agricultural expenditure will be possible unless there are considerable cuts in at least two of the three largest areas of expenditure (capital grants, R & D and the less favoured areas).

HANDLING

9. You may first wish to have a general discussion about the case for a substantial reduction in UK agricultural support. This might be opened by the Minister of Agriculture, and contributions



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might then follow from the Chief Secretary, Treasury, the territorial Ministers and then from the "neutral" Ministers (the Lord President and the Secretaries of State for Trade and Industry and Education and Science) in that order.

10. When you turn to the specific areas of support it may be best to ask the Chief Secretary, Treasury to make his bid for a reduction and then invite the Minister of Agriculture to reply. On less favoured areas the reply should come from the territorial Ministers.

#### CONCLUSIONS

11. You will wish to reach conclusions on the issues set out in paragraph 8.27 of the Official's report, ie:

- i. to decide whether, in addition to continuing to exert the maximum effort to reduce the level and cost of CAP market support, they wish to make a substantial reduction in UK domestic support for agriculture;
- ii. if so,
  - a. to indicate in which of the following areas of support options for reductions should be pursued:
    - capital grants
    - drainage
    - Agricultural Training Board
    - Research and Development
    - Agricultural Development and Advisory Service (ADAS)
    - animal health
    - Less Favoured Areas
    - taxation;
  - b. in the light of these indications, to instruct officials to pursue the options for reductions in detail in the course of this year's Public Expenditure Survey, taking into account as necessary policy reviews in progress.

*PLG*

P L GREGSON

25 July 1984



WBRM  
AT  
23/7

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

20 July 1984

The Rt Hon Michael Jopling MP  
Minister of Agriculture

*John Major*

**CAPITAL ALLOWANCES IN AGRICULTURE**

*- Attached in HAF*  
You wrote to me on 5 July about the effect of the capital allowance changes on agriculture.

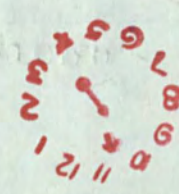
Any major tax change is bound to leave losers as well as gainers, and I recognise that our business tax reforms may disadvantage certain businesses in the farming industry. However, many other industries are affected in the same way and during the progress of the Finance Bill we have been under very considerable pressure to make exceptions in favour of particular groups. To have done so would effectively have undermined our overall strategy. I am sure the reason why we have been successful in getting the reforms through is that we resisted all those proposals, and made it clear that the new system had to operate even-handedly across the economy.

There is thus a strong case for taking a uniform approach to all buildings, whether agricultural or industrial, which qualify for allowances. Having said that, I can certainly assure you that, before we introduce the further legislation promised for next year (including that relating to allowances for agricultural buildings), I shall certainly reflect on your suggestion that a 4 per cent writing-down allowance would be inappropriate for certain buildings in the pig and poultry sectors.

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

*John Major*  
*Nigel Lawson*

NIGEL LAWSON



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file 12 BM  
bc John Redwood.



10 DOWNING STREET

*From the Private Secretary*

SIR ROBERT ARMSTRONG

OFFICIAL GROUP ON AGRICULTURAL EXPENDITURE

BF | The Prime Minister has seen your minute of 3 July and the report of MISC 100 attached to it. She has considered how best to take this work forward. She intends to hold a meeting of Ministers to discuss the report and has invited the Minister of Agriculture, the Secretaries of State for Scotland, Wales and Northern Ireland, the Chancellor of the Exchequer and the Chief Secretary, the Lord President and the Secretaries of State for Trade and Industry and Education and Science, plus representatives of the Cabinet Office and the Policy Unit. This meeting has been arranged for Thursday 26 July at 1600 hours.

I would be grateful if you could arrange for those Ministers who have not yet seen the report to do so, with advice on how it should be handled within departments.

I am sending copies of this minute to the Private Secretaries to the Ministers listed above with the request that it should not be copied outside Private Offices until they have received your advice on handling.

Andrew Turnbull  
13 July 1984

NR.



File

10 DOWNING STREET

Prime Minister ①

I agree with Mr Owen that you should convene an early meeting but feel it would be difficult to exclude the other agriculture ministers represented on Misc 100. I have described this as Option 1(b). You will see from Sir Robert's note that Mr Topling also favours this.

The Chief Secretary would be disadvantaged if you held a meeting and he got little support; he would be better off with option (iii). He therefore needs to know how warlike you want to be. Can we discuss this at your meeting with John Redwood on Monday morning?

Yes not

BT  
(b)

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11

PRIME MINISTER

6 July 1984

REVIEW OF DOMESTIC SUPPORT FOR AGRICULTURE: HANDLING

I attach a note which comments on the officials' report. It recommends that a number of the options which are identified there should be pursued in this PESC round. If you agree with this approach, there are three options for handling the report:

- i.(a) reconvene the meeting with the Chief Secretary and Mr Jopling which initiated this work;
- i(b) convene a meeting of the Ministers represented on MISC 100 ie including the "Territorials";
- ii. launch the report into a wider ministerial group, such as E(S);
- iii. invite the Chief Secretary and Mr Jopling to take account of the report in the course of their expenditure bilaterals.

We recommend option (i) because:

- i. Without a firm steer from you, MAFF Ministers are unlikely to agree to any significant reductions in the bilateral. They are naturally nervous of farmers' sensibilities. They can deploy the defensive patten which their officials have deployed for several months in the official group, namely: that now is not the

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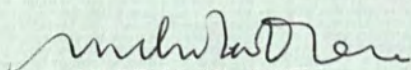


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appropriate time to make changes. We need to know more about the future of the CAP. Support measures have either been "reviewed" internally by MAFF (and found good) or are under review.

ii. Bilaterals are essentially an attritional process. If we want the radical changes in agricultural support which match the mood of the country, and the growing sense of realism in the farming community, now is the time to grasp it.

iii. Option (ii) - the wider ministerial discussion - might be kept in reserve if option (i) fails to achieve significant movement. It might allow leaks. Leaks would embarrass MAFF Ministers but leaks would also assist them to marshal resistance to expenditure reductions. Nonetheless, the high security status of this report was Mr Jopling's idea. He will not want a wider discussion.

  
NICHOLAS OWEN

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6 July 1984

AGRICULTURAL SUPPORT

The Officials' Report confirms the staggering amount of support and protection received by agriculture, equivalent to between 70 per cent and 110 per cent of value-added (paragraph 2.15). In relation to its contribution to the economy, agriculture received about seven times as much support and protection as does manufacturing. It is more akin to a pampered pet than a working sheepdog.

THE POLICY ARGUMENTS

The Treasury and No 10 representatives on the official group have asked why we spend £850 million on this support and sought hard evidence of any beneficial effects. We found little of either. The only possible reason for support is either that farmers are not well-informed and the Government is; or that farmers cannot raise the money to back their judgements. But British farmers are exceptionally well-informed, and financed. They are force-fed with information - from farming by ADAS, farming journals fertiliser companies, consultants. The banks have been, it is said, too willing to lend to farmers, for their own good.

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Government support either:

- subsidises farmers for doing what they would do anyway; or
- encourages them to invest in doubtful projects - doing extra work on their buildings or drainage which they would not be prepared to back with their own money.

MAFF have not seriously contested these arguments.

#### R&D

MAFF cannot say what difference it would make to halve expenditure on R&D. They claim that the "Priorities Board" will improve the allocation, but this is not an argument for sustaining the amount, as Robin Nicholson has pointed out in a separate note to you. If a research manager in the private sector could not say why halving his budget would make no noticeable difference, he would be under great pressure to halve it.

#### Less Favoured Areas

Geography rules out farming ever becoming viable in these areas. If we have to support LFAs on social grounds, let us do so in more cost-effective ways:

- 2 -  
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- Reduce the absurdly high levels of grant, eg 70 per cent for field drainage. Capital improvements are not a cost-effective way of compensating for geographical disadvantage. We are doubtful that capital works cost very much more in the LFAs, as MAFF argue.
- Direct the policy more to humans than to animals. At present, each animal attracts a subsidy, whether it is part of a herd of 50, 500 or 10,000. MAFF cannot say how many jobs are sustained by this policy.

#### THE POLITICAL ARGUMENTS

Michael Jopling will argue that he is too beleaguered to adopt any of these options now. But this is the only real opportunity to reduce support. When things were going well for British farming, farmers were egged on with generous support. Now that there is a growing sense of realism, it is possible to explain to farmers that there is no point in encouraging more investment, by more farmers, when demand is less than supply and real prices likely to fall. This will only lead to frustration and disappointment, as we have seen in the milk sector. The position of those already in farming will not be helped by subsidised competition from newcomers.

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Michael Jopling cannot argue convincingly that reductions in domestic support would jeopardise our effort to restrain CAP expenditure: we are too deeply and publicly committed to this objective.

Farmers will be less sensitive to cuts in measures which do not directly threaten their incomes, as milk quotas have done.

#### THE OPTIONS FOR REDUCING EXPENDITURE

Table 1 summarises the options, and the savings they could achieve. They total £260-290 million, or 30% of the domestic support identified in the paper. We should examine each option with two principle criteria in mind:

- the cost-effectiveness of each measure in improving performance or maintaining incomes of poorer farmers
- farmers' likely sensitivity to withdrawing/reducing support.

On this basis, the following look the best areas for cuts:

1. Capital grants (saving: £110 m): MAFF are unable to offer any hard evidence, after 25 years of grants, that they have useful effects. Farmers sense that grants are a racket and take them because they are

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- 4 -

available, encouraged in many cases by ADAS  
officials. The suspension of some grants this year  
 (for rooting out hedges and for larger milk farmers)  
 caused hardly a murmur. Grants also incense  
conservationists.

2. R&D (saving: £65 m): Farmers are not impressed by a large R&D expenditure and bureaucracy. Better research laboratories can earn their keep eg the Plant Breeding Institute at Cambridge. Why not others?
3. Drainage (saving: £20 m?): If drainage projects offer real prospects of better yields, farmers could be persuaded to see the logic of contributions. Farmers will demand to know what they are paying for and will press MAFF to reveal their 'cost-benefit' analyses.
4. Charging for advice (saving: £20 m?): If advice is worth paying for, why should farmers object? They can always opt for alternative sources of advice, or do without.

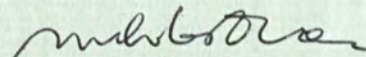
The other options look politically more difficult:

- Charging for animal health may be difficult to extend. Farmers probably regard health measures as a Government responsibility, even though many of them

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yield commercial benefits to farmers. They could also play on fears about public health implications.

- Making the ATB self-financing would raise problems in a fragmented industry, and would save only £8 million.
  
- Reducing HLCAs is the only option which would hit farmers' incomes directly. If we go for this, we should restrict the application to a maximum herd size, rather than cut the rate per animal.

  
NICHOLAS OWEN

SECRET

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TABLE 1 - OPTIONS FOR REDUCTIONS IN EXPENDITURE

	1984-85 Expenditure £m	Possible Savings £m
1. Reductions in capital grants from an average level of 30% outside LFAs to an average level of 10%; and from around 50-60% in LFAs to levels currently applied outside LFAs.	167	110
2. Contributions from farmers towards drainage projects.	66	30
3. Placing Agricultural Training Board on self-financing basis.	8	8
4. Reduction of publicly funded R&D in agriculture.	170	65
5. Charging for, or privatising, or discontinuing advisory service (to be considered further, following internal review).	42	20?
6. Charging more for provisions for animal health (to be considered further, following internal review).	52	10?
7. Reductions in hill livestock compensatory allowances (HLCAs), either by adopting EC minimum rates or restricting application to predetermined herd sizes.	98	50
8. Increase vehicle excise duty on farmers' food vehicles (to be considered further, pending MAFF/DTp review).	15	-
9. Other domestic support (including central and miscellaneous services, outgoers scheme).	234	-
TOTALS	<u>852</u>	<u>260-290</u>

DAVAAL

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Ref. A084/1938

MR TURNBULL

---

c Mr Gregson

With my minute of 3 July (A084/1874) I sent the Prime Minister a report of the Official Group on Agricultural Expenditure. <sup>With AT?</sup>

As to the handling of this matter I should report that the Minister of Agriculture would very much like to have an ad hoc informal meeting of the Ministers concerned (those to whom my minute was copied) before the Recess, so as to condition the later agricultural domestic expenditure bilaterals. The Minister is feeling under a certain amount of pressure and feels the need to know broadly where he stands on all this.

REA

ROBERT ARMSTRONG

6 July 1984



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

From the Minister

CONFIDENTIAL

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
LONDON  
SW1P 3AG

5 July 1984

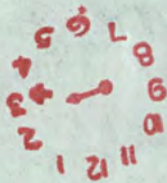
CAPITAL ALLOWANCES IN AGRICULTURE

When you wrote to me in May you set out the reasoning which underlay your decision to withdraw first year capital allowances. I understand that you have now written in similar terms to Sir Richard Butler making it clear that you see no prospect of exempting the farming industry from these changes.

While I quite understand your wish to maintain the general line against the wide ranging representations which have been made, I must express my disappointment that it has not been possible to take account of the likely impact in agriculture. As I pointed out in earlier correspondence, the competitive edge which our industry has achieved has depended to a large extent on its willingness to invest in the most up to date and efficient plant and machinery. That willingness is likely to be significantly reduced under the new arrangements.

Like you I have no wish to encourage investment with low or negative pre-tax rates of return but I do believe that the balance has swung against the unincorporated sector in the strategy which is now being pursued. Although you suggest that individual farming businesses could seek incorporation if they felt that was to their overall advantage this is a step which goes beyond tax considerations and I doubt whether it will prove to be an option which is attractive to many farmers.

/I would like ...

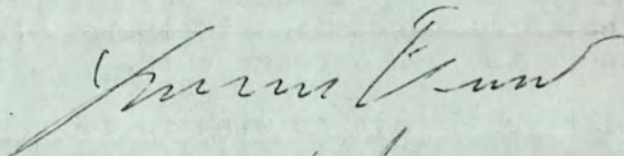
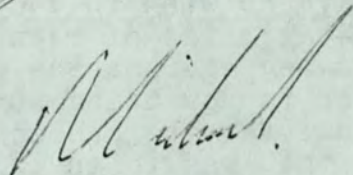


23 JUL 1984

I would like to revert to one aspect of the new arrangements which requires further consideration. That is the question of the regime to be applied to agricultural buildings after 1 April 1986.

A writing down allowance of 4% per annum is not appropriate for many of the short life buildings which are used in horticulture and in the pig and poultry sectors. It does not appear sensible to have a writing down period which could be 10 years longer than the physical life of the building. If we are not to discriminate against such investments special arrangements will be required and I should welcome your assurance that this point will be taken fully into account when the enabling provisions are being drafted.

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

MICHAEL JOPLING



Ref. A084/1874

PRIME MINISTER

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You agreed with the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury that there should be a review of United Kingdom domestic support for agriculture. You instructed me to set up an Official Group on Agricultural Expenditure (MISC 100) under Cabinet Office chairmanship with the following remit:

- i. to establish on the basis so far as possible of agreed figures the present cost of agricultural support and the degree to which the scale of this support may exceed the scale of support provided for other sectors of the economy such as manufacturing industry;
  - ii. to consider, in the light of likely developments in the Common Agricultural Policy (CAP) following the post-Stuttgart negotiations, the scope for changes in United Kingdom domestic support for agriculture;
  - iii. in particular to examine each of the present measures of United Kingdom domestic support (other than rate relief on which there has been a very recent Government commitment) with a view to establishing whether it should continue and at what level; and to prepare options for reducing expenditure to be considered by Ministers in good time for decisions to be taken in the next Public Expenditure Survey.
2. The summary and conclusions are in Section 8 of the report. Ministers are asked to consider first the following broad strategic issue:
- (a) whether an overall substantial reduction in the level of domestic support, as opposed to changes in emphasis, would prejudice the Government's ability to keep up the pressure for further reform of the CAP and damage United Kingdom agriculture; or



(b) whether domestic support for agriculture should be substantially reduced to bring it more in line with the Government's economic policies generally and as a more logical accompaniment to United Kingdom efforts to reduce CAP market support.

3. If Ministers decided that they wish to make a substantial reduction in United Kingdom domestic support for agriculture they are asked to indicate which of the following areas of support should be reduced (1984-85 figures provided):

Capital Grants	(£167 million)	→
Drainage	(£ 66 million)	→
Agricultural Training Board	(£ 8 million)	
Research and Development	(£170 million)	→
Agricultural Development and Advisory Service (ADAS)	(£ 42 million)	
Animal Health	(£ 52 million)	
Less Favoured Areas	(£154 million)	→
Taxation Reliefs	(£ 25 million)	

4. Sections 4-7 of the report discuss the options which might be available for reducing expenditure under each of these headings. Depending on the views expressed by Ministers on whether there should be a substantial reduction in United Kingdom domestic support for agriculture, and, if so, in what areas, officials might be instructed to pursue the options in detail in the course of this year's Public Expenditure Survey, taking account as necessary of policy reviews already in progress.

5. I am sending copies of this minute and the attached report to the Chancellor of the Exchequer, the Secretaries of State for Northern Ireland, Scotland and Wales, the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury, with the request that these papers should be seen only by those in their Departments who have already participated in the work of the Official Group (MISC 100) or who are specifically authorised by their Minister to see them for the purposes of giving essential advice.

RIA

ROBERT ARMSTRONG

3 July 1984

These sections are optional reading. Sections 1-3 plus the summary in 5.8 will suffice.

**SECRET**

AND PERSONAL

**SECRET**

REPORT BY THE OFFICIAL GROUP ON AGRICULTURAL EXPENDITURE

**SECRET**

29 JUNE 1984

**SECRET**

**SECRET**

**SECRET**

AND PERSONAL

## SECTION 1: INTRODUCTION

1.1 In January 1984, the Prime Minister in consultation with the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury decided that there should be a review of the present system and level of United Kingdom domestic support for agriculture.

1.2 The Official Group on Agricultural Expenditure (MISC 100) was set up to undertake this review. It was chaired by the Cabinet Office; and the following Departments were represented -

No 10 Policy Unit  
HM Treasury  
Northern Ireland Office  
Scottish Office  
Welsh Office  
Ministry of Agriculture, Fisheries and Food  
Cabinet Office

1.3 The Group's remit was as follows -

i. to establish on the basis so far as possible of agreed figures the present cost of agricultural support and the degree to which the scale of this support may exceed the scale of support provided for other sectors of the economy such as manufacturing industry;

ii. to consider, in the light of likely developments in the Common Agricultural Policy (CAP) following the post-Stuttgart negotiations, the scope for changes in United Kingdom domestic support for agriculture;

iii. in particular to examine each of the present measures of United Kingdom domestic support (other than rate relief on which there has been a very recent Government commitment) with a view to establishing whether it should continue and at what level; and to prepare options for reducing expenditure to be considered by Ministers in good time for decisions to be taken in the next Public Expenditure Survey.

1.4 The structure of the Group's report is as follows. Section 2 describes briefly the main elements of support for agriculture and sets out their absolute and relative cost. This section is intended to meet the first part of the Group's remit as described in paragraph 1.3 i. above.

1.5 To set the remainder of the Group's report in context, Section 3 first describes recent and likely future developments in the CAP. The section then discusses the objectives of Exchequer support for agriculture, as stated by the Ministry of Agriculture, Fisheries and Food, and considers the scope for changes in domestic support. This section is intended to fulfil the second part of the remit (paragraph 1.3 ii.) above.

1.6 Sections 4-6 cover Exchequer assistance to capital and labour inputs (investment and training); the provision of public sector support services for agriculture; and the Exchequer assistance provided in less-favoured areas respectively. The approach adopted in each case is to describe the expenditure programmes concerned; to discuss their objectives; to consider their economic impact and their cost-effectiveness; and to discuss the case and the options for reducing such support. Section 7 then briefly considers the tax treatment of agriculture and the scope for changes.

1.7 Finally, Section 8 summarises the report and lists the options for reducing Exchequer support for agriculture which emerged in the course of the Group's work.



## SECTION 2: SUPPORT FOR AGRICULTURE

2.1 United Kingdom agriculture is an industry comprising a quarter of a million separate holdings, many of which are small businesses, and employing 630,000 persons. In the European Community (EC) as a whole, there are some 6 million farms employing about 8 million persons. In the United Kingdom, as elsewhere in the EC, support and protection for agriculture comprise price support, largely under the CAP, and other domestic Exchequer-financed measures.

2.2 Exchequer support comprises:-

- i. CAP expenditure on market support (broadly the cost of maintaining producer prices and the storage and disposal of surpluses);
- ii. public expenditure on domestic support for capital and labour inputs in agriculture, the provision of support services to agriculture and assistance to the less-favoured areas.
- iii. certain tax concessions to agriculture described in table 3 below.

### The cost of support to Agriculture

2.3 There are two ways of assessing the costs of support to a particular sector - on an Exchequer cost and on a broader value of protection and support basis. The Exchequer costs comprise public expenditure on the relevant programmes and the tax forgone as a result of the concessionary treatment of relevant expenditure or income. The value of protection and support includes both these Exchequer costs and the wider costs arising from sustaining the prices paid to producers above world price levels, for example through restrictions on imports from the world market.

2.4 This section of the report first sets out the costs of support to agriculture and to manufacturing on the Exchequer cost basis; it then considers how a wider assessment of the value of protection might differ from this.

Exchequer costs

2.5 Table 1 sets out estimates of public expenditure support for agriculture for the years 1983-84 and 1984-85. The table includes only those items of public expenditure which were considered to be wholly or very largely directed at support for agriculture.

TABLE 1: PUBLIC EXPENDITURE ON AGRICULTURE

	<u>1983-84</u>	(£m)	<u>1984-85</u>
1. Guarantee Spending under the CAP	1373		1214
2. Guidance and National Expenditure	827		852
Of which:			
R & D	167		170
Advice and promotion	39		42
Animal health	50		52
Capital grants (basic rates)	197		167
Rural drainage and flood protection	68		66
ATB	8		8
Aid to special areas (a)	138		154
Production Support (b)	21		34
Other agricultural and food expenditure	20		30
Central and miscellaneous services	119		129
	2200		2066

## NOTES

(a) Includes special aid for Northern Ireland and capital grant supplements

(b) Includes milk outgoers scheme from 1984-85

2.6 Table 2 sets out similar estimates of public expenditure support for manufacturing for the same period; again the table includes only items which were wholly or very largely directed at support for manufacturing.

TABLE 2: PUBLIC EXPENDITURE ON MANUFACTURING INDUSTRY

	<u>1983-84</u>	(£m)	<u>1984-85</u>
1. Department of Trade and Industry	1547		1329
2. Nationalised Industries	383	?	492
3. Export Credits	197		159
4. Science and Engineering Research Council	143		156
5. Department of Employment	58		71
6. Scotland, Wales and Northern Ireland (Departmental Expenditure)	447		519
	<hr/>		<hr/>
	2775		2726
	<hr/>		<hr/>

2.7 In most respects the tax treatment of agriculture follows that of other productive sectors of the economy. Table 3 below however estimates the revenue forgone in respect of those tax concessions where in recent years there has been a significant difference in the tax treatment of agriculture and manufacturing.

TABLE 3: EXCHEQUER COST OF TAX SUPPORT

The main differences in the treatment of income and expenditure items for taxation purposes between agriculture and manufacturing are as follows:

	<u>Agriculture</u>	£m 1983-84	<u>Manufacturing</u>
De-rating (1)	430		230
Fuel Duty Rebate	10		5
VED Preferential Rates	15		-
Capital Allowances for Buildings	70		300
	-----		-----
	525		535
	-----		-----

(1) De-rating applies to manufacturing only in Scotland (at 50 per cent) and in Northern Ireland (at 100 per cent)

2.8 The tax changes proposed in the 1984 Budget will affect both agriculture and manufacturing. In particular, the decision to phase out capital allowances on buildings over the next three years will, in theory, reduce the amount of tax concessions to both sectors. This will however involve greater proportionate loss of Exchequer support to manufacturing, since capital allowances on buildings in 1983-84 were at a higher rate for manufacturing (75 per cent) than for agriculture (20 per cent). Manufacturing will on the other hand benefit more from the accompanying reductions in the rates of corporation tax.

2.9 There are a number of caveats to be borne in mind before comparing the estimated Exchequer costs of support to agriculture and manufacturing through public expenditure and the tax system -

- i. agriculture contributes around 2.3 per cent of GDP and manufacturing 24 per cent;
- ii. such a comparison takes no account of the support given to manufacturing in the form of guarantees on loans; the bulk are Export Credit Guarantee Department (ECGD) insurance arrangements provided on commercial terms; but there are also ECGD guarantees provided "in the national interest", and over £1.5 bn in guarantees outstanding under the Industry Act and Civil Aviation Act;
- iii. a small but growing proportion of the public expenditure on the agriculture programme is directed at support for food manufacturing rather than agriculture; the same problem arises in the figures for manufacturing, which include a small amount of expenditure on services;
- iv. manufacturing enjoys a greater amount of indirect support from other public expenditure programmes such as defence procurement, than does agriculture.

### Protection levels

2.10 United Kingdom Agriculture is protected against competition from non-Community sources (but not from other member states) through the CAP and other arrangements which limit the degree of non-Community import penetration in the United Kingdom market. In addition, for certain important commodities, prices are supported by intervention buying, subsidised exports and other arrangements to remove surpluses from the market. The main economic impact of these measures, apart from that on public expenditure, is to keep producer and consumer prices and output above what they might have been under free trade conditions. As a result producers receive a higher income than would otherwise have been the case.

2.11 There are two main elements in the calculation: the cost of price support, which broadly reflects the difference between internal CAP prices and world prices; and the cost of tariff protection for the horticultural and other sectors not receiving price support.

2.12 Measurement of these costs requires estimation of the appropriate world prices; and there is no unequivocal world price for many agricultural commodities. The indicator of the difference between world prices and CAP support prices favoured by the Ministry of Agriculture, Fisheries and Food (MAFF) is export refunds, the refund necessary to enable producers to sell CAP produce outside the EC market. On this basis, the total cost of price support and tariff protection is about £2.7 billion (1982 estimates). The Treasury consider that this is at the bottom of the range of estimates for the value of CAP price support and understates the protection afforded to United Kingdom producers of milk and sugar. An alternative indicator of the difference is import levies - the levies charged on produce imported into the EC. On this basis, the cost of price support is £4.9 billion. In the Treasury's view, the value of price support lies between £2.7 billion and £4.9 billion.

2.13 In order to derive a measure of the total value of protection and support to agriculture, it is necessary to add back certain Exchequer costs of support already identified. On the basis favoured by the MAFF, the total cost of support is £3-4 billion; on the basis of import levies it is £5-6 billion (see Annex A).

2.14 Manufacturing industry is protected against competition from non-Community sources by the common external tariff and by various quantitative arrangements including voluntary restraint agreements. An attempt has been made to value the benefits from these for manufacturing in a way broadly comparable with that adopted for agriculture; it should however be noted that the estimation is inevitably more broad-brush than that for agriculture. The cost of the implicit price support to manufacturing is put at between £3.4 billion and £5.9 billion; the difference reflects, in part, the possible range of views on how far exporters absorb the cost of the tariff in their selling prices. The total value of protection and support for manufacturing, adding back in certain Exchequer support is therefore between about £6 and £9 billion.

#### Overall Assessment

2.15 The overall assessments yield figures of total support for agriculture of between 70 and 110 per cent of value added and between 11 and 15 per cent for manufacturing. The support given to agriculture is thus substantially greater than that given to manufacturing.

2.16 The gap reflects, to some considerable degree, differences in the nature of the respective world markets. In agriculture, there remain significant barriers to world trade and many commodity markets are managed; there is also widespread subsidisation in individual countries. As a result, in the developed world, there has been excess supply and this has forced down prices in such trading as takes place. World market prices are hence artificially low, mainly because of heavy competitive subsidisation; and no agricultural industry in the developed world operates, without subsidies, at price levels similar to those on world markets. In contrast, tariffs for manufacturing are relatively low, subsidisation limited and there is a high volume of trade. Trading prices are widely accepted as a realistic reflection of market conditions.

2.17 MAFF consider that the calculation of the relative costs of support to agriculture and manufacturing gives a misleading impression of the assistance given to agriculture: it reflects external factors, principally world market conditions, not a United Kingdom decision to support agriculture more

intensively than other industries. United Kingdom expenditure in relation to the size of the agricultural industry is broadly comparable to that of other EC countries; and MAFF consider that, though exact comparisons are difficult, the degree of support for agriculture in the USA is roughly equivalent to that of the EC, while that of Japan is significantly higher.

2.18 The Treasury take the view that the gap between United Kingdom prices and world prices reflects the specially favoured position of agriculture. CAP market support insulates agriculture to a large extent from the normal uncertainties of world trade. They consider that the high level of support given to agriculture through the CAP strengthens the case for reducing national expenditure on agricultural support.



**SECTION 3: THE DEVELOPMENT AND OBJECTIVES OF AGRICULTURAL POLICY**Market Support under the Common Agricultural Policy

3.1 The main component of agricultural support in the United Kingdom arises from the operation of the market support measures of the Common Agricultural Policy (CAP) of the European Community under the guarantee section of the European Agriculture Guarantee and Guidance Fund (EAGGF). Market support takes a variety of forms. For cereals and milk the arrangements include import levies, intervention and export refunds; the appropriate prices and details are set each year. For beef and sheepmeat, premia (a form of deficiency payment) operate essentially in lieu of intervention in the United Kingdom, whilst for pigs, eggs and poultrymeat and most horticultural products, support arrangements comprise essentially protection against non EC imports and producer prices can, and do, fluctuate markedly.

3.2 In 1983/84 guarantee spending under the CAP in the United Kingdom amounted to about £1370 million, of which some £1000 million was funded from the Community budget. The United Kingdom accounted for 11 per cent of Community guarantee spending in 1983. The remaining £360m was largely devoted to intervention purchases and when the stocks are sold reimbursement will be obtained from the Community budget. It should be noted that the United Kingdom contributes around 20 per cent of all EAGGF guarantee expenditure in the Community funded from the Community budget. The sectors which attract the bulk of guarantee spending in the United Kingdom are milk, cereals, sheepmeat and beef. Guarantee spending on agriculture fluctuates markedly with production levels and market conditions.

Recent developments in the CAP

3.3 The cost to the European Community budget of CAP market support and measures through the guarantee section of EAGGF is budgeted to be 16,500 million ecu (£9,600 million) in 1984; and the European Commission's latest estimate is that this will rise by 2,100 million ecu (£1,200 million) even after

taking account of the effect of the 1984/85 price fixing. The effect of the 1984/85 price fixing was to reduce the average level of common prices by 0.6 per cent in ecu terms; the combined effect of the common price changes and changes in the Community's agri-monetary arrangements since the 1983/84 price fixing has been an average reduction in Community prices in real terms of 2.7 per cent (a rise of 2.2 per cent in money terms). Other measures, such as restrictions on the availability of intervention facilities will result in downward pressure on producer returns, particularly for cereals and milk. The price of wheat in the United Kingdom for example is currently 10 per cent lower than a year ago largely because of these decisions.

3.4 In addition, the Council of Ministers (Agriculture) took a number of decisions in the 1984/85 price fixing designed to curb expenditure on the main surplus products in the Community. The most significant action was taken in the dairy sector where a penal supplementary levy and quota system on milk production was introduced to operate for a period of five years to curb surplus production. Also guarantee thresholds were set for a number of products. If the threshold is exceeded, action is triggered to discourage production. The Council also agreed in principle to introduce further guarantee thresholds for all products in or likely to be in surplus, and for products for which expenditure is rising rapidly. This is a policy which the United Kingdom has constantly urged the Community to adopt. Following the price fixing, the Government has introduced an outgoers scheme at a cost of £50 million over five years to encourage some farmers to give up milk production so that quotas can be redistributed to small producers; and has increased the suckler cow subsidy. France and Germany are also introducing more substantial packages of domestic support for their farmers to compensate for the impact of this year's price fixing.

3.5 At United Kingdom urging also, a budgetary framework is being evolved by the Community in which a greater degree of budgetary discipline will be exercised for all Community policies, including agriculture. The financial

guideline proposed by the European Commission for agricultural expenditure under the guarantee section of EAGGF is for the rate of growth of agricultural expenditure to remain below the rate of growth of the Community's own resources base. The prospects for agricultural expenditure under the CAP, therefore, are for continuing pressure to keep down expenditure in real terms. But there also remain strong pressures to maintain the level of support.

#### Implications for United Kingdom Agriculture

3.6 Community decisions taken during 1984 will result in reductions in United Kingdom support prices in real terms of  $5\frac{1}{2}$  per cent. The milk quota arrangements are the equivalent of a reduction in support of some  $1\frac{1}{4}$  per cent, meaning that the overall level of real support is being reduced by almost 7 per cent. Production costs continue to rise and aggregate farming income in 1984 is expected to fall in real terms (even though only a part of 1984 output will be affected by the 1984 price decisions). The trend in farming income is shown in Annex B. In 1985 when the full effect of these decisions will be borne (including a further cut in the milk quota), real farming income could well be as much as a quarter lower than in 1983. Additionally, effective action in 1985 under the guarantee threshold mechanisms and arising from the financial guidelines, would impose further downward pressure on farming incomes in this country. United Kingdom agriculture will need to adjust its pattern of production accordingly.

#### Objectives of Agricultural support

3.7 Against this background, the objectives of support for agriculture pursued by the agricultural departments are currently as follows -

- a. to encourage improvements in the CAP which will lead to greater economic rationality and full recognition of United Kingdom interests;
- b. within the improved CAP to seek fair conditions of competition for United Kingdom producers and traders;
- c. to foster an efficient and competitive agricultural industry;

d. to assist the industry to contribute to the rural economy particularly in certain disadvantaged areas.

A full list of the current objectives is at Annex C.

#### The Common Agricultural Policy (CAP)

3.8 United Kingdom policy is to constrain the level and cost of CAP support, through a restrictive price policy, the imposition of tight limits on the budgetary costs of CAP market support and the introduction of effective guarantee thresholds for products which are, or soon will be, in surplus. This policy met with some success at this year's price settlement. Of the total support and protection given to United Kingdom agriculture some 75 per cent is provided by price protection largely under CAP arrangements. The decisions taken in 1984 have already reduced this element of protection significantly and serve to demonstrate that action on prices can have a major effect in reducing total support for agriculture. The real level of support was reduced by 7 per cent compared with the trend reduction of 2 per cent per annum. The 5 per cent additional cut in 1984 was equivalent to a reduction of some £400 m in price support. On the other hand the new arrangements for "green" exchange rates are likely over time to increase the cost of the CAP over what it would otherwise have been.

#### Domestic support

3.9 Support other than CAP market support is directed at the remaining three policy objectives identified by the agricultural departments. It is termed domestic support in this report and comprises two kinds of programme: those instigated by the United Kingdom agricultural departments and those required, or permitted, under EC Structures Directives. It should be noted that 'domestic' support, both EC and indigenous schemes, is also provided by other member states.

#### Domestic support (other than direct aid for LFA's)

3.10 Support, other than aid to less favoured areas, is designed to meet the policy objectives outlined at 3.7 b) and c). These are to seek fair conditions of competition with other EC countries and to promote a more efficient industry. The agricultural departments argue that the policy of encouraging

British agriculture to continue to raise its efficiency is designed to enable a volume of output to be produced at less cost in terms of input resources; and that this will be achieved by the industry's adopting improved techniques and systems, controlling disease, investing in modern equipment and ensuring that new ideas are transmitted to farmers as rapidly as possible. By continuing to improve its efficiency United Kingdom agriculture will thereby be capable of competing with the agricultural industries of other member states, even under conditions of price and production restraint, and maintaining its share in Community agricultural production. The agricultural departments consider that, without domestic support, the industry's research base and capital stock would deteriorate; that its productive potential would be reduced; and that import penetration by EC partners of United Kingdom agricultural and food markets would increase.

3.11 The Treasury and No 10 Policy Unit argue that domestic support on the present scale, in pursuit of these two policy objectives, is not consistent with the Government's general economic policies. A basic principle is that producers and consumers should be left as free as possible to take their own economic decisions. This will lead to the most efficient pattern of activity and hence a higher standard of living for the country as a whole. The provision of domestic support to agriculture involves a serious misallocation of resources, both through the financial costs (public expenditure and tax forgone) and the diversion of more real resources into agriculture than is economically desirable.

3.12 In particular, they argue that there is no economic rationale for the policy objective of matching the domestic measures of support given in other EC countries. The scale of CAP market support is unlikely to be sharply reduced in the next few years and farmers will continue to benefit from the almost unique advantages of assured markets and price levels. The CAP already leads to a considerable diversion of resources into agriculture: there is no case for adding to that misallocation of resources, at a cost to the economy, through domestic support for the industry. On the contrary, it would be consistent with the Government's general economic policy to reduce domestic support for agriculture and let United Kingdom agricultural

production fall to some, probably fairly limited, extent. The resources released from agriculture could move to where they earned the highest returns; and public expenditure would be reduced, giving scope for lower taxes or interest rates and hence the creation of new activity elsewhere in the economy.

#### Domestic support for less-favoured areas

3.13 Support for the less-favoured areas is directed at the fourth policy objective identified by the agricultural departments - contributing to the rural economy in disadvantaged areas. The underlying policy objective of preventing rural depopulation is primarily social. The key questions, which are considered in Section 6, are how effective it has been in preventing rural depopulation; whether it is cost-effective; and what options there are for reducing expenditure.

#### The scope for changes in United Kingdom domestic support for agriculture

3.14 The agricultural departments consider that overriding priority should be given to solving the CAP surplus problem and controlling and then reducing the level of Community spending on agriculture. Their reasons are:

First, - tackling CAP surpluses through price and other measures would operate in all member states; the agricultural industry in each member state would have to bear broadly the same pressures on its prices and have to adjust its pattern of operations to the harsher conditions.

Second, - price protection and support account for three quarters of all protection and support provided to agriculture and action on prices can yield the greatest gains in terms of benefits to consumers, exchequer contributions to market support measures and to the Community budget.

Third - the United Kingdom agricultural and food processing industries should not suffer, alone amongst member states, a loss of their competitive position as would arise were action taken to reduce domestic support; increased import penetration of the United Kingdom agricultural and food markets would thus be avoided.

Fourth - action on CAP prices would bring these prices closer to those obtaining on world markets and reduce the frictions arising from the disparities that presently exist and from the volume of produce now sold on world markets.

3.15 The agricultural departments consider that the achievement of the necessary reform to the CAP will require the United Kingdom to take the lead in supporting the Commission which is now resolved, in spite of at best lukewarm support from other member states, to bring a new sense of order to the CAP.

3.16 Cutting CAP prices will create major problems for United Kingdom farmers. The cost/price squeeze will be intensified and major adjustments to production patterns will be required. These will involve investment in new equipment as certain enterprises are phased out and others introduced. Cutting domestic support would jeopardise this process. Some other member states are injecting further and substantial domestic support in order to ease the effects of price cuts and smooth the adjustment process. Faced with the pressures arising from strong United Kingdom advocacy of CAP reform the agricultural departments consider that it would be wrong to make, concurrently, major cuts in domestic support. They believe that, if the United Kingdom were unilaterally to do so, it would weaken the United Kingdom's ability to pursue single-mindedly reform of the CAP.

3.17 The agricultural departments accept, however, that domestic support arrangements need to be examined to consider what modifications should be introduced to improve cost-effectiveness and meet future requirements of the changing industry. Major reviews are in hand or pending in four main support areas (land drainage, ADAS, capital grants and R & D) which between them account for over three quarters of domestic expenditure. Whilst any changes resulting from these reviews must not jeopardise the main goal, namely reform of the CAP, this should not exclude any necessary changes of emphasis though an overall cut at the present time would be counterproductive.

3.18 The Treasury and No 10 Policy Unit do not accept that major cuts in domestic support should be ruled out and that it would be enough to make changes in emphasis in the pattern of support while maintaining the same overall level. They consider that reductions in domestic support are a logical accompaniment to the UK efforts to reduce CAP market support. Farmers ought not to be offered inducements to invest in ventures which in the long run have diminishing financial returns: this wastes resources and leads to disappointment. They argue that the policy objective of seeking fair conditions of competition with other EC producers is not consistent with the Government's general economic policies and results in a costly misallocation of resources; and that the volume of support addressed to this objective should be substantially reduced. The fact that other countries for their own reasons choose to channel resources into agricultural activities which are not economic is not in itself a compelling reason to do likewise. They consider that there is also scope for achieving reductions in domestic support directed towards problems stemming from the large number of small farmers, by addressing these structural problems in more cost-effective ways. There may also be scope for action to improve the cost-effectiveness of measures to support less-favoured areas.

3.19 The Treasury and No 10 Policy Unit therefore consider that, against the background of the Government's general economic policies and the scale of CAP market support, there is considerable scope for reductions in domestic support for agriculture.



Summary

3.20 In deciding on the level and nature of domestic support for agriculture, Ministers will need to take a view on the issues raised in the preceding paragraphs. The Group agree that the United Kingdom's main aim should continue to be the reduction in the costs of CAP market support. The Group are divided, however, on whether the scale of domestic support should be reduced at the same time. In considering the options for changes in domestic support, Ministers will need to form a broad judgement on the following strategic issue:

: whether an overall substantial reduction in the level of domestic support, as opposed to changes in emphasis, would prejudice the Government's ability to keep up the pressure for further reform of the CAP and damage United Kingdom agriculture; or

: whether domestic support for agriculture should be substantially reduced to bring it more into line with the Government's economic policies generally and as a more logical accompaniment to United Kingdom efforts to reduce CAP market support.

3.20 Sections 4 to 7 of the Report examine UK domestic support for agriculture in the light of these considerations, broken down as follows:

		1984-85 £m
<u>References</u>	<u>Assistance in respect of capital and labour</u>	
4.1 - 4.12	Capital grants (basic rates)	167
4.13 - 4.18	Land drainage and flood protection	66
4.19 - 4.24	Agricultural Training Board	8
	<u>Support services for agriculture</u>	
5.1 - 5.10	Research and development	170
5.11 - 5.16	Agricultural Development and Advisory Service (ADAS) (other than R & D and animal health)	42
5.17 - 5.21	Animal health	52
6.1 - 6.17	<u>Support for farming in less-favoured areas</u>	154
	<u>Taxation reliefs</u>	
7.1 - 7.5	Rebate of fuel duty	10
7.6 - 7.7	Concessionary rates of vehicle excise duty	15

**SECTION 4: ASSISTANCE IN RESPECT OF CAPITAL AND LABOUR**

## CAPITAL GRANTS

4.1 In 1984-85 public expenditure on capital grants to agricultural business will comprise £167m under the United Kingdom-wide schemes, plus some £31m on supplementary rates of grant in the LFAs.

4.2 Grants are paid mainly under the Agricultural and Horticultural Grant Scheme (AHGS) and the Agricultural and Horticultural Development Scheme (AHDS); these will account for around 40 per cent and 48 per cent respectively of total expenditure on capital grants in 1984-85. Both schemes operate within the legal framework of EC Structures Directives. A scheme like the AHDS is mandatory for all EC countries, with some discretion for each member country as regards level and (to a limited extent) coverage of aid and provides for the payment of grant where the farmer is carrying out an approved medium term development plan. The AHGS is a permitted state aid, under which grant is paid on individual investment items.

4.3 Though there are restrictions on the maximum amount and type of eligible investment, grants are automatic for qualifying projects and are available throughout the country. The rates of grant (which were reduced in December 1983) vary by scheme, by sector and by type of investment but are mostly in the range of 20-32.5 per cent. Within this range, higher rates are generally payable under the AHDS. Under both schemes, higher rates are generally available in the less-favoured areas (LFAs) (for example 50 per cent on roads) and under the Northern Ireland Agricultural Development Programme (considered in Section 6 of this report). A full schedule of grant rates is at Annex D.

4.4 In 1982 about 75 per cent of capital grants by value in England and Wales was directed towards building and works and field drainage; most of the remainder were for grassland improvements (6 per cent) and other field works (11 per cent). Grant assistance is generally not available for the purchase of land, plant and machinery. Around two-thirds of the grants by value went to the dairy and cereal sectors in 1982.

4.5 The agricultural departments consider that the grant schemes make a vital contribution to their aims of improving the efficiency and productivity of the industry. Grant aid has been provided since 1957 and the schemes have been substantially modified from time to time in the light of changing circumstances. The investment so promoted has, in the view of the agricultural departments, played an essential part in maintaining the quality of the capital stock of the industry and in the adoption of new technologies, and has helped United Kingdom agriculture to retain its place amongst the most advanced in the EC. All other EC countries assist capital investment in the agricultural sectors, often in the form of subsidised credit of equivalent value to grant aid.

4.6 It is not possible to measure directly by how much grant aid has raised investment above the level it would otherwise have been and through this increased output and efficiency; a great many factors have influenced the levels of investment, output and efficiency. Despite the absence of quantitative evidence the agricultural departments consider that without the sustained financial support provided over the last two decades, the level of farming investment would have been significantly lower, the pace of development slower and the growth of output and improvement in efficiency less substantial.

4.7 The agricultural departments consider that the provision of capital grants should continue on broadly the present scale; and that, in deciding the future shape of the grant schemes, the following factors should be taken into account:

- i. Although it is desirable within the EC to avoid grant which leads to increased output in the case of sectors producing surpluses, restrictions on this aid should be applied Community-wide if they are not to disadvantage the United Kingdom.
- ii. The strength of United Kingdom agriculture derives from its structure with medium and large farms producing the bulk of output. Investment by these units will have to be sustained if United Kingdom agriculture is to maintain its competitive advantage in Europe.

iii. Capital grants will also need to be maintained for smaller farms: their viability depends on continued assistance for investment aimed at increasing efficiency and improving structure.

iv. Against an outlook of falling real prices and production the prospective economic return on investment in some sectors may be diminished: but grant aid will be both necessary and cost effective where it generates efficiency gains through investments which lower input costs.

v. Increasing importance must continue to be attached to conservation requirements.

4.8 The Treasury and No 10 Policy Unit take the view that no convincing argument has been advanced for the continuation of capital grants. They point out that:

i. investment assistance of this nature is contrary to the Government's general policy of minimising intervention in the economy;

ii. there are no comparable grants automatically available throughout the country in other sectors of the economy;

iii. there is no evidence that in general farmers are unaware of profitable opportunities for investment or unable to finance them under normal commercial terms; where investment is profitable producers can be expected to undertake it without grant aid; there is therefore likely to have been a considerable amount of 'deadweight' expenditure on projects which would have proceeded unaided;

iv. insofar as grants have induced additional investment they are likely to have encouraged the inefficient use of resources and in some cases contributed to Community surpluses.

4.9 The Treasury and No 10 Policy Unit therefore consider that ideally all agricultural and horticultural capital grants (including those paid in the LFAs) should be abolished. However any changes in the United Kingdom arrangements for capital grants will need to take account of the EC Structures Directives. These are now the subject of a major EC review due to be completed in the Autumn.

4.10 The review seems likely to result in a continuation of the main features of the existing Directives. Some key criteria on eligibility for aid, investment ceilings and sector constraints under the AHDS are being debated; and the outcome will significantly affect the parameters within which a successor to the AHDS may be shaped. The United Kingdom objective is to restrain its cost, particularly in respect of proposed extensions to its scope. Until the EC review is completed and new regulations agreed, the precise scope for changes in the AHDS and the implications of any changes for public expenditure and farmers will not be known. It is however clear:

- a. that some successor to the AHDS will be necessary (the Commission are vehemently opposed to suggestions that the whole policy be made permissive), but that there should be some scope for flexibility;
- b. that there will continue to be scope for either abolition or modification of the AHGS, since it will remain entirely within United Kingdom discretion.

#### Options for Consideration

4.11 The Treasury and No 10 Policy Unit therefore recommend:

that Ministers should decide now to reduce expenditure on capital grants; and

that detailed arrangements should be worked out in the course of the Public Expenditure Survey and in the light of the review of EC Structures policy.

The Treasury suggest that Ministers should consider reductions equivalent to reducing grant rates to an average of 10 per cent throughout the country. Since this would cut the effective rates of grant by about two thirds, it might lead to expenditure savings of broadly the same order (£125m in a full year including corresponding savings in the LFAs). This might be achieved in a range of ways, involving broad reductions in grant rates, making items ineligible for grant, reducing the assistance paid outside the LFAs in particular and abolishing the AHGS.

4.12 The agricultural departments are opposed to a substantial reduction in the overall level of expenditure on capital grants and consider that decisions on the future shape of both grant schemes should not be taken until the outcome of the EC review is known.

#### AGRICULTURAL LAND DRAINAGE AND FLOOD PROTECTION

4.13 In England and Wales land drainage and flood protection is carried out by the Water Authorities, local authorities and internal drainage boards (IDBs). Capital expenditure by these authorities on measures to improve the drainage of agricultural land (other than field drainage) and to protect it from flooding is eligible for Exchequer grant at rates varying between 10 and 75 per cent and averaging 50 per cent for water authorities, and up to 45 per cent for local authorities and IDBs. In addition to the grants towards the capital costs of drainage and flood protection schemes, the balance of the drainage authorities' capital expenditure, together with their administrative and maintenance costs, count as public expenditure. In Scotland and Northern Ireland there are separate grant and administrative arrangements. Within the total expenditure on land drainage and flood protection in the United Kingdom for 1984-85, around £66 million is attributable to land drainage and flood protection in the rural areas, although the division between rural and urban benefits is inevitably somewhat arbitrary.

4.14 Capital grants are paid on a scheme basis and Treasury approval is necessary before projects costing more than £1.5m can proceed. Each scheme is subject to a cost/benefit analysis, before approval can be given. This takes into account the damage to property and equipment likely to result if a particular scheme is not undertaken; the increase in gross benefits likely to result from the greater productivity of the land; additional costs such as investment in field drains necessary to achieve the full benefits; and the wider impact on the environment and community.

4.15 The agricultural departments consider that the drainage of agricultural land makes an important contribution to their aims of fostering an efficient and competitive agricultural industry and of assisting agriculture to contribute to the rural economy. They argue that Government involvement in the provision of assistance for land drainage is necessary for three reasons. First, drainage generally involves large scale engineering activity and collective rather than individual action is required. Second, the initial cost of investment in land drainage is often substantial and the return long term: it is unlikely that, even collectively, farmers would undertake such investment without assistance. Third, there are wider considerations to be taken into account - the risk of spillover from action taken to reduce flooding in urban areas on drainage in adjoining agricultural areas; the possible benefits to the community as a whole from improving the quality of land; and the difficulty of allocating the benefits from major schemes.

4.16 It is not disputed that the nature of land drainage work requires collective action and in some circumstances the provision of government assistance. But, in practice, the number of schemes on which an adequate return can be earned clearly depends on the value of the benefits from increased or more efficient agricultural production. When undertaking the cost benefit appraisals of schemes, it will therefore be important to reflect the changing outlook for CAP produce in terms of the evaluation of additional output.

4.17 The Treasury and No 10 Policy Unit point out that under the present financial arrangements the costs of agricultural land drainage works are split between taxpayers and local ratepayers (except in the case of IDBs). These arrangements are unsatisfactory in two respects:

- i. The main beneficiaries from a scheme for agricultural land - the farmers - do not pay towards the cost; and it is lowland arable farmers, the most prosperous sector of British agriculture, who derive the greatest benefit. The derating of agricultural land increases this inequity. There is a case for raising greater contributions to the cost of schemes on agricultural land from the farmers who benefit, both through higher income earned from improved land and from increased land prices.



ii. Water authorities have in principle an incentive to give land drainage priority over their other work, the cost of which has to be met from water charges.

They also point out that to the extent that there are changes in the CAP to remove open ended price support, draining land to raise output is unlikely to be an efficient use of scarce resources.

#### Options for Consideration

4.18 Policy on land drainage in England and Wales was considered by an interdepartmental committee in 1982/83. Ministers have discussed the committee's report and have concluded that there should be a diminution in the rates of grant (which in the Treasury's view need not exclude their abolition) and that wherever possible a significant proportion of drainage costs should in future be met by the direct beneficiaries. However, a final decision on these and related matters will await the outcome of a consultation exercise, due to begin shortly with the issue of a consultative document. The Group recommend that options for reducing expenditure be considered in the light of the response to the consultation exercise.

#### AGRICULTURAL TRAINING BOARD

4.19 The Agricultural Training Board (ATB) is responsible for providing or securing training in agricultural employment throughout Great Britain. There are separate training arrangements in Northern Ireland. The training provided by the ATB principally comprises the Apprenticeship and Craft Training Scheme designed mainly for young people entering the industry; training for established workers in the form of short off-the-job courses to learn or up-date craft skills; and management training - mainly short courses in staff management skills.

4.20 Total expenditure on the ATB in 1984-85 will be just under £8 million. The Board is financed through an Exchequer grant, set to cover the difference between the cost of its training programmes and the income received from fees charged, plus administrative overheads.

4.21 The agricultural departments consider that the objectives of the ATB are to increase the quality and quantity of training in the industry, in order to raise labour productivity. In this way the ATB contributes to their aims of fostering an efficient and competitive agricultural industry and sustaining the rural economy. Expenditure on the ATB is also designed to help ensure fair competition with other EC countries which also provide assistance towards training. Government involvement in the provision of training is necessary both in order to secure desirable increases in productivity, so as to sustain overall improvements in efficiency, and because of the difficulty in organising training for an industry made up of a large number of scattered small units. They consider that without central coordination, encouragement and financial support there would be an inadequate volume of training.

4.22 The Treasury and No 10 Policy Unit argue that while the scattered nature of the industry is an argument for collective provision, it is not necessarily a justification for public subsidy; nor is it clear why Government, rather than the market, should determine the appropriate volume of training in the industry. Following a review of other industrial training boards in 1981, many were closed and the remainder are now financed by the industries concerned both through charges for those attending courses and by a levy on employers. The level of training which results then reflects the industry's own evaluation of what is required in the light of its economic circumstances. There is nothing different about the agricultural industry which justifies its special treatment. They therefore recommend that this service should be made self-financing, by recovering the whole of the ATB's costs through a levy or charges. They point out that a levy scheme was operated in the 1960s when the number of farms was significantly larger than it is now.

4.23 The agricultural departments consider that the structure of the industry requires a different approach if an effective level of training is to be sustained. In 1982, following a review of the ATB, Ministers concluded that it continued to have an essential role and required substantial financial support. The current ATB strategy under its newly appointed chairman is to increase and extend the principle of charging for courses and to reduce its

involvement in the training for established workers, which is increasingly being organised on a voluntary basis by training groups of farmers and their employees. But there is a limit to how far and how fast such a strategy can proceed. Precipitate reductions in the Exchequer grant and excessively high fees would reduce the number of courses offered and the number of applications and undermine the system of voluntary training groups. The level of training provided could then fall below that necessary to maintain desirable improvements in productivity and hence the efficiency of the industry. Moreover raising a levy to contribute to the financing of the ATB would be impractical: experience between 1967 and 1970 when such a system operated, showed the difficulty of collecting a levy from large numbers of small farming units, many of which make little if any use of ATB services, and as a result in 1970 the Government decided to abolish the levy system. Most farmers employ fewer workers and earn smaller profits than the threshold below which other Training Boards consider it uneconomic to collect a levy.

#### Options for Consideration

4.24 Minister will wish to consider whether:

- a. charges for training should be increased and extended only so far as is consistent with maintaining an appropriate level of ATB training; (recommended by the agricultural departments); or
- b. the ATB should be made self-financing at whatever level of activity the industry is prepared to pay for, through increasing and extending charges or raising a levy from the agricultural industry. (recommended by the Treasury and No 10 Policy Unit).

**SECTION 5: SUPPORT SERVICES FOR AGRICULTURE**

## RESEARCH AND DEVELOPMENT

5.1 Total public expenditure on research and development (R&D) related to agriculture in 1984-85 will amount to £170 million. Public sector R&D on agriculture is carried out through three main channels: in-house by the four countries' agricultural departments (28 per cent); by the Agriculture and Food Research Council (AFRC) (53 per cent); and commissioned from other bodies by one of the agricultural departments (19 per cent).

5.2 R&D on agriculture ranges from basic research, undertaken without specific application in mind, through strategic research, which may lead to a number of applications, to applied research which relates to a specific and clear objective. The purpose of R&D work also varies: some is directed at public health or safety (eg disease eradication) and some to improvements in the environment (eg effect on landscape); but the bulk is more commercially oriented, designed for example to lower input costs and improve the return to the farmer.

5.3 The agricultural departments consider that the objective of publicly funded R&D is to increase the efficiency of the agricultural industry; to safeguard and improve the quality of food; and to protect the environment and prevent adverse effects on human or animal health and welfare.

5.4 The agricultural departments argue that considerable public expenditure support for R & D is necessary for several reasons. First the structure and fragmented nature of the agricultural industry are such that without this support the research base over a wide subject area would be minimal. Second, it is required to ensure the competitive position of United Kingdom agriculture in comparison with other countries, in particular EC member states. Third, without major public involvement many crucial aspects of the environment and health and safety would not be tackled, with serious social implications. Fourth, for much of R & D it would be difficult, or in some cases impossible, to identify a discrete group of beneficiaries which could be justifiably called upon to contribute to the costs.

5.5 Within the Group, while it was accepted that in principle there is a case for providing public support for R & D on basic research (as is done through the DES grant in aid for the AFRC) and on that primarily concerned with improving the environment, health and safety, there was some concern about whether the present scale and the direction of the R & D programme were cost-effective, taking into account the changing prospects for the agricultural industry. It was also argued that there may be scope for some of the more commercially oriented work to be financed by the private sector; it could then be subjected to a market test and be mainly or wholly paid for by the direct beneficiaries.

5.6 Because it is not possible to measure objectively the contribution of R & D to the economic performance of an industry, there are no direct estimates of cost-effectiveness. It is hence difficult to judge whether a particular scale of R & D is right and such evidence as is available is inevitably impressionistic. Some indication of the appropriate scale for R & D on agriculture may be provided, however, by comparisons with other sectors and with other countries. Public expenditure on R & D in agriculture in relation to its contribution to GDP is about three times that for R & D on manufacturing (excluding defence) in relation to its contribution to GDP; there is however undoubtedly a proportionately greater volume of private sector R & D activity in manufacturing which, though difficult to measure, should be taken into account. International comparisons are difficult; but on the basis of data prepared by the OECD, it appears that public sector R & D on agriculture (including that on forestry and fishing) in the United Kingdom, relative to the contribution to GDP, is about twice as large as the corresponding figures for France and Germany.

5.7 The House of Commons Agricultural Committee have recently recommended that more resources should be devoted to R&D; they have expressed concern however that, although R & D has made a vital contribution to raising agricultural productivity in the past, there may be a certain degree of inertia as regards the direction of the R & D effort. MAFF have broadly accepted this general thesis as regards the make-up of the programme and are establishing a largely independent Priorities Board to advise on the allocation of research budgets and hence the direction of the R & D programme. In deciding upon that allocation, the Board will be taking full account of the changing price and output outlook for CAP produce.

5.8 On the scale of the R & D programme the Group were divided. It was common ground that it would be desirable to make the more commercially oriented R & D more responsive to the market, so that it took direct account of the costs and benefits as perceived by the recipients. To some extent such research is already being taken over by the private sector food manufacturing firms which have become increasingly involved in recent years. But it was argued that there was more scope for increased financing by producers collectively either on an ad hoc basis or by producers' organisations raising a levy on their members. Research financed in this way might partially make up for a reduction in the volume of public sector R & D. On the other hand, it was argued that there were the practical and administrative problems in raising levies from small and scattered farms noted earlier. These effectively limited the scope for such initiatives. Moreover there was some concern that if commercially oriented work were left to the market, the level of R & D might in consequence fall below that necessary to sustain continuing improvements in agricultural productivity and to match the rising R & D effort of EC competitors.

5.9 More generally, the agricultural departments are opposed to a reduction in the scale of the R & D effort. They point out that current research programmes are reviewed regularly to ensure the continued value of the component items. There are many projects and indeed areas of work which are potentially worthwhile but which cannot be funded because of limited resources. As cost/price margins are squeezed so the need to accept systems of lower-input farming are likely to become more pressing: these require more R & D work. Growing concern about the environment and the undesirable effects that some agricultural practice have on the countryside also call for increased R & D effort.

#### Options for Consideration

5.10 The Treasury and No 10 Policy Unit recommend that, in view of the available evidence showing the relatively large amount of publicly funded R & D in agriculture, the present level of expenditure (excluding the DES contribution to the AFRC) should be halved, ie reduced by about £65 million per annum. This would bring publicly funded R & D on agriculture more into line with that for manufacturing and with that in France and Germany. At the

same time, the industry could be encouraged to raise their R & D to whatever level they consider is economically worthwhile through the commissioning and financing of R & D by the relevant producer and marketing organisations. The agricultural departments are opposed to any reduction in the volume of publicly funded R & D and argue that the establishment of the Priorities Board will ensure that the structure of the future research programme is appropriately suited to the needs of the agriculture industry.

#### AGRICULTURAL DEVELOPMENT AND ADVISORY SERVICE (ADAS)

5.11 ADAS comprises four main services - the Agriculture Service, Agricultural Science Service, Land and Water Service and State Veterinary Service. The total cost of ADAS is approximately £120m+ in 1984-85. The services provided can be broken down into three main categories -

a. statutory work

- control of diseases and inspections of animals and plants
- checking on grant-related development work
- provision of other statutory services.

b. advice and promotion

- general advice provided free by local officers, backed up by specialists at regional level
- analytical and diagnostic services (where fees covering part of costs are charged)

c. research and investigation (mainly applied R & D covered in paras 5.1-5.10 above)

About 37 per cent of the manpower budget goes on statutory work, 30 per cent on advice and promotion and the remainder on research and investigation.

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+ This figure includes expenditure on animal health and some R & D carried out by ADAS.

5.12 MAFF consider that the objective of ADAS is to improve the efficiency of the industry and help the rural economy. There are similar services available to agriculture in other EC countries. They argue that there are two main reasons for the public provision of the ADAS services. First the bulk of the statutory work reflects the need to control animal and plant health and to maintain adequate food hygiene and quality standards. Second, the advisory services are valuable in securing the rapid adoption of new and changing techniques thereby promoting the growth of productivity.

5.13 The Group accepted that the statutory functions must continue in general to be under public sector control, although, notwithstanding EC obligations, there may be room for some reductions in the amount of regulatory activity or improvement in the efficiency of its provision eg contracting-out work to the private sector or increased charging.

5.14 As regards the advisory services the Group noted a number of fundamental questions -

- How far should advisory services be provided by the public sector? It seems inconsistent with the Government's general economic policy for the public sector to provide this service: there is evidently a market for the service, and the market should be free to settle the level and price. The existence of the free ADAS service may be inhibiting the growth of commercial advisory services.

- How far should the service be provided free? Advisory services benefit mainly if not wholly the recipient of the advice: on general economic principles, it is desirable for the recipient rather than the taxpayer to pay the full cost.

- Should the service be confined to the small farmer? There may be a case for retaining the provision of advice to the smaller farmer, who is perhaps less tuned to the latest developments. It might also be appropriate to give a subsidy (ie provide a free service) only for this group.



5.15 A report commissioned by Ministers from Professor Bell, the newly appointed Director General of ADAS is examining whether ADAS has the right priorities and whether there is a need for changes in the present range or level of services; whether some ADAS services could be economically and effectively provided by the private sector; and whether there is scope for passing on some or all of the cost of certain ADAS services to the users rather than the taxpayer.

#### Options for Consideration

5.16 The Treasury and No 10 Policy Unit consider that the Government should decide now to end the provision of free advisory services either by charging, privatisation or withdrawing services. The agricultural departments consider that no decisions should be taken until Professor Bell's report has been received and considered.

#### ANIMAL HEALTH

5.17 Total expenditure on the animal health programme in 1984-85 will amount to around £52 million. About 70 per cent of this budget is directed at disease prevention and control and a further 10 per cent at health and quality control of meat and other exports. The remainder is devoted to livestock protection, veterinary medicines, animal welfare and meat hygiene. The resources devoted to disease prevention and control are concentrated on a few major diseases which spread rapidly if not controlled. The majority of the expenditure relates to those diseases involving a danger to human health.

5.18 MAFF describe the objectives of the animal health programme as to reduce the incidence of disease to the maximum extent that is economically justifiable, having regard to the effects on both human and animal welfare; and to protect public health against the risk of injury from livestock and associated products. In addition there is a strong regulatory element in the programme stemming from EC obligations. It is also necessary to take account of political factors; there is public concern both about the dangers of diseases such as brucellosis and foot and mouth disease, and about issues of animal welfare.

5.19 The Group accepted that in the case of regulatory activities designed to protect human welfare there is in principle a case for public control of standards of provision - including such key questions as whether to opt for control or eradication of disease and the appropriate form and frequency of disease control. The Treasury and No 10 Policy Unit argue however that, while the government must be involved in the regulation of disease, in recent years it has become increasingly common for the financial burden of meeting health and safety regulations, necessary to protect the public, to fall on the industry concerned. There is a case therefore for charging the agricultural industry for the services provided either individually, or through arrangements for collective finance, as already done for Aujesky's disease and fowl pest. Against that view however, the agricultural departments argue that unless Government strictly controlled and paid for the regulatory activities, both the form and extent might be less than the Government considered necessary, because for example commercial considerations would be given priority over wider public interests and individual farmers would evade their statutory responsibilities. Moreover the political repercussions of failure to enforce sufficient regulation of diseases dangerous to human health would be severe.

5.20 Regulatory activities are also directed at the prevention or control of diseases which damage mainly or wholly animals. It can be argued that there is a less strong case for public sector provision, at full cost, on the grounds that the main if not the sole beneficiary of such activity is the agricultural industry because of the higher return on healthy animals. In practice it is difficult to separate the proportions of expenditure on the control and prevention of diseases which could be said to relate to human and animal health respectively, so as to be able to allocate charges for the latter. Again the political repercussions of any reduction in Government surveillance, as a result of charging, would need to be borne in mind.

#### Options for Consideration

5.21 As part of the review of ADAS, Professor Bell is examining whether there is scope for further charging for activities within the animal health programme. The scope for reduction in expenditure on animal health should be considered in the light of Professor Bell's report.

## SECTION 6: SUPPORT FOR FARMING IN LESS-FAVOURED AREAS

6.1 There is a number of special measures directed specifically to the less-favoured areas. Most of these come within the scope of EC Directive 75/268 - the Less-Favoured Areas (LFAs) Directive which provides for assistance to be given to areas which are mountainous, in danger of depopulation, or affected by specific handicaps. The United Kingdom originally introduced special assistance for hill farming in 1946 on both social and economic grounds. The continuation of this assistance under CAP arrangements was a major objective of the United Kingdom on entry into the EC. The LFA directive is substantially based on the earlier United Kingdom arrangements. It is one of the few CAP measures for which the United Kingdom's receipts exceed our share of the costs under the Community Budget.

6.2 The objective of the Directive is to ensure the continuation of farming, thereby maintaining a minimum population level in the LFAs, or conserving the countryside. Its objective and the objective of United Kingdom support is therefore primarily social and only secondarily economic. It authorises member states to introduce a special system of aids to encourage farming and to maintain farm incomes in these areas. The Directive also enables member states to assist occupations ancillary to agriculture in LFAs (eg tourism and crafts): this power has not been exercised in the United Kingdom, because it has been thought preferable to give help in other ways notably through the Tourist Boards and the development agencies. The benefits available in LFAs in the United Kingdom comprise hill livestock compensatory allowances (HLCAs), enhanced rates of capital grants and guidance premiums. HLCAs are also important as income support to compensate for the permanent natural handicaps facing livestock farmers in the hills and uplands. The higher rates of grant are also important agriculturally as well as socially since they enable hill farmers to continue to rear livestock for the United Kingdom's beef and sheep fattening industries. In addition, further special measures operate in Northern Ireland.

6.3 Taking account of the recent extension in LFAs total public expenditure in 1984/85 is estimated to be about £154 million, allocated as follows -

	£M
HLCAs	98
Additional benefit under capital grants and other special measures	38
Special measures in Northern Ireland	18
Total	154

6.4 In the United Kingdom, an area of about 8.6 million hectares was originally designated as less-favoured in the mid-1970s. This has recently been increased by 14 per cent to 9.9 million hectares (41 per cent of land area) of which 5.8 m hectares is in Scotland (75 per cent of land area), 1.8 m hectares in England (15 per cent of land area), 1.45 m hectares in Wales (66 per cent of land area) and 0.8 m hectares in Northern Ireland (61 per cent of land area). The rural population in the original LFAs is about 1.6 million; the number of holdings stands at around 55,000. They account for about 12 per cent of total United Kingdom agricultural output. It is estimated that the extension of the LFAs has increased the number of holdings covered by some 36,000 (28,000 wholly within the new areas and 8,000 partly within) and that about 30 per cent of the rural population in the areas now covered by the LFAs Directive relies on agriculture for employment.

6.5 The United Kingdom is the major recipient of Community funds under the Directive. In 1983, Community expenditure in the United Kingdom amounted to £21.2 million (26.5 per cent) out of total Community expenditure of £80.0 million under the directive. Community expenditure in the United Kingdom is estimated to be £21.3 million in 1984/85.

#### Hill-Livestock Compensatory Allowances

6.6 The Less-Favoured Areas Directive provides for compensatory allowances to be paid to farmers with at least three hectares of utilised agricultural land who undertake to pursue a farming activity in accordance with the aims of the Directive for at least five years. Member states may lay down additional restrictive conditions for granting the compensatory allowance and the United Kingdom has done so. The Directive also lays down the maximum which may be paid per beef cow and sheep. The maximum and the current rates payable in the United Kingdom are as follows -

	Hill Cows	Hill Sheep	Upland Sheep
EC financial limit - upper	£60.00	£9.00	£9.00
- lower	£12.26	£1.89	£1.89
UK rates (1984)	£44.50(1)	£6.25(2)	£4.25(3)

1 Set 1982

2 Set 1981

3 Set 1980

The table below shows the estimated expenditure in 1984 by category before taking account of the recent extension. EAGGF reimburses 25 per cent of this.

Estimates of Expenditure in 1984

Expenditure	<u>£ Million</u>				
	Scotland	England	Wales	N Ireland	United Kingdom
Cattle	17.7	9.2	6.0	6.1	38.9
Hill Sheep	14.4	10.2	15.0	2.1	41.7
Upland Sheep	4.0	3.4	3.0	0.6	11.1
Total	36.1	22.7	24.0	8.8	91.5

There are 51,000 beneficiaries and the average beneficiary receives about £1,790 pa. This arithmetical mean is misleading however, because of the large numbers of very small units eg crofts in Scotland. Data on net farm incomes is collected only on full-time farms: averages by type of farms in 1982/83 showed a range from £5000 to £9000, with the corresponding HLCA payments ranging from £2000 to £8000. Although there is variation from year to year these payments represent about half total annual net income.

Investment Aids

6.7 LFA farmers (and indirectly agricultural contractors) benefit from enhanced rates of capital grant compared with others. Current rates, following general reductions which took effect on 1 December 1983, are shown in the table below -

	<u>Farmers with development plans under AHDS</u>		<u>Farmers without Development plans but eligible under AHGS</u>	
	<u>In LFA</u>	<u>Outside LFA</u>	<u>In LFA</u>	<u>Outside LFA</u>
Buildings	37½	32½	20	20
Roads	50	32½	40	20
Drainage	70	50	60	30
Other land improvement	50	32½	50	-

The benefit to the recipients of the enhanced rates of grant in LFAs (including those in Northern Ireland) is estimated to be £31 million in 1984/85 of which £12 million is paid from the European Community Budget.

#### Northern Ireland

6.8 Northern Ireland benefits from all the above measures which apply to LFAs throughout the United Kingdom. In addition, agriculture in Northern Ireland receives special support financed through the Department of Agriculture for Northern Ireland (DANI) Votes. This extra expenditure is estimated at £18 million in 1984/85. Its purpose is -

- a. to secure in the more difficult and disadvantaged circumstances of Northern Ireland the same agricultural policy objectives as MAFF measures are designed to secure throughout the United Kingdom;
- b. to ensure that agriculture and the industries dependent on it contribute effectively to the solution of the economic and social problems of the region; and
- c. to ensure that the responses to these needs are cost-effective.

6.9 There are a number of reasons for this special support. By comparison with Great Britain, Northern Ireland has a much higher proportion of small farmers and places more reliance on cattle and milk. Agriculture and the industries dependent on it are relatively much more important to the Northern Ireland regional economy (accounting for some 10 per cent of Northern Ireland's GDP in 1981) than agriculture is within the United Kingdom. It is more dependent than Great Britain on employment in agriculture and the related industries, which in Northern Ireland employ 13 per cent (9.8 per cent on farming compared with 2.7 per cent in Great Britain) of total civil employment. Alternative employment is even more scarce in Northern Ireland than in Great Britain and a higher proportion of the rural population (over 70 per cent of the active population in some areas) is engaged in agriculture. The average size of farms in Northern Ireland is considerably below that in Great Britain and only 7,000 farm businesses (out of 45,000 holdings in Northern Ireland as a whole) are of a size likely to support adequately a family farm.

#### Effectiveness

6.10 Since the primary purpose of support for farming in less-favoured areas in the United Kingdom is the maintenance of the rural population through ensuring the continuation of farming, the effectiveness of the policy could in principle be determined by the extent to which it has succeeded in maintaining the rural population. The agricultural labour force in the LFAs has fallen more slowly than elsewhere in recent years, and developments in farm incomes in the LFAs have not been out of line with agricultural income changes elsewhere though agricultural labour income in LFAs remains considerably below the average levels in the United Kingdom as a whole. In terms of agricultural output the LFAs appear to be holding their own. But these observations also reflect in part the fact that there has been relatively little substitution of capital for labour in upland areas and the effects of the introduction of the EC sheepmeat regime. The above remarks apply equally to Northern Ireland where in addition there is evidence of increasing farm size and increased share of output from larger farm businesses.

6.11 One of the objectives of support for agriculture in the LFAs is to encourage the conservation of the countryside. Whilst there are no direct measures of effectiveness, it is one that needs to be considered in the light of the current review of rural policy in general and other developments including, in England and Wales, the Countryside Commission's report on future policy for the uplands.

6.12 Even if the policy is effective in its demographic objective, the cost is high, especially when the full cost of support for agriculture under the CAP is taken into account, and not just the additional cost of special support in the LFAs. On a full cost basis, it appears likely that the public expenditure on agriculture in the LFAs is comparable to the total net farming income in these areas.

#### Options for Consideration

6.13 The Group accepts that the objective of support for agriculture in the LFAs is primarily social and that its purpose is to sustain the rural economy and society and in particular to counteract the pressures leading to rural depopulation in the LFAs.

6.14 The present levels of support for the LFAs in the United Kingdom as well as the extra support in Northern Ireland are reviewed and adapted annually to meet changing economic conditions. In the latter case, the expenditure falls within the block grant of the Secretary of State for Northern Ireland. The agricultural departments consider that a major reduction in the level of support for hill farming would have damaging consequences for agriculture and employment in the LFAs: they point out that the livestock subsidies are reviewed annually by Ministers providing an opportunity to consider the precise level and structure of these subsidies.

6.15 On the other hand, the Treasury and No 10 Policy Unit argue that in the light of the very high total levels of support for agriculture in the LFAs, it is not clear that a reduction would necessarily result in any significant further reduction in the population in the LFAs. It is suggested therefore that two other possible options should be considered -



- a. reducing LFA capital grant rates;
- b. changing the basis of HLCA payments.

6.16 The Treasury and No 10 Policy Unit have recommended in paragraph 4.11 above that expenditure on capital grants should be substantially reduced including in the LFAs. The effect would be a substantial fall in the total grant payable in the LFAs. The Treasury and No 10 Policy Unit argue that capital grants are not as appropriate as HLCAs as a means of maintaining rural income and employment and that the incidence of capital grant payments is uneven. On the other hand, the agricultural departments point out that the higher rates of grant do provide about a quarter of the total extra support in the LFAs and are thus integral to the overall support for farming in the LFAs; moreover the cost of capital works is much higher than elsewhere.

6.17 Since HLCAs are paid on a headage basis the support provided increases with herd and flock size. The grounds for making HLCA payments irrespective of the size of the enterprise are -

- a. under the LFA directive aid is given in recognition of the inherent disadvantages of the land;
- b. major reductions in aid to large scale farms on poor land would lead in some areas to the cessation of farming with implications for the rural economy;
- c. in the case of many hill sheep farms large flocks are essential to yield a living for a farm family.

6.18 If reductions in HLCAS are to be made, there are two main possibilities -

- a. reducing HLCA rates. If these were reduced by two thirds to the minimum prescribed in Community legislation (£12.26 per cow; £1.89 per sheep), this would save some £60 million a year at current herd/flock levels. It would, however, lead to a marked reduction in income for all

current beneficiaries including those with the smallest holdings (40 per cent in England and Wales and substantially more in upland farms in Scotland);

b. restricting the availability of HLCAs either by reference to the 'comparable income' criterion found in Community legislation (ie deny payments to farmers whose income exceeds the average for the region concerned) or by limiting HLCAs to, say, the first 25 "livestock units" (equivalent to 25 beef cows, 170 hill and upland sheep) providing maximum grant entitlements of around £1,000 for beef and hill sheep and £750 for upland sheep. The incomes of medium and large holdings would be reduced by between 50 and 75 per cent and the grant savings would amount to around £50 million a year. It should be noted that the United Kingdom has hitherto rejected attempts by other member states notably France to introduce restrictions of this sort which would hit the United Kingdom harder than other member states with larger proportions of small farms.

6.19 Ministers are invited to consider:

a. whether to continue to take the opportunity of the annual reviews of livestock subsidies to consider the precise level and structure of these subsidies each year; or

b. whether capital grants in the LFAs should be reduced substantially as part of a general reduction in capital grants; and whether the rates of HLCAs should be significantly reduced towards the minimum permitted under the CAP or restricted to a certain maximum flock or herd size.

**SECTION 7: AGRICULTURE AND TAXATION**

7.1 As noted in Section 2, there are only three main differences between the tax treatment of agriculture and other sectors of the economy - the de-rating of agricultural land and buildings throughout the United Kingdom; the rebate of fuel duty on tractors and certain other agricultural machinery; and concessionary rates of vehicle excise duty for farmers' goods vehicles.

7.2 The exemption from rates of agricultural buildings and land throughout the United Kingdom represents a major difference in the tax treatment of agriculture relative to other sectors; the precise estimate of its Exchequer cost depends on the assumptions adopted about how land and buildings would otherwise be rated but a central estimate would be around £430 million per annum. The Group's terms of reference specify however that the rating of agricultural land or buildings are not to be considered as options for reducing Exchequer support to agriculture, because of a recent Government commitment to maintain de-rating.

Rebate of Fuel Duty on Tractors and Other Agricultural Machinery

7.3 Farmers' tractors and other agricultural vehicles have a special relief allowing them to run on public roads using rebated fuel. The original justification for the relief was that since such vehicles did not make significant use of road space, they should not pay full duty. The relief is available to special vehicles in other industries also, for example on mobile cranes, works trucks and road construction vehicles. This special treatment is worth about £10 million per annum to farmers.

7.4 The Treasury argue that relief for agricultural vehicles is more generous than for comparable vehicles in other industries, permitting travel over longer distances and for wider purposes eg. haulage on public roads. They consider that there is a case for bringing the restrictions on travel distances applying to the relief on agricultural vehicles more into line with that for vehicles used in other industries.

7.5 The agricultural departments consider that agriculture is not treated more favourably than other industries. The conditions applied to the relief for a particular type of vehicle must reflect the circumstances of the

industry: there can be no objection in equity to the use of rebated fuel in moving machinery from one part of a farm to another, often over some distance, bearing in mind the scattered nature of some farming units. They therefore consider that the travel distances permitted for agricultural vehicles are justified and that the relief should be continued on the present terms.

#### Concessionary VED for Farmers' Vehicles

7.6 Farmers' goods vehicles pay VED at much lower rates than apply generally: the rationale is again that such vehicles make only limited use of public roads. The rates of VED payable for agricultural vehicles vary by the type of vehicle; but some of the largest vehicles enjoy the greatest proportional reduction on the normal VED rates. The total value of the concession is about £15 million per annum.

7.7 The Group agreed that the case for the preferential rates of VED would be considerably weakened if it could be established that certain types of agricultural vehicles make extensive use of public roads. The Department of Transport, in consultation with the Ministry of Agriculture, Fisheries and Food, are reviewing the VED treatment of farmers' vehicles taking into account evidence on the extent of their use of public roads. The Group recommend that the scope for reducing Exchequer support to agriculture through changes in the VED treatment of farmers' goods vehicles should be considered in the light of that review.

#### Options for Consideration

7.8 Ministers are invited to consider the following options:

- i. The Treasury and No 10 Policy Unit consider that travel restrictions applying to the relief for fuel excise duty for agricultural vehicles should be brought into line with that for vehicles used in other industries;
- ii. Depending on the outcome of the review being undertaken by the Department of Transport and MAFF, the Group consider that it may be appropriate to increase the VED payable on certain types of farmers' goods vehicles.

**SECTION 8: SUMMARY AND CONCLUSIONS**

8.1 The Group was asked to establish the cost of support for agriculture; to consider the scope for reductions in UK domestic support; and to examine and prepare options for reductions.

Support for Agriculture

8.2 Total support for agriculture through public expenditure and the protection of agriculture from imports is large and proportionately much greater than for manufacturing. It is some seven to ten times that given to manufacturing, measured in relation to their respective contributions to GDP. It is however comparable to the levels of support for agriculture given by many other developed countries.

8.3 Most of these costs reflect market support under the Common Agricultural Policy (CAP) in the form of guaranteed prices for unlimited output. They can best be reduced by securing reforms of the CAP; and this is the major policy objective of the agricultural departments. The Group fully endorses that policy.

8.4 While UK views are making an impact, as the recent decisions on CAP prices and milk quotas illustrate, continuing effort to keep down CAP expenditure will be necessary, in view of the pressure to increase CAP spending from other member states.

8.5 The total cost of domestic public expenditure support is currently £830 million; its principal components are assistance to capital and labour (eg capital grants and the Agricultural Training Board); the provision of support services (eg Government financed R & D, and the Agriculture Development and Advisory Service); and assistance to the less favoured areas (LFAs). In addition there is some concessionary tax treatment.

The overall scope for reductions in UK domestic support

8.6 Most of the support given is directed at improving the economic performance of the agricultural industry. The agricultural departments consider that the assistance for capital and labour, provision of support services and concessionary tax treatment are required to enable British farmers to maintain productivity improvements; to match assistance available elsewhere in the EC, so that the United Kingdom can retain or enhance its market share; and to overcome structural weaknesses in the agricultural industry.

8.7 The Treasury and No 10 Policy Unit argue that the provision of assistance on the present scale is inconsistent with the Government's overall approach to economic policy. A basic principle is that so far as possible producers and consumers should take their own economic decisions based on market considerations, rather than Exchequer inducements; and that this will lead to the most efficient pattern of activity and a higher standard of living for the country as a whole. They consider that domestic support on the present scale aggravates the already serious misallocation of financial and real resources resulting from the CAP.

8.8 The agricultural departments consider that unilateral cuts in domestic support would make it more difficult for the Government to keep up the pressure for reform of the CAP, where the greatest reductions in costs can be secured. This is particularly so at a time when some other EC governments are increasing domestic support in response to downward pressure on CAP support, and when substantial reductions in UK farming income have taken place since 1982 and are in prospect for the year ahead. An overall cut in the level of domestic support would in their view be counterproductive; but some changes in the emphasis and pattern of support may be appropriate.

8.9 The Treasury and No 10 Policy unit argue that the volume of United Kingdom domestic support should be substantially reduced to allow resources to flow out of agriculture into more productive use elsewhere, at a net gain to the economy.

8.10 Before looking at specific options Ministers will need to form a view on the following strategic issue:

- whether an overall substantial reduction in the level of domestic support, as opposed to changes in emphasis, would prejudice the Government's ability to keep up the pressure for further reform of the CAP and damage United Kingdom agriculture; or
- whether domestic support for agriculture should be substantially reduced to bring it more into line with the Government's economic policies generally and as a more logical accompaniment to United Kingdom efforts to reduce CAP market support.

#### Options for Reductions

8.11 Total UK expenditure on capital grants (including the supplements in LFAs) is around £200 million pa. Two main schemes operate both under EC Directives: one (AHGS) is largely within the control of the UK, the other (AHDS) is a mandatory scheme under an EC Directive. Most of the support goes towards buildings and works and field drainage, and to the dairy and cereal sectors.

8.12 There is no quantitative evidence on the effect of capital grants in the past. The agricultural departments consider that, without grant aid, investment would have been lower and the growth of output and improvement in efficiency less substantial. The Treasury and No 10 Policy Unit take the view that there will have been a considerable amount of 'deadweight' expenditure on projects which would have proceeded unaided; and that where grants have induced investment, they are likely to have encouraged the inefficient use of resources and contributed to Community surpluses.

8.13 The agricultural departments consider that some changes in the grant structure may be necessary to avoid grant aid for products in surplus; to enable the industry to adjust to changing circumstances; to promote greater efficiency, not least in the smaller farms; and to take account of conservation requirements. But they prefer to await the outcome of a review of the EC Structures Directives now under way before taking a view on the scope for changes in the grant structure; and they consider that changes should be on a Community-wide basis to avoid disadvantaging United Kingdom farmers.

8.14 The Treasury and No. 10 Policy Unit consider that grant aid should be substantially reduced in order to avoid the diversion of further resources to agriculture at a net cost to the economy. They would ideally wish to abolish both the schemes; but the EC Structures Directives almost certainly rule that out.

The options for reductions are:

- to decide now to reduce expenditure on capital grants in ways designed to reduce average grant rates by about two thirds to 10 per cent throughout the country, with the detailed arrangement to be worked out in the light of the EC review (recommended by the Treasury and No 10 Policy Unit); or
- to await the outcome of the EC review before considering the future shape of the grants schemes (recommended by the agriculture departments)

8.15 Agriculture benefits from Exchequer grants to water and other authorities for drainage schemes to improve land drainage and flood protection. Government involvement reflects the need to appraise each scheme to take account of wider costs and benefits, including the impact on non-agricultural areas; and the difficulty of organising and paying for the substantial long-term investment involved in other ways. The total cost in rural areas is currently about £66m pa.



8.16 Following an interdepartmental review, Ministers concluded that there should be a diminution in the rates of grant (which in the Treasury's view should not exclude their abolition) and that wherever possible a significant proportion of drainage costs should be met by the direct beneficiaries. At present the cost of most schemes is shared between the taxpayer and local ratepayer. A final decision will await the outcome of a consultation exercise due to begin shortly. The agreed option is:

- to consider in the light of the response to the forthcoming consultation document, how, and to what extent, expenditure on land drainage and flood protection might be reduced (recommended by the Group)

8.17 The Agricultural Training Board (ATB) is responsible for providing training in agricultural employment throughout Great Britain. Government involvement is designed to improve labour productivity and overcome the difficulties of organising training in a widely scattered industry. The cost is £8m pa. Current policy is to reduce reliance on the Exchequer by increasing charges for courses. The Treasury argue that the board should be wholly financed by agriculture in parallel with training in other industries. The agricultural departments are opposed to a significant reduction in Exchequer support: they argue that too large or too rapid a fall would lead to an unwarranted decrease in training. The options for reductions are:

- to increase and extend charges, so far as is consistent with maintaining an appropriate level of ATB training (recommended by agricultural departments), or
- to make the ATB self-financing at whatever level of activity the industry is prepared to pay for, through increasing and extending charges or raising a levy from the agricultural industry (recommended by the Treasury and No 10 Policy Unit)

8.18 Publicly funded R & D (currently around £170 m pa) is aimed at increasing agricultural efficiency; safeguarding and improving food quality; environmental protection; and protection of animal and human welfare. Though comparisons are inevitably approximate, in relation to its contribution to GDP, the agricultural industry receives about three times as much public support for R & D as manufacturing (excluding defence) and perhaps about twice the support to R & D for agriculture in France and Germany. The Group consider there may be scope for a greater quantity of commercially oriented (as distinct from basic and welfare-related) research to be financed by the private sector, though there are practical problems.

8.19 The agricultural departments consider that without continued Exchequer support, the level of R & D would fall and harm productivity prospects. They note the growing concern about agriculture and the environment and the need to strengthen R & D in such areas. They are opposed to arbitrary reductions in the scale of support for R & D and wish to await the advice of a new Priorities Board which has been set up to advise on the allocation of R & D budgets. The Treasury and No 10 Policy Unit recommend substantial reductions in view of the relatively high level of publicly funded R & D on agriculture in the UK compared with that for manufacturing and compared with that on agriculture in France and Germany.

8.20 The options are:

- to halve the amount of R & D funded by the agricultural departments and encourage the industry to rely on more collective funding of R & D (recommended by the Treasury and No 10 Policy Unit); or
- to consider the redirection of the R & D effort, in the light of the advice from the new Priorities Board (recommended by the agriculture departments)

8.21 The Agricultural Development and Advisory Service ADAS has three main functions- statutory work advice and promotion and in house R & D. Its total cost is £120 m pa. The Group accept that the statutory functions must continue, though there may be scope for reductions in regulatory work, more contracting out and more charging. The advisory services are being considered in a review by Professor Bell, the newly appointed Director General of ADAS. He is examining how far the services should be provided by the public sector; how far they should be provided free; and whether they should be confined to the small farmer. The options for reductions are:

- to decide in principle now that the provision of free advisory services should be ended; and to consider whether this should be done by charging, privatisation or withdrawing services in the light of Professor Bell's report (recommended by the Treasury and No 10 Policy Unit); or
- to consider the scope for reductions in the light of Professor Bell's report (recommended by the agriculture departments)

8.22 As part of the review Professor Bell is also examining whether there is scope for further charging for activities within the animal health programme (cost £50 m pa). The agreed option is:

- to consider the scope for reductions in expenditure in the light of Professor Bell's report.

8.23 Public expenditure for special support for agriculture in the less favoured areas is about £154 million pa. The main forms of support are hill livestock compensatory allowances; additional capital grants; and special measures in Northern Ireland. The aim is to ensure the continuation of farming, thereby maintaining population levels in the LFAs. Total public expenditure on agriculture in the LFAs is comparable to their total net farming income.

8.24 The agricultural departments consider that a major reduction in the level of support for hill farming would have damaging consequences for agriculture and employment in the LFAs; they point out that the livestock subsidies are reviewed annually by Ministers and that this provides an opportunity to consider the precise level and structure of these subsidies.

8.25 The Treasury and No 10 Policy Unit consider that some reduction could be made in the excessive amount of public expenditure devoted to support for agriculture in the LFAs and that the level of support could be reduced without significantly affecting population levels. The options for reductions are:

- to reduce the supplementary rates of grant for the LFAs substantially as part of a general reduction in capital grants; and to reduce the rates of HLCAs significantly towards the minimum permitted under the CAP or restrict them to a certain maximum flock or herd size (recommended by the Treasury and No 10 Policy Unit); or
- to consider the grant structure in the light of the EC review; and continue to consider the precise level and structure of the HLCAs at the regular annual reviews (recommended by the agricultural departments)

8.26 The main areas for concessionary tax treatment (other than rating which is outside the Group's terms of reference) are rebates of fuel duty for certain agricultural machinery and concessionary rates of Vehicle Excise Duty (VED) for farmers' good vehicles. Farmers' vehicles are allowed to travel using duty-free fuel over longer distances on public roads than in other industries: this costs £10 million per annum. Treasury believe the concession should be withdrawn; the agricultural departments consider it to be justified taking account of the industry's circumstances. Departments are reviewing the VED concession (worth £15 million) separately. The options for reductions are:

- to bring the travel restrictions, applied to rebated fuel duty for agricultural vehicles into line with that for vehicles in other industries (as recommended by the Treasury and No 10 Policy Unit), and
- to increase the VED payable on certain types of farmers' good vehicles, if the review suggests that would be appropriate (recommended by the Group)

## CONCLUSION

8.27 Ministers are invited:

i. to decide whether, in addition to continuing to exert the maximum effort to reduce the level and cost of CAP market support, they wish to make a substantial reduction in UK domestic support for agriculture;

ii. if so,

a. to indicate in which of the following areas of support options for reductions should be pursued:

- capital grants
- drainage
- Agricultural Training Board
- Research and Development
- Agricultural Development and Advisory Service (ADAS)
- Animal Health
- Less Favoured Areas
- taxation;

b. in the light of these indications, to instruct officials to pursue the options for reductions in detail in the course of this years Public Expenditure Survey, taking into account as necessary policy reviews in progress.

ANNEX A

## PROTECTION FOR UNITED KINGDOM AGRICULTURE: PRICE AND OTHER SUPPORT

£ Million

A. Price Support

export refunds basis (with ACP and  
NZ adjustment) 2715

import levy basis (no adjustment for NZ;  
ACP; includes est. for liquid milk) 5065

## B. Less higher cost of feed inputs refund basis

485

levy 665

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 2230

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 4400
C. Deficiency payments  
paid through IBAP

beef variable premium	116.0	
sheep (net of clawback)	126.9	
beef suckler cow	16.7	
sheepmeat annual premium	79.7	
oilseeds protein feeds	92.0	431.3
wool	3.2	
potatoes	10.9	14.1
Total		445

445

445

D. Horticulture

based on average rate of duty, say

50

50

## E. Total support through price mechanism A+B+C+D+E

2725

4895

F. Support through IBAP £m

total payments	1356.9
less stock build up	380.2 incl in A
less deficiency payments	431.3 incl in C
less subsidies on trade	266.7 incl in A
less other subsidies	208.5 incl in A

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 70

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 70
G. total market support E + F

2795

4965

/H. Other support

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H. Other Support (£m) - See Table 1

830

830

I. Total price and exchequer support

3625

5795

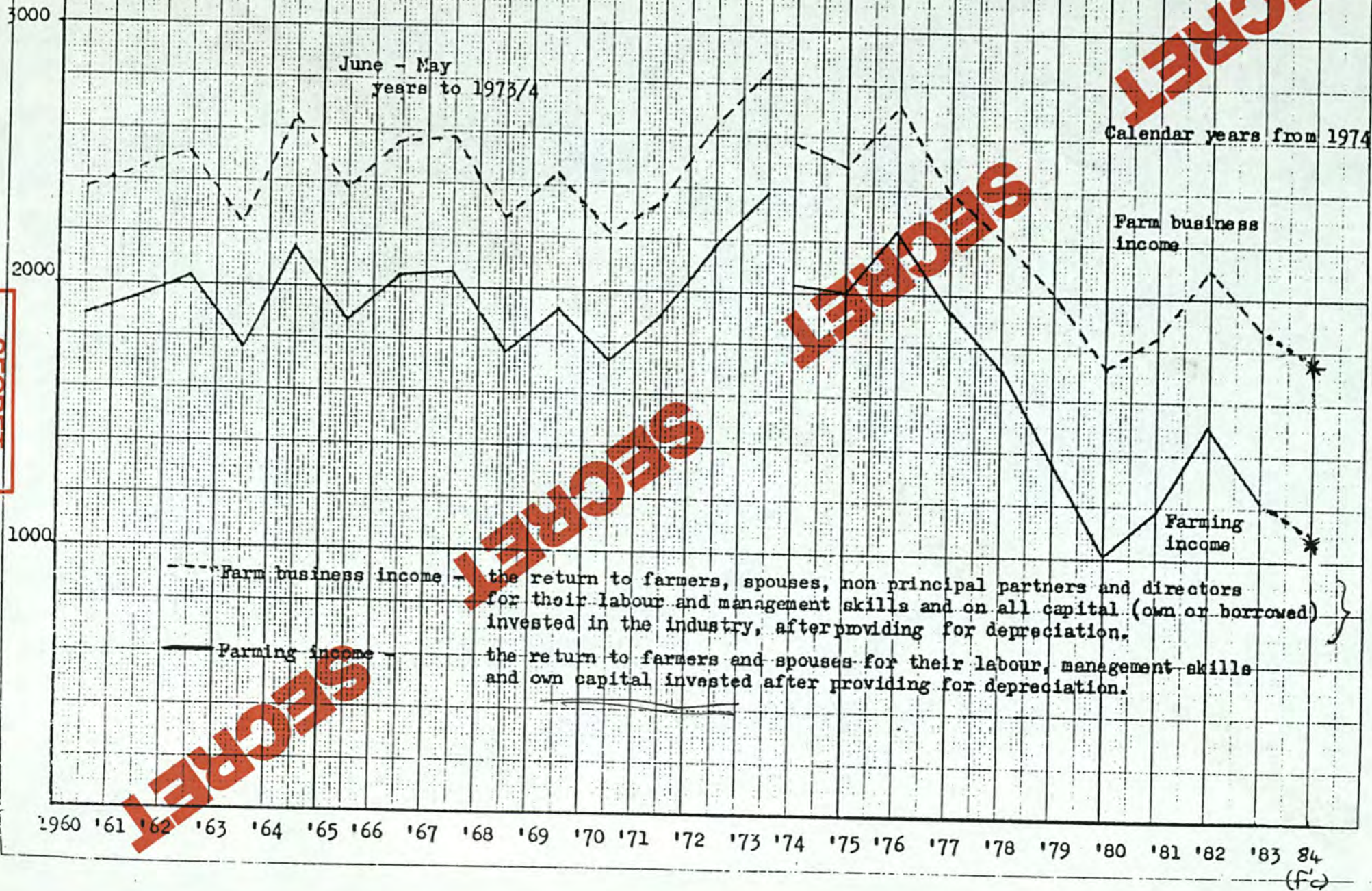
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£m  
(1980 prices)

FARMING INCOME AND FARM BUSINESS INCOME ADJUSTED BY GDP DEFLATOR TO 1980 PRICES



SECRET

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SECRET

SECRET

SECRET

PERSONAL

PERSONAL



## ANNEX C

## SUMMARY OF MAFF POLICY OBJECTIVES

A consolidated set of objectives of agricultural support expenditure might be stated as follows -

(i) As a member state of the European Community, we have accepted the five aims stated in the Treaty of Rome:

- (a) to increase agricultural productivity by promoting technical progress and by ensuring the rational development of agricultural production and the optimal utilisation of the factors of production, in particular labour;
- (b) thus to ensure a fair standard of living for the agricultural community, in particular by increasing the individual earnings of persons engaged in agriculture;
- (c) to stabilise markets;
- (d) to assure the availability of supplies;
- (e) to ensure that supplies reach consumers at reasonable prices.

(ii) Consistently with the Government's general economic policy, MAFF have four further aims:

- (f) to encourage improvements in the Common Agricultural Policy (CAP) which will lead to greater economic rationality and full recognition of UK interests;
- (g) within the improved CAP, to seek fair conditions of competition for UK producers and traders;
- (h) to foster an efficient and competitive agricultural industry, particularly through
  - the provision of sponsorship of research, development and advisory services;
  - the provision of financial support where appropriate;
  - measures to control disease, pests and pollution;
  - better marketing of its products;
- (i) to assist the industry to contribute to the rural economy, particularly in certain disadvantaged areas, and thereby to help to maintain population levels and to encourage conservation of the countryside.

## SCHEDULE OF GRANT RATES

	<u>Basic rate</u>			<u>LFA rates</u> per cent	
	AHGS	AHDS	AHCS	AHGS	AHDS
1. (i) Buildings, yards, and ramps	20	32.5	30	20	37.5
(ii) Buildings for drying and storing grain for in-farm use	20	32.5	-	20	37.5
(iii) Bulk dry stores and silos other than for grain storage	20	32.5	30	20	37.5
2.(i) Replacement of horticultural production buildings	20	32.5	30	20	32.5
(ii) Additional horticultural production buildings	-	5	-	-	5
(iii) Replacement of heated glass-houses	37.5	50	-	37.5	50
3. Insulation and temperature control of horticultural buildings	20	32.5	30	20	32.5
4. Waste disposal systems	20	32.5	30	20	37.5
5. Electricity or gas supply	20	32.5	30	20	37.5
6. Water supply or storage	20	32.5	30	50	50
7.(i) Field drainage	30	50	30	60	70

	<u>Basic rate</u>			<u>LFA rates</u>	
	AHGS	AHDS	AHCS	AHGS	AHDS
7(ii) Flood prevention works	20	32.5	30	50	50
(iii) (Scotland only) Arterial drainage and flood prevention	50	-	-	60	-
8. Roads, grids, bridges piers and jetties	20	32.5	30	40	50
9. Pens, dips and stalls	20	32.5	-	50	50
10.(i) Hedges and walls	20	32.5	30	60	60
(ii) Fences	20	32.5	30	50	80
11. Shelter belts	-	5	30	60	60
12.(i) Reseeding and regeneration of grassland	-	32.5	-	50	50
(ii) Land clearance and reclamation	-	32.5	30	50	50
(iii) Claying or marling	-	5	-	-	5
13.(i) Orchard grubbing	20	32.5	-	20	32.5
(ii) Replacement of apple and pear orchards with selected varieties	22.5	32.5	-	72.5	32.5
14. Stakes and wirework for					
(i) hop gardens	20	32.5	-	20	32.5
(ii) cane fruit	15	20	-	15	20
(iii) vineyards	-	32.5	-	-	32.5
15. Watercress beds	20	32.5	-	20	32.5

ANNEX D  
(cont)

	<u>Basic rate</u>			<u>LFA rates</u>	
	AHGS	AHDS	AHCS	AHGS	AHDS
16.(i) Plant or equipment for marketing harvested horticultural produce	15	20	15/25	15	20
(ii) Plant and equipment for potato storage and grading	-	-	15/25	-	-
(iii) Plant and equipment for pea, bean and vegetable cooling	-	-	25	-	-
(iv) Weighers for livestock collection centres	-	-	15/25	-	-
17. Glasshouse heating systems including boilers	15	20	-	15	20
18. Fish farming	-	5	-	-	10
19. Purchase of livestock	-	5	-	-	10
20. Preparation of development plans	-	32.5	-	-	32.5
21. Grain storage or drying					
(i) buildings and works	-	-	15	-	-
(ii) plant equipment	-	-	10	-	-



SECRET

2) cc Mr Redwood  
1) Mr Butler : to see 9  
3) CF : Await Official Group  
rept.

W.0438

28 June 1984

DMS  
29/6

MR DAVID BARCLAY, No 10

REPORT OF THE OFFICIAL GROUP ON AGRICULTURAL EXPENDITURE

- I attach a minute for the Prime Minister on the report of the Official Group on Agricultural Expenditure. These are made on the basis of the penultimate draft, as I shall be away when the report is finalised. But I understand that there are to be only minor drafting changes in the section on R & D and that the broad thrust of the overall recommendations will remain the same. I believe that the final version will go to Ministers early next week and would be grateful if you could feed in my comments at an appropriate state.

*RBN*

ROBIN B NICHOLSON  
Chief Scientific Adviser

SECRET



SECRET

W.0439

28 June 1984

PRIME MINISTER

REPORT OF THE OFFICIAL GROUP ON AGRICULTURAL EXPENDITURE

I have seen a copy of the report on agricultural expenditure. In it, Treasury and your Policy Unit recommend that public expenditure on agricultural R& D (with the exception of DES funding for the Agricultural and Food Research Council) should be halved. The agriculture Departments are opposed to any such reduction.

2. My comments are as follows:

a. As the report acknowledges, there is no formula that can be applied to decide on the "right" amount to spend on R&D. It also seems hard to suggest cuts in R&D in an industry that has been notably successful in the effective application of R&D, especially as far as increased productivity is concerned.

b. Nevertheless, the Advisory Council for Applied Research and Development (ACARD) (in its comments on the 1984 Annual Review of Government R&D, shortly to be submitted to you) reached some of the same conclusions as Treasury and the Policy Unit. ACARD have commented (i) that UK funding for agriculture is much greater than that of other European countries, when expressed as a proportion of the contribution of agriculture to GDP; and (ii) it is not clear that the existing split between Government support for R&D in agriculture and manufacturing industry is to the best advantage of the nation, the inference being that too much is currently going to agriculture, and too little to

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD (MAFF)

All MAFF's R & D has the following common objectives:

- i. to advance scientific knowledge relevant to agriculture (including horticulture), fisheries and food in order to increase the efficiency of industry;
- ii. to safeguard and improve the quality of food for the community; and
- iii. to protect the environment and prevent adverse social effects.

Within these general objectives are more specific aims:

- i. sponsorship and support of UK industry
  - a. to maintain and improve the competitive position, efficiency and productivity of the UK agriculture, food and fisheries industries;
  - b. to reduce imports and to increase exports;
  - c. to maintain and improve the quality (including nutritional quality) of fresh and processed foods;
  - d. to reduce wastage;
  - e. to ensure that the producer has available to him appropriate structures, machines, and mechanisation systems and that knowledge is available to use these in the most efficient and effective manner;
  - f. to develop new fisheries from presently under-exploited or un-exploited stocks with commercial potential.
- ii. to aid Government policy and decision making

-in particular to enable the UK Government to negotiate internationally in respect of fish stocks subject to EC agreements with third countries, and in respect of such sensitive subjects as whales and other cetaceans and seals.

iii. consumer and environmental protection

- a. to protect the safety of food;
- b. to minimize any adverse impact of the agriculture and food industries on the environment;
- c. to protect life and property on both urban and agricultural land against flooding and waterlogging.

iv. conservation

- a. to avoid danger to humans and reductions in the value of UK landings or reduction in the stocks due to fish disease and parasitic infection;
- b. to protect and improve the health and welfare of farm stock;
- c. to conserve the stocks and manage the fishery in respect of those species of fish which are of commercial importance to the UK fishing industry;
- v. to support necessary basic research in support of the other objectives.





cc- Mr. Grevson  
Mr. Williamson



70 WHITEHALL, LONDON SW1A 2AS

01-233 8319

~~From the Secretary of the Cabinet and Head of the Home Civil Service~~

ICE
Ref 4084/136
13 JAN 1984
FILE INSTRUCTION
FILE No .....

Sir Robert Armstrong GCB CVO

12 January 1984

The Prime Minister has agreed with the Minister of Agriculture and the Chief Secretary, Treasury that the time has come for a review of the present system and level of United Kingdom domestic support for agriculture. She has instructed me to set up an Official Group on Agricultural Expenditure under Cabinet Office Chairmanship with the following remit:

- i. to establish, on the basis so far as possible of agreed figures, the present cost of agricultural support and the degree to which the scale of this support may exceed the scale of support provided for other sectors of the economy such as manufacturing industry;
- ii. to consider, in the light of likely developments in the Common Agricultural Policy following the post-Stuttgart negotiations, the scope for changes in UK domestic support for agriculture;
- iii. in particular to examine each of the present measures of UK domestic support (other than rate relief on which there has been a very recent Government commitment) with a view to establishing whether it should continue and at what level; and to prepare options for reducing expenditure to be considered by Ministers in good time for decisions to be taken in the next Public Expenditure Survey.

The Group will consist of representatives from the following:

No 10 Policy Unit  
HM Treasury  
Northern Ireland Office  
Scottish Office  
Welsh Office  
Ministry of Agriculture, Fisheries and Food.

/In addition

Sir Michael Franklin KCB CMG

SECRET AND PERSONAL

In addition to the Cabinet Office Chairman (Peter Gregson) the Group will also include David Williamson who heads the European Secretariat in the Cabinet Office. Other Departments may be invited if required. The Secretaries will be David Durie and Barry Potter in the Cabinet Office.

I should be grateful if you and other recipients of this letter would let me have the names of their representatives, which should normally be at Deputy Secretary or Under Secretary level, by Tuesday, 17 January.

The knowledge of the existence of the Group should be confined to the Ministers concerned and to those officials who take part in its work. Its papers will be marked SECRET AND PERSONAL, will be circulated only to the members of the Group and to those concerned in the Cabinet Office, and should be seen only by those whom the recipients specifically authorise to see them for the purpose of giving essential assistance with the work of the Group.

I am sending copies of this letter to Peter Middleton (Treasury), Robert Andrew (Northern Ireland Office), Kerr Fraser (Scottish Office), Trevor Hughes (Welsh Office) and Robin Butler (10 Downing Street).

ROBERT ARMSTRONG

SECRET AND PERSONAL

Subject  
c. Master Set



file K67  
cc Nick Owen

10 DOWNING STREET

From the Private Secretary

22 December 1983

AGRICULTURAL EXPENDITURE

The Prime Minister held a meeting yesterday to discuss agricultural expenditure. Present were your Minister, the Chief Secretary, Mr. Gregson, Cabinet Office, and Mr. Owen, Policy Unit.

The Prime Minister recognised the importance of the agricultural industry but felt that major changes were needed to the system of agricultural support. There was substantial over-production in the Community and in these circumstances it did not make sense to provide incentives to increase production which would only make those surpluses worse. It was also important to break away from the concept of guaranteeing incomes which was something which no other sector of the economy enjoyed. She had noted the extensive assistance and reliefs enjoyed by the agricultural sector which went beyond support for production and extended to favourable treatment on training, research, advisory services (which were provided free of charge), rates and capital grants. It was important to be aware of the cumulative impact of these measures, and the unfavourable comparison with assistance provided to the much larger manufacturing sector.

The Minister of Agriculture contested the figures in the Treasury paper for the cost of the CAP to consumers and the cost of subsidies to UK agriculture. Rather than the figures of £4½ b. and £3½ b, his estimates put these figures at £2½ b. and £2.1 b. The difference was produced by estimating world prices using export refunds rather than import levies and by taking account of preference for CAP products and New Zealand butter which could not be attributed as a benefit to UK farmers.

The Minister of Agriculture further argued that the comparison between support for agriculture and for industry was biased by omitting, for example, DTI's research programme, ECGD support for exports, and DTI's administrative costs.

He assured the Prime Minister of his total support for the efforts to reduce the costs of the CAP which accounted for two-thirds of public expenditure on agriculture in the UK. He fully recognised that there would have to be painful adjustments particularly for grain and milk producers. It would, however, be wrong to embark on major

/reductions in the

S E C R E T

- 2 -

reductions in the remaining one-third of domestic support, and particularly capital grants, before the shape of the new CAP was apparent and before the new structure proposals from Europe had been settled. He drew attention to the fact that he had made some important economies already on capital grants in the course of the PESC round.

He was prepared to take a fundamental look at the advisory services, and at agricultural research (the latter was the subject of a separate meeting).

Summing up the discussion, the Prime Minister said that the best way forward was to ask the Secretary of the Cabinet to establish an Official Group, under Cabinet Office chairmanship, on which the Ministry of Agriculture and the Treasury would be represented. This would first work to establish, on the basis so far as possible of agreed figures, the present cost of agricultural support, and the degree to which the scale of this support exceeded the scale of support provided for other sectors of the economy such as manufacturing industry; it would then, in the light of likely developments in the CAP following the post-Stuttgart negotiations, consider the scope for changes in UK domestic support for agriculture. Officials should examine each of the present measures of UK domestic support (other than rate relief on which there was a very recent Government commitment) with a view to establishing whether it should continue and, if so, at what level. Options for reducing expenditure should be prepared for consideration by Ministers in the summer, in good time for decisions to be taken in the next Public Expenditure Survey. The papers would need to be handled with particular care and the Secretary of the Cabinet would be asked to ensure that the Official Group made appropriate arrangements to that effect.

I am copying this letter to John Gieve (Chief Secretary's Office), Richard Hatfield (Cabinet Office) and Mr. Gregson.

Your sincerely  
Andrew Turnbull

ANDREW TURNBULL

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.



COVERING SECRET

P.01187

MR TURNBULL

AGRICULTURAL EXPENDITURE

Many thanks for giving me the opportunity to see your letter before despatch. I think that it might be safer to classify it as SECRET. On the first page "structured" (two lines from the bottom) is no doubt meant to be "structure".

2. I have suggested in the attachment some minor changes to the summing up paragraph which are I hope self-explanatory.

*Pg*

P L GREGSON

22 December 1983

COVERING SECRET

Summing up the discussion, the Prime Minister said that the best way forward was to ask the Secretary of the Cabinet to establish an Official Group, under Cabinet Office chairmanship, on which the Ministry of Agriculture and the Treasury would be represented. This would first <sup>work</sup> ~~week~~ to establish, on the basis so far as possible of agreed figures, the present cost of agricultural support, and the degree to which the scale of this support ~~exceeded~~ the scale of support provided for other sectors of the economy such as manufacturing industry; it would then, in the light of likely developments in the CAP following the post-Stuttgart negotiations, consider the scope for changes in UK domestic support for agriculture. Officials should examine each of the present measures of UK domestic support (other than rate relief on which there was a very recent Government commitment) with a view to establishing whether it should continue and, if so, at what level. Options for reducing expenditure should be prepared for consideration by Ministers in the summer, in good time for decisions to be taken in the next Public Expenditure Survey. The papers would need to be handled with particular care and the Secretary of the Cabinet would be asked to ensure that the Official Group made appropriate arrangements to that effect.



10 DOWNING STREET

Prime Minister

Two additions to the papers you saw at the weekend

- (i) Dr Nicholson's note
- (ii) Mr Gregson's brief.

The objective must be to get officials working actively on options for savings but one of the two routes in Mr Gregson's paras 12 and 13. To achieve this it is necessary to dispose of "post Stuttgart" as a delaying tactic.

AT  
20/12



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P.01185

PRIME MINISTER

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Agricultural Expenditure

BACKGROUND

*Flag A (MAFF)*  
*Flag B (Tsy)*

Your Private Secretary's letters of 28 September and 8 November commissioned papers from the Ministry of Agriculture, Fisheries and Food and the Treasury on agricultural expenditure. The purpose was to prepare for a meeting on the 'longer-term options for reducing the resources which the Government devotes to agriculture'. Both departments have now provided papers. They are to be discussed at an informal meeting tomorrow under your chairmanship.

2. The MAFF paper suggests that the Government's principal objectives over the next few years should be:

(a) to correct the excesses of the CAP to the maximum extent possible;

(b) to ensure that British agriculture enjoys conditions of fair competition within the improved CAP; *even to produce surpluses*

(c) to enable British farmers to raise their efficiency at least as rapidly as in the past; to produce surplus?

(d) to sustain the rural economy, particularly in certain disadvantaged areas which rely heavily on livestock farming.

It also suggests that there should be studies of the provision of advice to farmers and development work by the Agricultural Development and Advisory Service (ADAS); the





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organisation of R & D for agriculture and food is already under review. In general, however, the paper takes the line that it would be premature for the UK to reduce support to agriculture while negotiations in the Community on adjustments to the CAP are in progress.

3. The Treasury paper draws attention to the high level of support for agriculture, relative both to other industries and to its contribution to the economy. (Not all the figures in the paper are accepted by MAFF: in particular, the figure of £4½ billion a year for the cost of the CAP to UK consumers depends on rather artificial assumptions and is almost certainly too high. MAFF economists might argue for a figure more in the range of £2 to £3 billion. Nevertheless, the proposition that agriculture receives exceptionally favourable treatment can hardly be disputed). The Treasury paper therefore concludes that there is no case for substantial support from the Exchequer, over and above what agriculture receives through the CAP; and that officials should prepare options for reducing expenditure from the Exchequer in time for decisions to be taken before next year's public expenditure survey.

4. I understand that you have received briefing from the Policy Unit on the substance of the issues, and that the Chief Scientist is submitting advice on agricultural R & D. This brief concentrates on handling the meeting and the organisation of future work.

#### MAIN ISSUES

5. I suggest that the main issues to be discussed at your meeting might be:

- i. how far does the Government wish to support agriculture in the United Kingdom?

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ii. in the light of i., which, if any, areas of agricultural expenditure should be reviewed; and if so, should this be done:

- immediately; or
- in due course, subject to the outcome of the post-Stuttgart negotiations?

iii. how should further work be organised?

How far should UK agriculture be supported?

6. The case for support for UK agriculture is variously argued on economic, social and political grounds. From the economic point of view there is a fundamental difficulty about the present level of agricultural support. It leads to more production than the market needs. It does so moreover by placing a burden on other sectors of the economy. It can properly be argued that the main problem is the CAP, and that the Government is already trying hard to deal with that problem in the post-Stuttgart negotiations. But this is not the whole problem. There are several ways in which the UK Government supplements the CAP by national measures of assistance on a scale denied to other sectors of the economy (eg capital grants of 30 per cent on average irrespective of geographical area, compared with a maximum rate of 22 per cent to manufacturing industry in special development areas only, and highly subsidised R & D, technical advice and training). Moreover the present level of the Green Pound, undervalued by about 6 per cent, increases the CAP support prices and increases the costs to the consumer. Is there not an economic case for reducing agricultural support within our own control, irrespective of our effort to reform the CAP?

7. It is argued by MAFF that reform of the CAP might cause other Community members to rely more on national aids and that we might

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have to increase rather than reduce our national aids to help UK agriculture to remain competitive. But if we secure reform of the CAP, why should we object if other countries choose to subsidise their farmers and so enable us to buy cheaper food? (One of the main 'anti-dumping' arguments - that once domestic producers had been driven out of business overseas suppliers will increase their prices - is hardly likely to be valid in this case).

8. If it is accepted that the case for agricultural support on anything like the present scale is weak, it may nevertheless be argued that there are important social and political arguments, for example for preserving rural communities and to take account of the degree of dependence on agriculture of Scotland, Wales and Northern Ireland. But, as in the case of regional policy, it may be necessary to ensure that resources are deployed, so far as they are within the UK Government's control, in a manner more closely directed to the Government's objectives.

---

#### Review of UK measures

##### Timing

9. If it is agreed that a review of measures within the UK's control is desirable, it is necessary to consider how far such a review might weaken our position in the post-Stuttgart negotiations. A note summarising the UK position in the negotiations, with which you are familiar, is annexed. MAFF evidently feel that there is some danger that the UK's position could be weakened by changes in domestic policies. It should be borne in mind however that a review of UK domestic measures, even if set in hand now, will take some time and it is unlikely that changes would be made before the next Public Expenditure Survey in the autumn. The post-Stuttgart negotiations ought to have made some progress by then. Moreover, although it might be tactically unwise to make changes in certain measures which benefit

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particularly certain groups of disadvantaged UK farmers such as hill farmers, it seems unlikely that changes in general measures of assistance such as capital grants would significantly affect the negotiations. Correcting the undervaluation of the Green Pound, as opportunity arises in price fixing, would be consistent with the UK view that CAP support prices are too high.

Particular measures

10. We understand that there is already a large measure of agreement between the Treasury and MAFF on the following.

Land drainage

Many of the outstanding issues have been resolved at a recent meeting between the Chief Secretary, Treasury and agriculture Ministers; officials are to draft a consultative document.

ADAS

Treasury officials are advising the Chief Secretary to agree to the suggestion that the new Director-General of ADAS should be asked to consider and report urgently on the scope for reducing, privatising, hiving-off or charging for the services provided to agriculture by ADAS.

Organisation of R & D

The organisation of agricultural R & D is already under review. The MAFF paper also indicates willingness to consider the scope for getting producers to finance research. The Chief Secretary is likely to welcome this and to try to build on it with a view to securing agreement that the whole scale of agricultural R & D, so far as it is financed by the taxpayer, should be reviewed.

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11. Other issues raised by the papers are as follows.

Capital grants

These are the largest single item of domestic agriculture expenditure. The discussion will be heavily influenced by the view Ministers take of the general issues mentioned above and the relevance of the post-Stuttgart negotiations.

Price support

There are some (fairly small) schemes of national price support, notably the variable beef premium. This is a form of deficiency payment, and hence a subsidy to consumers. Removing it would save at least £10 million a year. UK farmers would then have to rely on intervention, like other farmers in the Community; and the cost of beef would rise slightly.

Training

The whole cost of the Agricultural Training Board falls on the Exchequer. Other industrial training boards, so far as they are not being abolished, are funded by levies on their industry.

Hill allowances

The support for hill farmers which overlaps the CAP regime for beef and sheep meat serves a social purpose. Although it may be undesirable to make changes in this area until the post-Stuttgart negotiations are resolved (see para 9 above) some review of effectiveness may be desirable.

Tax allowances

Although tax allowances do not count as public expenditure they do, of course, affect the PSRB. Agriculture enjoys exceptional concessions through exemption from rates and a reduced rate of vehicle excise duty. There is, in principle,

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a strong case for reviewing these concessions. But the recent White Paper on rates said that the Government did not intend to reopen the question of the rating of agricultural land and buildings.

#### Revaluation of Green Pound

Revaluation of the Green Pound would reduce food prices, and support to agriculture. The meeting will wish to bear in mind that the 1979 Manifesto said that the Government would "aim to devalue the Green Pound within the normal lifetime of a Parliament to a point which would enable our producers to compete on level terms with those in the rest of the Community". The 1983 Manifesto claimed credit for reversing "the Labour Government's disastrous policy for the Green Pound which harmed British farmers". It need not however preclude the Government from correcting undervaluation.

#### Future work

12. The organisation of future work will depend on how far there is a basis for agreement between Agriculture and Treasury Ministers on how far UK agriculture should be supported. If there is fundamental dispute about that it may be necessary to assess the economic arguments in more depth in preparation for a further informal meeting under your chairmanship. If only because of the danger of premature leaks, you will probably not wish to commission anything which could be represented as a "major Government review of agricultural policy". Obviously the basic factual material must be provided by the Treasury and MAFF. However, if you felt it would be useful for the Cabinet Office to hold the ring for a small informal group of officials, and to take editorial charge of a further report to Ministers on the fundamental issues, we would offer our services. No doubt it would be desirable to involve the Policy Unit.

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13. If however there is sufficient common ground at the meeting it may be possible to ask Treasury and MAFF officials jointly to review the particular measures listed in paragraphs 10 and 11 above and to put forward options for consideration by Ministers in time for decisions to be taken before the <sup>start of</sup> next Public Expenditure Survey.

\* don't give  
impression that  
MAFF have  
until next  
Autumn.

#### HANDLING

14. You may find it helpful to divide the discussion into three main sections:

- i. how far support of UK agriculture is justified on economic, social and political grounds;
- ii. whether the post-Stuttgart negotiations need inhibit a review of those measures which are within the UK's own control;
- iii. particular measures.

On each of these it would be appropriate to invite the Minister of Agriculture, Fisheries and Food to open the discussion, and the Chief Secretary, Treasury to respond.

15. In the light of the views expressed in this part of the meeting you could then discuss, and give instructions for, the carrying out of further work.

#### CONCLUSIONS

16. Since it seems likely that the main decisions at the meeting will relate to further work by officials, it may not be necessary to aim at formal conclusions on the issues of substance. The main thing is that officials should have clear instructions, for each item of further work, on:

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- i. who is responsible for preparing any further report, and to whom the report should be addressed;
- ii. what the timescale is;
- iii. what, if any, guidance Ministers wish to give at this stage?

*Peg*

P L GREGSON

20 December 1983

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ANNEX

REFORM OF THE COMMON AGRICULTURAL POLICY  
- POST-STUTTGART NEGOTIATIONS

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1. The future of the Common Agricultural Policy is one of the central points in the European Community's continuing negotiations to follow up the Stuttgart European Council. The United Kingdom's main objectives on the CAP in those negotiations are to secure:

(i) Establishment of a strict financial guideline to hold the rate of growth of FEOGA guarantee expenditure markedly below that of Own Resources;

(ii) A commitment to a rigorous price policy, to implementation of effective guarantee thresholds (ie limits on the open-ended guarantees) whenever production exceeds or threatens to exceed the possibility of remunerative outlets; and to restraint in expenditure on all products.

(iii) Effective measures to cut back milk production, including a price freeze for a period of 5 years;

(iv) A commitment to narrowing the gap between Community cereals prices and prices on other markets.

In addition we are seeking agreement on a safety net which would limit the United Kingdom's net contribution to the Community's Budget by reference to United Kingdom GDP and not by reference to our unadjusted net contribution.



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2. The purpose of the strict financial guideline for FEOGA guarantee expenditure is to provide a new discipline for Community agricultural expenditure which has been missing to date. To be effective it will need to be accompanied by actual reforms of the CAP which will lead to the removal or diminution of structural surpluses for individual commodities with resulting reductions in CAP guarantee expenditure. The outcome of the negotiations on the safety net will affect the way the Government views Community expenditure in the United Kingdom. The case for additional FEOGA expenditure in the United Kingdom simply to reduce the size of our unadjusted net contribution to the Community Budget will become much weaker if the size of our net contribution is determined by reference to GDP. In these circumstances the economic benefits or otherwise of the expenditure will become considerably more important than hitherto. Following the failure of the Athens Summit to bring the post-Stuttgart negotiations to an end, they will not now come to a head before the European Council in March and may well continue to the June European Council.

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PRIME MINISTER

AGRICULTURAL EXPENDITURE

I am concerned that nowhere in the papers for your meeting on Agricultural Expenditure is there any indication of the importance of scientific changes in determining the economic scenario against which long-term policies on Agricultural Expenditure will need to be judged.

2. The facts are simple: over the last 25 years agricultural cereal yields have doubled in temperate climates, eg in the UK. The wheat yield has increased from 3.09 tonnes per hectare in 1958 to 6.40 tonnes per hectare in 1983. Even larger increases in land productivity have occurred in some tropical regions of the world, eg India.

3. These increases have occurred as a result of advances in agricultural science and technology, eg improvements in fertilisers, new pesticides and new plant varieties. Just when these advances might have been expected to plateau out, we have the vast new potential of genetic engineering and biotechnology.

4. Estimates of improvements from biotechnology vary widely according to people's assessment of what the latest scientific advances might yield. The minimum benefit is likely to be a further doubling of land productivity in the next 25 years but it could be a quadrupling or an even greater multiple. It is also uncertain as to whether the benefits will be different in different climates.

5. All this means that subsidies and support regimes for agriculture will become increasingly distorted as surplus increases. Less land will be needed to feed a stable population in the UK. Land will be freed for other uses: housing, leisure and perhaps to produce feedstocks for other industries: pharmaceuticals, petrochemicals, etc.

6. In my view, a sensible 25-year assessment of possible scientific advances and their likely impact on agriculture is essential if long-term policies are to be examined in the context of appropriate economic scenarios. I suggest that I work with your Policy Unit to prepare such a paper by the end of January.

7. I am copying this minute to Sir Robert Armstrong and Mr Mount.

RBN

ROBIN B NICHOLSON

Cabinet Office  
20 December 1983

PRIME MINISTER16 December 1983AGRICULTURAL EXPENDITURE SEMINAR

The Treasury paper explains the privileges enjoyed by agriculture, of almost every conceivable kind - protection, grants, free technical advice, lavish R&D, zero-VAT, derating, excise duty exemptions. The MAFF paper, far from exploring "longer term options for reducing the resources which the Government devotes to agriculture" as enjoined by Michael Scholar's letter of 28 September, defends these aids, and even anticipates increases in some of them.

You could begin by explaining the reason for the Seminar in the following terms:

in future, the Government will have to take account of a number of new, and mutually reinforcing pressures.

There is a mood now, as there has never been before, that agriculture's time has come. The agricultural lobby itself seems prepared to accept that they have had it too good for too long. This is surely the moment for a fundamental review of the whole, hitherto unquestioned philosophy underlying support for agriculture. There are three main aspects:

(i) Economic: the growing public indignation that farmers are shielded from pressures which the rest of the economy has to face. On the topic of the protection and the guaranteed prices of the CAP, agriculture receives assistance worth twelve per cent of its value added. Manufacturing industry, with little protection and no price support, receives only one third as much, and this is likely to decline;

(ii) The CAP: our first, and possibly unique opportunity to reform the CAP, and to limit our budget contributions, will put pressure on us to review our national policy towards agriculture. If we do secure the safety net, it will no longer be so important to adopt community programmes in agriculture, and elsewhere, as a means to reduce our net contribution. Second, the mechanisms which the Commission will need to adopt to restrain agricultural surpluses (the super-levy, or threshold guarantees) will penalise over-production. This

will raise a question mark against support for agriculture: for example, what purpose will support for the dairy sector serve in future if the increased yields realise only twenty five per cent of the intervention price?

(iii) The Environment: farmers are no longer seen as custodians of the environment. Many who grew up in the country can now scarcely recognise the landscape of twenty years ago. The uprooting of hedges, filling in of ponds, the drainage of water meadows, all on a heavily grant-aided basis, has made way for the two hundred horsepower tractor and combine. The substantial environmental lobby are not predominantly composed of cranks, harbouring nineteenth century notions of rural idylls. The bulk are probably ramblers and week-enders who simply want access to something they recognise as countryside. They would find it easier to accept that changes in agriculture have to take place, as they have to in all industries, if they did not have to pay for farmers' worst excesses out of their own taxation, and through inflated food bills. Where farmers have been restrained, under provisions of the Wildlife and Countryside Act, they have been compensated outrageously. Lord Cranborne has applied for £350,000 a year as compensation for not felling sections of Cranborne Chase. Other large applications are in train.

### Political Aspects

Up to now, serious consideration of agricultural support has been politically unthinkable. This is no longer the case. Agriculture, forestry and fishing now employ only 2.2 per cent of the working population. Even where they are concentrated geographically, they are a) not numerous; b) the Conservative majority is so large that it would be little affected even by a considerable swing in the agricultural vote.

There are 99 seats in which agriculture accounts for more than 5% of the working population; in only 39 is this percentage greater than 10; in only 10 it is greater than 15.

Of these 99 seats in which agriculture accounts for more than 5% of those employed, only four are held by the Conservatives with a clear majority over the nearest rival party (in each

case the SDP) of less than 10 per cent (Clwyd South West, Hereford, North East Fife, North West Norfolk).

### Discussion

In the discussion, Mr Jopling may invoke a number of arguments in support of existing policies:

- improved performance of agriculture due to support;
- the need to support agricultural incomes;
- the need to ensure "fair competition";
- the reform of the CAP
- "strategic" arguments.

Responses to these points are attached in the Annex.

### Summing Up

You might attempt to sum up the meeting along the following lines:

(i) in view of the changed circumstances we find ourselves in today (public unrest about agriculture's privileges, environmental issues, the Government's paramount need to reduce long-term public expenditure, the growing recognition by the farming community itself that changes are now overdue), you expect Mr Jopling to bring forward proposals for substantial reductions in expenditure over the next four years;

(ii) what we want to do is simply to bring agricultural support within the ambit of the main strands of Government policy towards its expenditure - securing greater value for money from Government expenditure through greater selectivity, efficiency, privatisation wherever possible. In view of the changed political climate, MAFF cannot stand aside from these important initiatives.

You look forward to proposals in respect of each of the major MAFF items:

(i) Capital Grants: the initial objective would be to bring down the average level of grant (30 per cent at present) fairly rapidly to around the average level for the rest of industry, with a view to eliminating them altogether;

(ii) Rural Drainage: MAFF should come forward with proposals for charging farmers for the cost of drainage undertaken mainly for the benefit of agriculture, or discontinuing this provision;

(iii) Research and Development: this expenditure is grotesquely swollen (2 per cent of agricultural output) It should be reviewed in the light of:

- 0.52
- the degree of support provided elsewhere (one half per cent of output in manufacturing). You could point out that economies are being made in the R&D-intensive defence area;
  - the capacity of the supplying industries (ICI, Fisons) to fund their own research. (The fragmented nature of farming itself is not a convincing argument for such high Government expenditures, since it is the supplying industries which drive this research forward.)
  - the prospective value of additional output likely to emerge from this research, within a reformed CAP, where surpluses will be penalised, in order to restrain them.

(iv) Advisory Services: you look forward to seeing proposals for charging for these services (which, as the MAFF paper points out, farmers "value highly"), with a view to early privatisation. (This is the one area in which the MAFF paper hints at prospects of reduced expenditure.) MAFF should also consider privatising its many quangos;



(v) Livestock Subsidies: MAFF should consider alternative, more cost-effective ways of relieving the relative hardship of hill farmers, in ways which identify genuine, full-time (as opposed to hobby) farmers.

These proposals should strengthen our position in negotiating down the CAP. If our own national support were less generous, we would be in a better position to argue for economies in the CAP.

We do not suggest that we should bring an end to the tax exemptions enjoyed by agriculture. This Government's concern is with reducing taxes, not increasing them. We suggest that farmers would resent tax increases more than withdrawal of assistance. It would be legitimate, however, to remind Mr Jopling of the value of these exemptions.

NICHOLAS OWEN

ANNEX DISCUSSION POINTS

- 1) "Thanks (partly) to Government support, agriculture has improved its performance, in terms of its contribution to the balance of payments and its rising productivity."

Comment:

- (i) the balance of payments argument is not relevant, as it was in the 1960s when, with a fixed Sterling parity, the balance of payments was a constraint on economic growth. The problem may recur when North Sea Oil runs out, but we are not subsidising other industries with this prospect in mind;
- (ii) there is no economic virtue in improving the balance of payments in any particular industry, whether it be agriculture, car manufacture, as an end in itself. What matters is whether, at the margin, the extra resources absorbed by an industry justify the marginal return;
- (iii) neither is productivity growth an end in itself. What matters is whether an industry satisfies real demands in an economic way. Productivity gains are valuable in so far as they contribute to this. In a market environment they automatically do so but in a contrived, CAP world, there is no assurance that they do. If they simply add to the surpluses they are of little value (even though the payments mechanism disguises this);
- (iv) the achievements of agriculture are less impressive when one remembers that farmers can in the last resort accept whatever grants and technical advice which are thrust at them, confident that in the last resort intervention funds will dispose of their output. In a sense, these achievements resemble those of Eastern European economies which have cranked out increased production which has not in many cases corresponded to what people actually want;
- (v) we can improve our standard of living by specialising in things we do best, but only up to the point where the return justifies additional resources involved. But we must be well beyond that point. The yields on marginal land,

for example, which is brought into production only as a result of massive grants for drainage, land improvement, rooting out of hedges, technical advice, cannot justify the additional resources involved, even accepting the inflated CAP price as a basis for valuing it. Without the taxpayer's contribution, farmers wouldn't bring this land into cultivation.

- 2) "We need to ensure that British agriculture enjoys conditions of fair competition within the improved CAP."

Comment:

(i) what is "fair"? The MAFF paper mentions other countries' aids, but does not quantify their aggregate effect; it would be difficult to do so;

(ii) the textbook answer to this familiar problem is: if foreigners want to waste their resources, let them do so; we will enjoy whatever benefits emerge;

(iii) our partners' agricultural sectors contain many small inefficient, almost peasant farmers, which pose problems for those countries. The fact that our partners - for the most part wealthier than ourselves and better able to indulge in these policies - choose to provide substantial support to solve this social problem, is no reason for us to match their aids, often to the benefit of millionaire "Barley Barons".

- 3) The CAP

The CAP dominates this whole subject. MAFF will attempt to play the CAP card in favour of support, whether the CAP, and the budget, are reformed or not. Under the present arrangements, MAFF can argue that increased productivity, and hence production is to our national benefit, since our partners will contribute 80% of the cost of disposing of surpluses.

Hence, there is no point in reducing our surpluses if others don't as well. The CAP can therefore be used as a justification for throwing resources at agriculture.

But if the CAP were reformed, MAFF would be quick to argue, as they do in the conclusions of their paper, that this may lead to the expansion of national support schemes, in other member states, and hence in Britain, to ensure "fair competitive conditions".

Comment:

The generous level of intervention prices removes the need to provide aid for most of agriculture: farmers are assured of profitable markets. If, as we hope, the CAP is reformed, this will:

(i) deal with our budget problem in a way which relieves us of the need to support dubious programmes mainly or partly as a means of recovering our money;

(ii) will impose, of necessity, such tight mechanisms on each commodity that surpluses will no longer be disposed of in ways which cost us little. To illustrate, if the "Super-Levy scheme" is introduced for milk, any surplus production in excess of some threshold will yield us only 25% of the intervention price. The significance of this has not sunk in at MAFF who are already talking in terms of "helping" the dairy sector to cope. The Super-Levy means that the grant and research-aided investment in milk production, undertaken in recent years and from now on, will yield very little indeed as they feed through into increased production. At a stroke, the Super-Levy would undermine what little economic point there currently is for support for the dairy sector;

(iii) the same argument will apply, with perhaps less dramatic effects, to all other sectors. If, as we hope, super-levies or automatic guarantee thresholds are introduced elsewhere, any increases in production will drive down the price.

4) "Self Sufficiency in Food is a Strategic Asset"

Although this consideration is not mentioned in the MAFF paper, Mr Jopling may suggest that self sufficiency would be of strategic value, in the event of our being blockaded, as we were in the two World Wars.

Comment:

(i) this view has not been credible for many years.

We prepare for an engagement of 30-60 days, such is the range, accuracy and power of modern weapons. There is no question of our being able to fight longer than 30 days unless we are reinforced across the Atlantic. If we are "blockaded", there is no question of us sustaining a serious conflict, let alone reaping several harvests in order to keep going;

(ii) we no longer recognise "strategic" industries. Even within the defence equipment industries, only five are judged to be "essential to defence". If shipbuilding, aircraft, tanks, ordinance are not "strategic", why on earth should agriculture be?

(iii) to the limited extent that we need to plan for food reserves, it is cheaper to stockpile than to maintain an artificially bloated agricultural industry.

5) "Farmers incomes have declined in real terms over the last ten years"Comment:

(i) we do not recognise the maintenance, or growth of incomes of any other private sector activity as a policy objective. Aggregate incomes in a number of sectors have fallen sharply. The time has come to pay less attention to farmers' incomes.

(ii) aggregate farm income is in any case a poor guide in a welfare context; it embraces millionaires, hobby farmers, and hill farmers. It disregards income from other sources.

6. "Research and Development is needed to maintain competitiveness."

Comment:

Yes, but the implications need to be understood. Yields in farming have increased rapidly in the last ten years. We will need fewer acres and cows to feed a stable population. We will not need to bring more marginal land into cultivation. Between 1972 and 1981, the yield of wheat per acre rose by 25%; that of oats by 23%; and of barley by 19%. The average dairy cow produced 21% more milk in 1981 than ten years before. As our grasp of biotechnology increase, these rates of increase could accelerate.

NICHOLAS OWEN

Covering SECRET

CGNO



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

From the Minister's  
Private Office

4

Andrew Turnbull  
Private Secretary  
10 Downing Street  
LONDON  
SW1

15 December 1983

Dear Andrew

AGRICULTURAL EXPENDITURE

You wrote to Robert Lawson on 8 November to request a paper for the Prime Minister's meeting on this subject. I must apologise for our failure to meet your deadline: this was caused in part by my Minister's need to be in Brussels for most of this week. The paper is now attached.

I am copying this to John Gieve and Richard Hatfield.

Yours ever

David

DAVID DAWSON  
Assistant Private  
Secretary

S E C R E T

AGRICULTURAL EXPENDITURE

Background

1. UK entry into the EC altered the pattern of Government expenditure on British agriculture with an increasing share of the total coming via FEOGA. This reflected a trend, started already under the Conservative Government of 1970-1974, towards more market support and less direct aid. Table 1 (attached) shows that expenditure on agriculture and food was somewhat lower as a proportion of total public expenditure between 1976 and 1982 than previously. The increase in the proportion in the last 2 years is due to the surge of CAP expenditure in the UK (see Table 2).
2. Over the past decade the volume of gross product in agriculture has increased by 33% with a decline in the labour force of 12%. Labour in manufacturing industry over the same period declined by 27%, but it was accompanied by a fall in the volume of gross product of 11%. Food imports fell by 10% in volume while food exports doubled and now account for 5% of our total export effort. Without this growth in agriculture our food trade balance would now be worse by some £1½ billion per annum.
3. The support given by the CAP and by direct Government aid has undoubtedly contributed to this increase in productivity. Output per person engaged in agriculture has risen by nearly 4% per annum, almost double the rate for manufacturing industry. Capital grants have improved the structure of farming and help provide the capital equipment required. Grant aided research and development has produced spectacular improvements eg in yields and the close connection between Government advisory services and the industry has produced a rapid application of new techniques. An improved cereal variety, for example, will become widely used in a matter of 2/3 years.
4. Between 1972 and 1982 producer prices rose by 238% and all input prices for agriculture by 309%. This cost/price squeeze has stimulated higher productivity and the benefits to the consumer have been strongly evident. ~~Since 1977, since when~~ Since 1977, food prices have risen some 20 per cent less than the RPI. The squeeze has also led to lower farm incomes in real terms.
5. There has been a much greater escalation of the cost of the CAP as a whole due inter alia to burgeoning expenditure on Mediterranean agriculture.



S E C R E T

Thus while non-CAP public expenditure on UK agriculture has grown by 5% per annum over the last decade the cost of the CAP has grown by 16% per annum. It is fundamentally this which has led to the high rate of the UK net contribution: we pay roughly 20% of the CAP and get back a proportion which has risen but is still only 10%.

6. In addition to support provided under the CAP all other Community Governments spend money supporting their agriculture outside the CAP system, probably less than we do in the case of the Netherlands and Denmark, who have no poor farming areas, and probably more than we do in the case of France and Ireland. Accurate comparisons are very difficult.

7. As regards taxation, agricultural incomes in the United Kingdom are treated almost identically to those of self-employed persons generally. \* In France, Germany and Ireland, the proportion of farm profits collected as taxes is between one third and one half that in this country. Agricultural land in the United Kingdom is exempt from rates. In the Netherlands, Ireland and Denmark there are also favourable arrangements for local or land taxes.

Future Objectives

8. Our principal objectives for agriculture over the next few years should be:-

- (a) to correct the excesses of the CAP to the maximum extent possible;
- (b) to ensure that British agriculture enjoys conditions of fair competition within the improved CAP;
- (c) to enable British farmers to raise their efficiency at least as rapidly as in the past; *To produce more surplus?*
- (d) to sustain the rural economy particularly in certain disadvantaged areas which rely heavily on livestock farming.

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\* In Table 4.7 of Volume 2 of the February 1983 Public Expenditure White Paper under Income Tax farming etc averaging of profits is costed at for 1982/83 £10 m and under Capital Transfer Tax agriculture relief is costed at £30 m.

S E C R E T

9. CAP Reform: the need to reduce the absolute cost of the CAP in real terms is clear. We have proposed radical action following the European Council in Stuttgart. Success will mean reduced support for agriculture in the UK as well as in the rest of the Community. As Table 2 shows market support for British agriculture via FEOGA has risen sharply in the last 2 years and in 1983/84 it is expected to account for 66% of total expenditure on agriculture in the UK. Much of this increase has arisen from the accumulation of surplus stocks, the avoidance of which through reform of the CAP regimes concerned would lead to a sizeable reduction in FEOGA expenditure in the UK. The running down of intervention stocks, the purchase of which is nationally funded, will benefit public expenditure while the run-down is taking place. The reduction of surpluses across the Community will make a major contribution to the aim of reducing the cost of the CAP, which in turn will benefit public expenditure by reducing the UK contribution to that cost. But the consequences for farm incomes in the UK are likely to be severe. Although real incomes recovered in 1981 and 1982 this followed a strong downward trend and once again in 1983 real income is forecast to decline (see Figure I attached). Rigorous constraint of CAP prices must be expected to accentuate this decline.

10. Fair competition: the second objective not only means that we should secure reforms in the CAP which do not put our farmers at a disadvantage but also demands a close watch on national aids in other member states of the CAP. Without exception the Governments of other member states have consistently given high priority to supporting their agricultural industries. They must be expected to consider whether the impact of CAP reform on their own industries needs to be moderated by national action. Up to now the Commission has been singularly unsuccessful in policing such aids. And given the social repercussions which will follow from CAP policies designed to bring supply and demand into better balance it may be necessary for the Community to allow certain forms of national aids to be given. Indeed, provided they are nationally financed it may be in our interest to encourage such a development. Until we know how far these developments will go it would be unwise to make radical changes in our domestic provision.

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11. Efficiency: direct Government aid has undoubtedly contributed to the increase in productivity and the improved performance referred to in paragraphs 2 and 4 above. Expenditure on measures to improve efficiency - see Table 3 attached - account for 60-65 % of national expenditure on agriculture. The measures involved fall into three main groups - improving the basic factors of production through, for example, grants for improving land, farm infrastructure and buildings and for training agricultural workers; R & D, experimental work, promotion and advice; and co-ordinated action to deal with animal and plant diseases and pests. These three groups of measures are essential to the continued efficiency of the industry, the more so as the industry is essentially composed of small businesses.

12. Capital grants: sustained growth in agricultural productivity, essential if the industry is to maintain its competitive position vis a vis the rest of the Community, will depend upon the willingness and ability of the industry to invest in capital improvements. New varieties, production techniques and husbandry methods, deriving from research and development, will yield their return only if farmers themselves are prepared to reorganise production patterns and update buildings plan and equipment. Without the productivity growth which has been achieved over the last decade producer prices would have had to be higher by some £2 billion in value for real farm incomes to have been the same.

13. Although the major share of funds for investment have been found by farmers themselves, increasingly by recourse to credit as real incomes have been under pressure, capital grants have provided a strong incentive to farmers to invest and modernise their holdings. Without these grants investment would certainly have been lower, the pace of development slower and the associated productivity performance reduced. For the future, with added uncertainties deriving from the need to correct the excesses of the CAP, more investment will be essential if the industry is to adapt and introduce new production patterns. And with incomes likely to be under pressure capital grants will provide the incentive to this end as they have in the past.

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14. Capital grants provide a flexible means of supporting investment; they can be selective and are capable of adaptation to meet new orders of priority and changing circumstances in the industry. The changes decided on in the 1983 Public Expenditure Survey, which will save £30 million in 1984-85, involve reduced aid for sectors in surplus, lower grant rates where existing levels of incentives are judged to be unnecessarily high, abolition of grant aid when this is not considered to be cost effective, and some further encouragement to conserving the environment.

15. The changes apply largely to the domestic capital grant scheme (AHGS). No major changes have been made to the EC scheme (AHDS) the future of which depends on the current EC review of structures policies. The Commission's proposals are aimed at tilting the balance of aid in favour of smaller farmers, particularly of small farmers in the Mediterranean, and as a result away from the UK. Until we know how far we can be successful in resisting this tendency we cannot know its impact on UK farmers. But when we do we shall have the opportunity to assess how far there is scope for further economies in public expenditure.

16. Research and Advice. Adequate effective research is essential if the agriculture and food industries are to hold their own against the continually developing Community and third country competition. By reducing the resources needed to secure a given level of output, R & D provides farmers and processors with choices in technology for responding to their circumstances and also provides improved means for dealing with the protection of the environment, the welfare and safety of workers, the welfare of livestock, and the safety and nutritive value of food.

17. The organisation of agriculture and food R & D is being reviewed. Government expenditure represents approximately 2 per cent of the value of agricultural output. Given the nature of the industry, the scope for producer financed research is limited, but the possibilities could be examined.

18. The provision of independent advice and the development work carried out by ADAS has made a substantial contribution to the rapid take up of new technology. It is greatly valued by the farming industry.

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The new Director General of ADAS will, however, be asked to consider and report urgently on the scope for reducing, privatising, hiving off or charging for the services provided to the industry by ADAS.

19. The Rural Economy: involves measures which are implemented within the framework of the EC Less Favoured Areas Directive . This directive was introduced as a result of UK pressure when we joined the Community and is certain to continue following the current review of EC structures policies. In the UK farming in the areas supported is vulnerable and would undoubtedly decline if effective support were not maintained, with serious political and social, as well as agricultural, consequences in Scotland, Wales and Northern Ireland.
20. Adjustment: the need to avoid sudden, radical changes in the block of measures directed to promoting efficiency does not preclude continuous scrutiny of the balance of resources deployed and this is also true of the remaining national expenditure analysed in Table 3. For instance, in the animal health area brucellosis eradication is near completion but new programmes have been started to eradicate Aujeszky's disease and reinforce protection against Newcastle disease (in both these cases the industry is meeting the main costs). To turn to another area, there is clearly a need to put more emphasis on supporting investment which will increase efficiency rather than production of commodities in surplus in the Community. And we may want in the future to put more emphasis on those forms of investment which improve the environment.

Conclusions

21. (i) The progress made by the industry in recent years has derived almost entirely from improvements in productivity. These have themselves resulted from the complex system of government supported research, development and information transmission arrangements and fiscal incentives coupled with the entrepreneurial nature of the industry.
- (ii) Agriculture in the UK is supported via subventions or tax measures to a lesser degree than many other countries in the Community. These measures have, however, been sufficient to prevent British agriculture from being undermined by excess-

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ively subsidised trade from other Member States.

- (iii) The Community negotiations on the necessary adjustments to the CAP should lead to reductions in the level of protection. This should be our principal objective but it may lead to expansion of national support schemes in other Member States. We need to ensure fair competitive conditions for British agriculture within a reduced level of overall protection for the Community.
- (iv) It would be premature for the UK to take unilateral action and reduce domestic support in the midst of these negotiations. When a balanced plan of CAP reform has been agreed then appropriate adjustments should be made to our domestic arrangements.

MINISTRY OF AGRICULTURE,  
FISHERIES AND FOOD

December 1983

EXPENDITURE ON AGRICULTURE AND FOOD AS A PROPORTION OF (A) TOTAL PUBLIC EXPENDITURE (a)  
(B) GROSS PRODUCT FOR AGRICULTURE

TABLE 1

£ million

	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84
	1972 PEWP CMND 1972 SURVEY PRICES				1977 PEWP CMND 1976 SURVEY PRICES				1982 PEWP CMND 8494 CASH	1983 PEWP CMND 8789 CASH						
TOTAL PUBLIC EXPENDITURE (planning total) (b) & (c)	21,403	21,414	22,487	43,463	45,589	46,769	50,936	51,816	54,649	56,789	65,734	76,939	92,815	104,684	113,007	119,568
EXPENDITURE ON AGRICULTURE AND FOOD	402	392	381	732	636	782	878	853	603	676	759	940	1,297	1,272	1,772 <sup>(a)</sup>	2,073 <sup>(d)</sup>
As % of total public expenditure	1.9	1.8	1.7	1.7	1.4	1.7	1.7	1.6	1.1	1.2	1.2	1.2	1.4	1.2	1.6	1.7
OTHER EXPENDITURE (forestry, fisheries, food subsidies, urban drainage(c) and special Northern Ireland measures)	68	66	70	174	173	113	881	778	563	370	249	304	316	363	408	348
As % of total public expenditure	0.3	0.3	0.3	0.4	0.4	0.2	1.7	1.5	1.0	0.7	0.4	0.4	0.3	0.3	0.4	0.3

NOTES (a) public expenditure White Paper series does not extend back beyond 1968-69  
(b) includes rural drainage  
(c) expenditure on drainage not included prior to 1975-76 when it was included in the other environmental services programme rather than that for agriculture, fisheries, food and forestry  
(d) outturn adjusted since Cmnd 8789

TABLE 2. EC AND NATIONAL EXPENDITURE ON AGRICULTURE AND FOOD

£ million (rounded to nearest £10 m)

percentage of spend in brackets

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
A. IN CASH							
1. Guarantee spending under the CAP	660 (51)	690 (54)	1110 (63)	1360 (66)	1410 (67)	1290 (65)	1300 (64)
2. Guidance and national expenditure	630 (49)	590 (46)	660 (37)	710 (34)	700 (33)	710 (35)	710 (36)
Total	1300	1270	1770	2070	2110	2000	2010
B. IN COST TERMS (1981-82 prices)							
1. Guarantee spending under the CAP	730	690	1050	1220	1200	1040	1010
2. Guidance and national expenditure	700	590	620	630	600	570	550
Total	1420	1270	1660	1850	1790	1620	1560

- (a) The above table excludes expenditure on forestry, fisheries, the Thames barrier and other urban drainage and flood protection works and civil defence.
- (b) The figures correspond to the PES 1983 baseline adjusted to reflect agreed changes in the forecast level of demand-determined expenditure; for 1985-86 and 1986-87 the figures are based on conventional assumptions rather than forecasts of the market situation, in the case of Guarantee spending.
- (c) Guarantee spending under the CAP includes administrative expenditure by the Intervention Board for Agricultural Produce which rises from under £10 m in 1980-81 to £20 m in 1986-87.
- (d) Totals may not add up due to roundings.

FINANCE I

28 November 1983



3. GUIDANCE AND NATIONAL EXPENDITURE ON AGRICULTURE AND FOOD

£ million (rounded to nearest £10 m)  
percentage of spend in brackets

	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87
<b>A. RESEARCH AND DEVELOPMENT</b>							
Commissioned and in-house ADAS and food science (full costs)	85 (14)	100 (17)	110 (17)	125 <sup>(a)</sup> (18)	130 (18)	135 (19)	140 (19)
<b>B. ADVICE AND PROMOTION</b>							
MAFF ADAS (full costs) including agricultural services scheme	20 (3)	20 (4)	20 (3)	30 <sup>(a)</sup> (4)	30 (4)	30 (4)	30 (4)
<b>C. ANIMAL HEALTH</b>							
including ADAS (full cost)	35 (6)	35 (6)	35 (6)	45 <sup>(a)</sup> (6)	45 (6)	45 (6)	45 (6)
<b>D. CAPITAL GRANTS</b>							
mainly AHDS, AHGS and NIADP	190 (30)	165 (29)	200 (30)	190 (26)	160 (23)	150 (21)	145 (20)
<b>E. RURAL DRAINAGE AND FLOOD PROTECTION</b>							
Capital and current expenditure (based on 45% of total spend)	45 (7)	45 (8)	60 (9)	60 (8)	55 (8)	55 (8)	60 (8)
<b>F. AGRICULTURAL TRAINING BOARD</b>							
	5 (1)	10 (1)	10 (1)	10 (1)	10 (1)	10 (1)	10 (1)
<b>TOTAL OF MAIN EFFICIENCY MEASURES</b>	385	380	435	455	425	425	425
<b>G. AID TO SPECIAL AREAS</b>							
(1) Hill Livestock compensatory allowances	95 (15)	85 (14)	90 (13)	95 (13)	100 (14)	100 (14)	100 (14)
(2) Capital grants (mainly supplementary grants under AHDS, AHGS and NIADP)	25 (4)	20 (3)	30 (5)	25 (4)	35 (5)	35 (5)	35 (5)
<b>H. PRODUCTION SUPPORT</b>							
Mainly national price guarantees for potatoes, wool and (until October 1980) sheep; and miscellaneous EC guidance premiums	55 <sup>(b)</sup> (9)	25 (4)	15 (2)	15 (2)	10 (2)	10 (2)	10 (2)
<b>I. OTHER AGRICULTURAL AND FOOD EXPENDITURE</b>							
Mainly assistance to the food industry and land management	5 <sup>(c)</sup>	5 <sup>(c)</sup>	10 <sup>(c)</sup>	15 <sup>(c)</sup>	25	25	25
<b>J. CENTRAL AND MISCELLANEOUS SERVICES</b>							
MAFF administration and agency payments (excluding research, advice and promotion, animal health and fisheries)	70 (11)	75 (13)	75 (12)	105 <sup>(a)</sup> (15)	105 (15)	110 (16)	115 (16)
<b>GRAND TOTAL</b>	635	585	660	710 <sup>(a)</sup>	700	705	715

(a) Increased expenditure in 1983-84 is mainly due to the introduction of the property repayment services scheme (PRS) from 1 April 1983 at a cost of some £40 million.

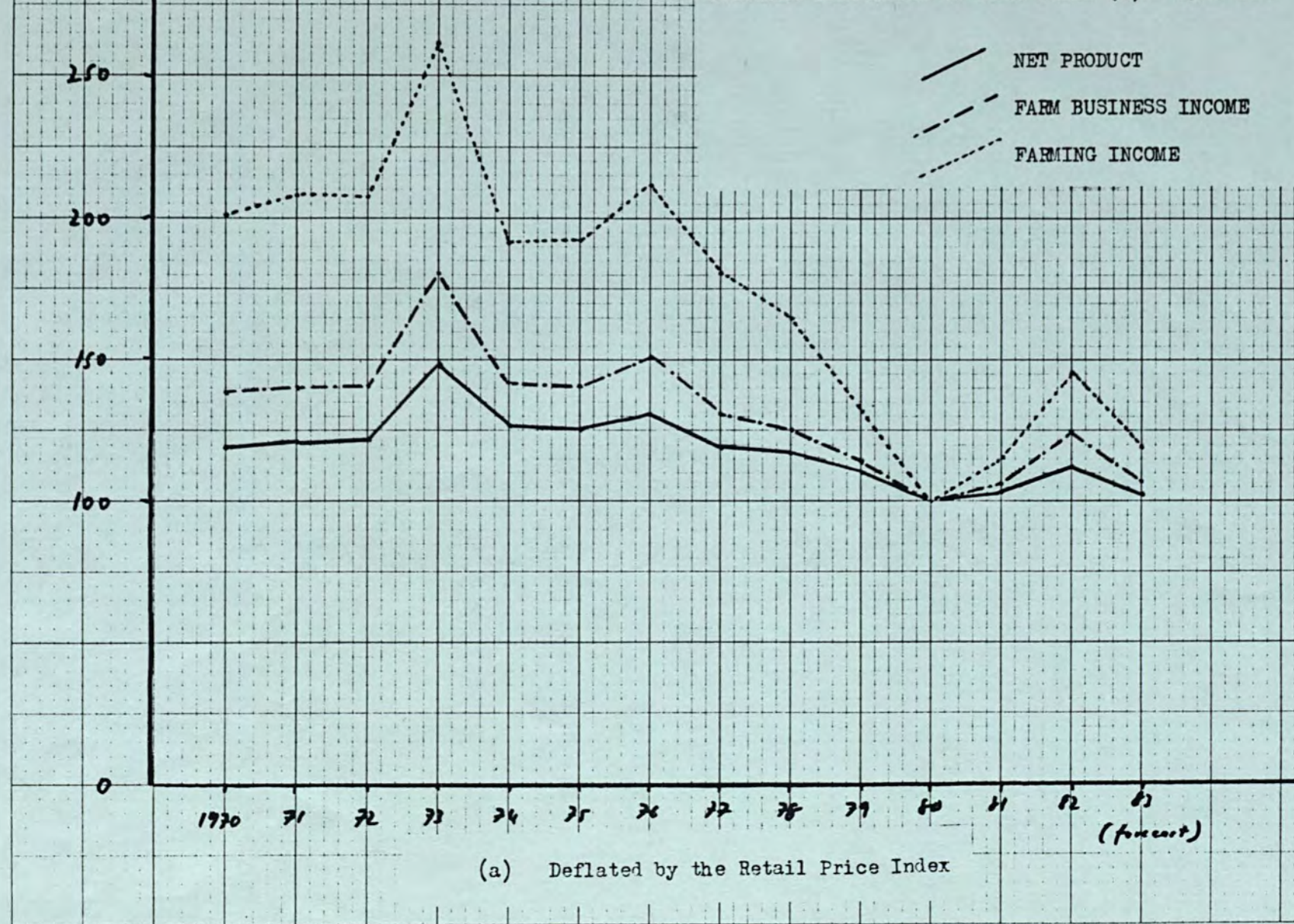
(b) Last year of expenditure under national price guarantee for sheep, superseded by EC sheepmeat regime in October 1980

(c) Expenditure up to 1983-84 reduced by proceeds from sales of land.

(d) Totals may not add up due to roundings

Figure 1

ECONOMIC INDICATORS IN REAL TERMS (a) 1980=100



(a) Deflated by the Retail Price Index

Abrechnung : Feap: 83.

CONFIDENTIAL

→ cc NO ✓



Treasury Chambers, Parliament Street, SW1P 3AG

Andrew Turnbull Esq  
10 Downing Street  
LONDON  
SW1

15 December 1983

Dear Andrew

AGRICULTURAL EXPENDITURE

I attach the Treasury paper for the meeting next week.

I am sending copies to David Dawson and Richard Hatfield.

Yours sincerely

John Gieve

JOHN GIEVE  
Private Secretary

CONFIDENTIAL

## AGRICULTURE

Note by the Treasury

## KEY STATISTICS

Table ICommon Agricultural PolicyCosts imposed on UK consumers<sup>1</sup>£4½ billion per annum;  
£2.80 on the average weekly  
family food billSubsidies to UK agricultural sector<sup>1,2</sup>£3¾ billion per annum;  
over £5000 for every  
person working in  
agriculturePublic Expenditure (1984-85)

Market support in the UK under the CAP 1410

Domestic public expenditure on  
agriculture 780

Total 2190

Tax Reliefs

Annual revenue foregone

£ million  
845

## COMMON AGRICULTURAL POLICY (CAP)

2. As well as obliging United Kingdom consumers and taxpayers to support farmers in other Member States of the Community, the CAP leads to large payments from consumers to agriculture within this country, as the figures above indicate.

3. The CAP provides a substantially greater degree of protection and support to agriculture than is provided for any other significant economic activity. For comparison, the Multi Fibres Agreement provides a level of protection equivalent to about £2000 per person employed in textile and clothing manufacture in the United Kingdom. The open-ended price guarantees which are generally available under the CAP insulate <sup>agriculture</sup> / to a large extent from market forces and the normal vicissitudes of international trade.

Notes

1. A considerable margin of error necessarily attaches to these Treasury estimates; but they have been drawn up on the same basis as the estimates of the cost of the CAP set out in an agreed inter-departmental report produced in 1980.

2. Some of these gains accrue to industries supplying agriculture.

4. The difficulties of reforming and holding down expenditure on the CAP are such that agriculture must be expected to remain a highly protected industry for the foreseeable future. But it should continue to be our objective to secure a more rational level and system of support under the CAP which pays regard to market conditions and avoids surpluses and excessive expenditure.

5. There are two improvements in the market support arrangements under the CAP which we could ourselves make. The first, which would be consistent with our view that CAP support prices should be lower, is to revalue the green pound. It is at present undervalued by about 6%, directly adding  $1\frac{1}{4}$  per cent to the food price index and about  $\frac{1}{4}$  per cent to the RPI. The second is to replace the variable beef premium scheme by intervention buying for beef which, over a period of years would be likely to halve net United Kingdom public expenditure on market support for beef in this country.

#### PUBLIC EXPENDITURE ON AGRICULTURE

6. Table II below sets out the Government's plans for public expenditure on agriculture. The table also includes planned expenditure on support for manufacturing industry.

Table II

	<u>£ million</u>	
	<u>1983-84</u>	<u>1984-85</u>
(i) Market support in the UK under the CAP	<u>1360</u>	1410
(ii) Domestic agricultural expenditure	<u>790</u>	<u>780</u>
(iii) Total	2150	2190
<u>Memorandum Item</u>		
(iv) Support for manufacturing industry	935	945

7. Line (i) represents the public expenditure consequences within the United Kingdom of decisions reached by the European Community. The expenditure shown in line (ii) is however decided upon domestically (subject only in some cases to Community limits on what we can pay.).

8. Agriculture accounts for only 2.3% of United Kingdom GDP, manufacturing industry for over 24%. Domestic public expenditure support for agriculture thus represents  $8\frac{1}{2}$  times as large a proportion of the sector's contribution to GDP as in the case of industrial support.

9. Table III below shows, for 1984-85, the main constituent parts of domestic public expenditure on agriculture.

Table III

	<u>£ million</u>
Capital Grants (including supplements paid in Less Favoured Areas)	195
Rural drainage and flood protection	55
Research and development	130 -
Advice and promotion	30
Livestock subsidies in less favoured areas	100 ~
Animal health	45
Other agricultural and food expenditure (potatoes, wool, training, food industry and land management)	40
MAFF administration, other central and miscellaneous services	105 -
Subtotal	<u>700</u>
Other items not shown in PES as agricultural spending:	
Grant in aid to Agricultural and Food Research Council (AFRC)	45 =
Administrative costs in territorial departments	30
Rural drainage in Wales	5
TOTAL	<u>780</u>

Capital Grants

10. These grants are available as of right for any qualifying expenditure. The weighted average grant rate (including supplements paid in less favoured areas) is about 30% of eligible expenditure over the United Kingdom as a whole.

11. For investment in industry, grants are automatically available at a rate of 22% in special development areas and 15% in development areas. No automatic grants are available elsewhere.

#### Rural Drainage

12. On average about 75% of the cost of investment in this land drainage work is met by Central Government, although the benefits accrue mainly to agriculture in the areas concerned.

#### Research and Development

13. Total public expenditure on agricultural research costs about £170 million a year when the grant in aid paid to the AFRC is included. This represents about 2.5% of the value of agricultural output. In contrast public spending on industrial research is less than 0.5% of manufacturing industry's contribution to GDP; and Government-financed R&D for services is virtually non-existent.

#### Advice, Promotion and Training

14. Agriculture is uniquely favoured in having:

- i. free technical advice 'tailormade' to the requirements of particular producers;
- ii. the only Training Board whose costs are met entirely by the Exchequer.

#### Livestock Subsidies

15. These payments (Hill Livestock Compensatory Allowances) are intended to provide income support to farmers in 'less favoured areas'. They duplicate the CAP market support arrangements for beef and sheepmeat.

#### Administration

16. Broadly there is one civil servant for every 150 workers in agriculture, food, drink, and the related distribution industries; compared to one civil servant for every 800 workers in those sectors of the economy for which the Department of Trade and Industry is responsible.



## TAX RELIEFS

17. Agriculture also benefits from a comprehensive range of tax reliefs involving revenue foregone of over £800 million a year.

TABLE IV

£ million

Exemption from rates for agricultural land and buildings	320	→
Fuel oil - reduced rate excise duty	100	→
Farmers' goods vehicles - reduced rates of VED	20	→
1 Capital allowances for plant and machinery	250	→
1 Capital allowances for agricultural buildings	40	
1 Capital transfer tax - agricultural and business reliefs	45	
Income tax - averaging of profits	10	
1 Stock relief	60	
	<hr/>	
	TOTAL	845
	<hr/>	

18. There are also reliefs against capital gains tax and development land tax which are valuable to individual farmers, although the aggregate cost is small.

19. Stock relief and capital allowances for plant, machinery and agricultural buildings are broadly comparable to those for industry and the Capital Transfer Tax reliefs for agriculture are also similar to those for industry.

20. The exemption from rates, however, is unique to agriculture. The recent White Paper on Rates said that the Government did not propose to reopen the question of the rating of agricultural land and buildings (Cmd 9008, para 5.8) but there is a strong case for reviewing this policy.

21. The Government are also committed to retain concessionary rates for farmers' VED. But the levels of relief are not guaranteed

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and since the current levels are generous and the concession is almost unique to the sector there is a strong case for review.

CONCLUSION

22. The CAP provides agriculture with a much greater protection and support than that received by other industries, and must be expected to continue to do so. In these circumstances there is no case for substantial additional support for agriculture from the Exchequer. Officials should examine each of the measures of support with a view to establishing whether they should continue, and at what levels. The objective should be to prepare options for substantially reducing the total of this expenditure over the next three years, in time for decisions to be taken before the next Public Expenditure Survey.

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10 DOWNING STREET

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*From the Private Secretary*

8 November 1983

Agricultural Expenditure

Michael Scholar wrote to you on 28 September reporting that the Prime Minister wished to hold a discussion on the longer term options for reducing the resources which the Government devotes to agriculture, whether through public expenditure or through the tax system. Your Minister and the Chief Secretary were asked to produce papers for this meeting.

This meeting has taken longer than expected to arrange and it will now be held on 21 December. I would be grateful if the papers could reach this office about ten days earlier.

I am sending a copy of this letter to John Gieve (Chief Secretary's Office) and Richard Hatfield (Cabinet Office).

Andrew Turnbull

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

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10 DOWNING STREET

New file for  
Agriculture series  
by F. Mowbray  
P. Gregson (co)

2

From the Private Secretary

28 September 1983

AGRICULTURE EXPENDITURE

The Prime Minister wishes to hold a discussion in a small group, later this autumn, of the longer term options for reducing the resources which the government devotes to agriculture - whether through public expenditure or through the tax system. The Prime Minister wishes this discussion to be quite separate from the general public expenditure exercise, and to concentrate on the longer term.

The Prime Minister would be grateful if your Minister, and, separately, the Chief Secretary (to whose office I am copying this letter) would produce a paper for discussion at this meeting - say, by the end of October.

I am also sending a copy of this letter to Richard Hatfield (Cabinet Office).

M. C. SCHOLAR

sl

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

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23 September 1983  
Policy Unit

PRIME MINISTER

Prime Minister ①

AGRICULTURE

Yes MF.

Agree to X?

MS 23/9

You will recall the general feeling at Chequers that public expenditure on agriculture ought to be looked at. We are now spending over £900 million nationally (non-CAP) on agriculture. Public expenditure on agriculture has more than doubled under us. In this month's bilaterals, MAFF has been unashamedly asking for a lowering of the hill line so as to subsidise even more marginal land.

Even a tough Treasury stance in bilaterals will never undermine MAFF's belief that "more is better", whatever the costs of extra output to the taxpayer and the housewife. This illusion can only be dispelled by a clear lead from you.

+ Would you like to invite Michael Jopling to produce a paper on long-term options to be discussed at a meeting with you and Nigel and his team in October, after the Party Conference?

Would you like to invite the Treasury to produce its own comments for such a meeting?

We attach a paper setting out some of the main points in this argument.

Nearer the time, you might wish to consider whether to circulate this paper too.

FERDINAND MOUNT

JM

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## FARMING AND PUBLIC EXPENDITURE

### 1. The Costs

Public expenditure on agriculture has been one of the faster growing programmes of the last 5 years, from £813 million in 1978/9 to £1,754 million in 1983/4. About half of this is UK-determined.

On top of this, the value to farming of tax remissions and exemptions is about £1,200 million a year. The offsetting of expenditure on plant, machinery and building against income tax is valued at £700 million a year. VAT exemption is reckoned to be worth £300 million p.a; rates exemption is valued at about £200 million p.a.

Total public support of agriculture is thus in the region of £3,000 million.

### 2. The Role of Farming in the Economy

These huge sums go to an industry which produces a small and declining share of Britain's GDP - from 2.7 per cent in the early 1970s to 2.1 per cent in the early 1980s. The agricultural workforce is likewise declining - from 738,000 in 1970/72 to 639,000 in 1981, equivalent to 2.8 per cent of all civilians in employment; 161,000 of these workers are part-time or casual workers.

### 3. Who reaps the Benefits?

The present system is scarcely an effective way of channelling income support to British farmers. Cash payments from the Exchequer in support of agriculture now exceed farmers' net income, due very largely to the costs of disposing of community surpluses.

As in other European countries, the structure of subsidies and the general tendency towards larger farms means that the bulk of the subsidies increasingly goes to the larger and more well-to-do farmer. Wheat output has risen by 60 per cent over the last 4 years, and the area of land devoted to wheat has risen by 34 per cent. But in the same period, the number of small cereal farms fell markedly while the number of large farms increased. By 1981, 12 per cent of the number of farms of all types accounted for 50 per cent of total farming output.

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Food prices have gone up more slowly than other prices under this Government. But with modern agricultural methods, they should scarcely have increased at all. Poor families still spend a quarter of their incomes on food. High food prices push up index-linked expenditure on social security and prevent lower pay settlements.

#### 4. The Self-Sufficiency Argument

Our Manifesto pointed out that since 1979, our food exports have leapt to £2,500 million a year. And since 1978, our self-sufficiency in food has risen by more than a sixth, from 53 per cent to 62 per cent. These are considerable achievements, but other industries might well have matched them if output had been encouraged and overseas competition deterred by a system of tariffs and subsidies costing £3,000 million a year.

The economic argument for "import saving at any cost" is severely weakened by a regime of floating exchange rates.

The national argument for maximising self-sufficiency in temperate foodstuffs also carries less weight today. It is hard to conceive of a world war which would deny us access to overseas food suppliers and which would last for years. Any shorter or less widespread conflict could easily be endured out of existing resources and stockpiles.

In any such conflict, since farmers now rely on imports for much of their fertilisers, artificial feedstock and machinery, their greatly increased use of these items in recent years would expose the nation to a new source of peril and occasion for blockade.

Besides, even if self-sufficiency at some price is still regarded as desirable, we still have to consider how great that price should be, and at what point we should cease to bring more marginal land into production.

#### 5. The New Political Climate

"Tackling agriculture" has long been thought politically too dangerous, because of the Conservative Party's need to retain rural



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support. The relationship between the NFU and MAFF has been uniquely close and effective.

However, there are now other political factors to be taken into account, many of them no less important than the continuing need to retain the support of the farming community.

There is a rising tide of resentment at the impact of large-scale cereal farming (which present subsidies and tariffs encourage) on the landscape, particularly the uprooting of trees and hedges, and the loss of pasture. Membership of environmental protection groups, aside from the loony Left, is now larger than the numbers employed in agriculture - and rising. Many of these are lukewarm Government supporters who might well turn to the Alliance.

Not all farmers see the present pattern of subsidy as advantageous. Small farmers see large farmers gaining most, while the number of small farmers continues to dwindle. The high price of cereal - double the world price in 1981 - hits the small livestock farmer. Yet the rising price of marginal arable land deters the new entrant to farming.

The protectionist effect of CAP and UK subsidy, and the dumping to which it gives rise, is to undermine the effort of Third World countries to export those crops which they can produce far more cheaply than Continental Western Europe. This weakens their economies, denies us markets for manufactures, and adds to the debt problem. It creates unnecessary and damaging rows between the EEC and our greatest ally, the USA.

6. Options for Change

It will be argued that action is hard to secure because of the UK's policy ties with the EEC. Of course the CAP restrains us, and we have advanced proposals in Brussels to limit the cost and damage of the CAP. But what is extraordinary about our agricultural policy is that we reinforce the CAP with quite expensive measures of support of our own - belt and braces for the farmer. When farmers enjoy high and guaranteed prices, why do they need support for investment?

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The Manifesto (page 22) contains very few commitments. It confines itself to promising help for the glasshouse industry to sell more and to improve heating and ventilation; and legislation to make more farm tenancies available for young people.

Within the UK, early action ought to be possible on the following expenditures:

- £489 million earmarked by 1983/4 for "Improvement of Efficiency and Productivity in Agriculture"
- £118 million for "Support for Special Areas"
- £95 million for "Safety and Welfare"
- £71 million for price guarantees, grants and subsidies not supported by the EEC.

Within the CAP, the figure earmarked for "Market Regulation" is £919 million in 1983/4, up from £362 million in the Government's first year of office. MAFF's attitude to reducing this expenditure lacks conviction. "Constraint on the level of CAP support prices is a major UK negotiating objective. Within this general aim it would, however, be wrong to deny the UK receipts from the Community budget or to put UK producers at a competitive disadvantage within the Community." (Attachment to Peter Walker's minute to the Prime Minister dated 30 March 1983.)

At present, far from reducing the scope of these programmes, we are adding to them. The commitments are cumulative and tend to increase very rapidly. In the 2 years before the EEC sheepmeat regime, the UK paid virtually no subsidy to farmers for lamb or mutton. In 1979-80, payments were £11 million, followed in succeeding years by £32.9 million, £42.3 million and £95.6 million.

## 7. The Need to Look at the Long Term

At present, there are no clear general guidelines either for MAFF or for the Treasury.

How much food in aggregate do we want to produce in this country?

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What cost to the taxpayer are we prepared to tolerate in the interests of higher output?

Is there any limit to the acreage we want to see under cultivation?

How far do we wish to encourage smaller farmers to stay in business?

For an expenditure of £3,000 million a year, we need to consider the answers to some of these questions.

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