MT.

PART 19

CONFIDENTIAL FILING

Common Agricultural Policy (CAP)

+ FOOD CONSUMERS AND THE C.A.P.
A REPORT TO THE D.T.I

+ MAFF Report on Agriculture in the U.K. 1988.

EUROPEAN POLICY.

Pt1: May 1979

Pt19: April 1988

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART 19 ends:-

HANSARD EXTRACT. 30. 4. 90

PART 20 begins:-

MS/MAFF to PM. 18.7.90

Published Papers

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

1. Agriculture in the United Kingdom 1988
   HMSO [ISBN 0 11 242866 5]

2. Consumers and the Common Agricultural Policy –
   Report by National Consumer Council
   HMSO 1988
   [**Note:** Report can be found in Journal of Consumer Policy, June 1989, volume 12, issue 2]

Signed CWayland Date 30 August 2016

PREM Records Team

Agriculture Council

3.32 pm

The Minister for Agriculture, Fisheries and Food (Mr. John Gummer): I represented the United Kingdom at the meeting of the Agriculture Council from 25 to 27 April with my hon. Friend the Member for Skipton and Ripon (Mr. Curry), Parliamentary Secretary to the Ministry of Agriculture, Fisheries and Food.

Agreement was reached on 1990 farm prices on the basis of a further compromise put forward by the Presidency and the Commission. In general, it maintains a price freeze, with reductions in a few areas. The common agricultural policy reforms agreed in 1988, including stabilisers, have been protected in full, despite the attempts of several countries to modify them.

The package also includes a significant devaluation of the green pound. In debates, hon. Members were at pains to inform me that that was the most important aim of the United Kingdom because it is the means whereby we can eliminate, or at least reduce, the disadvantages that accrue to British farmers in competition with other members of the European Community.

Monetary compensatory amounts will be reduced substantially at the beginning of the next marketing year. On the basis of the position on 27 April the changes would be, for cereals and other crops, a reduction from 19·7 per cent. to 8 per cent.; for milk from 18·8 per cent. to 11·1 per cent.; for beef from 15 per cent. to 5·8 per cent.; and for pigmeat from 11·4 per cent. to 0 per cent. The Commission originally proposed a one third reduction. Looking at it in that way, the reduction for cereals and other crops is not 33⅓ but 55 per cent., for milk 38 per cent., beef 55 per cent., pigs 86 per cent. and sheep 56 per cent. The associated increases in support prices paid to British farmers—these are not increases in general but are, if one likes, reductions in the disadvantage that they have experienced until now—will be as follows: on crops, 10·7 per cent.; milk, 6·8 per cent.; beef, 8·5 per cent.; and sheepmeat, 11 per cent. This will allow our producers to compete on a more equal basis and provide a vital stimulus for the United Kingdom farming sector.

The package also inludes five measures known as the rural world, measures which aid small producers. I did not support these, as they are relatively expensive and do not look forward to the viable and efficient European agriculture which, in my view, it is the Council's task to promote and is in the interests of the United Kingdom to achieve. However, the final agreement contains three important qualifications compared with the original proposals, all of which the United Kingdom has pressed and gained. First, the Commission has said that these measures have "limited scope", and there is therefore every hope that it will not propose any similar ones. Secondly, one of the measures is time limited and another is subject to review after two years. Thirdly, it has been explicitly accepted, contrary to all earlier assertions, that the aids will be taken fully into account in the calculation of the Community's global support for agriculture in the context of the current round of negotiations on the general agreement on tariffs and trade.

I opposed reductions in coresponsibility levies, although I am opposed to coresponsibility levels in principle, because I could not accept them unless there were offsetting price cuts, and those were strongly opposed by some delegations. As a result, there are no reductions in coresponsibility levies, and the French Minister explained that their absence meant that he was not able to support the final package.

The Commission stated that the net cost of this settlement to the European Community budget will be 334 mecu in 1990 and 1,090 mecu in 1991. It confirmed that this would be met within the budget for 1990 and the agricultural guideline for 1991. I estimate that the net boost to United Kingdom farmers' returns in a full year will be perhaps £500 million. The effect on the retail prices index will be about 0·1 per cent. when fully worked through.

This outcome fully sustains the CAP reforms for which the Government have fought so hard, while giving a major boost to our agriculture in precisely the way that both sides of the House encouraged me to adopt in these negotiations. It shows how effectively the European Community can deal with the wide range of agricultural concerns of member states on a common basis. I commend it to the House.

Dr. David Clark (South Shields): I am grateful to the Minister for making a full statement about the results of his discussions last week. He has announced a fairly good settlement which has been widely welcomed by farmers, and especially by the National Farmers Union. After so much depressing news over the past decade, I can understand their enthusiasm. It would be right, however, to remind the House of the other side of the equation—the taxpayer and the consumer. Obviously this price increase must be paid for from somewhere.

Will the Minister confirm that the cost of the settlement to the European taxpayer will be about £700 million in a full year? I understood him to say that the benefit to the farmers would be to the tune of £500 million per year. Is that a cost-effective way of running agriculture, given that the settlement will cost taxpayers and consumers £700 million while the farmers will get only £500 million? Perhaps the Minister will deal with that point.

Does the Minister realise that there is concern in farming circles about the long-term effect of the proposal on the stabiliser mechanism which, as the House will remember, was introduced with the support of hon. Members on both sides of the House to try to reduce wasteful surpluses? The logic was that European farmers would be paid less if they produced too much. How can the Minister justify paying cereal farmers an extra 11 per cent. when they are supposed to be penalised to the tune of 3 per cent. for producing too much? That point requires explanation.

The third main group to be affected will be the hard-pressed consumers, who are already suffering the effects of food inflation much higher than general inflation. The Minister has said that the present settlement on a 50 per cent. devaluation of the green pound will add only 0·1 per cent. to the retail prices index, but he and the House know that the effect on food prices will be much greater than that, and that will penalise poorer households in particular. Does the Minister accept that the settlement that he has brought back from Europe will put up food prices by approximately 1 per cent., which will add more than 60p per week to the average household's food bill?

day. I am sure that, when the hon. Gentleman's party was in office, Ministers took the same view. The policy remains the same, and will stay the same.

Trade Unions

57. **Mr. Harry Barnes:** To ask the Minister for the Civil Service when he last met representatives of the trade unions; and what subjects were discussed.

Mr. Luce: I meet the civil service unions from time to time to discuss a range of matters.

Mr. Barnes: Has there been any discussion on the low pay of support groups 1 and 2, which have been adversely affected by the abolition of the fair wages resolution, by the weakening of wage councils and by the poll tax? Should not there be a decent minimum wage for security guards, messengers and others within that grade?

Mr. Luce: There are procedures to deal with overall wage levels for various categories of the civil service. Of course, under the new policies we take into account the special needs of special categories. There is now a facility for flexible pay arrangements. It is being devised for much of the civil service, including the establishment of the new agencies.

Dr. Marek: When the Minister next meets the civil service unions, will he discuss with them direct entry to the higher executive officer grade? The Minister will remember that he and the Treasury got that completely wrong. Instead of trawling within the civil service, they spent a great deal of money on advertising, but 91 per cent. of the 184 entrants to Customs and Excise turned out to be civil servants already. The Minister should not waste public money. Will he take union advice next time?

Mr. Luce: I am not sure that the hon. Gentleman is not anticipating the next question; he may have intervened on the wrong question.

The policy on direct entry for recruitment is important. It is important to ensure that there is open competition and that employment is available to civil servants as well as to those from outside. It is good for the civil service—as it is for any organisation—to recruit from all sources, including the private sector.

Civil Service Recruitment

58. **Mr. Fisher:** To ask the Minister for the Civil Service how many direct entrants at HEO level have been accepted into the civil service under the recent recruitment scheme; and what was the target.

Mr. Luce: The target of filling some 740 posts through the higher executive officer open competition has been met. Of those appointed, 175 are direct entrants to the civil service at this level.

Mr. Fisher: Will the Minister answer the question put by my hon. Friend the Member for Wrexham (Dr. Marek) —on 91 per cent. of posts in Customs and Excise being filled by serving civil servants? Does not that suggest that talent is available in the civil service, as the trade unions made clear to the Minister, and that his scheme is misconceived and a waste of public money? Will he recognise the talent under his nose within the civil service?

Mr. Luce: I fully recognise the talent of civil servants and the opportunities for promotion for talented civil servants. That was proved by this competition, in which the majority of people promoted were from within the civil service. It is not a waste of public money because it is exceedingly important for the service to recruit the best possible people to serve the Government and the nation. We shall achieve that by ensuring that, where possible, there is open competition and that the best possible people are recruited from outside as well as from inside the service.

Mr. Donald Thompson: Will my right hon. Friend do all that he can to ensure that people from the regions, especially Yorkshire, are recruited directly to the civil service, at whatever age, so that their experience of other jobs and professions can contribute to it?

Mr. Luce: I agree with my hon. Friend that that is to be encouraged but that is no reflection on the quality of people already serving in the service. We need the best possible range of people. It is healthy for the service to have the experience of those who have been in it for a long time and of those who have served in other walks of life. That adds strength to the civil service.

Mr. Winnick: On a point of order, Mr. Speaker.

Mr. Speaker: Order. We have not finished yet.

Civil Service Agencies

61. **Mr. Andrew Mitchell:** To ask the Minister for the Civil Service what progress has been made in developing civil service agencies in the last five weeks.

Mr. Luce: Excellent progress has been made. Eighteen new executive agencies have been set up this month, bringing the total to 30, employing some 66,000 staff. More agencies will be established in the next few months, and I would expect to see "next steps" applied to at least half the civil service by the end of 1991.

Mr. Mitchell: Does my right hon. Friend agree that the promotion of those agencies is extremely important, to ensure that a better service is delivered to the public and that employees derive more job satisfaction?

Mr. Luce: My hon. Friend is right. One of the main objectives is to ensure not only better value for money for the taxpayer in managing the civil service but that the quality of the service provided by the various agencies is the highest to benefit the public. Evidence from the establishment of the first agencies shows that that is beginning to happen.

Mr. Winnick *rose*——

Mr. Speaker: Order. I shall take points of order in their proper place—after the statement.

10, DOWNING STREET,
WHITEHALL S.W.1

Charles,

I spoke to Paul who suggested P.M. need not see this

With the Private Secretary's Compliments

Content? ✓ Well OK

RBP 10/4

chex.kf/jg/22

cc PU

Treasury Chambers, Parliament Street, SWIP 3AG
01-270 3000

9 April 1990

The Rt Hon John Gummer MP
Minister of Agriculture, Fisheries
and Food
Ministry of Agriculture, Fisheries
and Food
Whitehall Place
LONDON
SW1A 0AA

Dear Minister

1990 CAP PRICE FIXING

As I am sure you will understand, I am very concerned at the likely EC budgetary cost of this year's CAP price fixing outcome, and the adverse signals this may send out in the GATT context. Last week the Agriculture Council were unable to agree on a compromise package which would probably have cost nearly 1 becu in a full year. I understand that several Member States wanted further concessions, even though the package was for 1991 some 400 mecu more expensive than the Commission's original proposals.

Officials have discussed the matter, and have agreed that it would be desirable for Finance Ministers to have an informal discussion of the financial implications before the next Agriculture Council on 25/26 April. I believe that such a discussion would be extremely helpful in strengthening the hand of the Commission in the subsequent Agriculture Council. Accordingly, I am asking UKREP to tell other Member States at Coreper on 11 April that I propose to raise the CAP price fixing at the ECOFIN lunch on 23 April. On UKREP's advise I propose also to send the attached letter to M Delors, explaining why I wish to do this. The letter indicates the line I would wish to take in the discussion.

I am copying this letter to the Prime Minister, Douglas Hurd, Peter Walker, Malcolm Rifkind and Peter Brooke.

Yours sincerely

Jon Grieve

pp JOHN MAJOR

[Approved by the Chancellor & signed in his absence] iael.ts/Jnt/4.5-2

ANNEX A

DRAFT

Mr J Delors
President of the European Commission
200 Rue de la Loi
BRUSSELS

AGRICULTURAL PRICE FIXING: DISCUSSION AT ECOFIN COUNCIL ON 23 APRIL

I am writing to explain why I have asked for an informal lunchtime discussion at the EcoFin Council on 23 April on the financial aspects of this year's agricultural price negotiations. As you know the EcoFin Council is due to meet shortly before the Agriculture Council resumes its consideration of this year's prices package. I hope that you would agree that it would present a good opportunity to take a wider view of the implications of the negotiations.

There are three aspects of the proposals which I think it would be useful for EcoFin to consider, namely:

(i) the overall budgetary implications of the various elements under discussion;

(ii) the impact of the ideas being canvassed by some delegations on the 1988 agreement on stabilisers; and

(iii) the need for this year's price settlement not to cut across or undermine the position which the Community has adopted in the current Uruguay Round of GATT negotiations.

On our estimates the last compromise proposal which was under discussion in the Agriculture Council on 26-27 March would have entailed additional budgetary costs of just under 500 mecu in 1990 and 1000 mecu in 1991 - substantially higher than the cost of the Commission's original proposals. Moreover, I understand that the majority of delegations in the Agriculture Council rejected the compromise on the grounds that it was insufficiently generous. In those circumstances I welcome the Commission decision to withdraw its support for the compromise if it could not be accepted as a final settlement. I also welcome the firm line which Ray MacSharry took with the European Parliament in this week's discussion of the price-fixing proposals. I hope you and I can work together at EcoFin to ensure that the budgetary costs of the eventual prices settlement do not exceed those of the latest compromise and are preferably lower.

As regards the impact of the package on the 1988 stabilisers agreement I fully support the Commission's position that the 1990 prices settlement must not in any way undermine the stabilisers agreed in 1988. In this connection I am sure that Ray MacSharry was right to indicate that the Commission could not support reductions in the milk and cereals co-responsibility levies unless the Council agreed to commensurate price reductions.

In the context of the GATT Round negotiations the Community has rightly committed itself to achieving substantial, progressive reductions in agricultural support and protection. We have made much of the reforms which we have already put in place in the 1988 package and are insisting on being given due credit for these. It would undermine our whole negotiating position if our GATT partners could demonstrate that this year's prices settlement had weakened the impact of the 1988 agreements by offsetting the stabiliser cuts with effective price increases.

I hope that you will agree that an EcoFin discussion of these issues on 23 April will strengthen the Commission's hand in the negotiations in the Agriculture Council later that week.

I am sending a copy of this letter to Ray MacSharry.

JOHN MAJOR

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MINISTER OF AGRICULTURE, FISHERIES AND FOOD

will request if required

1990 CAP Price Fixing

1. Thank you for sending me a copy of your letter of 21 March to Norman Lamont setting out the line you propose to take on the 1990 CAP price proposals at this week's Agriculture Council.

2. I recognise the difficulties you face, but it is of course important in the context of the GATT negotiations to keep prices down as much as possible.

3. I agree with you that the cereals coresponsibility levy should not be reduced unless the budgetary effects of the cut are fully offset by a matching price cut.

4. Copies of this minute go to the Prime Minister, other members of OD(E), the Secretary of State for Wales, the Secretary of State for Scotland, the Secretary of State for Northern Ireland and Sir Robin Butler (Cabinet Secretary).

DH

(DOUGLAS HURD)

Foreign and Commonwealth Office
26 March 1990

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RESTRICTED

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Prime Minister
92

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street SW1P 3AG

The Rt Hon John Gummer MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

23rd March 1990

David John

1990 CAP PRICE FIXING

will request if required

Thank you for your letter of 21 March.

2. Your assessment of the likely outcome on the price fixing is depressing to say the least. As I said in my letter of 9 February, the Commission's original proposals were not very satisfactory, implying as they do EC budgetary costs of some 0.5 becu a year. You now say that the additional price cuts and other improvements you were then seeking are not negotiable, and that indeed some additional concessions to the Mediterranean countries are likely.

3. In these circumstances, it seems to me that, to limit the damage, there would be considerable merit in arguing at next week's Council that, while we are far from happy with all aspects of the Commission's original package (including the proposal for the green pound), we are willing to accept it on the basis that all other member states do likewise, in order to reach rapid and fair agreement at what is in any case a considerable budgetary cost.

4. This applies particularly to co-responsibility levies. I accept your analysis of our position on this, on the clear understanding that by matching price cuts we mean full budgetarily offsetting price cuts. However, recent Council discussion has indicated a good deal of support for removing or reducing the cereals levy (at an annual cost to the EC budget of up to 600 mecu) but no support for any offsetting price cut whatsoever. Therefore on tactics surely the best way forward is to side firmly with the Commission who have so far been very firm about leaving the levy unchanged.

5. Looking further ahead, I would be very reluctant to agree to an outcome on the price fixing which more than marginally exceeded the cost of the Commission's original package. It is

essential that your officials keep mine in close touch with developments at the Council and afterwards. I may wish to write to you again if it appears that the cost of the final package could rise significantly above that of the original proposals.

6. You do not mention in your letter the requirement in the February 1988 budget discipline provisions for a joint Finance/ Agriculture Council to be convened if the outcome of the price fixing discussions looks likely to exceed the cost of the Commission's original proposal. If this circumstance does arise, you would no doubt consider carefully whether pressing for a joint Council would in practice achieve a tighter settlement. But in any case we should make clear in the Council that we maintain this principle of the budget discipline provisions. When this situation arose last year, we pressed the Commission to make the attached declaration, on the cost of the settlement compared to the original proposal, and to the effect that they would absorb the cost of the price fixing settlement in accordance with the budget discipline provisions, including the budget for the current year, if necessary by specific management action. I would see considerable advantage in pressing for a similar declaration this year if costs escalate beyond the original proposal.

7. Finally, you say that you attach importance to achieving a green pound devaluation of the full 40% mentioned in my earlier letter. As I said then, my agreement to you exploring the scope for a larger devaluation, than the one-third closing of the monetary gap proposed by the Commission was on condition that you would not press for this if, in order to achieve it, you would have to agree to costly or undesirable concessions to other member states. This condition still stands. In particular, if it proved possible to muster a qualified majority for the Commission's original package in preference to more costly proposals, I would expect you to give up your claim to more than a one-third dismantling of the monetary gap, in the interests of securing such an agreement. As I noted in my previous letter, the one-third proposed by the Commission would provide a considerable boost to UK farm incomes. It would also have a significant additional public expenditure cost, I understand if anything slightly more than when we corresponded in February, and for this reason alone I would prefer ideally not to go beyond it.

8. I am copying this letter to the Prime Minister, to other members of OD(E), to Peter Walker, Malcolm Rifkind and Peter Brooke and to Sir Robin Butler.

NORMAN LAMONT

COMMISSION DECLARATION

"The Commission estimates that the additional costs of the Price Fixing settlement by comparison with its original proposals are x mecu in 1990 and y mecu in 1991. It undertakes to use its management powers to ensure that these additional costs are absorbed in accordance with the Budget Discipline Decision, and that it will not propose a Supplementary Budget for the Guarantee Section in 1990. It therefore takes the view that it is not necessary to call a Joint Council as provided for in Article 5 of Council Decision 88/377/EEC."

FROM THE MINISTER OF STATE

SCOTTISH OFFICE

WHITEHALL, LONDON SW1A 2AU

The Rt Hon John Gummer MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1A 2HH

21 March 1990

Dear John,

1990 CAP PRICE-FIXING

In advance of next week's Council discussions I am writing principally to remind you of the importance which the agricultural community in Scotland attaches to the Government securing a substantial devaluation of the green pound.

Earlier this month I addressed the Annual General Meeting of the National Farmers' Union of Scotland. In the question and answer session following my speech two price-fixing issues came to the fore. The first, and less important of the two, was the cereals co-responsibility levy. The Scottish industry left me in no doubt as to their outright opposition to this mechanism. I rehearsed our agreed position but I think it essential that we continue to be seen to be pressing hard at the Council for the levy to be reduced, with the cost being met by a price cut.

The other issue, which aroused much greater passion, was, as you would expect, the green pound. The SNFU President and members argued forcefully that the green pound system discriminates against UK producers and blunts any competitive edge our products may enjoy. Scottish producers are, they maintained, keen to meet the challenges of the single market, but should not be expected to have to compete from a disadvantaged position. A substantial devaluation of the green pound was presented by speaker after speaker as being an essential step towards the removal of this disadvantage.

I adhered to the agreed line on the proposed devaluation, and made the necessary references to the interests of the taxpayer and consumer. Nevertheless, greater attention is being focused on our long-standing Manifesto commitment to the avoidance of unfair discrimination, and unhelpful comparisons are being made between our exhortations to farmers to prepare for 1992 and our approach to the price-fixing negotiations.

I am well aware of the conflicting pressures which have to be balanced in determining our approach to the negotiations on this issue. But I believe that we run the risk of losing any credit for whatever may be achieved in

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the negotiations if we are not seen to be adopting a strong line on the need for steps to be taken to reduce substantially the disadvantage which the green pound system imposes on our producers.

I am copying this letter to the Prime Minister, Members of OD(E), Peter Walker, Peter Brooke and to Sir Robin Butler.

Yours Ever

Russell.

SANDERSON OF BOWDEN

P.S. Green £ as good a settlement as possible please? The manifesto commitment remain to be delivered.

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tke ccPC
PU

NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

CDP
20/2

The Rt Hon John Selwyn Gummer, MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
LONDON SW1A 2HH

19 February 1990

Dear John,

at flag

1990 CAP PRICE FIXING: THE GREEN POUND

I am happy to support the thrust of the proposals in your letter of 1 February, but there is a particular NI dimension that colleagues should be aware of.

I agree generally with your analysis of the effect of the green rate system in relation to relative producer returns. You have expressed this in the context of bread-making wheat, but I am under considerable pressure here in respect of the beef and dairy sectors where a similar analysis could be made. (As you know from Peter Bottomley's letter of 19 January the Ulster Farmers' Union are seeking an immediate and substantial devaluation for beef). In one sense, and in this particular area, it is the more difficult for us here given the apparent advantage to the ROI producer in selling beef into the UK market.

The particular Northern Ireland dimension to all this is the land border. The greater the real or perceived disparities caused by the agrimonetary regime, the greater the propensity to take illegal advantage. The effect of variations between green rates and market rates between Northern Ireland and the Republic is an open invitation to fraud of the MCA system. This seems to me to be an additional point to make in any presentation to the Council in pursuing our objectives. If the Council is in the business of anti-fraud measures a substantial devaluation can only assist.

I am copying this letter to the Prime Minister, members of OD(E), Malcolm Rifkind, Peter Walker, Norman Lamont and to Sir Robin Butler.

Ever

Peter

PB

Euro Pol: CAP
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letter or
draft here)

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10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

16 February 1990

Dear Sir Simon,

Thank you for your letter of 19 January about the "green pound". John Gummer explained the Government's position on this earlier this week at your Annual Conference, but it might be helpful if I briefly summarise our position.

The Government fully accepts that after the end of 1992 the continuation of charges on trade like monetary compensatory amounts would be incompatible with the single market. Effectively this means that "green" and market rates must be aligned by that date at the latest. Means must be found to prevent significant or long-term divergences arising thereafter. These are important objectives in our programme for the single market.

It follows that we will seek a significant narrowing of the gap between the "green" and market rates for the pound sterling at this year's CAP price fixing. The precise dismantling we will seek will be determined nearer the time of decision in Brussels.

I ought to draw your attention to the negotiating realities John Gummer will face. To be agreed, a devaluation will need in practice to be proposed by the European Commission and to be supported by a qualified majority in the Council of Ministers. As you say, the Commission have already put forward a proposal and it is not clear if they would be willing to change it. Nor should it be assumed that other member states would support a substantial devaluation of the "green" pound, since most of them have no opportunity this year to make use of green currency devaluations themselves.

Yours sincerely

Margaret Thatcher

Sir Simon Gourlay

CCP
PC

MAFF

Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH
01-270 8709/8667

From the Minister's Private Office

Andrew Turnbull Esq
Principal Private Secretary
No 10 Downing Street
LONDON
SW1

15 February 1990

Dear Andrew

1990 CAP PRICE FIXING: THE "GREEN" POUND

We spoke recently about the draft letter for the Prime Minister to send to Sir Simon Gourlay which was attached to my Minister's letter of 1 February to Chief Secretary to the Treasury. The draft needs to be amended to take account of the fact that Mr Gummer has now made the Government's position clear on this issue in his speech to the NFU's AGM. The draft also needs to take account of comments made in response to his letter, notably those of the Chief Secretary in his letter of 9 February.

Flag

I am accordingly attaching a redraft which has been agreed by Mr Gummer. Our view is that the Prime Minister is best advised not to be drawn into commenting on the specific factors which the Government will be taking into account in determining its strategy on this issue.

Yours sincerely

A J Lebrecht

A J LEBRECHT

GR pl type for PM
signature
Dear Sir Simon

DRAFT LETTER FROM THE PRIME MINISTER TO THE PRESIDENT OF THE NATIONAL FARMERS UNION

THE "GREEN" POUND

Thank you for your letter of 19 January about the "green pound". John Gummer explained the Government's position on this earlier this week at your Annual Conference, but it might be helpful if I briefly summarise our position.

The Government fully accepts that after the end of 1992 the continuation of charges on trade like monetary compensatory amounts would be incompatible with the single market. Effectively this means that "green" and market rates must be aligned by that date at the latest. Means must be found to prevent significant or long-term divergences arising thereafter. These are important objectives in our programme for the single market.

It follows that we will seek a significant narrowing of the gap between the "green" and market rates for the pound sterling at this year's CAP price fixing. The precise dismantling we will seek will be determined nearer the time of decision in Brussels.

I ought to draw your attention to the negotiating realities John Gummer will face. To be agreed, a devaluation will need in practice to be proposed by the European Commission and to be supported by a qualified majority in the Council of Ministers. As you say, the Commission have already put forward a proposal and it is not clear if they would be willing to change it. Nor should it be assumed that other member states would support a substantial devaluation of the "green" pound, since most of them have no opportunity this year to make use of green currency devaluations themselves.

Europa : CAP PTA.

cc PU/ PC

Foreign and Commonwealth Office
CONFIDENTIAL
London SW1A 2AH

13 February 1990

From The Minister of State
The Hon Francis Maude

The Rt Hon John Gummer MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

CDS 13/2

Dear John

1990 CAP PRICE FIXING: THE GREEN POUND

I have seen a copy of your letter of 1 February to Norman Lamont and Norman's reply.

I too endorse the need to align green and market rates by the end of 1992. The Commission proposal would keep us on target. But I would be ready to accept the compromise Norman proposes on the conditions he mentions: we do not want to give any scope for others to dilute good budget discipline.

I am copying this letter to the Prime Minister, to other members of OD(E), to Malcolm Rifkind, Peter Walker, Peter Brook and Sir Robin Butler.

Francis Maude

CONFIDENTIAL

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CCPC

SCOTTISH OFFICE
WHITEHALL LONDON SW1A 2AU

1. AF - to see
2. NBEN [illegible]

The Rt Hon Norman Lamont MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

RRC 6

12 February 1990

Dear Norman,

1990 CAP PRICE-FIXING: THE GREEN POUND

FILE WITH PG

I have seen John Gummer's ~~recent~~ letter to you seeking agreement on the line to be taken on the Commission's proposals for devaluing the green pound.

I fully support John's proposed negotiating line. Farmers in Scotland too have for a long time taken a realistic stance on the need for reform of the CAP and to look more to the market and less to Government for their returns by competing as effectively as possible both at home and within the Community. We seek to encourage them in this approach and have consistently maintained that we do everything possible in negotiation to avoid discrimination against our farmers. These assurances sound increasingly hollow when our industry continues to have to contend with the discriminatory effects of the green pound.

Profitability of agriculture remains a distinct problem here, as in other parts of the UK. Our attitude on green pound devaluation is being seen more and more as the touchstone of our commitment to the industry and to putting it on a proper footing to compete effectively with the rest of Europe after 1992. I therefore very much hope you can agree to John's proposed negotiating line for the price-fixing. An indication that we are seeking devaluations of the scale indicated would send a clear signal to the industry that our repeated Manifesto and other commitments have substance.

I am copying this letter to the Prime Minister, Members of OD(E), Peter Walker, Peter Brooke and to Sir Robin Butler.

Yours ever,

Malcolm

MALCOLM RIFKIND

IEL02002.020

EURO POL : CAP ITIA.

cst.ps/9n19.2/drft

CONFIDENTIAL

cc PU
VPC

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John Gummer MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

9 February 1990

Dear Minister

1990 CAP PRICE FIXING: THE GREEN POUND frap

Thank you for your letter of 1 February.

2. I strongly endorse your commitment to align green rates and market rates by the end of 1992. The Commission's proposals are on target to achieve this, and I am far from convinced that there is merit in seeking to speed up the process further. Even the one third closing of the monetary gap proposed by the Commission would have a significant additional public expenditure cost, and would add, albeit modestly, to the RPI at a time when we are seeking to maintain the downward pressure on inflation. Your aim of a one half closing of the monetary gap would exacerbate these effects significantly, and in seeking to achieve it you would run the risk of antagonising other member states who would be expected to press for amendments to the Commission's proposals to favour their own farmers. I cannot therefore agree to it.

3. However, I do understand the extreme pressure you are under from the farming lobby to deliver a substantial green pound devaluation. I would therefore be willing for you to continue to say in public that you will do your best for the farmers, as long as at the same time you stress that you must also take account of the interests of consumers and taxpayers, and emphasise the constraints imposed by the need to negotiate with the eleven other member states which will make even the Commission's proposal on green rates difficult to achieve. You would of course be able to say that, on current exchange rates, the Commission's proposal would give UK farmers a substantial price increase and boost to farming income. As far as the Council negotiations are concerned, I would be prepared to agree to your exploring the scope for negotiating a slightly larger dismantlement of the monetary gap than the one third proposed by the Commission, perhaps in the

range 35% to 40%. We can take a more precise view in the light of exchange rates nearer the point at which a decision in Brussels is necessary. But I can only agree this on the clear understanding that you will not persist in requesting a larger devaluation than the Commission has proposed if it becomes clear that in order to achieve it you would have to agree to costly or otherwise undesirable measures in the price fixing. You will need to keep me closely in touch with how the negotiating position develops.

4. On other elements in the price fixing, you say in your letter that officials are still in the process of assessing the Commission's proposals. In general these seem not particularly satisfactory, largely because of the budgetary costs of the "rural world" and other related measures which are not offset by price reductions. Much of the Commission's package goes against the grain of further CAP reform, and indeed may be construed as inconsistent with our GATT commitment to reduce overall agricultural support. I understand that you are planning to seek improvements in a number of areas, and I welcome this. Clearly if we are to end up with a green pound devaluation in excess of the current Commission proposal, it will be especially important to make progress in this direction.

5. In this context I should mention that I have serious doubts about the merits of the Commission's proposal for an LFA ewe premium. This would be expensive, and would not further CAP reform. We should therefore oppose it. If it were to go through, I would have to take account of this in the next review of Hill Livestock Compensatory Allowances. I also think that it would not be wise for the UK to re-open the issue of the beef special premium headage limit: apart from the cost, this could lead other member states to press for other changes which would favour them, reducing our chances of achieving a price fixing settlement consistent with CAP reform and our GATT obligations. We need also to to be careful about pressing for the elimination of the basic co-responsibility levies for cereals and milk. While this would be welcome if equivalent budgetary offsets could be achieved, there is a clear risk, given other member states priorities, of failing to deliver on this latter objective.

6. You will need to reflect the above in the draft reply for the Prime Minister to send to Sir Simon Gourlay. In particular, it seems to me that the draft attached to your letter makes too little of the likely benefits to UK farmers of the Commission's proposals, and it does not mention the need to take account of the interests of taxpayers and consumers. It is very important to avoid raising expectations beyond the line I have suggested above.

7. I am copying this letter to the Prime Minister, to other members of OD(E), to Malcolm Rifkind, Peter Walker and Peter Brooke and to Sir Robin Butler.

Yours sincerely

Isleen Campbell

pp **NORMAN LAMONT**

Approved by the Chief Secretary and signed in his absence

EURO POL: CAP.

CONFIDENTIAL

1. SDP - to see

2. CF - pc.

PRCG 5/2

PRIME MINISTER

GREEN POUND

You will wish to see the attached letter from John Gummer to the Chief Secretary setting out the approach he proposes to take on the Green Pound in the context of this year's price fixing.

The Commission have proposed removing a third of the monetary gaps. But John Gummer wants to go for a halving. He would not say this publicly but would say publicly that he was pursuing a devaluation of "as large an amount as is negotiable".

His approach would of course be good for UK farmers if it could be achieved. But there are two major drawbacks:

i) it would add further to the RPI costs which John Gummer estimates to total 0.1%;

ii) it would involve public expenditure costs averaging some £100 million more than is currently allowed for in PES.

You may feel that, since the Commission proposal is consistent with the elimination of green rates from 1992, it would not be right to press for anything further given all the other difficulties on the RPI and public expenditure fronts.

i) Do you want to see how other Ministers react before intervening? Yes [illegible]

Or

ii) Any initial views you want to register?

If he goes for $\frac{1}{3} | \frac{1}{3} | \frac{1}{3} |$ now - he may finish up with a gap, because the $\frac{1}{3}$ will be recalculated then. If he goes for $\frac{1}{2} | \frac{1}{2} |$ - he still has a [illegible] to equalise. I asked him about the RPI - it would be a very small amount and well understood (i.e. $\frac{1}{2} - \frac{1}{3}$ extra) not

PRCG.

(PAUL GRAY)

2 February 1990

c:\wpdocs\economic\green.dca

CONFIDENTIAL

CC PC

MAFF

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

From the Minister

The Rt Hon Norman Lamont MP
Chief Secretary to the Treasury
Treasury Chambers
Parliament Street
LONDON
SW1P 3AG

/ February 1990

Dear Norman

RESTRICTED

1990 CAP PRICE FIXING: THE GREEN POUND

The Commission have produced fairly rigorous proposals for 1990/91 prices which in particular take full account of the 1988 decisions on stabilisers. We can consider them collectively later, if necessary, when officials have made a detailed assessment. I am writing now to secure agreement on the line we should take on one aspect of those proposals namely devaluing the green pound.

Special 'green' currencies can have no place in the Single Market after 1992 since the resulting monetary compensatory amounts (MCAs) act as barriers to trade not least since they necessitate detailed checking by customs authorities. We have therefore advocated the abolition of green rates before the end of 1992 and we understand the Commission have the same objective. Abolition will involve aligning market and green rates.

I believe that we must make rapid progress towards this objective, bearing in mind that any further decline in sterling's value against the ECU between now and 1992 would widen whatever monetary gap remains. Last week green and market rates of the pound diverged by between 10.5% and 19.0% according to the product. This has major effects on farmers' returns compared to their competitors in other Member States. In the week ending 20 January for example the average market prices (converted at spot rates) per tonne of bread-making wheat were £121 in the UK compared with £131 in France and £138 in Germany. Different green rates are the largest cause of this discrepancy. Costs, of course, do not vary in proportion since most inputs are not subject to green rates. Green rates are a major factor in the decline of farming income in the UK relative to other Member States as is graphically illustrated in the Annex.

/As a Government ...

As a Government, we should not be prepared to tolerate discrimination within Community policies against our own producers. In our 1979 election manifesto we promised to devalue the green pound to a point which would enable our producers to compete on level terms. We have reiterated that undertaking at successive elections. We must be seen to be a Government that delivers on its commitments.

Against this background I judge that we need significant action on the green pound in the present price fixing. The Commission have proposed that the green pound be devalued by an amount sufficient to reduce the monetary gap at the time of the price fixing by one-third, which currently would mean reducing UK gaps by between 3.5% and 6.3% depending on the product. This is the minimum consistent with eliminating green rates by the end of 1992. I seek colleagues' agreement to my stating publicly that I will pursue in Brussels a devaluation of as large an amount as is negotiable. Only in this way, I believe, can we as a Government retain credibility in terms of our commitment to achieving a non-discriminatory single market for agriculture.

My aim will be to secure a halving of the monetary gaps although this will be extremely difficult to negotiate. That currently would mean reducing the gaps by between 5.3% and 9.5%. The effect of this would be to increase producer returns by some £390 million, which is little more than the £360 million (ignoring interest rates) by which the industry's costs rose in 1989. This would add 0.1% to the RPI though this will have worked out of the year on year index by the late summer of 1991. Its cost would go beyond the PES provision in programme 3.1 by some £71 million in 1990/91, by £107 million in 1991/92 and by £116 million in 1992/93 (after taking account of the small devaluation which occurred at the time of the recent EMS realignment). Depending on movements in CAP expenditure it could well involve a call on the reserve for 1990/91.

However, what green rate adjustment actually means is righting an unfairness. We are penalising our farmers through the present differences in price levels which subsidise their foreign competitors. This is not defensible particularly alongside the tough stabiliser regime which we have championed. The UK Government pressed for less and less farming support and this is our policy too in the GATT negotiations. Our farmers can accept the logic of the policy but only on the basis of fair competition. We cannot ask them to accept the tough stabilisers as well as discrimination of up to 19% against their enterprises.

The President of the NFU has written to the Prime Minister and several colleagues on this subject. I attach a copy of his letter to the Prime Minister and a draft reply which I propose to recommend. My office will be in touch with No 10 about the delivery of this reply, whose timing is important in relation to the NFU's AGM on 13 February.

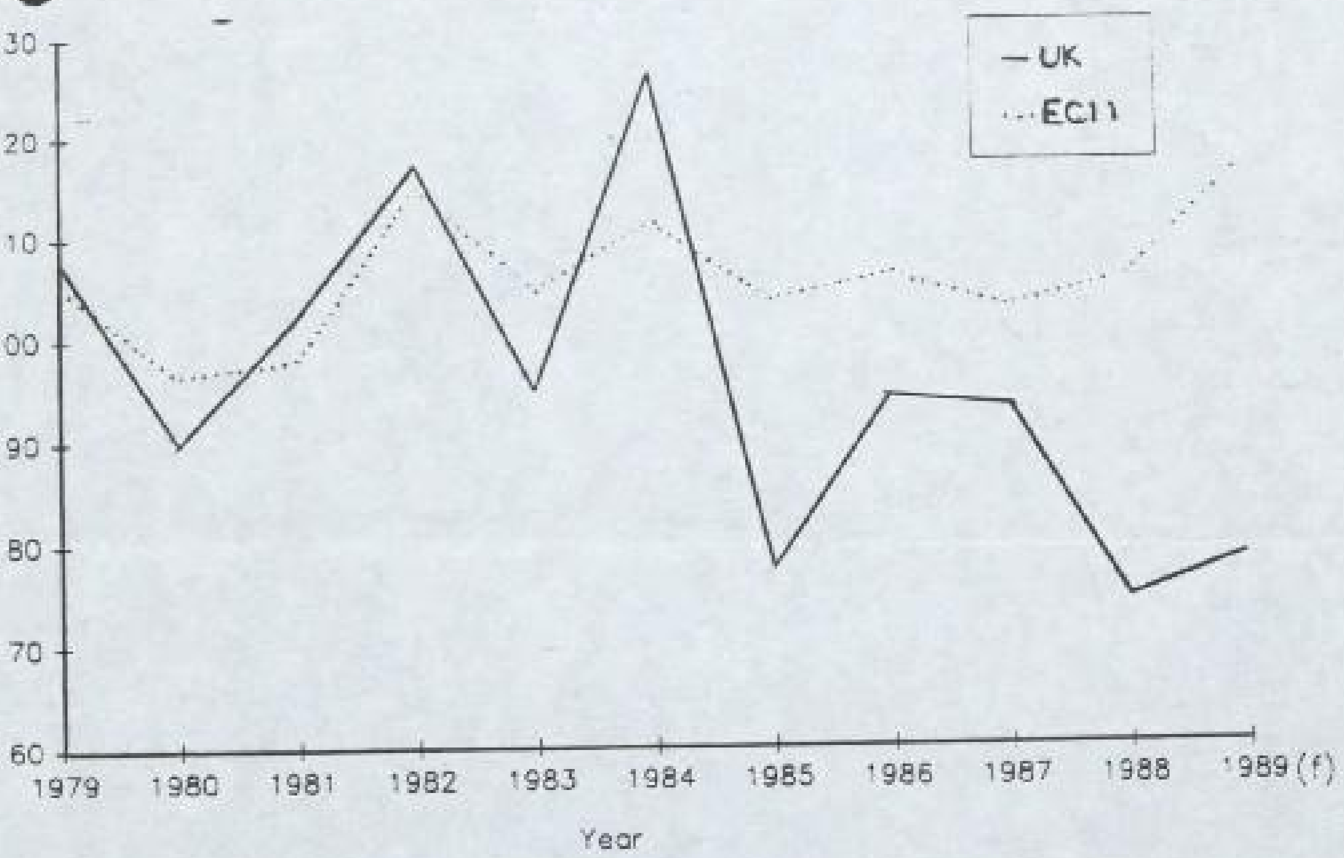
/I am copying ...

I am copying this letter to the Prime Minister, to other members of OD(E), to Malcolm Rifkind, Peter Walker and Peter Brooke and to Sir Robin Butler.

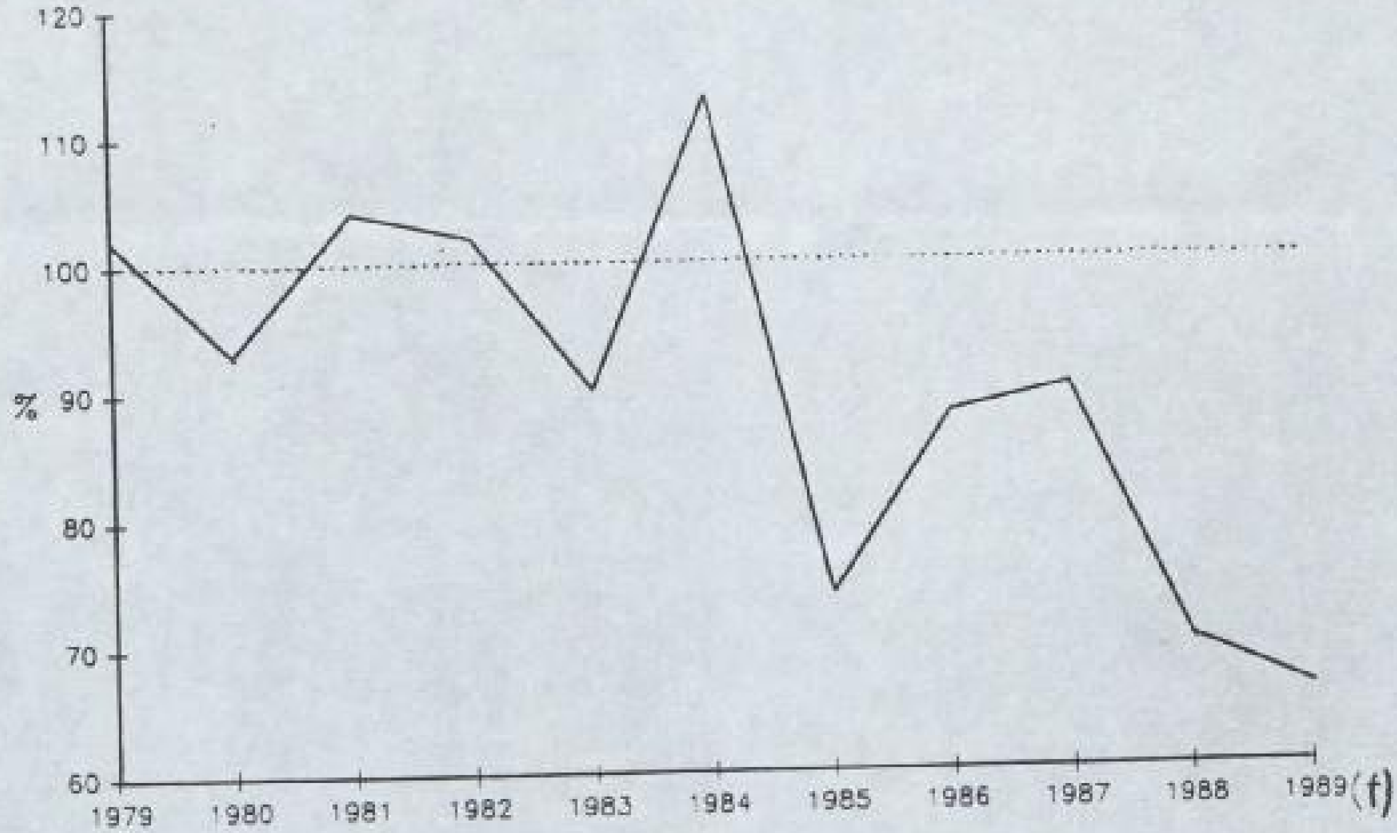
Yours ever
John

JOHN GUMMER

ndices of real net income from agricultural activity of family labour input per annual work unit (AWU) from 1979 to 1989 (indicator 3) "1980" (av 1979 to 1981 = 100)



Development of UK index relative to EC11



AGRICULTURE HOUSE · KNIGHTSBRIDGE · LONDON SW1X 7NJ

01-235 5077

THE NATIONAL FARMERS UNION

FROM THE PRESIDENT
SIR SIMON GOURLAY

19th January 1990

The Rt Hon Margaret Thatcher MP
10 Downing Street
London
SW1

Dear Prime Minister

I am writing to ask you to support a major devaluation of the green £ which is now vital if British farmers are to compete on fair and equal terms in Europe.

The steep fall in farm earnings over recent years, (a fall that has been checked only temporarily by improvements for a few commodities,) does not just mean that farmers have to tighten their belts. It means, in particular, that the industry lacks the resources needed for investment. With annual investment in fixed capital falling in volume terms by nearly a half between 1983 and 1989, the strength of the industry has been seriously undermined. The outlook is especially worrying because investment levels have been much better maintained in other leading EC countries.

The main financial pressures stem from inflation, the high level of UK interest rates and the operation of the green pound. The first two factors are common to most of British industry. But UK agriculture alone suffers the penalty of the green pound. The use of this artificial exchange rate means that British farmers earn substantially less than their counterparts in other EC countries for a range of basic products. Wheat prices, for example, are £20 lower than they would be if EC prices were converted to sterling at the market rate of exchange.

Farmers are willing and eager to compete. But if they are to be successful, the terms of competition must be fair. The green pound penalty, which provides subsidies on imports and imposes taxes on our exports, must be removed. The Commission's proposal to narrow the gap between green and market rates by only one-third this year is totally inadequate. If British agriculture is to gear up to meet the challenge of the Single Market, the trade distortions must be removed now.

I know that a green pound devaluation has some effect on food prices. But the impact on consumer budgets is small.

/....

Eliminating the whole of the green pound gaps should add no more than half of one per cent to the RPI and that effect would be spread over many months.

For many years food prices have lagged behind the general rate of inflation and farm gate prices have increased by less than half the RPI over the last decade. I recognise that the concern of Government is primarily with the future and that any increase in the inflation rate is unwelcome. I hope you will accept, however, that the cost of a green pound devaluation is a price that has to be paid to avoid lasting damage to a major industry. A further run-down in farming would be bad for both the economy and the countryside.

Yours sincerely

Simon Gourlay

DRAFT LETTER FROM THE PRIME MINISTER TO SIR SIMON GOURLAY

Thank you for your letter of 19 January. You also wrote to several of my Cabinet colleagues and I hope you will take this as responding to those also.

I understand your concern about the impact of the green rate system on the income and the competitive position of the British farming industry. We have, of course, sought and secured a series of green rate devaluations over recent years, including the one at last year's price fixing which halved the then existing monetary gaps. Since then, we have seen a further divergence between market and green rates and I acknowledge that this does disadvantage our farming industry.

We are committed to the total elimination of all the monetary gaps by the end of 1992 at the latest. The Government accepts that this is a necessary condition for achieving the single market for agriculture. As to this year's price fixing, you will not expect me to define precisely our negotiating position at this stage. To do so would be to make it more difficult to achieve the best for our farmers. You will know that the UK is on its own in these discussions as no other EC country has a real interest in putting right this discrimination. In these circumstances we shall seek to argue as effectively as possible taking into account movements in exchange rates between now and the final stages of the negotiations.

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OF 260545Z JULY 89
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FRAME AGRICULTURE

AGRICULTURE COUNCIL 24-26 JULY 1989
SUMMARY REPORT

SUMMARY

1. COUNCIL, IMPRESSIVELY CHAIRED BY NALLET, MAINLY DEVOTED TO REFORM OF THE SHEEPMEAT REGIME ON WHICH OUTLINE AGREEMENT REACHED BY QUALIFIED MAJORITY. CONVERSION OF THIS AGREEMENT INTO FORMAL ADOPTION OF THE NECESSARY REGULATIONS DEPENDS, HOWEVER, ON A WAY BEING FOUND TO REMOVE GREEK AND ITALIAN BLOCKS ON THE UNANIMITY NEEDED TO ADOPT THE LINKED PROPOSAL ON NEW ZEALAND BUTTER.

DETAIL

2. AFTER ALL NIGHT SESSION, INDICATIVE QUALIFIED MAJORITY VOTE ON COMPROMISE DOCUMENT ON THE REFORM OF THE SHEEP REGIME. THIS PROVIDES FOR TRANSITION TO BE COMPLETED BY 1993, TOWARDS A SINGLE COMMUNITY REGIME BUT WITH SEPARATE PREMIA FOR DAIRY EWES PRODUCING LIGHT LAMBS AND EWES PRODUCING HEAVY LAMBS. THE GB VARIABLE PREMIUM AND THE SPECIAL ARRANGEMENTS FOR EWE PREMIA IN THE MEDITERRANEAN COUNTRIES TO BE PHASED OUT. SATISFACTORY COMPROMISE FOUND ON PROPOSED PER FARM LIMITS ON EWE PREMIA. GREECE AND ITALY VOTED AGAINST THE LEVEL OF THE PREMIA IN RESPECT OF LIGHT LAMBS AND NETHERLANDS REGISTERED A PROTEST VOTE AGAINST THE SLOW TEMPO OF THE ENDING OF THE MEDITERRANEAN SPECIAL ARRANGEMENTS.

3. QUALIFIED MAJORITY IN FAVOUR OF THE DRAFT AGREEMENT ON IMPORT ARRANGEMENTS FOR NEW ZEALAND LAMB TO BE FORMALISED WHEN REGULATIONS ARE ADOPTED IMPLEMENTING THE OUTLINE AGREEMENT ON THE SHEEP REGIME, WITH ITALY AND GREECE VOTING AGAINST.

4. GREECE AND ITALY BLOCK THE UNANIMITY NEEDED TO ADOPT THE DRAFT AGREEMENT ON IMPORTS OF NEW ZEALAND BUTTER. BECAUSE OF THE LINKS WITH THE INTERNAL AND EXTERNAL SHEEP REGIME THIS BLOCKAGE NEEDS TO BE REMOVED BEFORE THESE RELATED ISSUES CAN BE ADOPTED. EXISTING BUTTER IMPORT ARRANGEMENTS ROLLED FORWARD UNTIL 30TH SEPTEMBER (Z).

15[illegible]5
MDHIAN 4612

5. WIDE SUPPORT FOR 1 PERCENT INCREASE IN COMMUNITY MILK QUOTA RESERVE, BUT SEVERAL MEMBER STATES REGARD TOTAL WITHDRAWAL OF COMPENSATION FOR SUSPENDED QUOTA AS SOON AS THERE IS OVERPRODUCTION AS TOO DRACONIAN, PREFERRING PROGRESSIVE REDUCTION OF COMPENSATION AS QUOTA BREACHED. STRONG HINTS FROM THE MEDITERRANEAN COUNTRIES THAT THEY WILL SEEK ADDITIONAL CONCESSIONS IN EXCHANGE FOR THEIR SUPPORT FOR THE PROPOSAL. TO SCA WITH INSTRUCTIONS TO PREPARE DOSSIER FOR FORMAL ADOPTION AT SEPTEMBER AGRICULTURE COUNCIL.

6. UNANIMOUS AGREEMENT TO FRAMEWORK REGULATION ENABLING COMMUNITY INTERVENTION STOCKS TO BE USED TO PROVIDE EMERGENCY AID TO POLAND.

7. QUALIFIED MAJORITY PREPARED, WITH VARYING DEGREES OF ENTHUSIASM, TO ACCEPT COMMISSION REVISIONS TO RULES ON SET ASIDE. PRESIDENCY HOPE THAT FURTHER DISCUSSIONS IN SCA WILL CONVERT THIS INTO UNANIMITY, BY THE TIME EP OPINION IS AVAILABLE.

8. PROCESSED PEACHES AND PEARS TO BUDGET COUNCIL ON 28 JULY AS 'A' POINT, WITH ITALY AND GREECE RECORDED AS VOTING AGAINST (Z).

9. COMMISSION READY TO COUNTENANCE MEASURES TO HELP AREAS PARTICULARLY AFFECTED BY THE DROUGHT BUT NOT YET READY TO CONCLUDE THAT THIS YEAR'S CEREALS HARVEST WILL BE BELOW THE MAXIMUM GUARANTEED QUANTITY OF 160M TONNES. STRONG HINT, HOWEVER, THAT THEY MAY BE PREPARED TO REACH SUCH A CONCLUSION AS EARLY AS SEPTEMBER.

10. ITEMS MARKED (Z) NOT REPORTED FURTHER. INTERNAL AND NZ SHEEPMEAT IN MIFT. MILF QUOTAS IN MY SECOND IFT. EMERGENCY AID FOR POLAND AND SETASIDE IN MY TELNO 2452. DROUGHT/CEREALS AND CORESPONSIBILITY LEVY IN MY THIRD IFT. (IFTS NOT TO ALL).

HANNAY

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ADDITIONAL 1

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CONFIDENTIAL

Prime Minister

UK FARM INCOMES RELATIVE TO EC INCOMES AND POSSIBLE ACTIONS

I have seen the minutes to you from John MacGregor (10 April), John Major (13 April) and Geoffrey Howe (14 April), and your Private Secretary's letter of 14 April.

I very much share John MacGregor's concern about the level of farm incomes. Despite what John Major says about the volatility of the results and the possibility of interpreting the figures in different ways, the fact remains that we are not simply dealing with one season's weather-affected position. No matter how the statistics are analysed, returns to very many farmers are in long term decline. In Scotland, as in the UK as a whole, the average full-time farmer's income is now well below £10,000 per annum, a sum which has to cover the return on his investment as well as the return on his labour and management.

I do not oppose structural adjustment: agriculture, like any other industry, must have regard to the realities of the market place and we should not strive to keep the inefficient in business. While our policies at home and our negotiating stances in the European Community and in GATT are geared to making agriculture increasingly subject to the discipline of the market, we cannot neglect the part Government still has to play in establishing the conditions in which efficient agriculture can prosper. It concerns me that margins have become so tight that in a number of important sectors many hardworking and committed entrepreneurial farmers are finding it difficult to make ends meet. We cannot afford, both on agricultural policy grounds and for wider social, environmental and political reasons, to countenance a general rundown of the industry, particularly in the marginal and peripheral areas where farming is the backbone of the whole rural community.

I do therefore welcome your agreement that we increase the Suckler Cow Premium to the maximum permissible. This will be very well received in Scotland and I agree with John MacGregor that an announcement shortly before your speech to the Party Conference at Perth would be appropriate. I welcome your agreement on the line to be taken on the green pound in the price-fixing negotiations. For many farmers here the green currency differential remains the major issue and Russell Sanderson and I are regularly taken to task about the Government's commitment to securing "level playing fields". Your agreement to John's proposal will help achieve good progress in that direction.

As you know, I do see considerable advantage - for both Government and Party - in your meeting representatives of the Scottish farming community. Before the details of President Gorbachev's visit were finalised we had of course plans for you to attend a major reception to be hosted by the National Farmers' Union of Scotland in Edinburgh this month. I do hope that that engagement may yet take place before Ian Grant's Presidency comes to an end. I know that the Union would welcome it.

Our officials will of course be in touch about the Perth speech. On agriculture, I think that in addition to the general message that the well-being of the rural economy depends to a large extent on a modern, efficient, market-oriented - but environmentally aware - agricultural industry, you should address two main current concerns:

(a) our commitment to the maintenance of livestock farming in the less-favoured areas: the review of the EC beef regime caused many hill and upland farmers concern - the decision on Suckler Cow Premium will help - but of even more concern is the Commission's proposals for the reform of the sheep regime. The headage limits if imposed as proposed could undermine the viability of many of our larger units in the remote areas: you could endorse Agriculture Ministers' commitment to negotiate a reformed sheep regime which puts our farmers on even terms with their continental competitors - and allows them free and fair access to European markets;

(b) a related point: there is also widespread concern about our commitment to the long-term structural support of those areas which suffer permanent natural handicaps. The changes to capital grants were perceived here as a deliberate reduction of support for the less-favoured areas. There is a very real fear that EC proposals for changes to the Hill Livestock Compensatory Allowance arrangements, likely to emerge shortly, will discriminate against the larger holdings we have in the hills and uplands of the UK in favour of the smaller continental farmers. Again I see a need for you to underline the Government's commitment to securing a fair deal for those of our farmers who farm at the margin coping with extremes of terrain and climate.

I am copying this letter to John MacGregor, Geoffrey Howe, Peter Walker, Tom King, John Major and Sir Robin Butler.

MR

MALCOLM RIFKIND

April 1989

Euro Pol CAP

MR. WHITTINGDALE

cc Mr. Morris

SCOTTISH FARMERS

You will wish to see the attached note from Malcolm Rifkind which, inter alia, raises some points he would like to see the Prime Minister include in her Perth speech. As I mentioned to you, we have now arranged for the Prime Minister to have half an hour with John MacGregor next Thursday when the question of the Perth speech may also come up. Unless you think otherwise, I do not propose to show the Prime Minister Malcolm Rifkind's note at this stage (there are no other operational policy points in it that need to be answered).

Dominic will see that Malcolm Rifkind is also proposing that the Prime Minister should at some point attend a major NFU reception in Edinburgh. This doesn't seem a very high priority to me, but maybe it ought to go on the diary meeting agenda.

(PAUL GRAY)

19 April 1989

DA1ACE

iael.ts/docs/17April.1

CONFIDENTIAL

HM Treasury

Parliament Street
London SW1P 3AG
Telephone 01 270 4650

CDP Yes. I decided to let them slug it out since I sent the 14/4 letter – though if we are called on to arbitrate I think the Treasury got the vote, because the way I described the minimum option to the PM was 1.89

PG

An arcane quarrel is in progress. I presume we leave 'em to fight it out. CDP 17/4.

PRG 17/4

at flag

R J D Carden Esq
MAFF
Whitehall Place
LONDON
SW1A 2HH

17 April 1989

Dear Richard

AGRICULTURE COUNCIL: 17-18 APRIL 1989

We spoke on Friday and again briefly this morning about my letter to Peter Muriel of 14 April, on our interpretation of what Ministers have agreed on the green pound. I now see that paragraph 19 of your brief on the agrimonetary proposals for this week's Agriculture Council gives a different interpretation of what has been agreed. You assured me that your Minister had been fully briefed on the Chief Secretary's views on this matter and that it was clear that, if Mr MacGregor wished to make use of your interpretation of what has been agreed, he would need to contact the Chief Secretary (and presumably No. 10). We noted that it is not yet certain that it will be necessary to take up a definitive position on the green pound at this week's Council.

I am sending copies as before.

Yours ever

Bob

R J BONNEY

cc Mr Holroyd - Cabinet Office

Mr Kerr FCO

Mr Roberts)
Mr Bostock) UKREP (in Luxembourg)

Mr Hollis)
Mr Muriel) MAFF

Mr R I G Allen)
Dr Slater)
Mr Wanless) HMT

Mr Gray - 10 Downing St.

CONFIDENTIAL

EURO POL: CAP
A19

cc

NBPM
PRES
ndx Mr Gray
CDP
14/4.

PM/89/014

PRIME MINISTER

UK Farm Incomes Relative to EC Incomes and Possible Actions

1. I have seen John MacGregor's minute to you of 10 April and John Major's of 13 April.

2. I broadly agree with John MacGregor's conclusions.

3. On the green pound, I accept that the Commission's proposals for reducing monetary gaps in 1989 discriminate against non-ERM currencies. We must clearly press for changes. But we must avoid stimulating counter-claims from other member states which would weaken the overall package and add substantially to its cost. I therefore support John Major's suggestion that we go for an average reduction of no more than 3.2% in our monetary gap. This offers a substantial benefit to UK farmers. Any more would be an unreasonable additional cost for consumers.

4. John MacGregor mentions the importance of success in the GATT Uruguay Round. I agree with the assessment in his minute to you of 11 April that the agreement on agriculture at the recent TNC meeting offers a good basis for continuing reform. We may need to remind other member states, in the context of the price fixing, that this means no weakening of the CAP reforms already in place.

5. I would not myself rule out selective use of "decoupled" aids, even if primarily for small farmers, if this cleared the way for further significant CAP reform.

/We

We did after all accept "set aside" to secure German acceptance of the 1987/88 reforms: I can envisage our accepting similar future deals, provided the further reforms secured also brought significant savings. Reducing agriculture's immunity from market forces must remain our central objective, in the budgetary, counter-inflationary, and GATT contexts, and in the consumers' interest.

6. Copies of this minute go to John MacGregor, and the other recipients of his minute.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
14 April 1989

GSO Pd - CAP PX19

fael.ts/docs/14April.2

CONFIDENTIAL

cefo

HM Treasury

Parliament Street
London SW1P 3AG
Telephone 01 270 4650

P Muriel Esq
MAFF
Whitehall Place
LONDON
SW1A 2HH

NBPm

PRCG 14/4

14 April 1989

Dear Peter

topene

GREEN POUND

We spoke about the implications of Paul Gray's letter of 14 April which reports the Prime Minister's views on the green pound.

I noted that No. 10's letter imposes two constraints:

(i) the outcome on the green pound should not exceed the "minimum" option outlined in your Minister's minute of 10 April; and

(ii) that the "minimum" option has been agreed on the understanding that the public expenditure costs can be accommodated within existing provision.

Having discussed this with the Chief Secretary I can confirm that we interpret this as meaning that the Prime Minister is content with the minimum option as presented in the attachment to your Minister's minute based on the monetary gaps applicable on 3 April. This gives a weighted average reduction in the monetary gap of 3.8% and a full year cost of £66m as shown in Table A attached to my letter of 13 April to Richard Carden. For the avoidance of doubt we do not think she has agreed to the minimum option shown in Table B to that letter based on the monetary gap on 10 April which represents a 4.74% reduction in the monetary gap at a full year cost of £83m (ie much the same as the "maximum" option in Mr MacGregor's minute). As you know, we calculate that the PES provision agreed last year to cover a 3.2% reduction in the monetary gap was £25 million in 1989-90 and £66 million in 1990-91 which means that, as the unit costs of a devaluation have reduced somewhat, a 3.8% reduction could just be accommodated within the existing provision and thus meet the second of No. 10's conditions.

I can also confirm that the Chief Secretary would be content for your Minister to decide how the devaluations should be allocated to the different commodities, provided that the weighted average reduction in the monetary gap does not exceed 3.8%. On the face of it if you wished to follow the model of the options outlined in your Minister's minute the new monetary gaps for dairy products, crops and sheep would need to be harmonised at -4% rather than -3%

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- if the settlement is reached while the present monetary gaps persist.

I should be grateful to know as soon as possible whether your Minister is content to proceed on this basis.

Yours ever

Bob

R J BONNEY

cc Mr Holroyd - Cabinet Office

Mr Kerr - FCO

Mr Roberts)
Mr Bostock) UKREP

Mr Carden)
Mr Hollis) MAFF

Mr R I G Allen)
Dr Slater) HMT
Mr Wanless)

Mr Gray - 10 Downing St

EURO. POL: CAP Pa[illegible] 19

→ Dominic
We have not yet expanded on X. I will aim to get decisions when PM sees J. Macgregor on 27 April.
PRG 14/4

PG

CF P.P's

BF 11

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

14 April 1989

Dear Shirley,

UK FARM INCOMES RELATIVE TO EC INCOMES AND POSSIBLE ACTIONS

The Prime Minister was grateful for your Minister's minute of 10 April and for the Chief Secretary's minute of 13 April.

On the suckler cow subsidy she has noted the respective arguments, and feels that, as long as Agriculture Ministers are able to finance this within their existing budgets, it would be reasonable to increase the subsidy by some £13.50.

On the Green Pound, the Prime Minister thinks that, in view of the costs for consumers and the impact on domestic prices, it would not be appropriate to press for a devaluation in line with your Minister's maximum option. But, on the assumption that the public expenditure costs can be covered within existing provision, she would be content for your Minister to obtain agreement to his minimum option. She recognises that, in negotiating terms, he may need initially to press for a bit more, but she would not want this to be reflected in the final outcome.

X On the other issues raised in your Minister's minute, the Prime Minister has noted that a number of policy reviews are under way. She will be giving consideration separately to the proposals for a reception at No.10 and speech engagements.

I am copying this letter to Richard Gozney (Foreign and Commonwealth Office), Keith Davies (Welsh Office), Stephen Pope (Northern Ireland Office), Uriel Jamieson (Scottish Office), Carys Evans (Chief Secretary's Office) and Trevor Woolley (Cabinet Office).

Yours,
Paul

(PAUL GRAY)

Mrs. Shirley Stagg,
Ministry of Agriculture, Fisheries and Food.

Note
Discussed above with the P.M. who ~~agreed~~ took the decisions reflected in my letter of today's date.
PRCG 14/4

PRIME MINISTER

POSSIBLE MEASURES TO HELP UK FARMERS

John MacGregor's minute of 10 April (Flag A) is a follow-up to the brief talk he had with you a couple of weeks ago.

He proposes two immediate measures:-

i. increasing the rate of suckler cow subsidy in the UK to the maximum level permitted under EC rules by £13.50, rather than the £10 offered by John Major.

ii. pressing for a larger Green Pound devaluation than currently proposed by the Commission. The Commission have proposed an average 2.4%; John MacGregor proposes "minimum" and "maximum" options averaging 3.8% and 4.6%.

Other papers attached are:

Flag B: Response from John Major. He continues to resist the further £3.50 increase in the suckler cow subsidy. He is content to press for a larger green pound devaluation than the Commission propose, but wants to limit it to 3.2%.

Flag C: Note by Carolyn Sinclair. She supports John MacGregor on the suckler cow subsidy, but urges caution on the green pound.

The Foreign Secretary has yet to comment.

Farming Income Data

The latest figures clearly do point to a larger fall in the UK than in other Community countries. As John MacGregor fairly points out, this is not primarily because of disadvantageous treatment within the EC. But there are a number of other points also to bear in mind:-

- although the rate of change of UK farm incomes is relatively unfavourable, the level is still generally higher than elsewhere in the Community;

- the recent drop has been concentrated in the arable sector. Although this is the most vocal area - which dominates the NFU leadership - it is not the most deserving. The arable sector in general did very well in the late 1970s and early 1980s. And by and large they can live with the latest squeeze;

- although the livestock sector has done quite well in the last couple of years, this remains the precarious part of the industry. And it is also the most politically sensitive, particularly in Wales, Scotland and the North of England.

The Two Immediate Proposals

On the suckler cow subsidy there is a good traditional Treasury case for resisting the full increase. John MacGregor's point about large other expenditure savings is less than compelling given the massive overall level of agricultural support. And MAFF Ministers certainly never argued that they should reduce national support in the many years when estimates of CAP support were increasing. But given the amount of money involved - £3-4 million - and the political sensitivity of the livestock areas you may feel it right to agree to the increase, if John MacGregor absorbs the costs in his programme.

On the Green Pound, the issue is not whether there should be a devaluation, but how big it should be. More help here for producers inevitably means more costs for consumers. Carolyn Sinclair suggests that to go for the maximum option averaging 4.6% would add about 0.1 per cent more to the RPI than the Commission proposal - although MAFF suggest the effect would be only about half that size, and point out that it would be phased over the next six months. That said, it is touch and go whether the RPI will breach 8 per cent over the next few months, so even a small further boost from a Green Pound devaluation is unwelcome.

It is also necessary to consider the effect of pressing for a bigger devaluation on our other price-fixing objectives; both John Major and Carolyn Sinclair express worries on this score. But John MacGregor has rung me to say he rejects John Major's point; he argues that the Green Pound is the only UK demand he wants to press in the negotiations, and he must have some element in the package to sell to the UK farming lobby.

You will want to consider how far to go on the Green Pound. But there is clearly not a lot of difference between John Major's 3.2 per cent and John MacGregor's "minimum" 3.8 per cent. Charles thinks we cannot really accept less than John MacGregor's minimum, indeed ought to go for an average 4.0% (which the Commission may anyway try to scale down). On balance, I would go for the lower figure.

Other Policy Issues

There is no immediate decision required on the other points John MacGregor mentions. But you might want to support his points about avoiding preference to small farmers and achieving success in the Uruguay round; while noting that the PES round is the right place to consider hill allowances and slaughter and compensation contributions.

Your Participation

John MacGregor suggests three things:-

- a reception at No. 10 in the autumn for Food and Farming Year 1989

- supporting your wish for a major agriculture passage in your Scottish Conference speech on 12 May

- a major agriculture speech when you visit the Royal Show in July.

You will want to consider whether you are content to do all three, or whether there are any of these you would prefer not to do. Although you will be giving an opening address, it might be prudent to avoid a commitment to a major speech at the Royal Show.

Handling

John MacGregor will not be in London again before he has to go off to the next Brussels meeting. But we can pass your reactions to his office tomorrow; and if need be I imagine we could set up a telephone conversation.

In slower time, John MacGregor would like to have a half hour chat with you to discuss the general handling of the UK farming industry. If you are content, we might arrange that in the run up to your Scottish speech next month.

Conclusion

(i) On the suckler cow subsidy:

- content to support John MacGregor's £13.50 increase as long as he absorbs the costs?

OR

- prefer John Major's £10?

(ii) On the Green Pound devaluation

- do you favour John MacGregor's sticking out for a "minimum" figure averaging 3.8%, with an opening bid of say 4.0%?

OR

- John Major's 3.2%, with an opening bid slightly above that?

(iii) Content to have a No.10 Food and Farming Year reception in the autmn?

(iv) Content to plan for a major expenditure passage in your Scottish Conference speech, but undertake at this stage only a <u>short</u> speech when you go to the Royal Show?

(v) Content to <u>support</u> John MacGregor's points on avoiding preference to small farmers and the Uruguay round; but simply <u>note</u> that hill allowances and slaughter and compensation premiums will need to be considered in due course?

(vi) Content for us to fix up a time for John MacGregor to have a general chat with you?

PRG.

Paul Gray

13 April 1989

010 cst.ps/7jm13.4/mins

CONFIDENTIAL

B

cc CAP/C

FROM: CHIEF SECRETARY
DATE: 13 April 1989

PRIME MINISTER

UK FARM INCOMES RELATIVE TO EC INCOMES AND POSSIBLE ACTIONS

WITH CAP?

I was grateful to John MacGregor for sending me a copy of his minute to you of 10 April.

2. In this minute John makes two proposals for improving the UK farm incomes relative to EC farm incomes, namely an increase in the suckler cow premium and a green pound devaluation greater than that proposed by the Commission in their CAP price fixing proposals.

3. Before I turn to these specific points I would like to comment briefly on the general issue. The farm incomes statistics bear a variety of interpretations but certain things are clear. Firstly, they are notoriously volatile; it is not unusual for a year on year change of 25 per cent. (For example, between 1983 and 1984 farm incomes rose by 34 per cent). Moreover the aggregate statistic conceals wide variations between sectors and parts of the country. In 1988 farm income in the dairy and extensive livestock sectors (including livestock farmers in Less Favoured Areas) improved significantly. The fall in income was experienced mainly by the arable and intensive livestock sectors (i.e. pigs and poultry). And a major factor there was the poor weather. Additionally, a distinction needs to be drawn between aggregate farm income and the incomes of individual farmers. Many farmers and members of their families already have significant non-agricultural sources of income and this is a development which is likely to continue as we encourage farmers to diversify. In any event, if we continue our long standing policy of opening agriculture to market forces, reductions in farm incomes are probably a necessary stage in achieving the structural adjustment we want.

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4. John and I have been in correspondence on the Suckler Cow Premium for some time and I am sorry we cannot agree about this. The issue between us is whether this should be increased by £10 per cow (or about 30 per cent) as I have suggested or by about £13.50 (40 per cent) as John proposes to the maximum permissible. In my view the arguments for not going to the maximum this year are compelling, not least because the beef sector saw an improvement in income last year and cattle prices remain buoyant. In any event the amount at stake is minimal in relation to aggregate farm income and would not be directed to the sectors which have experienced reductions in income.

5. The more important issue is the green pound. I believe this must be placed in its negotiating context in the Agriculture Council. As you know, we regarded the Commission's original Price Fixing proposals this year as broadly acceptable. Even the Green Pound proposal was consistent with what the Council agreed last year on progressively removing existing monetary gaps. The main problem was that the Commission had made a more generous proposal for countries within the ERM. As I understand it the positive aspects of the Commission's proposals (e.g. on further weakening the cereals intervention system and price cuts for sugar) have been largely whittled away in tough negotiations and there is the worrying prospect that other influential Member States such as France and Germany are trying to unpick the stabiliser package agreed last year. Against this background I consider that our primary objective in the Price Fixing must be a settlement which is consistent with the 1988 agreements both on stabilisers and budget discipline.

6. I understand that John needs flexibility to obtain what he can present as a satisfactory green pound devaluation and I agree that the present Commission proposals are unfair. His "maximum" option would, however, also strike other Member States as unfair because the proportionate devaluation achieved by the UK would be much higher than for any other Member State with the possible exception of Greece. Going for the maximum option may put at risk our main objective of an overall settlement consistent with the

1988 agreement. It could certainly only be achieved by expensive concessions on green rate changes to other Member States, including no doubt another deferral of the German revaluation agreed by the European Council in 1987, with no assurance that the costs involved would be offset by other savings. I am, however, entirely content for John to negotiate an outcome within the average 3.2 per cent reduction in the monetary gap for which PES provision was made last year. This would allow John to seek an improvement in the Commission's present proposal but would not accommodate either the "minimum" or the "maximum" options in his minute which average 3.8 per cent and 4.6 per cent respectively. By comparison I understand that the Commission's present proposals represent on average a 2.4 per cent reduction in the monetary gap.

7. I am writing to John separately on the other points raised in his minute. However, I hope that in anything we say, we avoid the temptation of over reacting to one year's disappointing income figures by announcing new expenditure to benefit producers which does not seem to be justified objectively and that we avoid pre-judging the outcome of the various policy reviews which we have set up.

8. I am copying this minute to John MacGregor, Geoffrey Howe, Peter Walker, Tom King, Malcolm Rifkind and Sir Robin Butler.

John M.

JOHN MAJOR

PRIME MINISTER 13 April 1989

U K FARM INCOMES RELATIVE TO E C FARM INCOMES$

1. John MacGregor has written to you about the unfavourable trend in UK farm incomes relative to other EC countries.

2. He argues that against this background

(i) we should press in Brussels for a larger green pound devaluation than that proposed by the Commission;

(ii) we should pay the highest rate of suckler cow premium allowed by EC rules;

(iii) we should move carefully on our reviews of national support policies such as the Hill Livestock Compensatory Allowances (HLCAs), charging for ADAS services, and cutting back on near-market R & D. Changes these areas will be readily portrayed as another assault on the farmers' pockets.

He ends by referring to your forthcoming speech at the Scottish Conservative Conference, and to the European Elections.

GENERAL

John MacGregor's minute adds nothing new to what is already known about the falling trend in UK farmers' incomes relative to trends in the EC. This is due to a number of factors, among which the level of the green pound plays a fairly small part. In pressing for a large green pound devaluation, John MacGregor is seizing on the one tool within his grasp regardless of

(i) whether it is likely to do the trick in terms of increasing UK farmers' incomes;

(ii) the wider consequences for reform of the CAP, and agricultural subsidies worldwide.

At the same time he is trying to win his battle with the Treasury over the level of the suckler cow premium (paid to beef producers); and to secure your support in future battles over the review of HLCAs, extending ADAS charges etc.

FARMERS' INCOMES

Aggregate farm incomes fell in the UK by 25 per cent between 1987 and 1988. The following points are relevant:

- Aggregate farm income is a notoriously volatile statistic. Swings of ± 25 per cent are not uncommon. For example, using the figures in Annex 1 of Mr MacGregor's minute, there was an increase of + 34 per cent in farm incomes between 1983 and 1984.

- Volatility is natural given factors like weather and disease.

- Aggregate measures conceal wide differences between different sectors and geographical areas. The sectors which have done worst are cereals, pigs and poultry. (See Annex A). The area which has done worst is lowland England (see Annex B).

- Dairying and beef and sheep, including the less favoured areas, have done relatively well. Aggregate farm income in Scotland, Wales and Northern Ireland has not fallen as steeply as it has in England.

COMPARISONS WITH EC

- Average farm size in UK larger than anywhere else in EC. UK farm income per labour unit about 50 per cent above EC average in normal year. In other words, UK farmers better off to start with.

- Main reasons for steep fall in UK farmers' incomes relative to those in EC in 1988 are:-

  (i) higher input costs, especially wages. UK farmers employ more hired labour - 37 per cent compared with 15 per cent for EC as a whole.

  (ii) higher interest rates.

  (iii) poor 1988 harvest - this alone accounts for around half of 25 per cent fall in income in 1988.

GREEN POUND DEVALUATION

- Monetary gap between green pound and market rate much narrower than two years' ago. Issue now of less importance to farmers' incomes.

- Green pound devaluation proposed by Commission would add about 0.1 per cent to the RPI. Maximum level proposed by John MacGregor would add 0.2 per cent to the RPI.

- Important for UK to secure revaluation of green DM. Little chance of negotiating successfully for this if UK presses for substantially higher green pound devaluation. Debate would descend into national horse-trading.

- Tactics on green pound need to be seen as part of general campaign to bring economic sense into the CAP, and reduce agricultural subsidies worldwide.

- Immediate issue is this year's price-fixing. Commission proposals, which are reasonable, are under attack from various member states on narrow grounds. Not in UK's interest to encourage such an approach by joining in special pleading - puts the 1988 agreements on stabilisers and budget discipline at risk.

CONCLUSION

- Fall in UK farmers' incomes relative to trends in EC largely explained by factors unique to UK (weather, wage costs and interest rates), not to workings of CAP.

- Substantial green pound devaluation advocated by John MacGregor would put relatively little extra money in farmers' pockets. The effect could easily be wiped out by another poor harvest or further wage drift.

- But a large devaluation would jeopardize important wider interests such as this year's price fixing and the 1988 system of budget discipline and stabilisers. It would send the wrong signal in Brussels and elsewhere if UK agricultural policy appeared based on the easy option in terms of domestic politics.

SUCKLER COW PREMIUM

The suckler cow premium scheme costs around £40m a year. Payments are made to (mainly) hill beef farmers who produce calves. It is part of the UK's traditional pattern of support for hill farmers.

The suckler cow premium is currently £33.40 per beast. John MacGregor (and the other agriculture ministers) wants to increase it to £46.18, the maximum allowed under EC rules. John Major has already agreed £43.40, but does not want to go further. Some £3m per annum is at stake.

The issue is whether the Government wants to be seen as using the maximum available flexibility to benefit one sector (not the hardest hit) of UK farmers.

It will do no great harm if it does. An increase will benefit some small hill beef producers whose incomes are not high by any definition.

The main argument for giving less than the maximum increase is to underline the Government's commitment to reducing the level of support for agriculture.

But since that commitment can hardly be in doubt, and little is at stake, it is not worth quibbling over £3m. Hill farmers - of whom there are a lot in Scotland - would be pleased by the maximum increase. Scottish hill farmers' incomes are running below those of their English counterparts.

CONCLUSION

Agree with John MacGregor on the level of the suckler cow premium.

OTHER MATTERS, INCLUDING THE REVIEW OF THE HILL LIVESTOCK COMPENSATORY ALLOWANCES (HLCAs)

John MacGregor would like your support in his various battles with the Treasury over the structure and level of national support for British agriculture. The Treasury would like to save some momey. But above all, they want to see better value for the money spent on R & D, support for hill farmers, ADAS, etc. MAFF are very resistant to change.

Special support for hill-farming currently costs around £150m a year.

The real motive for the high level of government support to hill farmers (typically around 60 per cent of their income comes from HLCAs) is to preserve communities in remote areas of upland Britain. Quite a lot of people in these areas are not farmers, and arguably subsidies to one group is not the best way of sustaining viable communities. This is the kind of question the Treasury propose to ask during the review of HLCAs.

Any substantial reduction in the level of support for hill farmers would be very contentious. It would only be worth going down this route if we could demonstrate that the overall benefits to upland communities would make such a course worthwhile.

CONCLUSION

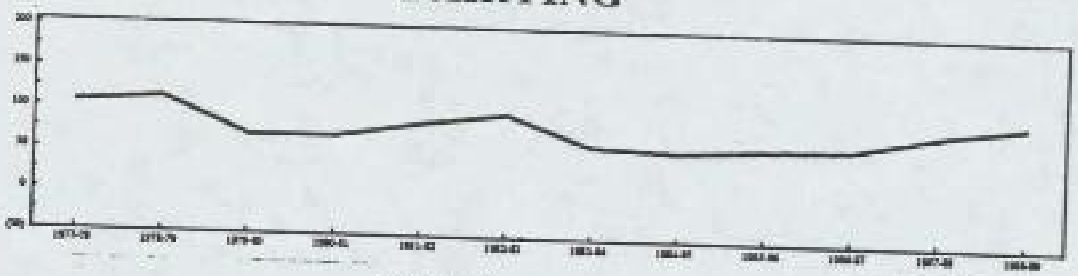
- Each farming issue needs to be judged on its merits. The search for value for money must continue, notwithstanding falling farm incomes.

CAROLYN SINCLAIR

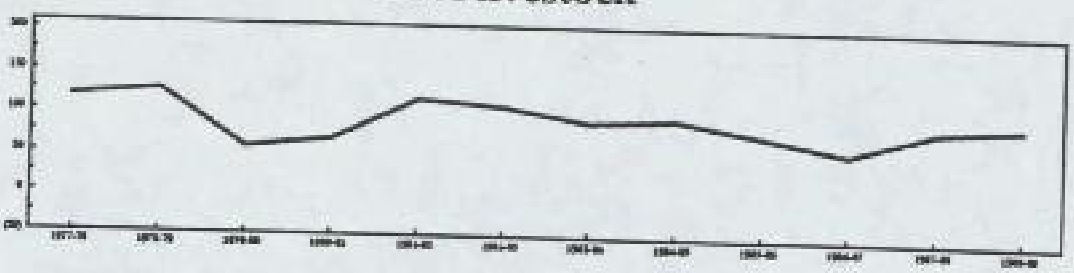
ANNEX A

Average net farm income per farm
by farm type
Constant prices (1982-83=100)

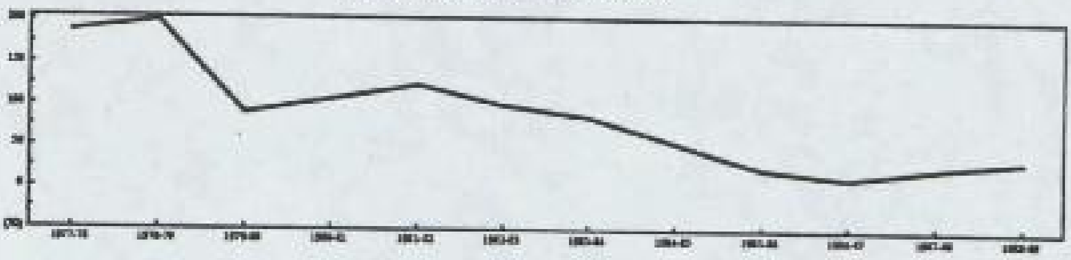
DAIRYING



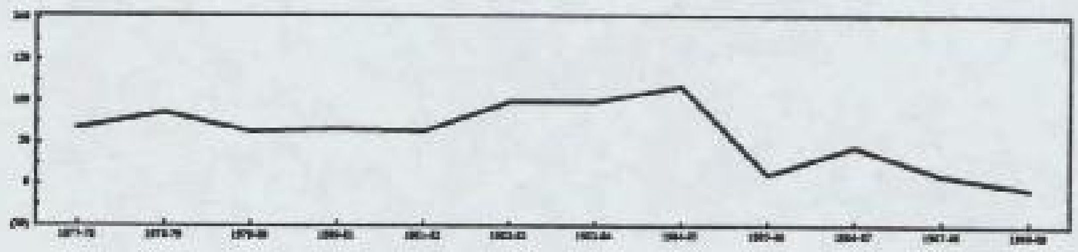
LFA livestock



Lowland livestock

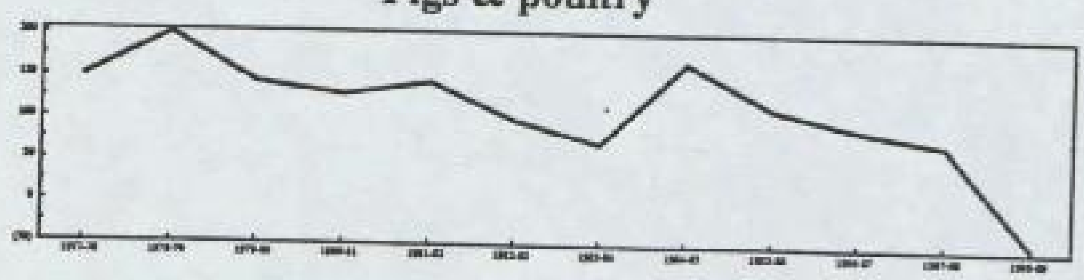


Cereals



Other cropping

Pigs & poultry



Annex B

INDICES OF REAL FARMING INCOME BY COUNTRY (1985=100)

	1984	1985	1986	1987	1988
England	194	100	133	120	76
Wales	208	100	152	172	200
Scotland	702	100	326	525	517
Northern Ireland	189	100	79	142	143
United Kingdom	208	100	135	134	96

MAFF Ministry of Agriculture, Fisheries & Food, Whitehall Place, London SW1A 2HH
Press Office: 01-270 8973 Out of hours: 01-270 8080 Fax: 01-270 8443

News Release

58/89 13 February 1989

JOHN MACGREGOR CALLS FOR ACTION ON CAP FRAUD

The Rt Hon John MacGregor MP, Minister of Agriculture, Fisheries and Food today called on the EC Agriculture Council to identify particular lines of action to be taken to combat CAP fraud and to set some firm objectives.

Speaking at a Council meeting in Brussels, Mr MacGregor said:

"I make no apology for returning to the subject of fraud which I have raised in the Council on several occasions before.

"In the nature of fraud there are no firm figures. But it is clear that the problem is very large indeed - not as large perhaps as some recent reports have suggested, but large enough to be of the most serious concern to us all.

"It simply cannot be right in any way that large amounts of Community money are being wasted. It is for us - the Council and the Commission - to tackle the problem and to show that we are doing so.

"I welcome the emphasis which the Commission has now put on this as we in the United Kingdom have been urging, and the fact that it is in the price package as a key objective. The Commission have also made certain suggestions on how to combat it, and this too is welcome.

"The European Court of Auditors have produced two important reports which provide fresh evidence of fraud but which also propose some specific remedies. We should ensure that this work of the Court is followed up with practical action.

"The Council should identify particular lines of action to be taken and set some firm objectives.

"The Commission suggest there is a need to strengthen the systems of checks that Member States make to prevent fraud, and to strengthen the systems of penalties applied when fraud is detected. I believe it is essential to have clear rules and uniform standards so that Member States all understand what is required and apply the rules consistently. I shall support any appropriate and cost-effective changes that the Commission propose in this area.

"The Court of Auditors have highlighted specific weaknesses both in present rules and in the way they are being applied.

"I welcome the Commission's initiative in setting up a Working Party to study the Court of Auditors' report in intervention. There is a clear need to improve the controls over intervention stocks. In response to my request, your predecessor, Mr President, promised a substantive discussion in the Council. This discussion should be based on a report from the Commission including any necessary proposals to amend Council regulations.

"The Court of Auditors' findings on export refunds are also deeply worrying. It is unfortunate that there has been no discussion for a year now on a Commission proposal to set a minimum level of checks on exports. Discussions should be taken up again as soon as possible. The Court has put forward ideas that must be looked at - for setting the minimum level of checks on the basis of value rather than number of consignments; for a proper risk analysis to ensure some concentration on problem areas; and for Community rules on taking samples. The Court has cast doubt on the reliability of proofs of arrival. Here is, it seems, a strong case for considering a change in our control procedures.

"I have emphasised the importance of following up two reports by the Court of Auditors. However, at present there is no guarantee that any action will be taken on Special Reports although there is a procedure involving our colleagues in the ECOFIN Council which examines Annual Reports. It is essential that a procedure can be agreed for the future - not rigid because reports will require different types of consideration and action - but we need more certainty that they will be properly followed up by the Council and/or Commission. Perhaps an automatic procedural examination to determine which working group or groups should be asked to study the Court's recommendations would be the best way forward.

"So, the objectives we should set ourselves are:

- to put into practical form the suggestions made by the Commission in their price proposals;

- to follow up vigorously the work done by the Court of Auditors;

- on intervention to call on the Working Party to speed up its work and make operational proposals, as a basis for Council decisions.

- on export refunds, the Commission should bring forward proposals;

- for the future, the Council should adopt firm procedures for dealing with the Court's special reports, to match those that exist for its Annual Reports.

"There is one final point. As I have stressed on various occasions before, such as when we have been considering proposals on extensification, one consideration we must always have in mind in examining any new proposals or schemes is whether they are susceptible to fraud; and if they are we should not accept them until the risk of fraud has been thoroughly dealt with."

Bri

cc PAB
G
AT
DC
Cab Office
Press

MINISTRY OF AGRICULTURE FISHERIES AND FOOD
WHITEHALL PLACE LONDON SW1A 2HH
DIRECT LINE 01-270
OR SWITCHBOARD 01-270 3000

Mr Andrew Turnbull
No 10 Downing Street
London SW1

NDPM
BS 25/1

25 January 1989

Dear Andrew

As you know it has been agreed that my Minister, the Parliamentary Secretary (Mr Thompson), will make a statement to the House of Commons at 3:30pm this afternoon. The statement will deal with the outcome of the Agriculture Council in Brussels that was held on the 23rd and 24th of January. I now enclose a final copy of the statement.

I am copying this to Bernard Ingham (No 10), Murdo MacLean (Chief Whip's Office), Rhodri Walters (Chief Whip (Lords) Office), Trevor Woolley (Cabinet Office), Alison Smith (Lord President's Office), Nick Gibbons (Lord Privy Seal's Office), Stephen Williams (Welsh Office), David Crawley (Scottish Office), Mike Maxwell (Northern Ireland Office), Stephen Wall (Foriegn and Commonwealth office) and Carys Evans (Treasury).

Yours sincerely
Catherine Bowles

CATHERINE BOWLES (MISS)
Private Secretary

DRAFT PARLIAMENTARY STATEMENT

With permission, I will make a statement about the meeting of the Council of Agricultural Ministers of the European Community on 23 and 24 January, which I attended along with my Rt. Hon. Friend the Minister.

The main decision was the adoption by the Council, subject to the opinion of the European Parliament, of a package of six measures, most of which had been under discussion for some considerable time. These measures were: first, further changes in the beef support arrangements, building on the temporary measures agreed in December 1986; second, a scheme to give effect to the judgement of the European Court that certain farmers who had gone out of milk production under Community incentive schemes before milk quotas were introduced in 1984 were entitled to a quota; third, a scheme permitting member States to grant direct income aids to less prosperous farmers, with partial financing from the Community; fourth, a degree of financial assistance to producers of nuts mainly of interest to the Southern member States; fifth, a change in the arrangements for compensating small cereals producers for the effects of the coresponsibility levy; sixth, changes to green rates for certain member states, mainly in the beef sector.

This package of measures was adopted by majority vote. The UK was one of three member states voting against, mainly because of reservations about certain aspects of the outcome on beef. There are nevertheless a number of attractive features of the package and a number of improvements were made in the course of negotiation. For example, we had serious doubts as to whether it was appropriate for the Community to finance direct aids to low income farmers: but the scheme finally adopted by the Council was considerably more restricted in its scope than that originally proposed by the Commission.

The most important aim on the milk quota part of the package was that the extra quota now to be made available should not be at the expense of existing producers' quotas. This was fully achieved.

The aim of the new beef arrangements is to restrict intervention buying further, and to harmonise the premium payments to producers. The intention is that the new system should come into force on 3 April.

We have always believed that heavy intervention buying is an expensive and inefficient way of supporting beef producers. Although somewhat less constrained than the Commission originally proposed, intervention will in future be much more restricted than at present.

For the reasons explained by my Rt. Hon. Friend in last week's debate, it was not realistic to negotiate any further extension of the UK's variable premium. It will be replaced by the so-called "special premium" on male animals, already operated by most other member states since 1987.

The rate of special premium will be 40 ecu per animal compared with 25 ecu at present. It will be limited to 90 animals per producer per year compared with 50 at present and 75 proposed by the Commission. Although we did not secure the complete removal of the limit, the increase to 90 is obviously a considerable improvement.

There will also be an increase from 25 to 40 ecu in the Community-funded element of the suckler cow premium and part-time farmers will in future be eligible for the premium.

I thought it right to vote against the package because of our strong objections to the concessions on beef intervention and to the continued provision of a headage limit on the special premium. Even so, the outcome represents a considerable improvement in existing arrangements. There should be no difficulty in absorbing the costs of the package within the provision for agricultural market support in the 1989 Community budget and within the financial guideline limits set by the European Council for future years. Community consumers will benefit from reduced intervention for beef; UK producers will compete on level terms with producers in other member states in terms of intervention support and the premium regimes; and the budgetary cost of the regime will be under much better control.

MAFF

Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH
Tel: 01-270-8701

Derek Andrews CB CBE
Permanent Secretary

pw

Andrew Turnbull Esq
10 Downing Street
LONDON
SW1A

25 January 1989

Dear Andrew

As I told you on the telephone, the Minsiter will not be able to attend Cabinet tommorow. If he had been present, he would have wished to report on the outcome of this weeks meeting of the Agriculture Council. He has asked me to forward to you a briefing note of the points that he would have wished to make on the package.

I am sending a copy of this letter to Sir Robin Butler.

Yours ever
Derek.

DEREK ANDREWS

Prime Minister

(i) Mr MacGregor is still in hospital and will be so for a few more days. He has continued to suffer some internal bleeding and has needed a couple of transfusions. He will be having further examinations. This looks more serious than first thought. During the day tomorrow I will seek a further report. You may then want to send a further message.

(ii) On the EC package, the UK voted against, principally because we were still seeking better beef measures. Nevertheless, improvements were secured during the negotiations.

AT
25/1

100 years

AGRICULTURE COUNCIL - 23-24 JANUARY

The Council adopted a package of measures, with the UK, Netherlands and Ireland voting against. The main items in the package which concerned the UK were beef, milk quotas and aid to low-income farmers.

On beef:-

1. Further reform of the beef support arrangements will reduce reliance on intervention buying.

2. The "variable premium", long operated as an exception in the UK will end. It would have been unrealistic to try to negotiate its retention. And there were strong arguments for ending it, including its impact on our exports, the need to pay on Irish imports, and the scope for fraud in Ireland.

3. The new premium, operated uniformly throughout the Community, is subject to a limit per farm. Limits of this sort discriminate against UK farmers. It was possible to negotiate the limit up to 90 head but not remove it entirely.

These beef arrangements with the headage limit, and a weakening of the original proposals from the Commission for restricting intervention, were the main reason for voting against the package.

On milk quotas:-

1. A decision was necessary to implement a European Court judgement that farmers who had entered EC-financed schemes to go out of milk production, and who were not producing milk when production quotas were introduced, are nevertheless entitled to an allocation of quota.

2. UK aims were: (a) to ensure that quotas of existing producers are unaffected - this was achieved; (b) to restrict the issue of new quota as tightly as possible - the Commission's proposals were unfortunately weakened, but not by as much as some member states, notably the Germans, wanted.

On Direct Aids to Low-Income Farmers

1. European Council conclusions envisaged aids of this sort, with partial financing from the EC budget.

2. The scheme as adopted was more restrictive than the Commission had initially proposed.

3. The scheme is optional for member states: there seems no case for applying it in the UK, though we are likely to come under pressure to do so, particularly in Northern Ireland.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

25 January 1989

oic

CCBS

MAFF

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

From the Minister

PRIME MINISTER:

FARM INCOME

I mentioned to you the other day that I would be sending you a short note on farm incomes, as we are obliged to publish the Annual Review of Agriculture at the end of this month and the topic is likely to feature at the Richmond by-election whenever it is held (the farming proportion of the electorate at 12% is particularly high; although there is a spread of farming across the board, livestock farmers are the biggest sector).

The income statistic which is likely to capture the headlines is the aggregate farming income. This measures the return to farmers (and their spouses) for their labour, management and own capital invested. In 1988 farming income declined by 25 per cent in money terms and 28 per cent in real terms. The real farming income index is now around half what it was in 1979. The long term trends are shown in figure 1 attached.

An alternative income measure, namely the income from farming of farm households (which includes as well as that of farmers and their spouses, the income of partners, directors and family workers) is also shown in figure 1. This indicates a smaller but nonetheless substantial real decline for 1988 of 20 per cent. On the basis of this measure the fall since 1979 has been 35 per cent.

Whichever index of farm income is used, the poor results for 1988 have exacerbated a long term trend. Already at farming meetings around the country (and I am sure at the NFU AGM on 13/14 February) a contrast is being drawn between the general improvement in living standards as shown by the 29 per cent increase since 1979 in real take home pay by an average family, and the substantial fall for agricultural incomes. Even allowing for benefits from tax reductions, the contrast remains substantial.

Tentative figures just made available from the Commission (they will not be published until March) indicate that on farm incomes we have fared much less well than other Member States. Farming net income per family work unit increased in real terms by over 1 per cent in 1988 in the EC as a whole. Within this overall figure real incomes in West Germany and Ireland rose by over 20 per cent and in Spain by 15 per cent. In the United Kingdom real incomes fell by over one fifth.

Figure II shows the real farming income trends for the United Kingdom, three other countries and EC11. Since 1980 real farming income in the United Kingdom has in fact fallen by more than that of any other Member State other than Italy.

I tried in my speech at the Oxford Farming Conference to anticipate and to some extent head off the debate which will follow the publication of the Annual Review figures by making two points.

First, the single aggregate figure does not give the full and rounded picture of what is happening to farming incomes, and it tells us little about policy implications.

Some sectors of agriculture such as dairy farming (about one-sixth of farm holdings are classified as mainly dairying) have seen incomes improve in 1988 as will many livestock farms located in the less favoured areas (these account also for about one-sixth of farm holdings). Lowland livestock farms have seen some improvement in incomes but the recovery is from a very low level. Horticulture generally has seen some income improvement. But cereals and cropping farms have undoubtedly had another poor year following upon 1987. The weather affected yields and prices of crops generally were lower, in the case of cereals reflecting Community measures essential to bring surpluses under control. Pig, poultry and egg farms also experienced lower incomes as 1988 was a low point in the income cycle. Details of the income results by type of farm around the country are shown in Table 1.

Reflecting the pattern of farming in different parts of the United Kingdom, incomes have improved in 1988 in Scotland, Northern Ireland and also Wales. Consequently the brunt of the income decline has been borne in England and especially in the east, south and west. It is therefore from this particularly articulate section of the farming industry that we shall face particular criticisms.

I shall meet these criticisms on the domestic front by reference to the fact that recorded land prices over much of the country have held up, that poor weather and low yields have undoubtedly exacerbated the situation and to the strength of demand for milk quotas. I shall also stress that the necessary measures at the Community level to control the costs of the CAP inevitably mean a period of difficulty and adjustment for the industry.

Second, it is clear that income from farming is not the sole source of income for many, indeed most, of our farmers. Analysis of Inland Revenue statistics for the year 1984/85 indicates that income from farming tends to account for about 56 per cent of total taxable income of farmers and spouses (later figures show that for 1985/6 the proportion was nearly 60 per cent). Some 20 per cent comes from alternative business or employment income. At a time when my whole approach is to argue that because of surpluses and continuing increased productivity more land needs to come out of agricultural production and farmers who can should diversify and make more of their assets and skills in other ways to meet consumer demand, it is right that this type of income should also be taken into account. Farmers are in effect "rural entrepreneurs". I attach at Annex 1 some of the extracts from my Oxford Farming Conference speech on these issues.

As far as the position in relation to other Member States is concerned, our poor yields in 1988 were not experienced in other Member States to the same degree. In the Netherlands, where incomes have been buoyant, the heavy dependence on milk and horticulture have undoubtedly been major factors. Another factor may be that UK agriculture, with the bulk of its production coming from large farms, depends much more heavily on hired labour than is the case elsewhere. Hired labour earnings have risen much more than product prices, causing the remaining farm income, after labour and interest charges have been deducted, to be more highly geared than in other Member States.

I shall of course be continuing to take a strong line on the forthcoming price negotiations and on maintaining the momentum on stabilisers, CAP reform and budgetary discipline. I suspect I shall be seen and portrayed as the toughest of the Ministers. But the income figures do, I think, make it necessary to ensure that the outcome in the new reform regimes for beef and sheep and in the price negotiations does not discriminate against our agriculture.

I am copying this minute to the Foreign and Commonwealth Secretary, the Chancellor, the Secretaries of State for Northern Ireland, Wales and Scotland and Sir Robin Butler.

for **JOHN MacGREGOR**

(Approved by the Minister
and signed in his absence)

Figure I

MEASURES OF AGGREGATE FARM INCOMES - IN REAL TERMS 1985 = 100

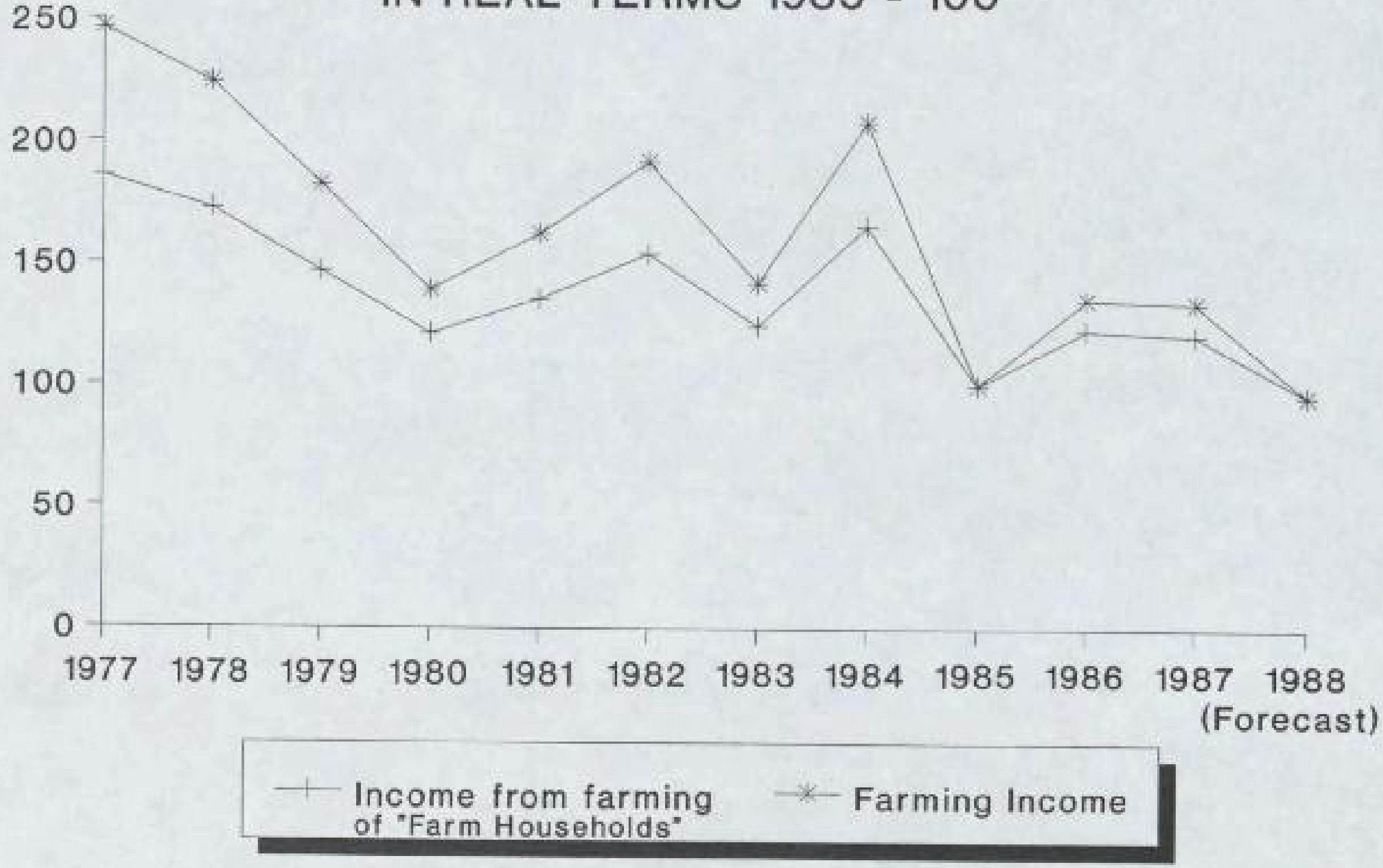


FIGURE II

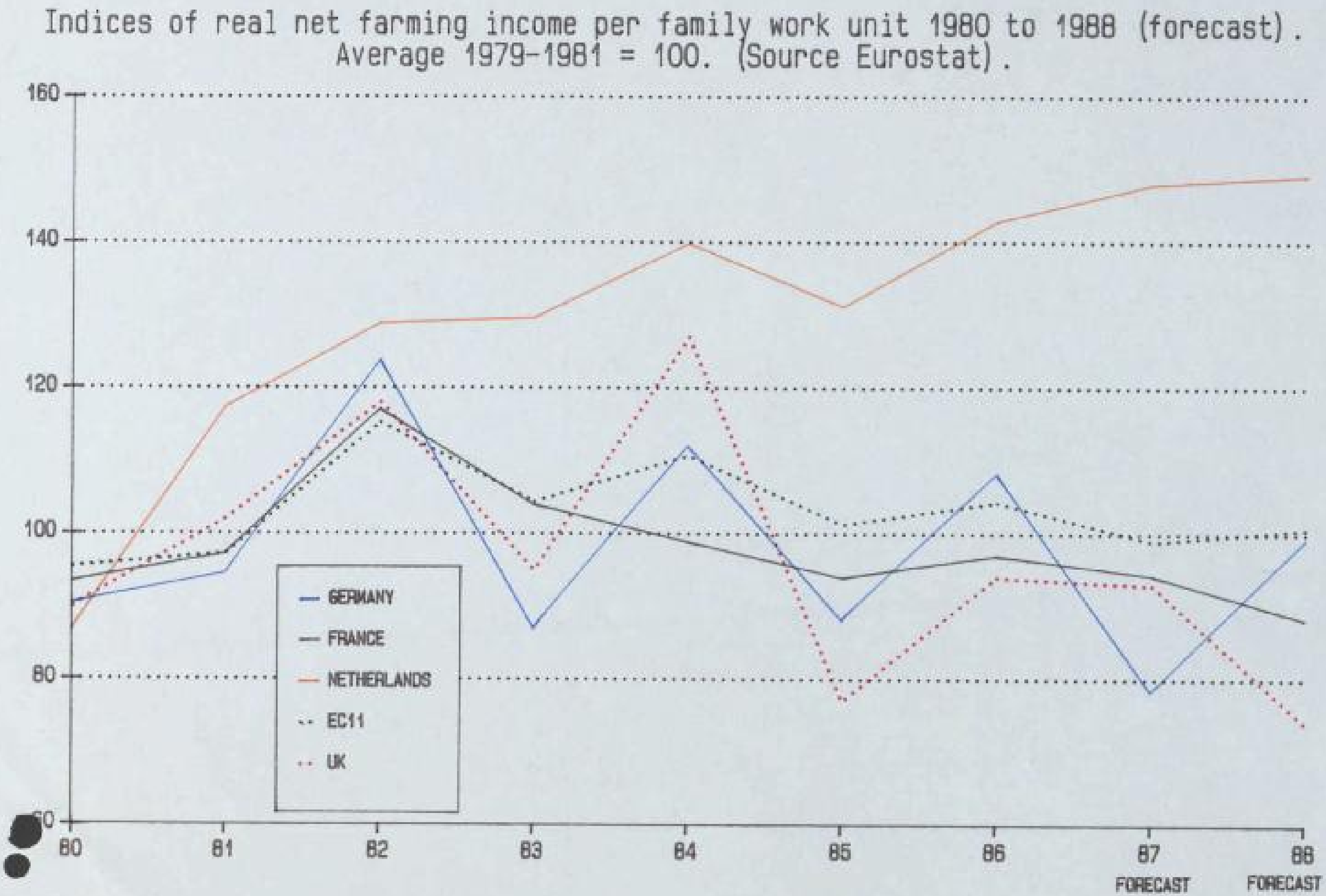

Indices of real net farming income per family work unit 1980 to 1988 (forecast).
Average 1979-1981 = 100. (Source Eurostat).
160
140
120
100
80
60
80
81
82
83
84
85
86
87
88
FORECAST
FORECAST
GERMANY
FRANCE
NETHERLANDS
EC11
UK

TABLE I

NET FARM INCOMES[1] BY FARM TYPE (£'000 PER FARM)

	1984/85	1985/86	1986/87	1987/88	1988/89 (forecast)
<u>Dairy Farms</u>					
England	8.7	11.4	14.4	18.5	22.6
Wales	6.5	10.5	11.3	16.4	18.8
Scotland	8.5	6.2	7.0	18.5	20.3
Northern Ireland	9.7	6.2	6.4	13.6	16.9
United Kingdom	8.5	10.1	12.3	17.5	21.1
<u>Livestock Farms in Less Favoured Areas</u>					
England	8.8	9.6	6.3	10.3	12.8
Wales	8.5	7.6	7.9	9.7	10.7
Scotland	6.5	6.0	3.4	8.6	8.5
Northern Ireland	5.4	1.7	2.3	7.6	9.6
United Kingdom	7.5	6.8	5.4	9.3	10.5
<u>Lowland Livestock Farms</u>					
England	2.7	1.7	0.9	4.7	7.1
Scotland	7.5	- 1.2	3.1	8.8	10.3
United Kingdom	2.9	1.6	1.1	4.8	7.3
<u>Mainly Cereals Farms</u>					
England	21.2	3.8	9.7	1.6	- 2.6
Scotland	9.3	- 9.0	6.2	6.9	5.1
United Kingdom	19.8	2.2	9.3	2.3	- 1.6
<u>Other Cropping Farms</u>					
England	21.0	6.1	17.7	8.4	0.8
Scotland	4.9	-11.3	11.4	8.4	3.2
United Kingdom	19.5	4.5	17.1	8.4	1.0
<u>Pig and Poultry Farms</u>					
England	33.5	21.8	16.4	14.3	- 9.1

NOTES

1. Net farm income is the return to the farmer and his spouse for their manual and managerial labour and the assets of the farm business other than land and buildings. This measure assumes all land is tenanted.

2. These figures are derived from the Farm Business Survey which covers 3,800 farms in the United Kingdom. The information is collected by Universities and Colleges on behalf of Agricultural Department.

One recent, well attended meeting of farmers I addressed sticks in my mind. We had a very lively question time, mainly about farm incomes (and more of that shortly) and demands from some for more Government support for this or that sector. No one from the floor mentioned the customer at all (though in fairness I suspect that many who did not speak out were simply getting on with running their business more and more oriented towards the customer; we must all be impressed by the efforts that are being made by so many farmers to become more marketing oriented, and I certainly pay a warm tribute to all the work that the NFU and others are doing in this respect). The mood of the rebellious was summed up by one questioner at the end who spoke along these lines - "Mr MacGregor, I took over my farm some twenty-five years ago. It's been a good way of life and I've been getting a reasonable income from it but now I see it under threat. All I want to do is to go on farming exactly as I always have done, without my standard of living going down while everyone else's is going up. And I've got children coming along to whom I will be eventually passing it on and I want them to share in that too".

I understand the sentiment very well. I want to see as many people as possible getting a good living from a competitive, well organised agriculture in the 1990's and beyond. But it cannot be at the cost of high levels of taxpayers' subsidies disposing of surpluses that cannot find a realistic niche in the marketplace.

We don't expect that of other businesses, small cobblers, small village garages, small shops have not been guaranteed a continued existence in our rural communities if there are no longer the customers for them. But all sorts of new businesses and new opportunities have sprung up in their place.

So is agriculture like other industries? I well recall, as many of you will, Denys Henderson's speech just after me at this Conference two years ago. He described the measures that ICI had had to take at the end of the seventies and early eighties to adapt to surplus capacity in that industry and to the changes that were taking place in demand for their products. It had been a painful process. Many people were made redundant. But as a result of making the changes in time, ICI is now in a much healthier state again. He was making the point that agriculture had to go through the same process of change and adaptation. Hence the CAP reforms. In that sense above all agriculture has to be like any other industry.

EXTRACT II

Some may ask why it is that the United Kingdom has pressed more strongly for these (CAP) reforms than others? One reason is that we consider it to be undesirable that agricultural policy should be managed with limited regard for the financial and economic costs which inevitably must fall on other parts of the economy. The United Kingdom remains a large net contributor to the Community budget - and therefore the CAP - in contrast to most Member States who are beneficiaries. Paymasters naturally take a stricter view of value for money than do the recipients.

Another reason is that during the last nine years our economy has been transformed. Not only have attitudes changed but older industries have been restructured whilst the new ones have emerged and are prospering. It is essential that the economic growth achieved and the benefits deriving from this be sustained. This means that the gains must not be dissipated through the misuse of resources in the production of foodstuffs which have no economic outlet. In other words, Community and British agricultural policy should move towards and not away from the policies that are succeeding in the rest of the economy.

EXTRACT III

This is perhaps the point for me to say something about farm incomes. I realise only too well that incomes from farming have been and are under pressure. In response to charges that farmers are "feather-bedded" and living on high subsidised incomes, I have myself frequently referred to the fact that farming incomes have been declining significantly in real terms and in comparison with most other occupational groups. But I do think that we need a somewhat more sophisticated analysis of what is actually happening to farming incomes than has tended to be the case in recent debates. I mean by that that there is a tendency to describe the well-being or otherwise of our farmers purely by reference to the single simple statistic of aggregate farming income.

Of course it matters when aggregate farming income falls as it has done in 1988. The results of the Annual Review will be published in a few weeks time and I propose to leave detailed discussion of them till then. But that statistic is based on a global calculation and does not do justice to the variations around the country and amongst farms and also takes no account of the efforts of farmers to diversify their income sources - something that has been pursued very successfully by many.

That is why I have been encouraging the wider publication of additional information, describing much more fully the income position. So far it has attracted only limited attention. I hope that from now on it will encourage a much more detailed debate.

For example, it is important to keep in mind the enormous variability that exists. The Less Favoured Areas, which account for half the agricultural area, one-third of farm holdings and some 15% of production, receive substantial assistance and have benefitted appreciably from the sheepmeat regime. The dairy sector, comprising almost 50,000 holdings, has adjusted well to quotas and I have already referred to the strong competition to get hold of quotas when they are put on the market. Yet the intensive livestock sector, pigs, poultry and eggs, is still prone to production and price cycles whilst the arable side has had to face both the weather and lower prices. The picture therefore is seldom as uniform, whether across types of farms or geographically, as a single statistic might suggest. So references to "farming incomes down by x%" as we shall no doubt see in the headlines when the annual review is published this year do not give us a complete picture, will overlook the fact that some sectors of agriculture have been doing well, and tell us little about policy implication.

It is also the case that at a time when there are obvious limits on increased agricultural production but big efforts going into diversification, one needs to look not just at income from farming as such but income coming into farming households as a whole. It is clear that income from farming is not the only source of income for the majority of farmers. Inland Revenue analyses indicate that income from farming tends to account for about 56% of total taxable income. The rest comes mainly from other jobs or businesses and from investments. The farming community has therefore already been vigorous over the years in diversifying its sources of income.

The position is even more dramatic if one considers smaller, part-time farms. For these, and there are over 100,000 of them, farm output is by definition limited and the profit from the farming enterprise likewise tends to be small. But other sources of income whether from other jobs, businesses or investments can add up to several times that from farming. So the trend towards diversified income sources is well advanced. The new schemes introduced will support yet further options and uptake is increasing.

The point I wish to emphasise is that as farmers develop non-farming income sources, and several of our schemes are designed to do just that, taking into account only farming income will yield an incomplete picture of the financial state of those employed in the industry. I intend therefore to issue more information of this kind when the results of the Annual Review are published.

AGRICULTURE: Ag Wages Board

March 83

CCP 4

Foreign and Commonwealth Office

London SW1A 2AH

7 November 1988

NBPM

PRC6 7/11

Dear Shirley,

National Consumer Council Report on the CAP

I have seen Jonathan Taylor's letter to you of 3 November.

The Foreign Secretary strongly agrees with the Chancellor's suggestion that the proposed statement should include substantive comments on the NCC's main recommendations and an acknowledgement of the report's contribution to the debate on CAP reform.

Should it not prove possible to have this ready for issue immediately after Mr MacGregor and Mr Forth have met the NCC on 8 November, we would advocate a brief statement of welcome for the report and a promise of a more detailed written response to follow.

A full written commentary should be helpful in pressing the case in the Community for agricultural reform.

I am copying this letter to Paul Gray (No 10), Jonathan Taylor (HMT), Peter Smith (DTI), Deborah Lamb (DOE), Stephen Williams (Wales), David Crawley (Scotland), Mike Maxwell (NIO) and Trevor Woolley (Cabinet Office).

Yours,
Stephen Wall

(J S Wall)
Private Secretary

Mrs S Stagg
PS/Minister of Agriculture
MAFF

CHARLES

To see attached papers.

FILE
EAT
CC P.U.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

7 November 1988

NATIONAL CONSUMER COUNCIL REPORT ON THE CAP

The Prime Minister has seen Jonathan Taylor's letter to you dated 3 November. The Prime Minister agrees on the importance of providing a substantive written Government response to the NCC report.

I am copying this letter to Jonathan Taylor (Treasury), Lyn Parker (Foreign and Commonwealth Office), Peter Smith (Department of Trade and Industry), Deborah Lamb (Department of the Environment), Stephen Williams (Welsh Office), David Crawley (Scottish Office), Mike Maxwell (Northern Ireland Office) and Trevor Woolley (Cabinet Office).

PAUL GRAY

Mrs Shirley Stagg,
Ministry of Agriculture,
Fisheries and Food

010 chex.md/jmt/85

CC(?)

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

3 November 1988

Shirley Stagg
PS/Minister of Agriculture
Whitehall Place
London SW1A 2HH

Dear Shirley

NATIONAL CONSUMER COUNCIL REPORT ON THE CAP

Your Minister ~~spoke~~ WILL REQUEST IF REQUIRED to the Chancellor of the Exchequer about his letter of 11 October about the handling of this report. The Chancellor was persuaded that it was not necessary to publish the Government's formal response to the NCC's report in advance of your Minister's meeting with Mrs Oppenheim Barnes on 8 November. Instead it was agreed that a statement should be issued after the meeting.

The Chancellor has asked me to confirm that the terms of the proposed statement will be cleared in draft with his officials and those of other interested Departments. He hopes that the statement will include substantive comments on the NCC's main recommendations, and an acknowledgement that the report as a whole represents a valuable contribution to the continuing debate on CAP reform. To do less than this would seem a strange way of treating a substantial report on an issue of the first importance which had originally been commissioned by a Government Department.

I am copying this to Paul Gray (No.10), Lyn Parker (FCO), Peter Smith (DTI), Deborah Lamb (DoE), Stephens Williams (Wales), David Crawley (Scotland), Mike Maxwell (NIO) and Trevor Woolley (Cabinet Office).

Yours sincerely

Jonathan Taylor

J M G TAYLOR
Private Secretary

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MDHIAN 6431

FM UKREP BRUSSELS
TO DESKBY 051300Z FCO
TELNO 2851
OF 051210Z SEPTEMBER 88
INFO DESKBY 052200Z WELLINGTON
INFO PRIORITY DUBLIN, PARIS, UKMIS GENEVA
INFO ROUTINE BRUSSELS, COPENHAGEN, THE HAGUE, ROME, BONN,
INFO ROUTINE LUXEMBOURG, ATHENS, LISBON, MADRID, WASHINGTON
INFO SAVING BUENOS AIRES, CANBERRA

FRAME EXTERNAL/FRAME AGRICULTURE

UKREP TELNO 2841:
EC/NEW ZEALAND : BUTTER AND SHEEPMEAT

SUMMARY

1. AGREEMENT REACHED BETWEEN NEW ZEALAND AND COMMISSION ON BUTTER AND SHEEPMEAT, MOORE AND ANDRIESSEN TO COMMEND TO COLLEAGUES AS PACKAGE.

DETAIL

2. ACCORDING TO THE NEW ZEALAND MISSION HERE MOORE (TRADE MINISTER) CONCLUDED HIS TALKS WITH ANDRIESSEN (AGRICULTURE COMMISSIONER) JUST BEFORE MIDNIGHT YESTERDAY WITH AGREEMENT ON A PACKAGE COVERING BOTH BUTTER AND SHEEPMEAT. THE DETAILS ARE AS FOLLOWS:

I) A) THE AGREEMENT WOULD LAST FOR FOUR YEARS I.E. 1989/92.
B) FOR BUTTER THERE WOULD BE A PROGRESSIVE CUT TO 55,000 TONNES (WITH A CUT TO 64,500 FOR 1989) AND A REDUCTION IN THE BUTTER LEVY FROM 25 PER CENT TO 15 PER CENT.
C) THE VRA CEILING FOR SHEEPMEAT WOULD BE REDUCED TO 205,000 TONNES, WITH A ZERO TARIFF. OF THIS, THERE WOULD BE A CEILING OF 6,000 TONNES FOR CHILLED LAMB IN THE FIRST YEAR, RISING BY 3 INCREMENTS OF 1,500 TONNES IN SUCCESSIVE YEARS TO 10,500 IN 1992.

II) TWO SEPARATE BENCHMARK PRICES FOR NORTHERN (55 PER CENT) AND SOUTHERN (45 PER CENT) MARKETS WOULD BE OPERATED, TO REFLECT REALITIES ON THE GROUND. THESE BENCHMARK PRICES WOULD BE GRADUALLY INCREASED SO AS TO REACH 60 PER CENT AND 53 PER CENT BY 1992, AND CLOSE THE GAP BETWEEN THEM.

III) A NEW LEVEL FOR CONSULTATION HAD BEEN AGREED, IN ADDITION TO THE EXISTING TECHNICAL LEVEL GROUPS AND THE SHEEPMEAT CONSULTATIVE COMMITTEE (ESTABLISHED AS PART OF THE VRA), THERE COULD NOW BE RECOURSE TO CONSULTATIONS BETWEEN THE NEW ZEALAND

MINISTER AND THE EC COMMISSIONER IF THE SERIOUSNESS OF THE SITUATION WARRRANTED. IN ADDITION, THE NEW AGREEMENT NOTED THAT THE COMMISSION COULD INITIATE PROCEDURES TO TAKE REMEDIAL ACTION, WHILE NEW ZEALAND COULD HAVE RECOURSE TO CLAUSE 14 OF THE VRA WHICH ALLOWED THE AGREEMENT TO BE REVOKED AT ONE YEAR'S NOTICE.

3. FURTHERMORE, ACCORDING TO THE NEW ZEALAND MISSION, THERE WAS A CLEAR UNDERSTANDING ON BOTH SIDES THAT:

I) IF THIS PACKAGE DEAL BEGAN TO FALL APART, OR BECAME BLOCKED IN ITS PROGRESS THROUGH THE COMMISSION AND/OR COUNCIL, THEN IT WOULD BE NECESSARY TO START AGAIN FROM SCRATCH: AND

II) THE COMMUNITY WOULD SEEK SIMILAR AGREEMENTS (IN TERMS OF TONNAGE, CHILLED IMPORTS AND PRICE ARRANGEMENTS) FROM OTHER THIRD COUNTRY SUPPLIERS.

4. THE MISSION HAVE COMMENTED TO US THAT WHILE MOORE WAS BY NO MEANS SATISFIED WITH THE OVERALL PACKAGE HIS AGREEMENT TO IT REFLECTED HIS JUDGEMENT THAT NEW ZEALAND WOULD NOT GET ANY MORE BY HOLDING OUT FURTHER. HE IS TO COMMEND IT TO HIS COLLEAGUES IN CABINET AS THE BEST POSSIBLE IN ALL THE CIRCUMSTANCES, ON HIS RETURN TODAY VIA LONDON (WHERE WE UNDERSTAND HE MAY HAVE SPOKEN TO THE MEDIA ALREADY). MEANWHILE, THE COMMISSION MAY HEAR FROM ANDRIESSEN LATER TODAY ON THE AGREEMENT.

HANNAY

YYYY

DISTRIBUTION 317

MAIN 316

FRAME EXTERNAL/AGRICULTURE ECD (I) [-]
ECD (E) [-]

ADDITIONAL 1

FRAME

Prime Minister

Agree that I should minute out as proposed at X overleaf?

PRIME MINISTER 4 OCTOBER 1988

Yes mt

PRG 4/11

NATIONAL CONSUMER COUNCIL REPORT ON THE CAP

John MacGregor is trying to bury this report by avoiding a full Government response.

Officials have virtually agreed a full text setting out the Government's views on the recommendations in the report. But John MacGregor has sought to pre-empt publication of such a statement by persuading Nigel Lawson and David Young that it is not necessary to do more than issue a short statement after his meeting with Mrs Oppenheim-Barnes on 8 November.

There was probably some confusion as to what was meant by a statement. MAFF have in mind a very short press notice, which is unsatisfactory.

The Treasury are trying to retrieve the situation. Nigel Lawson's Private Secretary has written stressing the importance of the Government giving a substantive response to a substantial report on an issue of first importance.

Marked

It is probably not now feasible to publish a full draft statement on 8 November. But it is important that any press notice after the meeting between John MacGregor and Mrs Oppenheim-Barnes says that the Government will be writing to the National Consumer Council recording in full the views which were put at the meeting. It would be helpful if this could be expressed as your view.

Recommendation

X Do you agree that your Private Secretary should write to John MacGregor's office recording the need to provide a substantive written Government response to the NCC Report on the CAP?

CAROLYN SINCLAIR

CONFIDENTIAL

160103
MDHIAN 6134

CONFIDENTIAL
FM UKREP BRUSSELS
TO DESKBY 040800Z FCO
TELNO 2834
OF 031630Z OCTOBER 88
INFO DESKBY 032200Z WELLINGTON
INFO ROUTINE DUBLIN, PARIS, UKMIS GENEVA

FRAME EXTERNAL

EC/NEW ZEALAND : BUTTER AND SHEEPMEAT

SUMMARY

1. NEW ZEALAND READY TO ACCEPT PROPOSED COMMISSION DEAL ON BUTTER. BUT STILL GREAT CONCERN ON PROPOSALS ON SHEEPMEAT INCLUDING TIGHT CEILING ON CHILLED LAMB AND UNILATERAL ACTION AGAINST DROP IN IMPORT PRICES. MOORE TO TRY TO CLINCH DEAL TOMORROW WITH ANDRIESSEN, FOR PRESENTATION TO FULL COMMISSION PROBABLY NEXT WEEK AND THEREAFTER TO COUNCIL. NEW ZEALAND DETERMINED TO PURSUE TALKS TO AGREEMENT, EVEN IF UNSUCCESSFUL TOMORROW. NO REQUEST FOR FURTHER UK ACTION AT THIS STAGE.

DETAIL

2. THE NEW ZEALAND AMBASSADOR TO THE COMMUNITY CALLED ON ME TODAY AT HIS REQUEST, TO UP-DATE ME ON THE LATEST MOVES. MOORE'S (TRADE MINISTER) MEETINGS WITH ANDRIESSEN AND DE CLERCQ LAST WEEK HAD GONE REASONABLY WELL, AND THE COMMISSION PROPOSALS ON BUTTER WERE BETTER THAN BEFORE. NEW ZEALAND WOULD PROBABLY BE ABLE TO LIVE WITH THE PROGRESSIVE CUT OVER FOUR, NOT THREE YEARS TO 55,000 TONNES FOR 1992 (WITH A CUT ~~OF~~ TO 64,500 FOR 1989) AND A REDUCTION IN THE BUTTER LEVY FROM 25 PERCENT TO 15 PERCENT, EVEN IF THEY COULD NOT PUBLICLY WELCOME THEM.

3. SHEEPMEAT REMAINED THE REAL PROBLEM, INCLUDING THE DIRECT (IF INFORMAL) LINKAGE ANDRIESSEN WAS MAKING WITH BUTTER. THE PROPOSED 20 PERCENT CUT IN VRA TO 205,000 TONNES (EVEN IF THIS LEFT THE CEILING ABOVE PRESENT SENDINGS) WAS STILL UNACEPTABLE. ANDRIESSEN MIGHT HAVE PROBLEMS IN SELLING A 10 PERCENT CUT TO THE COUNCIL BUT THAT WAS THE NEW ZEALAND BID. THE PROPOSED MARGINAL INCREASE IN CHILLED LAMB EXPORTS WAS ALSO TOO SMALL.

4. THIRDLY, NEW ZEALAND COULD NOT ACCEPT THE COMMISSION PROPOSAL TO IMPOSE SANCTIONS UNLATERALLY AS THE RESULT OF MONITORING THE

IMPORT PRICE, BY RESTORING THE 10 PERCENT TARIFF IF THE PRICE FELL BELOW A CERTAIN LEVEL. NEW ZEALAND WANTED TO SEE PROVISION FOR LBILATERAL CONSULTATIONS, WHICH WOULD ALLOW FOR THE VRA CEILING TO RISE AGAIN TO 245,000 TONNES IF THE 10 PERCENT TARIFF WERE REIMPOSED.

5. THOMPSON ACKNOWLEDGED THAT THIS SORT OF DEAL WOULD BE FAR FROM ATTRACTIVE TO THE COMMISSION, WHO WOULD ARGUE THAT THIS ENABLED NEW ZEALAND TO EXPORT MORE AT THE LOWER PRICE. HE THOUGHT THAT THERE SHOULD BE SOME TECHNICAL MEANS OF RESOLVING THIS PRICE PROBLEM, CAUSED BY THE DIFFERENT PRICE LEVELS EXISTING IN VARIOUS PARTS OF THE EC MARKET. MOORE WOULD PURSUE THIS POINT WITH ANDRIESSEN WHEN THEY MET HERE TOMORROW, WITH A VIEW TO PROVIDING THE TECHNICAL NEGOTIATIORS WITH AGAREED GUIDELINES.

6. THOMPSON SAID THAT IF THE SHEEPMENT PROBLEMS WERE RESOLVED NEW ZEALAND WOULD BE CONTENT FOR ANDRIESSEN TO PROPOSE THE OVERALL PACKAGE TO THE COMMISSION THIS WEEK. BUT IF A DEAL COULD NOT BE STRUCK TOMORROW, THEN THEY WERE KEEN TO HAVE CONSIDERATION BY THE FULL COMMISSION DEFERRED UNTIL AT LEAST NEXT WEEK WHEN DE CLERCQ WOULD BE THERE. HE EMPHASISED THAT NEW ZEALAND HAD NO INTEREST IN PRESENTING A FAILURE TO AGREE TOMORROW AS A BREAKDOWN IN THE TALKS, WHICH THEY WOULD BE READY TO PURSUE UNTIL AGREEMENT COULD BE REACHED LATER THIS YEAR.

7. THOMPSON ACKNOWLEDGED THE NEED ON ANDRIESSEN'S PART TO DEMONSTRATE TO THE REST OF THE COMMISSION AND MEMBER STATES THAT HE WAS BEING SUFFICIENTLY TOUGH IN THE NEGOTIATION. BUT MOORE ALSO HAD TO SELL A DEAL TO HIS DOMESTIC CONSTITUENCY, A POINT THE COMMISSION SHOULD NOT IGNORE. HE HOPED THAT ANDRIESSEN WOULD RECOGNISE THE POLITICAL CONSIDERATIONS IN ANY PROPOSAL WHICH APPEARED TO GIVE THE COMMISSION UNILATERAL POWERS TO BLOCK NEW ZEALAND IMPORTS. IF THE COMMISSION SHOWED PROPOER UNDERSTANDING, AGREEMENT SHOULD BE POSSIBLE THIS WEEK. THOMPSON REPEATEDLY UNDERLINED THE DIFFICULTIES OF HAVING TO NEGOTIATE THE SHEEPMEAT ISSUE WITH ONE EYE ON THE BUTTER DEAL, BUT RECOGNISED THAT THIS WAS INEVITABLE. FOLLOWING MARSHALL'S TALK WITH YOU EARLIER TODAY, HE DID NOT BELIEVE THERE WAS ANY FURTHER CALL FOR ACTION BY HMG PRIOR TO THE MOORE/ANDRIESSEN MEETING, ON WHICH WE WOULD BE BRIEFED AS SOON AS IT CONCLUDED.

8. I WELCOMED THIS UP-DATE. WE HOPED IT WOULD BE POSSIBLE TO REACH AN AGREEMENT ON SHEEPMEAT WHICH INCLUDED A TECHNICAL SOLUTION TO THE PRICE PROBLEM, AND MET THE POLITICAL REQUIREMENTS OF BOTH SIDES. IF THIS DID NOT PROVE POSSIBLE TOMORROW, WE WOULD NEED TO

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MDHIAN 6134

CONSIDER ANY FURTHER STEPS WE COULD TAKE WITH THE COMMISSION, IN ADDITION TO THE DISCUSSIONS WE HAD ALREADY HAD. OUR PRESENT INFORMATION SUGGESTED THAT ANDRIESSEN WOULD NOT TAKE THE BUTTER/SHEEPMEAT PACKAGE TO THE FULL COMMISSION UNTIL 12 OCTOBER.

HANNAY

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CDP 15/7.

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MINISTER OF AGRICULTURE, FISHERIES AND FOOD

New Zealand Butter

1. Thank you for your letter of 11 July about UK policy on future access to the Community market for New Zealand butter.

2. I am content with the approach you outline, which, as you say, has been discussed by officials. I agree in particular that we must aim for an arrangement acceptable to the Community and the New Zealanders, as the Prime Minister told the House. As well as the interests of the British consumers - and indeed British firms involved in the freight trade - we have broader reasons for wishing to maintain our close relationship with New Zealand, despite difficulties over their nuclear policy. I also attach importance to your point that the Community's position on New Zealand butter must not undermine our position in the Uruguay Round. We do not want a row with the New Zealanders over access in the lead-up to the Mid Term Review. Others would not be slow to exploit the Community's inconsistency. Your suggestion of eliminating the import levy and MCA might be valuable in reducing the risk of a high profile New Zealand response to reduced access. I also agree with your proposals on period and degressivity.

3. I appreciate the danger of focussing too closely at this stage on any target figure for access, and share your view that specifying even a range of figures to the Commission could be counter-productive. However, I believe

/it will

it will be useful as negotiations proceed to keep in mihd the target range of 55 - 63,000 tonnes identified by officials, as the central element of a package including elimination of levies etc.

4. As you will know, UKRep Brussels have now briefed key Commission cabinets, and will continue to be active as discussions proceed. But I fully agree that we must continue to encourage the New Zealanders to lobby the Commission and other member states directly.

5. I am copying this minute to the Prime Minister, members of OD(E), other Agricultural Ministers, and Sir Robin Butler.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
15 July 1988

file

SLR

PRIME MINISTER

NEW ZEALAND BUTTER

I attach a note by John MacGregor on the negotiations which are about to commence on the arrangements for the import of New Zealand butter.

The main points are:

- the UK dairy industry wants to cut the quota to 40,000 tonnes next year and eliminate it completely by 1992;

- there are some indications that Commission officials are likely to propose a figure as low as (or indeed lower than) 40,000 tonnes and most member states will favour a restrictive approach;

- Mr. MacGregor notes that some reduction in the quota is expected by all concerned but suggests that we should not ourselves propose a figure at this stage. He intends to take some soundings of the Agricultural Commissioner on Monday;

- but he thinks we must accept that any new arrangements will be for a limited period only (as in the past) and the quantity will decline each year.

He seeks agreement to this approach.

You will want to bear in mind your comments in the House of Commons on 19 May (attached). You spoke of a new agreement which you hoped would be 'satisfactory to all concerned', and of 'doing everything that we can to see that they (New Zealanders) have a thoroughly satisfactory arrangement for the continuing sale of butter to the Common Market'. While I think it is wise not to show our hand on quantity in the Community at this stage, I do think you are entitled to know what Mr. MacGregor has in mind, or at least to give him an indication, of what you think will be reasonable. The present figure is 74,000 tonnes a year. It would be a great blow to the New Zealanders to come down as low as 40,000. I would have thought we should aim for a final outturn in the region between 50,000 and 60,000 tonnes.

C.D.P.

C. D. POWELL

15 July 1988

SLHAYW

The Prime Minister: I have nothing further to add. I commend to the right hon. Gentleman the references that I made. He will learn a great deal from them.

Mr. William Powell: Now that we have seen yet another substantial fall in unemployment as a result of the Government's policies will my right hon. Friend reflect on the fact that it was in March 1979 that the closure of Corby steel works was announced and 8,000 people lost their jobs in my constituency? Today, the number of people out of work and claiming benefit in Corby town has fallen below 2,000 for the first time.

The Prime Minister: I agree with my hon. Friend. Corby is an excellent example of a town undergoing the necessary reconstruction of a major industry and having the enterprise to find new jobs for the people there, and a new prosperity. I congratulate my hon. Friend.

Q2. **Mr. Fisher:** To ask the Prime Minister if she will list her official engagements for Thursday 19 May.

The Prime Minister: I refer the hon. Gentleman to the reply that I gave some moments ago.

Mr. Fisher: In reply to my hon. Friend the Member for Ogmore (Mr. Powell) the Prime Minister referred to income tax being very much lower. How does she justify the fact that as a direct result of the tax loopholes and tax advantages that her Government have created, a 51-year-old man earning £1 million a year can apparently pay no income tax? How is that a fair tax system, and what will she do to close those loopholes?

The Prime Minister: Under the new tax system those at the top of the scale pay a bigger proportion of the total amount than they did previously. I commend to the hon. Gentleman the speech of the New Zealand Socialist Minister for Finance, who has now made the top rate of tax 33p in the pound. One of the reasons for that is that he believes it is good for the people at the bottom of the pile to have a higher standard of living.

New Zealand Butter

Q3. **Mr. Teddy Taylor:** To ask the Prime Minister if the next meeting of the European Council will discuss the special arrangements for the import of New Zealand butter; and if she will make a statement.

The Prime Minister: I am not aware of any plans to do so.

Mr. Taylor: Will my right hon. Friend fight hard to prevent the EEC further cutting New Zealand butter imports and depriving British housewives of freedom of choice, particularly as New Zealand has never let Britain down when we have been in trouble? Will she bear in mind the massive damage being done to New Zealand, Australia and the Third world by the Common Market spending over £200 million of taxpayers' money every week dumping butter on the world market at 6p a pound?

The Prime Minister: As my hon. Friend is aware, we have done more than any other Government to get the surpluses under control in the Common Market, in particular at the last meeting that we had, because we were very much aware of the truth of what my hon. Friend said. The surpluses affect other countries, which depend to a considerable extent upon the export of agricultural products. The New Zealand butter agreement will come up again shortly for examination and we expect the Commission to make proposals. New Zealand exports far less butter to Britain than it used to do, but it is an important part of its economy and many people in this country wish to continue to be able to buy that butter, and I assume that they will be able to do so.

Mr. Rees: Will the Prime Minister recall the speed with which the New Zealanders came to our support in 1939? Will she consider visiting the airfields in Lincolnshire and the war graves all the way from El Alamein to the Austrian border and reflect on the price that New Zealanders paid while supporting us, and support the New Zealanders in the EEC?

The Prime Minister: I thought that I was doing just that in my reply, because butter exports are very much a part of the New Zealand economy. People here still wish to purchase that country's butter—and lamb—and I am very much aware that the import quotas have been reduced steadily from 165,000 tonnes in 1973 to 74,000 tonnes this year. A new agreement will be negotiated, which I hope will be satisfactory to all concerned.

Dame Elaine Kellett-Bowman: Will my right hon. Friend reflect on the fact that, although many people agree that the older generations of New Zealanders, in the first and second world wars, supported us superbly, as they did in the Falklands, the present New Zealand Government, under Labour, have reneged on their duty to contribute to the defence of the free world and the position has radically changed?

The Prime Minister: I am very much aware that our ships are not able to go to New Zealand at the moment —which I think is a great tragedy both for our Navy and for many people in New Zealand—because the New Zealand Government insists on the ships not having any nuclear weapons or on asking questions about that, and of course we cannot say whether they have because of our obligations to NATO. Nevertheless, I do not think that that would warrant taking it out of the New Zealand people by not doing everything that we can to see that they have a thoroughly satisfactory arrangement for the continued sale of butter to the Common Market.

Mr. Wilson: Having used the un-word "unwisdom", and having called in aid the good example of the New Zealand Socialist Government, will the Prime Minister now give an assurance that there will be no cruise missiles on the Clyde?

The Prime Minister: I shall give the hon. Gentleman the assurance that we shall take whatever measures are necessary to keep a continued effective nuclear deterrent and to carry out our obligations to NATO.

Mr. Dykes: Will my right hon. Friend accept though, that fairminded New Zealanders agree that the arrangement for New Zealand which is very welcome in all parts of the House, has been a very good one for that country, but that that does not gainsay the need for New Zealand to find other markets, including the Soviet Union, because New Zealanders sell more butter there than the EEC does?

The Prime Minister: Yes, but I hope my hon. Friend will appreciate that when they have a drop in quota from 165,000 tonnes in 1973 to 74,000 tonnes this year they have had to be very active in finding other markets, particularly those in the Pacific basin.

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

From the Minister

CONFIDENTIAL

R 15/7

The Rt Hon Sir Geoffrey Howe QC MP
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A 2AL

11 July 1988

Dear Geoffrey,

NEW ZEALAND BUTTER

The present arrangements for the import of New Zealand butter expire at the end of this year. The Council of Ministers needs to decide by 1 August (at least in theory) what should succeed them. We need to decide what line we should take with the Commission to influence the proposals that they will soon have to make. This letter sets out my proposals, which have already been discussed at official level between interested Departments.

Under successive quota arrangements, offered autonomously by the Community, the quantity of New Zealand butter permitted to enter the UK at reduced levy has fallen from 165,800 tonnes in 1973 to 74,500 tonnes in 1988. But because of a decline in consumption New Zealand still supplies about one-third of the total UK butter market and its share of the packet market has risen from about one third in 1974 to about 40% now. We are under pressure from the UK dairy industry (which is united on this issue as it is on few others) to press for a cut in the New Zealand quota to 40,000 tonnes in 1989 and its complete elimination by 1992, on the grounds that New Zealand should bear its share of the burden that has been imposed on the Community industry by milk quotas.

Such a radical reduction, as well as meeting the demands of the industry, would lead to modest financial savings for the UK (which could however be offset by higher social security payments if there were any significant increase in butter prices and in turn in the retail prices index) and larger savings for the Community as a whole. But wider issues are raised which argue for the maintenance of a reasonable market share for New Zealand. These include the protection of the interests of UK consumers and food manufacturers, and the need for a credible international trade posture in the run-up to the Mid-term Ministerial Review of the Uruguay Round.

/Some reduction in ...

Finally, as part of the UK approach to the access issue, it will be important to encourage the Commission to continue to reduce rates of EC subsidy on disposals of butter, both internally and, where possible, on world markets. Aside from the obvious benefits this will have on the EC budget and hence for taxpayers, such reductions are justified in themselves as a response to the tighter markets resulting from the success of milk quotas, and as an earnest of EC intentions in GATT discussions with players such as New Zealand, who have dismantled their own subsidies and rely on market prices alone.

Sir David Hannay has already usefully raised this issue in general terms with the Commission, and I propose to seek an early opportunity to follow this up. I would therefore be grateful for your endorsement of the approach outlined in this letter. We now understand that the Commission are likely to discuss the issue on 19 July. I shall be able to discuss it with Frans Andriessen in the margins of the next Agriculture Council on 18 July. No doubt the New Zealand authorities will continue to make their own approaches to the Commission and to other Member States. We should encourage them in these efforts, and not lead them to rely on what we can do on their behalf in lobbying and in negotiations.

I am sending copies to the Prime Minister, the Members of OD(E), the other Agricultural Ministers, and Sir Robin Butler.

Yours ever,

JM

JOHN MacGREGOR

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MDHIAN 6218

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FRAME GENERAL

EUROPEAN PARLIAMENT PLENARY, STRASBOURG, 5 JULY 1988:
GREEK PRESIDENCY PROGRAMME SPEECH

SUMMARY

1. A SAFE, CAUTIOUS SPEECH. PAPOULIAS SAYS THAT THE PRESIDENCY WILL SEEK PROGRESS SIMULTANEOUSLY ON THE SINGLE MARKET AND THE SINGLE SOCIAL AREA. NO EC ENLARGEMENT IN THE IMMEDIATE FUTURE. EXTERNALLY, EC/CMEA RELATIONS A PRIORITY, VIA AGREEMENTS WITH INDIVIDUAL CMEA STATES. ON EPC, IMPLICIT PLEDGE OF GREEK GOOD BEHAVIOUR: STRESS ON EAST/WEST, DIALOGUE ON ARMS CONTROL/DISARMAMENT AND CSCE. EC ROLE ON SECURITY/DISARMAMENT TO BE 'REDEFINED'. NOTHING ON IRANIAN AIRBUS. A LOT ON CYPRUS UNDER EPC, INCLUDING REPETITION AS THE COUNCIL'S POSITION OF THE FATEFUL SENTENCE (ON EFFECT OF CYPRUS ON EC/TURKEY RELATIONS) WHICH WRECKED THE APRIL EC/TURKEY ASSOCIATION COUNCIL.

DETAIL

2. THE GREEK FOREIGN MINISTER DELIVERED THE PRESIDENCY PROGRAMME SPEECH TO THE EP ON 5 JULY. AFTER PRAISING THE GERMAN PRESIDENCY, PAPOULIAS REMARKED THAT THE TASK OF STRENGTHENING ECONOMIC/SOCIAL COHESION RULED OUT DISCUSSION OF ACTION ON ENLARGEMENT OF THE EC IN THE IMMEDIATE FUTURE. FORMING A SINGLE EUROPEAN SOCIAL AREA WAS A PREREQUISITE FOR COMPLETION OF THE SINGLE MARKET AND FOR COHESION. INTERNALLY, THE MAIN GREEK AIM WAS TO ENSURE THAT THE IMPLEMENTING REGULATIONS FOR THE STRUCTURAL FUNDS WERE IN PLACE BY 1 JANUARY 1989. THE 1989 BUDGET MUST BE AGREED IN 'CONSTANT, OPEN AND SMOOTH COOPERATION' WITH THE EP.

SINGLE MARKET

3. GREEK FOCUS ON TECHNICAL BARRIERS (SAFETY OF MACHINERY): DIRECTIVES ON FOODSTUFFS AND PLANT/ANIMAL HEALTH: PUBLIC PURCHASING: CREDIT INSTITUTIONS (INCLUDING THE SECOND BANKING DIRECTIVE): CONSUMER SAFETY: AND RIGHT OF RESIDENCE. AFTER A DELIBERATE PAUSE, PAPOULIAS MENTIONED TAX HARMONISATION, RECOGNISING DIFFICULTIES WITH

THE COMMISSION'S PROPOSALS BUT PROMISING TO NEGOTIATE TO IDENTIFY THE BASIC PROBLEMS AND THUS PERMIT PROGRESS IN THIS 'VITAL AREA'. ON TRANSPORT, THE MENU INCLUDED HARMONISTION OF TAXATION AND SOCIAL RULES, TRANSIT AND A TRANSPORT INFRASTRUCTURE PROGRAMME. R AND D PLUS MEDITERRANEAN ENVIRONMENTAL PROBLEMS WOULD FIGURE, AS WOULD PROPOSALS ON NUCLEAR MATTERS, EG. REACTORS AND WASTE.

SINGLE SOCIAL AREA

4. THE SECOND MAIN AREA OF THE GREEK PRESIDENCY PROGRAMME. PAPOULIAS CITED A RECENT GREEK MEMORANDUM TO THE COMMISSION AND EP, AND SINGLED OUT MEASURES UNDER ARTICLES 118A AND B. ON THE LATTER, GREECE SOUGHT PROGRESS ON PROPOSALS TO INFORM/CONSULT WORKERS IN COMPANIES, PLUS EMPLOYMENT CONTRACTS WITH MINIMUM SOCIAL SECURITY PROVISIONS FOR WORKERS. IN THE HEALTH FIELD, WORK WOULD CENTRE ON LABELLING OF TABOCCO PRODUCTS AND MAXIMUM TAR CONTENT OF CIGARETTES. OVERALL, GREECE WOULD WORK FOR SOCIAL JUSTICE AND MORE JOBS. THE AIM WAS NOT TO CREATE NEW OBSTACLES TO THE EFFICIENT OPERATION OF COMPANIES.

EXTERNAL

5. A CANTER THROUGH EC EXTERNAL RELATIONS BEGAN WITH THE EC/CMEA DECLARATION: FOLLOW-UP WOULD ENTAIL NEGOTIATIONS FOR AGREEMENTS WITH INDIVIDUAL CMEA STATES (CF HUNGARY AND CZECHOSLOVAKIA). DISCUSSIONS WOULD SOON START FOR AN AGREEMENT WITH THE USSR. GATT, THE US, JAPAN AND THE GULF WERE GIVEN SHORT SHRIFT. ASSOCIATION/ COOPERATION COUNCILS TO BE HELD WITH ALGERIA, YUGOSLAVIA AND CYPRUS.

EUROPEAN POLITICAL COOPERATION

6. EARLY ON, PAPOULIAS (WITHOUT MENTIONING WEU) PROMISED A GREEK ATTEMPT TO REDEFINE EUROPE'S INTERNATIONAL ROLE, PARTICULARLY ON SECURITY/DISARMAMENT. SUBSEQUENTLY, HE GAVE A PLEDGE OF GREEK GOOD BEHAVIOUR IN EPC - COMMON POSITIONS AND MUTUAL AGREEMENT TO BE THE ORDER OF THE DAY. THEN A FURTHER PASSAGE ON EAST/WEST AND THE NEED FOR THE 12 TO STRENGTHEN DIALOGUE ON ARMS CONTROL/DISARMAMENT, PLUS A CHUNK ON CSCE. ON COMBATTING TERRORISM, GREECE WOULD CONTINUE THE WORK IN HAND TO FURTHER COOPERATION WITHIN THE TWELVE AND IN THE UN, COUNCIL OF EUROPE, CSCE, ICAO AND IMO. VIA AFGHANISTAN,IRAN/IRAQ AND LEBANON, PAPOULIAS CAME TO ARAB/ISRAEL, WHERE THE STATUS QUO COULD NOT BE MAINTAINED. ISRAEL HAD THE RIGHT TO SECURITY, THE PALESTINIAN PEOPLE THE RIGHT TO SELF-DETERMINATION 'WITH ALL THAT THAT IMPLIES'. HE HOPED FOR THE BEST FROM THE REVIVED EURO/ARAB DIALOGUE. NOTHING NEW ON SOUTH AFRICA, BEYOND AN UNDERTAKING TO KEEP AN EYE ON IMPLEMENTATION OF NEGATIVE MEASURES ADOPTED IN 1985/86, AND A WARNING TO THE SAG

NOT TO TAMPER WITH EC POSITIVE MEASURES.

CYPRUS

7. PAPOULIAS SPOKE UNDER THE EPC UMBRELLA. NO CHANGE IN THE PROBLEM OVER THE LAST 14 YEARS. IN APRIL 1988 THE COUNCIL OF MINISTERS ADOPTED THE FOLLOWING AS THE COMMUNITY'S POSITION: 'THE PROBLEM OF CYPRUS AFFECTS ALSO THE RELATIONS BETWEEN THE COMMUNITY AND TURKEY'.
EC FOREIGN MINISTERS DID NOT RECOGNISE DENKTASH'S PSEUDO-STATE. THE GREEK PRESIDENCY WOULD WORK CEASELESSLY FOR A SOLUTION TO THE CYPRUS PROBLEM BASED ON THE UNITY, INDEPENDENCE AND TERRITORIAL INTEGRITY OF THE ISLAND.

THE DEBATE

8. DELORS LISTENED CAREFULLY, BUT DID NOT INTERVENE. MEPS GENERALLY APPRECIATED THE PRESIDENCY MENU, BUT SEVERAL GREEK MEPS EXPRESSED SCEPTICISM ABOUT GREEK PRESIDENCY AMBITIONS, AND A COMMUNIST ACCUSED PASOK OF SUPPRESSING TRADE UNION RIGHTS. CHANTERIE (BELGIUM, CD, CHAIRMAN OF THE EP PETITIONS COMMITTEE) AGAIN SOUGHT A JOINT DECLARATION BY THE THREE INSTITUTIONS ON THE RIGHT OF PETITION. TOKSVIG (DENMARK, EDG) WANTED THE EC/TURKEY ASSOCIATION AGREEMENT TO BE REVITALISED: THE ISSUES OF CYPRUS AND TURKEY MUST BE KEPT SEPARATE. PAPOULIAS RESPONDED TO THE DEBATE WITH GENERALITIES.

HANNAY

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10 DOWNING STREET

From the Private Secretary

24 June 1988

Thank you for your letter of 24 June covering the draft of the Minister of Agriculture's proposed statement on the agricultural price fixing. I think that the Prime Minister would be content with the text. But she would hope that an oral statement could be avoided in the early part of next week and would prefer to see the report made as a written answer.

I am copying this letter to Murdo Maclean (Chief Whip's Office).

(CHARLES POWELL)

Mrs. Shirley Stagg,
Ministry of Agriculture, Fisheries and Food.

ecu

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

From the Minister's Private Office

CDP 24/6.

Mr ANDY BEARPARK
No 10 Downing Street
London
SW1

24 June 1988

Dear Andy,

I enclose a copy of the draft statement that my Minister hopes to make in the House on Monday afternoon. I should be grateful for clearance by 10.00am Monday.

I am copying this to Bernard Ingham (No 10), Murdo MacLean (Chief Whip's Office), Rhodri Walters (Chief Whip (Lords) Office), Trevor Woolley (Cabinet Office), Alison Smith (Lord President's Office), Nick Gibbons (Lord Privy Seal's Office), Jon Shortridge (Welsh Office), David Crawley (Scottish Office), David Watkins (Northern Ireland Office), Jill Rutter (Treasury) and Lyn Parker (FCO).

Yours sincerely

Debbie Harrie

SHIRLEY STAGG (MRS)
Principal Private Secretary

OUTCOME OF CAP PRICE REVIEW
FURTHER PARLIAMENTARY STATEMENT

With permission I will make a statement about the conclusion of negotiations on the European Community's review of prices and other support arrangements for agricultural commodities for 1988/89.

As I reported in a written reply to my Rt Hon Friend the member for Derbyshire West on 20 June, these negotiations almost reached a conclusion at th end of a meeting of the Council of Agricultural Ministers which finished on 17 June, but were blocked by the need for further discussion on one issue of particular importance to Greece. At that point eleven Member States were prepared to vote for the package and agreed that there should be no further changes to it with the exception of the one Greek point. This was further confirmed at an informal Council in Germany from 19-21 June.

I am glad to report not that further discussions last week resolved that difficulty. Final agreement was reached on this issue by the Presidency Commission and Ministers concerned towards the end of last week which enabled the whole package to be formally endorsed at a Commercial meeting in Luxembourg on 23/4 June.

My major objectives during these negotiations were to ensure that a settlement was reached within the limits for CAP expenditure set by the meeting Heads of Government in February; and to ensure a fair outcome for UK farmers which would improve their competitive position. Both these objectives were achieved.

The Commission confirmed that cost savings in the management of the CAP, including lower use of skimmed milk powder in animal feed, will enable expenditure to be kept within the 1988 Budget and the Preliminary Draft Budget for 1989.

So far as our own farmers are concerned, I secured a devaluation of the "green rate" at which support prices fixed in ECU are converted into sterling greater than that agreed for any other Member State except Greece and Portugal. It will therefore improve our farmers' position relative to those in all the remaining nine Member States. This devaluation will reduce monetary compensatory amounts by 3.2 percentage points, more than double those for France and Holland. It will take effect on 1 January 1989 for all commodities except beef, for which decisions on green rates are to be taken later.

The agreement included a declaration of the intention of the Council and the Commission to dismantle remaining monetary gaps in four stages between now and 1992. At first it was proposed that this should apply only to countries which belong to the EMS exchange rate mechanism. At my insistence, it was accepted that parallel measures must apply to other Member States as well.

So far as the rest of the package is concerned all basic support prices ficed in ECU will remain unchanged for 1988/89, except those for some varieties of tabacco, which will be reduced. But the basic support prices are inseveral cases liable to be cut automatically, under the budgetary stabiliser arrangements agreed earlier this year, if output exceeds a given level. In addition there will be indirect reductions in support for certain commodities, through lower monthly price increases for cereals and oilseeds, and through changes in the intervention arrangements for beef, where sales into intervention have remained at a high level depsite the reforms agreed in 1986. There are also to be reductions in the prices at which some surplus wine is taken off the market, to complement the stabiliser system for wine previously agreed.

The package includes the extension of stabiliser mechanisms to three further horticultural crops, namely oranges, lemons and peaches, as well as the detailed arrangements for operating the stabiliser for tobacco.

A solution was agreed to the longstanding problem of the inadequate margin for the refining of raw cane sugar. The margin will be supplemented by direct payments to refiners. This will ensure our ability to continue to fulfil the Community's commitment to import and refine sugar from the ACP countries.

A proposal from the Commission for sharp increase in the levies on imports of birdseed, which would have led to a considerable increase in the price of birdseed, was dropped following strong United Kingdom criticism.

Overall, this is a good settlement for UK interests. It keeps within the budgeting limits. It will maintain pressure on the prices of surplus commodities in the line with the stabiliser mechanisms already agreed. And it does at the same time further improve the competitive position of UK farmers.

COMMISSION
OF THE
EUROPEAN COMMUNITIES

Office of the President

Chef de Cabinet

3803

R 24/6

17 June 1988

Dear Nigel,

Following our conversation at Millcroft Inn, please find herewith the note on "Agricultural stocks in the Community".

Looking forward to seeing you in Toronto Sunday

Yours

Nigel Wicks
Principal Private Secretary to
the Prime Minister
10, Downing Street
LONDON SW 1

June, 16, 1988

AGRICULTURAL STOCKS IN THE COMMUNITY - EVOLUTION

Since 1985, a major effort has been pursued in order to reduce agricultural stocks, trhough a combination of measures aiming at a better balance between supply and demand and stock disposal programs. For some of the most important (and most costly in budget terms) sectors we can now see a very clear improvement, especially for the milk sector.

Improved sectors : 2 sectors (milk products, cereals) accounting approximately for 1/3 % of Community agricultural output

PUBLIC INTERVENTION STOCKS

	1985 stocks	June 1988
Cereals :	14,3 MT	9,7 MT
Butter :	960,000 T	510,000 T
Milk powder:	720,000 T (*)	40,000 T

The quota system for milk production and the decisions taken in February on cereals by the European Council will help further improvements.

Difficult sectors : 3 sectors accounting for 1/4 % of agricultural output.

	1985	1988
Beef :	310,000 T	760,000 T
Olive oil :	150,000 T	300,000 T
Alcohol :	2,7 Mhl	5,9 Mhl

For beef, production has been boosted due to the slaughter of dairy cows in the wake of milk quotas. Modification of the intervention measures have not, till now, proved to be sufficient.

For olive oil, much of the increase is due to enlargment (Spanish and Portuguese taken over for 160,000 T and 11,000 T respectively). But the prospects are not better.

For wine, it is hoped that measures introduced following the decisions of the latest European Council will make a contribution towards rebalancing the market.

(*) average 84-85-86
1985 figure exceptionnaly lower (390,000 T)

Other sectors : no or little stocks

* * *

On the financial side, the cost of storage and stock disposal, approximately 3.750 Mecus in 1988, should be down to 1.400 in 1989.

The new arrangements decided in the European Council in February 1988 will have a clear effect in later years because we are already depreciating the stocks in the 1988 budget and in the proposed budget for 1989.

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FRAME AGRICULTURE
FROM UKREP BRUSSELS

COUNCIL OF AGRICULTURE MINISTERS : 13/17 JUNE 1988

SUMMARY REPORT OF CONCLUDING SESSION

SUMMARY

1. PRICES PACKAGE BLOCKED BY GREEK INVOCATION OF LUXEMBOURG COMPROMISE. GERMAN NATIONAL AID AGREED SUBJECT TO THE COMPLETION OF THE PRICES PACKAGE.

DETAIL

PRICES PACKAGE

2. AFTER A FOUR DAY MEETING, CULMINATING IN A SESSION RUNNING FROM 10 AM THURSDAY TO 10 AM FRIDAY, THE COUNCIL CAME CLOSE TO AGREEING PRICES PACKAGE BUT WAS BLOCKED BY GREECE WHO INVOKED THE LUXEMBOURG COMPROMISE IN AN ATTEMPT TO OBTAIN A BIGGER DEVALUATION OF THE GREEN DRACHMA.

3. THE COMMISSION IS TO REFLECT ON THE GREEK CASE AND THE COUNCIL WILL CONSIDER ITS CONCLUSIONS AT A LATER DATE. IN THE MEANTIME THE REST OF THE PACKAGE AS AGREED BY 11 MEMBER STATES IS TO BE CAST INTO LEGAL FORM BY THE SCA FOR ADOPTION ONCE THE GREEK PROBLEM IS SOLVED.

4. THE CENTREPIECE OF THE DRAFT SETTLEMENT WAS A PACKAGE OF GREEN CURRENCY CHANGES INVOLVING THE FOLLOWING REDUCTIONS IN MONETARY GAPS : 0.5 POINTS (TO PARITY) FOR BELGIUM/LUXEMBOURG: 1 POINT FOR DENMARK: 1 POINT FOR SPAIN (FOR SHEEP AND GOATS ONLY THERE BEING NO MONETARY GAPS FOR OTHER COMMODITIES): 1.5 FOR FRANCE: 1.55 FOR IRELAND: 2.5 FOR ITALY (WITH MORE FOR SHEEP): 3.2 FOR THE UK. GREECE REJECTED AN OFFER OF 14.5 POINTS.

5. ANDRIESSEN STATED THE COST OF THE PACKAGE WAS OFFSET BY SAVINGS AND THAT THE COMMISSION WAS NOT, THEREFORE, GOING TO CALL FOR A JOINT MEETING OF AGRICULTURE AND FINANCE MINISTERS.

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GERMAN NATIONAL AID

6. COUNCIL ALSO AGREED THE GERMAN NATIONAL AID WHICH HAD BEEN AGREED IN PRINCIPLE BY THE JUNE 1987 EUROPEAN COUNCIL, BUT THE UK'S AGREEMENT WAS SUBSEQUENTLY QUALIFIED BY THE IMPASSE ON THE PRICE FIXING.

IMPLEMENTATION OF EUROPEAN COUNCIL CONCLUSIONS

7. DURING THE NIGHT OF 16-17 JUNE THE COUNCIL AGREED (SUBJECT TO A FRENCH WAITING RESERVE) AN A POINT NOTE UNDER WHICH THE FOLLOWING DECISIONS OF PRINCIPLE TAKEN AT THE FOREIGN AFFAIRS COUNCIL ON 13-14 JUNE WERE ADOPTED AS COMMON POSITIONS FOR PURPOSES OF THE CO-OPERATION PROCEDURE WITH THE EUROPEAN PARLIAMENT: OWN RESOURCES DECISION (6984/88), BUDGETARY DISCIPLINE DECISION (6988/88), DIRECTIVE ON HARMONISATION OF GNP STATISTICS (7009/88), FINANCIAL REGULATION ON THE BUDGET (6987/88), AMENDMENT TO REGULATION 729/70 ON FUNDING THE CAP (5980/88), AMENDMENT TO REGULATION 1883/78 ON FINANCING OF INTERVENTION (5981/88). THE NOTE STATED THAT, ONCE THE CO-OPERATION PROCEDURE WAS COMPLETED, THE TEXTS WOULD BE ADOPTED AS A POINTS. SPAIN AND GREECE MADE A DECLARATION THAT THEY AGREED TO THE COMMON POSITIONS BUT THEIR FINAL AGREEMENT TO THE TEXTS WOULD ONLY BE GIVEN IN THE CONTEXT OF AN OVERALL FUTURE FINANCING PACKAGE.

8. DISCUSSION OF JOINT PRESIDENCY/COMMISSION COMPROMISE PRICE PACKAGE TABLED ON 16 JUNE IN MIFT. SUMMARY OF THIS COMPROMISE IN MY SECOND IFT. DISCUSSION OF GERMAN NATIONAL AID IN MY THIRD IFT. 17 JUNE AMENDMENTS TO THE COMPROMISE AND CONCLUDING DISCUSSION IN MY FOURTH IFT.

9. FIRST TO THIRD DAYS OF COUNCIL REPORTED PREVIOUSLY.

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CDP
16/6

Treasury Chambers. Parliament Street. SWIP 3AG

The Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

15th June 1988

Dear John,

CAP PRICE FIXING, AGRIMONETARY PROPOSALS

Thank you for your letter of 14 June about the possibility of a joint Council.

As you know, we agreed in Cabinet last week that our prime objective in this year's Price Fixing would be to achieve a settlement which was fully compatible with the European Council's conclusions. One of these conclusions (paragraph A10) soon to be embodied in the legally binding decision on budget discipline provides that "if the Commission considers that the outcome of the Council's discussions on these price proposals is likely to exceed the costs put forward in its original proposal, the final decision shall be referred to a special meeting of the Council attended by the Ministers of Finance and the Ministers of Agriculture which shall have the sole power to adopt a decision". As I see it, therefore, it is not a matter of discretion for the Commission to decide whether to refer the price proposals to a joint Council but a legal obligation on them to do so if the circumstances foreseen in paragraph A10 arise.

In the circumstances I am very concerned that you appear to envisage that in the current price fixing negotiation the Commission may decide to turn a blind eye on their very clear obligation under the European Council conclusions. I do not see how we would be able to defend our position in Parliament if we stood by and allowed this to happen without protest. I trust that you will take an early opportunity during the present Council session to remind Commissioner Andriessen of the importance which the Government attaches to strict compliance with all of the European Council conclusions in this area. You will no doubt be able to point out that there is no need for the Commission to be unduly concerned that a joint Council might take less satisfactory decisions than the Agriculture Council sitting by itself. For as long as the Commission stand firmly by their proposals, the Council can only amend them if it acts by unanimity and you will be able to assure him that the UK Government for one would not join in an agreement in the Council which we regarded as inconsistent with the European Council conclusions.

Having said that, I am sure that we should do all in our power to try to resolve the price fixing without having to invoke the joint Council procedure. I have seen the telegrams reporting your reactions to the very unsatisfactory compromise circulated by the German Presidency on Monday but I have seen little indication that other Member States (with the exception of the Dutch) are prepared to rally to the sort of proposals for savings which are necessary to finance the current Presidency proposals. I understand that a further compromise is likely to be circulated shortly including some additional proposals on the green rate devaluations which we and others are seeking. I hope that as soon as this new compromise has been costed we shall be in a position to table specific and practicable suggestions for offsetting savings to stay within the costs of the Commission's original proposals. If all else fails, a pro rata reduction in all prices sufficient to offset the increased costs involved would seem to be an attractive solution, which I understand has already been floated by the Dutch. In my view it will not be sufficient to rely on the prospect of savings unrelated to specific decisions taken in the Price Fixing.

I quite understand that it will be extremely difficult for the Agriculture Council to reach an overall settlement on these lines which we would regard as fully satisfactory. In the end we will need to make a judgement on whether to accept the proposals on offer or whether to let the negotiations drag on. In making this judgement our main criterion must be that any settlement to which we are a party must fully respect all the relevant European Council conclusions. I remain of the view that, if such a settlement is not achievable this month, it would be preferable to leave matters unsettled and, if necessary, allow the Commission to take management action to continue the support arrangements as they did in 1985.

I am copying this letter to the Prime Minister, Geoffrey Howe, Peter Walker, Malcolm Rifkind, Tom King and to Sir Robin Butler.

Yours Ever,

John

JOHN MAJOR

Eur Pol - CAP Pt19.

CC/C

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

From the Minister

CDP 15/6

The Rt Hon John Major MP
HM Treasury
Treasury Chambers
Parliament Street
LONDON SW1P 3AG

14 June 1988

Dear Chief Secretary

CAP PRICE FIXING: AGRIMONETARY PROPOSALS

Thank you for your letter of ~~10~~ 11 June. I will certainly ensure that as far as possible, your officials are kept fully in touch with the progress of discussions.

I should, however, like to be clear on your thinking on the possibility of a joint Council. I have to say that on the basis of yesterday's discussion, I see little realistic prospect of a settlement which is within the cost of the Commission's original proposals. The Commission have, as usual, left themselves with some margin of negotiation which they will have to decide whether to use in order to reach a settlement. If they see the prospect of a reasonable settlement and one which is within the guideline they may not wish to invoke the joint Council procedure. In judging this, the Commission will no doubt consider the savings that have been made (including those on skimmed milk powder which I mentioned to you) and others that they may be able to foresee.

Moreover, we could move to a situation where there is a qualified majority against those who are seeking costly additions to the package. The Commission could judge that a joint Council in these circumstances might involve reopening the package or leaving matters unsettled to the Greek Presidency. This would hardly serve our best interests any more than it would the Commission's.

I note too that you think that a joint Council would be best avoided. Under the European Council text, the initiative rests with the Commission. I take it from what you have said that you would not want me to try to precipitate a joint Council unless there is a clear threat to the guideline.

I am copying this to the Prime Minister, Geoffrey Howe, Peter Walker, Malcolm Rifkind, Tom King and to Sir Robin Butler.

Yours sincerely

T. Mills

PP JOHN MacGREGOR
(approved by the Minister + signed in his absence)

EURO POL: CAP PT19

MINISTRY OF AGRICULTURE FISHERIES AND FOOD
WHITEHALL PLACE LONDON SW1A 2HH
DIRECT LINE 01-270
OR SWITCHBOARD 01-270 3000

Prime Minister 2

Mr Mark Addison
No 10 Downing Street
London SW1

13 June 1988

Dear Mark

I enclose a copy of the draft statement that my Minister intends to make in the House on Wednesday afternoon. I should be grateful for clearance by 2pm Tuesday.

I am copying this to Bernard Ingham (No 10), Murdo MacLean (Chief Whip's Office), Rhodri Walters (Chief Whip (Lords) Office), Trevor Woolley (Cabinet Office), Alison Smith (Lord President's Office), Nick Gibbons (Lord Privy Seal's Office), Jon Shortridge (Welsh Office), David Crawley (Scottish Office), David Watkins (Northern Ireland Office), Deborah Lamb (Dept of the Environment) and Jill Rutter (Treasury) LYN PARKER (FCO).

Sincerely

MRS S A STAGG
Private Secretary

RESTRICTED

SET ASIDE

DRAFT OF MINISTER OF AGRICULTURE'S ORAL STATEMENT IN COMMONS, 15 JUNE 1988

1. With permission, Mr Speaker, I wish to make a statement about set aside of agricultural land.

2. A new European Community scheme to reduce surplus agricultural production by set aside of agricultural land was agreed in principle at the European Council in February, together with the stabilisers package. It is compulsory for member states to introduce the scheme for the 1988/9 crop production year - but participation is voluntary for farmers. Under the scheme, farmers prepared to take 20% or more of their arable land out of production for five years will receive compensation payments, part of which will be funded by FEOGA.

3. In view of the very tight timetable we face, I am announcing the broad outlines of the United Kingdom scheme now so that farmers can start taking it into account in drawing up their plans for the next cropping year. The details of the scheme must however under the Community legislation be scrutinised by the European Commission, who may ask for some changes; and I will then put before both Houses a Statutory Instrument for its implementation.

4. The main components of the scheme will be as follows.

5. First, premia will be available to farmers prepared to reduce their area of supported arable crops by 20% or more. The farmer must take on an obligation for five years, but will be able to opt out after three. Farmers setting aside at least 30% of their arable land will be exempted from co-responsibility levy on a maximum of 20 tonnes of grain sold.

6. Second, land set aside will have to be maintained as fallow with a green cover crop, put to woodland or used for non-agricultural purposes. The Community rules provide that land put to fallow must be kept in good agricultural condition, whether the fallow is permanent or rotated round the farm. As far as non-agricultural use is concerned, land developed for residential, industrial, retail or similar purposes will not be eligible; but the scheme will not include other limitations on non agricultural use, though of course planning controls will continue to apply.

7. Third, the rates of payment will vary according to the different uses and according to whether the land is in the lowlands or in a Less Favoured Area. For land which is managed as permanent fallow with a green cover crop, the rate will be £200 per hectare per year except in the LFAs, where the rate will be £180, to take account of the lower average yields there. There will be a reduction of £20 in either case if the fallow area is rotated round the farm. These payments take account of the cost of maintaining a green cover and the benefit of rotation.

8. Farmers adopting the woodland option may plant trees under the Forestry Commission's Woodland Grant Scheme, in which case they will receive a set aside payment of £200 per hectare per year or £180 in the LFAs. Alternatively, they may enter the Farm Woodland Scheme which is due to come into effect later this year under the Farm Land and Rural Development Act which has just received the Royal Assent.

9. For non-agricultural use, bearing in mind the fact that the land could be expected to yield some form of income to offset the costs of maintenance, the set aside payment will be reduced by £50 per hectare.

10. Fourth, there is an option under the Community rules to permit land set aside from arable crops to be grazed by livestock subject to limits on numbers. I have decided not to take up this option in the United Kingdom, because of the difficulties of ensuring proper controls and the adverse effects which such an option could have on existing

livestock producers, especially in the upland areas. In reaching this decision I have taken into account the many representations I have received on this matter, including in particular the views expressed in this House.

11. Fifth, set aside payments in this and future years will be based on farmers' arable crop pattern in 1987/8. Farmers entering the scheme will be required to provide evidence of this pattern. That will create no difficulty for those entering this year, but many farmers may not wish to enter the set aside scheme at once, and I want to safeguard their ability to enter the scheme in later years when the evidence of the crop pattern in 1987/8 may otherwise have disappeared. I am therefore providing for farmers who do not wish to enter set aside this year, but wish to keep their options open, to register their 1987/8 crop pattern with the Agriculture Departments this summer.

12. Some have put forward suggestions for additional payments for particularly environmentally friendly practices on the farm. We have not been able to establish whether a scheme on these lines is viable, but will be undertaking a careful study of it.

13. I am placing in the library a document giving fuller details of the scheme.

14. As I have emphasised in the House before, the Government regards set aside as an important new instrument of CAP reform, complementary to action on price. Its aims are to assist in getting more arable land out of production, to provide an alternative source of income for farmers most affected by reductions in CAP support, and to give reasonable payments to farmers in recognition of the environmental services they are providing to the community at large in keeping such land in attractive condition and capable, if necessary, of returning to agricultural use. I hope that many farmers will now look positively at the possibilities it offers to them, both in the coming and future cropping years.

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CDP 016

MINISTER OF AGRICULTURE

1988 CAP Price Fixing: Agrimonetary proposals

will request if required

1. I have seen the Chief Secretary's minute to you of 10 June. I am glad that you were able to agree a negotiating position consistent with the agreeement we reached on 2 March.

2. Our first priority must be to ensure that the Guideline is not threatened. Like the Chief Secretary, I believe we must not allow our request for a green pound devaluation to lead to a situation in which the Commission come under pressure to make proposals which would exceed the Guideline. Moreover, in any joint Council we could not count on being able to block unacceptable proposals. We must also avoid simply pushing the costs into 1989: that would take us straight back to the old problems we have fought to avoid.

3. I am sure that we must support the Commission's rigorous approach even if this were in the end to entail scaling down our own bid. Such an outcome would be easier to present now than at the time of our early March meeting, since our MCA gap is now so much smaller.

4. I am copying this minute to the Prime Minister, the Chief Secretary, the Secretaries of State for Wales, Scotland and Northern Ireland and to the Cabinet Secretary.

pp. (GEOFFREY HOWE)
(approved by the Secretary of State and signed in his absence)

Foreign and Commonwealth Office

11 June 1988

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CONFIDENTIAL

PC

CHIEF SECRETARY TO THE TREASURY

CDP 17/6

Treasury Chambers, Parliament Street, SWIP 3AG

The Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

16th June 1988

Dear Minister,

CAP PRICE FIXING: AGRIMONETARY PROPOSALS

We had a word before Cabinet yesterday morning about your line in the final stages of this year's Price Fixing negotiation. I have now seen the progress report on your Private Secretary's letter of 8 June for which I am grateful.

We are agreed that our primary objective in the negotiation must be to achieve a settlement which is fully consistent with the European Council's decisions on budget discipline and related matters. We also agree that, if the Agriculture Council seems likely to take decisions which exceed the cost of the Commission's original proposals, it will be important for the Commission to honour its undertaking to submit the matter to a joint Council including Finance Ministers, although candidly we would wish to avoid such a reference if at all possible as experience suggests that a joint Council may be no more effective at taking unpalatable decisions.

Against that background I confirmed that I was content for you to continue to take the line on the green pound which we agreed at Geoffrey Howe's meeting on 2 March including a 3 per cent across the board devaluation as well as a full devaluation for pigmeat, although in my view it would now be possible to defend a somewhat lower devaluation as compatible with the objective of eliminating the UK MCA by 1992 if this was the best we could achieve consistent with budget limits set by the European Council. Nonetheless I do see the difficulties you face with this.

EURO POL: CAP Pt 19

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For your part you recognised that if, as seems inevitable, other Member States with negative MCAs also continue to press for devaluations, it will be necessary for the Council to identify substantial offsetting savings in order to stay within the costs of the Commission's original proposals. I notice that there have been few signs so far that other Member States would be prepared to agree to the suggestions for price reductions which you have already made and some are even reluctant to accept the effective 2 per cent cut in cereals prices envisaged by the European Council. But you said that you had some additional ideas (for example on skim milk subsidies) which might be more acceptable to them.

I am sure that you would agree that any offsetting savings identified for this purpose must result from genuine policy decisions in the Price Fixing. It would be quite wrong, for example, to encourage the Commission to reduce the amounts which have now been provided for stock depreciation under the European Council conclusions or to draw down the very small margin which it has prudently left itself below the financial guideline limit in 1989. I should be grateful if my officials could be kept in close touch with any package of devaluations and offsetting savings as it emerges, so that I can be assured that there are no problems of this sort.

Finally, your Private Secretary's letter does not consider the consequences if the Council fails to reach any agreement. My preliminary feeling is that, if it turns out to be impossible for a qualified majority of Member States to agree on a price fixing settlement which is consistent with the European Council conclusions, it would be preferable to encourage the Commission to stand by its original proposals rather than to participate in an unsatisfactory compromise. I am sure that we all hope that it does not come to this but I should be glad to know whether you share that view.

I am copying this letter to the Prime Minister, Geoffrey Howe, Peter Walker, Malcolm Rifkind, Tom King and to Sir Robin Butler.

Yours sincerely

[signature]

for JOHN MAJOR

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

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01-270 0538 (Direct Line)
From The Secretary of State for Wales

Rt Hon Peter Walker MBE MP

10 June 1988

CONFIDENTIAL

CDP 10/6

Top

1988 CAP PRICE FIXING: AGRI MONETARY PROPOSALS

I strongly support the arguments of the Minister of Agriculture, which are set out in his Private Secretary's letter to your office of 8 June, on how essential it is to obtain a Green Pound devaluation.

Like the Minister I have consistently repeated the undertakings that we would not allow the UK farmers to be discriminated against. To fail to obtain a Green Pound devaluation would mean that all four Agriculture Ministers would be going back on undertakings that they have given on this principle. It would also lead to a very substantial backbench revolt.

I am copying this letter to the Prime Minister, John MacGregor, Geoffrey Howe, Malcolm Rifkind, Tom King, and to Sir Robin Butler.

The Rt Hon John Major Esq MP
Chief Secretary to the Treasury
HM Treasury
Great George Street
LONDON
SW1

EURO POL: CAP pt 19

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LCCPC

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

From the Minister's Private Office

CDP
9/6.

CONFIDENTIAL

Jill Rutter
Private Secretary to
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London SW1

8 June 1988

Dear Jill

topene

1988 CAP PRICE FIXING: AGRIMONETARY PROPOSALS

You asked in your letter of 7 June for a brief progress report on these negotiations. They began slowly because the Commission and Presidency wanted - quite rightly - to see the Agriculture Council reach decisions on stabilisers first. Progress has since been held up by elections in Germany and France. The Council meeting starting on 13 June may be the decisive one; though probably it will take more than one meeting to produce a settlement.

Meanwhile the German Presidency has held a round of bilaterals in Brussels on 6 - 7 June. We circulated in advance to interested Departments the note which my Minister handed over at this meeting, and the discussions are fully recorded in UKREP telno 1900. In brief, the Minister told the Presidency and the Commission that the UK was generally supportive of the Commission but felt that stricter action was needed on prices and that there had to be some movement on the green pound.

So far as discussions in Council on the various commodities are concerned, I set out the main points in the annex to this letter.

Your letter is principally concerned with agrimonetary matters. The Minister has asked me to point out that, in pursuing the case for a green pound devaluation, he has kept strictly to the conclusions reached at the meeting with the Foreign Secretary and Chief Secretary on 4 March. It is true that the movement of sterling has reduced our MCAs. But the situation is, in substance, no different from what it was when Ministers met. Our MCAs are still larger than those of any other member State except Greece (for whom the Commission has proposed a substantial devaluation). They will increase again, next week, by up to 1.6 points, and the future pattern cannot, of course, be predicted.

All other Member States with scope for devaluing are pressing to do so. Seven countries are in this position apart from ourselves: France, Ireland, Denmark, Belgium, Luxembourg, Italy and Portugal. All have indicated that a green rate change is a high priority for them. Indeed it is not we who introduced this issue into the negotiations: France and Ireland did that. So it would be a central issue even without us. Moreover, the necessity of green currency devaluations is also accepted by the Dutch. It is therefore not the case that continuing to press our demand will entail conceding devaluations to others; but that, even if we were to withdraw our demand, they would still press theirs.

Such an outcome would put the Government in a completely indefensible position, and make nonsense of undertakings not to allow the UK farming industry to be discriminated against. It would also involve going back on undertakings on several occasions in the House in the last two months and my Minister feels that would lead to very substantial political problems with backbenchers. Moreover, the industry argues, with justification, that it is intolerable for them to be expected to cope with a stricter price policy and to operate on lower prices than their neighbours and principal competitors. Their case is all the stronger since our farmers' incomes have demonstrably been falling behind those of farmers elsewhere in the Community. The attached table, which the Minister handed over in Brussels yesterday and which is based entirely on EC data, clearly demonstrates this. Our own figures show that UK net farm income has halved in real terms over the past decade. I enclose a table setting out the present gaps in support prices, also handed over yesterday, from which it will be seen that other Member States' prices are up to 17% higher than ours.

In Council discussions, and in his talks with the Presidency and Commission yesterday, the Minister has emphasised the injustice of this price gap and the need to do something this year to close it. He has made clear that he is not asking for full removal of the competitive disadvantage at this stage, and that we would be content with a modest step. Put in these terms, our case has been well understood. It has not undermined our other objectives.

Mr MacGregor has stressed throughout the paramount need to keep expenditure within the guideline. Accommodating the cost of green rate changes will be a central issue in next week's negotiations. It is an issue which the Council will have to face because of others apart from us (a devaluation for France is much more costly than one for the UK). Bearing in mind that the cost of devaluations agreed now will fall predominantly on the 1989 rather than the 1988 Budget, we believe it will be possible to accommodate some measure of devaluation, taking into account savings already made and proposed. My Minister has repeatedly pointed out where, in his view, further economies can be made.

As for reference to a Joint Council, this is mandatory if the Commission consider that the Settlement is likely to exceed the costs of their proposal. There is no reason at present to expect that we shall reach that point but, if we do, it is clear from what was said in Brussels yesterday that the Commission will have no hesitation in carrying our their responsibilities.

Copies of this letter go to recipients of yours; Charles Powell (No 10), Tony Galsworthy (FCO), David Crawley (Scottish Office), John Shortridge (Welsh Office) and David Watkins (Northern Ireland Office) and Trevor Wooley (Cabinet Office).

Sincerely.

SHIRLEY STAGG (Mrs)
Principal Private Secretary

ANNEX

COUNCIL DISCUSSIONS ON PRICE FIXING PROPOSALS

1. On prices, nearly all member States have accepted as appropriate the freeze proposed by the Commission for most commodities; though some have linked their final agreement to obtaining satisfaction on other issues. The proposed related measures have proved much more controversial, particularly those for the cereals sector. A majority oppose the Commission's proposal to halve monthly increments (equivalent to a 2% price cut). The UK has insisted that we must secure a cut of at least 2%, but said that we could accept alternative ways of making it - for example a straight cut in intervention prices.

2. Another major issue in this sector was the proposal for a premium on the incorporation of cereals in animal feed. The UK has argued strongly that, despite the advantage in theory of steps to increase uptake of grain, the scheme proposed is most unlikely to be cost-effective; would be very expensive to administer; and is bound to arouse the hostility of the US and other third countries, adding to the Community's long list of problems in GATT. We have made good headway on this. The Presidency and the Commission have accepted that the proposal will not be adopted in the price fixing. Discussion now is limited to agreeing on a formula. We are prepared to see the question of cereals uptake studied further, but without commitment to any particular type of scheme. The study would need to take account of cost-effectiveness, the avoidance of abuse or fraud and the GATT implications.

3. On sugar we continue to press for adoption of the Commission's proposal for an aid on the cane refining margin. This proposal fulfils a longstanding commitment by the Council. Most other member States are objecting to aspects of the proposal no doubt largely for tactical reasons.

4. On beef, most member States are opposed to the weakening of intervention, equivalent to a price cut of about 5%, that the Commission propose. It is being argued that changes in advance of the review of the beef regime later this year would be at odds with what the Council decided in December 1986. The UK aim is to secure the adoption of the Commission proposal or measures of equivalent effect, preferably through a straight cut in prices.

5. The UK has argued for downward pressure on support levels to bring supply and demand into better balance, making the case in relation to milk, wine, tobacco, and fruit and vegetables. The Dutch have given full support but our arguments find little favour elsewhere in the Council.

6. On oilseeds, the Commission proposed an effective price cut by way of reducing monthly increments but the savings they project are illusory. With a comparatively tough stabiliser already agreed for this sector, further cuts would shift production into cereals, where support costs would be higher. We are continuing to resist this proposal unless the cereals prices are cut by 4% rather than the 2% proposed to counterbalance this risk.

7. The Commission's proposal for a huge increase in import levies on birdseed (by aligning them with levies on barley) is the subject of adverse public comment and would cause yet another row with supplying countries. Though obviously a second order issue, we intend to continue to oppose it. The Commission has hinted at a modification of their proposal.

8. The UK Minister has made clear in the Council, as agreed, that we want to see MCAs removed in the pigmeat sector and he has pressed the Commission to make a proposal for a reduction in our monetary gaps and MCAs for other commodities, taking account of the fact that these negative gaps are the largest in the Community after Greece.

Indices of Real Net Income from Agricultural Activity of Family Labour Input per Annual Work Unit (AWU) from 1979 to 1987

	1979 - 1981	1982 - 1984	1985 - 1987
Belgium	100	121	108
Denmark	100	281	322
Germany	100	108	92
Greece	100	108	108
France	100	107	95
Ireland	100	122	117
Italy	100	92	80
Luxembourg	100	143	143
Netherlands	100	133	141
UK	100	117	77
EC10	100	109	98
Spain	100	114	125
EC11	100	110	102

Footnote

Data Source: Eurostat.

RELATIVE PRICE LEVELS (AS AT 13/6/88)

UK = 100

MEMBER STATE	CEREALS	PIGMEAT	MILK	BEEF	SHEEP
GERMANY	117	108	115	106	116
NETHERLANDS	116	108	114	106	116
BELGIUM	114	106	112	105	113
DENMARK	112	106	110	103	110
SPAIN	114	107	114	106	115
FRANCE	109	105	107	103	110
IRELAND	109	103	107	102	107
ITALY	106	103	105	99	103
PORTUGAL	103	-	-	-	109
GREECE	82	77	75	71	92

* Indices for other member states show the value of EC support prices in national currency terms (converted from ecu at their green rates) compared with the value of EC support prices in sterling (converted from ecu at our green rates) where the UK value for each commodity = 100.

Source: MAFF on basis of published exchange and green rate data.

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CE PC

(2)

Prime Minister

CDP 7/6.

Treasury Chambers, Parliament Street, SW1P 3AG

Mrs Shirley Stagg
Private Secretary
to the Minister of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

7 June 1988

Dear Shirley,

CAP PRICE FIXING: AGRIMONETARY PROPOSALS

I understand that this year's CAP Price Fixing negotiation may be reaching a critical phase and that the German Presidency is expected to press for decisions at the Agriculture Council beginning on 13 June and at any rate before the Hanover European Council at the end of the month.

The Chief Secretary has asked me to say that it would in his view be highly desirable if your Minister was able to circulate a brief progress report on the current state of the negotiation in good time for any necessary discussion between Ministers on the UK's tactics in the final stages. He considers that, in particular, Ministers ought to reassess the position provisionally agreed at the Foreign Secretary's meeting on 2 March on the scope for a green pound devaluation. Such a reassessment should take account of the reduction in the UK's MCAs since that date, the prospects of achieving a general green pound devaluation without having to concede devaluations for other Member States such as France and Ireland; and the scope for identifying savings (which are both genuine and realistic) to offset the substantial additional costs to the EC Budget if such devaluations cannot be avoided. In the Chief Secretary's view it may now be desirable to consider the option of withdrawing our request for a general green devaluation, in return for a satisfactory solution to the particular problems in the pigmeat sector.

The Chief Secretary assumes that the UK's principal objective in the negotiation will continue to be to achieve an outcome which is fully consistent with the recent European Council conclusions on budget discipline. In this connection it would be helpful to have your Minister's assessment of the consequences if the Agriculture Council fails to reach agreement on the timescale currently envisaged. We should in any case hold the Commission to its undertaking in the European Council conclusions to refer the price proposals to a joint council if the outcome of the Agriculture Council's discussions seems likely to exceed the costs put forward in its original proposal.

I am copying this letter to Charles Powell (No.10), Tony Galsworthy (FCO), David Crawley (Scottish Office), Jon Shortridge (Welsh Office) and David Watkins (Northern Ireland Office) and Trevor Woolley(Cabinet Office)

Yours,

Jill

JILL RUTTER
Private Secretary

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FRAME AGRICULTURE

(FROM UKREP BRUSSELS)

AGRICULTURE COUNCIL : 18-19 APRIL 1988

SUMMARY TELEGRAM

SUMMARY

1. A LOW KEY COUNCIL MAINLY DEVOTED TO A SERIES OF TABLE ROUNDS ON PARTS OF THE PRICE FIXING PACKAGE, WITH LITTLE DEVELOPMENT OF POSITIONS ALREADY ESTABLISHED IN SCA. CONCILIATION WITH THE EUROPEAN PARLIAMENT ON THE STABILISERS PACKAGE (EXCLUDING WINE) SATISFACTORILY CONCLUDED. TEXTS TO BE FORMALLY ADOPTED AS 'A' POINT NEXT WEEK SUBJECT TO THE RESOLUTION OF AN OUTSTANDING STATISTICAL PROBLEM ABOUT THE BASE FIGURES FOR THE APPLICATION OF THE SHEEP STABILISER, WITH WINE TO FOLLOW LATER ON AS SOON AS THE EP OPINION IS AVAILABLE. NO PROGRESS ON VETERINARY HARMONISATION PROPOSALS, BUT Q.M. FOUND FOR NON COMITOLOGY PARTS OF FOOD HARMONISATION PROPOSALS.

DETAIL
'A' POINTS

2. ALL ADOPTED, INCLUDING DOM RUM EXCISE DEROGATION FOLLOWING DISCUSSION IN ECOFIN COUNCIL ON 18 APRIL.

CEREALS

3. THE MAIN POINTS TO EMERGE FROM A VERY LONG DEBATE ON CEREALS WERE THAT THERE IS WIDESPREAD OPPOSITION TO HALVING MONTHLY INCREMENTS, THAT IT IS INCREASINGLY LIKELY THAT THE EXISTING SYSTEM OF AID FOR SMALL PRODUCERS WILL HAVE TO BE EXTENDED FOR A YEAR TO ALLOW FURTHER REFLECTION ON A DEFINITION OF SMALL PRODUCERS AND THAT MOST DELEGATIONS SEE DIFFICULTIES IN DESIGNING A SENSIBLE SCHEME TO ENCOURAGE THE INCORPORATION OF CEREALS IN ANIMAL FEEDSTUFFS.

FRUIT AND VEGETABLES

4. RITUAL EXCHANGE ON FRUIT AND VEGETABLES, WITH NORTHERN COUNTRIES SEEING THE COMMISSION'S PROPOSALS ON WITHDRAWAL THRESHOLD AS THE MINIMUM OR TOO LITTLE AND THE SOUTHERN COUNTRIES SEEKING WEAKER OR NO ACTION IN THIS SECTOR WHERE, THEY CLAIMED, EXPENDITURE IS ON THE DECLINING TREND.

SUGAR

5. MOST CAN ACCEPT A PRICE FREEZE BUT CONTROVERSY OVER THE CONTINUANCE OF REGIONALISED PRICES AND THE PROPOSAL AID FOR UK REFINERS OF ACP SUGAR.

BEEF

6. STRONG DEFENCE BY THE COMMISSION OF THEIR PROPOSAL FURTHER TO WEAKER INTERVENTION SYSTEM FOR BEEF BUT ONLY UK AND NETHERLANDS PREPARED TO CONTEMPLATE ANY CHANGE IN ADVANCE OF THE FOURTHCOMING REVIEW OF THE REGIME.

TABACCO

7. STONG CRITICISM BY ALL PRODUCERS, IN PARTICULAR FROM GREECE, ON THE COMMISSION'S PROPOSAL ON THE SUBDIVISIONS OF THE TABACCO GUARANTEE THRESHOLD INTO GROUPS OF VARIETIES.

AGRIMONETARY

8. ALL COUNTRIES WITH SCOPE TO DO SO (EXCEPT BELGIUM WHO IS AMBIVALENT) WANT GREEN CURRENCY DEVALUATIONS, BUT SPAIN JOINS GERMANY AND THE NETHERLANDS IN OPPOSING SUCH MOVES THIS YEAR.

CONCILIATION WITH EP

9. VERY PROTRACTED CONCILIATION WITH THE EUROPEAN PARLIAMENT. ON THE STABILISER PACKAGE, REFLECTING PARLIAMENT'S FRUSTRATION AT ITS INABILITY TO INFLUENCE COUNCIL DECISIONS EVENTUALLY BROUGHT TO A CONCLUSION BY AGREEMENT ON AN ANODYNE JOINT STATEMENT OF GOOD INTENTIONS FOR THE FUTURE.

VETERINARY ITEMS

10. HORMONES (THERAPEUTIC USES) PROPOSAL BLOCKED BY ITALY, GREECE AND SPAIN. BAD TEMPERED AND INCONCLUSIVE DEBATE OVER INSPECTION FEES AFTER PRESIDENCY SOUGHT TO INHIBIT DISCUSSION BY PREMATURELY CONCLUDING THAT THE PROPOSAL WAS AGREED. NO DISCUSSION ON FRESH MEAT (SLICED LIVERS AND PET FOOD PROPOSALS) AS PRESIDENCY GAVE UP IN FRUSTRATION.

QUICK FROZEN FOODS AND FOOD ADDITIVES

11. QUALIFIED MAJORITY ACHIEVED ON NON-COMITOLOGY ASPECTS OF

QUICK FROZEN FOODS, WITH THE COMPROMISE ON RETAIL TEMPERATURE INTACT. QUALIFIED MAJORITY ON TECHNICAL ASPECTS OF ADDITIVES PROPOSAL CONFIRMED, WITHOUT TEXTUAL CHANGES. BOTH DOSSIERS BACK TO COREPER FOR RESOLUTION OF COMITOLOGY.

12. CEREALS IN MIFT. FRUIT AND VEGITABLES IN MY SECOND IFT. SUGAR IN MY THIRD IFT. BEEF IN MY FOURTH IFT. TOBACCO IN MY FIFTH IFT. AGRIMONETARY IN MY SIXTH IFT. CONCILIATION WITH EP IN MAY SEVENTH IFT. VETERINARY ITEMS IN MY EIGTH IFT. FOOD HARMONISATION IN MY NINTH IFT. AOB AND REMAINING POINTS IN MY TENTH IFT. (IFT'S NOT TO ALL)

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FRAME AGRICULTURE ECD (I)

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cc PC

Treasury Chambers, Parliament Street, SWIP 3AG

The Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

19th April 1988

CDP 19/4

Dear Minister,

AGRICULTURAL STABILISERS

Thank you for your letter of 15 April to Geoffrey Howe about the stance you intend to take at the Agriculture Council this week, if the Presidency press for the adoption of the stabiliser texts excluding wine.

I gather that it is far from definite that they will do so, but if the need arises, I agree that you should press for the adoption of the set-aside text at this week's Council leaving the complete stabilisers package over until May. That would certainly be the best outcome.

But if most Member States prefer to proceed with the adoption of set-aside and the stabilisers except wine, I agree with Geoffrey Howe. There would not only be the presentational difficulty of our appearing to be defeated on the general issue of stabilisers, but others might feel free to unpick other aspects of the package.

I am copying this letter to the Prime Minister, Peter Walker, Malcolm Rifkind, Tom King and Sir Robin Butler.

Yours sincerely,

pp JOHN MAJOR

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

EURO POL: CAP PT19

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MINISTER OF AGRICULTURE

Agricultural Stabilisers

will request if required.

1. Thank you for your letter of 15 April about the position you plan to take at the Agriculture Council next week if the Presidency press for the adoption of all the stabiliser texts except for wine.

2. I understand that it is not certain that the Presidency will try to split the package. However, if they do, I agree that you should argue for the immediate adoption of the set-aside proposals only, keeping the stabilisers for adoption together in May.

3. But I also agree that most member states may prefer to proceed with the adoption of set-aside and the stabilisers except wine. That would be very much a second-best outcome. But I suspect that there might be a greater risk of the package unravelling (or of prejudice to our interests in the price-fixing) if all of it were left over until May. I certainly do not think we should get ourselves outvoted on the issue. That would look like a defeat: moreover it might actually increase the risk of further amendment to the wine stabiliser.

4. I am copying this minute to the Prime Minister, the Secretaries of State for Wales, Scotland and Northern Ireland and the Secretary of the Cabinet.

Foreign and Commonwealth Office
18 April 1988

(GEOFFREY HOWE)

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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

WHITEHALL PLACE, LONDON SW1A 2HH

cc/

From the Minister

Spoken to Mr. [illegible] FCO. CDP 17/4

The Rt Hon Sir Geoffrey Howe QC MP
Foreign and Commonwealth Office
Downing Street
SW1A 2AL

15 April 1988

Dear Secretary of State,

I referred briefly at Cabinet yesterday morning to an issue on the stabilisers package which has just arisen owing to the delay that may be caused by the European Parliament in formal adoption of it. I am writing to explain the issues and the possible lines to take at the Agriculture Council on 18 - 19 April.

The problem is this. The Agriculture Council reached agreement on legal texts giving effect to the European Council's decisions on stabilisers for all commodities by the end of March. These texts were not, however, formally adopted then because the Council had to wait for the European Parliament's opinion. It was expected that formal adoption could take place at the Council Meeting next week. It now transpires that there will be a difficulty because the European Parliament has not yet given an opinion on the wine stabiliser though it has given opinions on the rest of the package.

The Presidency explained to the Special Committee for Agriculture earlier this week that, in the face of this, they are inclined to propose that the Council should now formally adopt the stabiliser package apart from wine, leaving wine to be adopted later, possibly but not definitely in May. The Council is scheduled to have a conciliation session with the Parliament on the morning of 19 April and formal adoption could take place immediately after that.

The issue for us is whether to accept some splitting of the package or to insist, as we have done very firmly up till now, that it must be adopted as a whole. There are risks either way.

The reasons for our holding back from giving final agreement to some stabilisers while others were still subject to negotiation are clear. It would have been much too easy for others to drag out the argument and defer the unpalatable decisions for instance

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/on wine, ...

on wine. We now have firm agreement at the level of the Agriculture Council but the European Parliament is able to exert some influence. They could and well may press for changes on the wine stabiliser. The producer Member States are very likely to use this possibility. So if wine is hived off now for later adoption, there are undoubted risks of changes for the worse.

If on the other hand we stand firm on unity of the package there are two disadvantages. First, there is a risk that one Member State or another may reopen the Council stabiliser in the light of the discussions on the Commission regulations. This danger has already surfaced over set-aside. Or links may be made with the price fixing. In this way the stabiliser package could start to unravel. Second, on set-aside again, if the Council delays formal adoption of the basic text by a month, that will delay adoption of the Commission rules which are due to be settled on 22 April. That in turn will make it impossible for us, and no doubt for other Member States, to bring schemes into effect by the due date of 1 July. But if set-aside did not start then the Germans might possibly point to the commitment of the European Council to bring stabilisers and set-aside into effect together; and make this an argument for delaying the operation of stabilisers generally. That would of course be a very bad outcome indeed.

We face a choice of two evils. One course would be to go for immediate adoption of the set-aside proposals, arguing that this needs to go ahead for practical reasons and is not itself a stabiliser; but that the stabiliser package should be kept intact and await the European Parliament's opinion on wine. I do not know what support we would have from other Member States for this proposition; possibly not much. If others all preferred the Presidency's idea of adopting all the package except wine I think it would be consistent with our previous strong stance to resist the Presidency proposal, make clear that our position on Own Resources continues to depend on completion of <u>all</u> stabilisers as they now stand and let ourselves be outvoted. I would make it clear both in the Council and to the press that had wine been included we would of course have voted for the package. We would not be quite alone. We know the Danes have a parliamentary mandate to keep the package together. They are reckoning with being outvoted.

There are obvious risks in this. The greatest would be if it looked as though sufficient votes would join us to make it a blocking minority. In that case perhaps we would have to vote for, but with the caveat on Own Resources as above.

For these reasons my order of preference would be:

(a) adopt set-aside; leave stabilisers for adoption in May;

/(b) adopt ...

(b) resist, but with the caveat and explanation as above;

(c) adopt set-aside and the stabilisers apart from wine, leaving wine for adoption in May; but again with the caveat on own resources.

I would be grateful for colleagues' urgent views. The situation is complex and I shall therefore wish to take a final view at the Council itself. If developments there make me think that we should do other than suggested above, I should wish to contact you from Luxembourg to discuss the way forward.

Copies go to the Prime Minister, members of OD(E), to Peter Walker, Malcolm Rifkind and Tom King and to Sir Robin Butler.

Yours sincerely

JOHN MacGREGOR

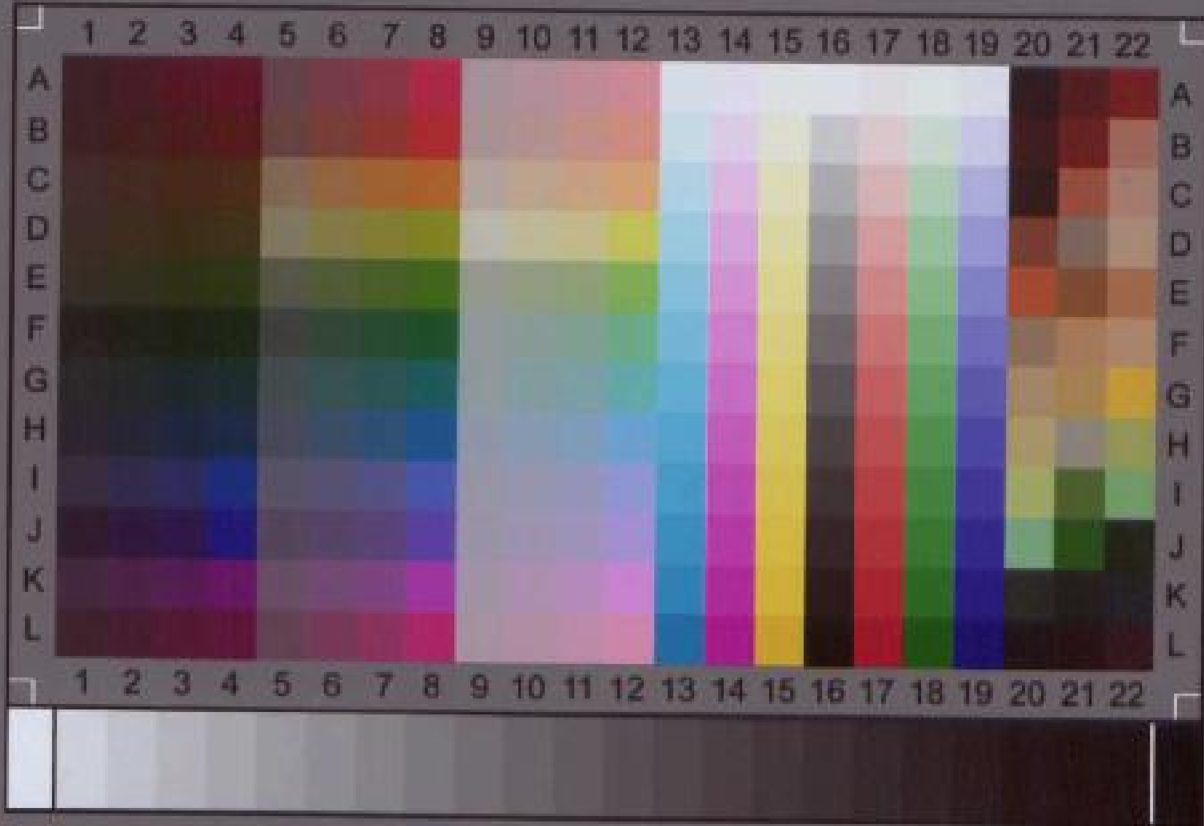
(Approved by the Minister and signed in his absence)

PART 18 ends:-

UK Rep Brussels Tel No. 1054 30.3.88

PART 19 begins:-

MS/MAFF to FCS. 15.4.88



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