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MINISTER OF AGRICULTURE, FISHERIES AND FOOD

CAP Price Proposals

1. Thank you for your letter of ~~13~~ February in which you asked for my views on the line you propose to take at the Agriculture Council on 18 February.
2. I am sure that, since there will only be opportunity for a very preliminary review and we have not yet had all the relevant documentation or time for a proper collective discussion, your suggestion that you should not be too categorical about particular proposals but should leave our position open for subsequent negotiation is absolutely right.
3. I do not, however, think that you should use this occasion to advocate national financing. Instead, we should hold to the line agreed in OD(E) on ~~7~~ February. Raising debudgetisation now in the context of the price proposals and before the next European Council will simply enable the French (who have already made clear that they see a link between prices and the budget contribution problem) and others to distract attention from our perfectly legitimate tough stance on prices and argue that we are attacking the principles of the CAP itself thus making our budget negotiations that much more difficult. We will face strong opposition anyway on prices.
4. I note that you intend to prepare a further paper on CAP reform for OD(E) before the March Council discussions. This will no doubt contain your own recommendations but I think the financial, trade and political consequences as well as the agricultural ones should have been discussed interdepartmentally at official level beforehand, as we agreed in OD(E) on 7 February. I am asking the Cabinet Office to organise this in the usual way.

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5. While I agree substantially with the guiding principles you outline in your third paragraph, I do not think we should seek to oppose every measure which places a burden on the UK. Ought we not to try to ensure that the economy package and price proposals taken as a whole do not unfairly penalise the UK? This points towards taking a slightly less hostile line to the economy package than you intend (I come back to this below). I think we need to see more detailed figures on the resource cost to the UK of the price proposals before we can judge exactly the extent of the bias against our interests. This will not doubt emerge from further discussion in the Community and between departments, but again underlines the need not to take up too clearcut a stance at this Council.

6. I agree with your general approach on prices, but I wonder whether there is not a case for including cereals and beef in the list of products for which we should say we see no justification for a price increase. Support for cereals cost 1,600 m EUA in 1979, or 15% of the total cost of the FEOGA Guarantee Section. After milk, it is the second most expensive commodity. The position on beef is not much better; expenditure could rise to 1,100 m EUA in 1980 according to the Commission's estimates and the proposed premium system for suckling cows is likely to attract farmers out of milk and into beef production. In addition to firm opposition to price rises on sugar and milk, I think you should also at this stage underline the difficulty we have in contemplating increases on cereals and beef (even though we will probably have to concede some later).

7. I also believe it is important that in criticising individual parts of the Commission economy package, we are not seen as overly negative. Most other countries, except the Germans, have objections to parts of the package. We should aim to keep in line with them but not to lead the pack. I enclose some notes on individual products which I hope you and your officials can take on board for next week's meeting and for your further consideration of the price and economy proposals.

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8. I am copying this minute to the recipients of yours.

A handwritten signature in ink, appearing to be the name 'Carrington', written in a cursive style.

(CARRINGTON)

Foreign and Commonwealth Office

15 February 1980





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#### MILK LEVIES

We should retain our condition of no increase in prices. Agreed that the 60,000 kg exemption discriminates somewhat against us, although it is likely to be more objectionable to the Danes and Dutch who have no Less Favoured Areas. Moreover, our estimate is that the net cost to the UK would only be about 3-4 m EUA and this does not seem particularly penal. We shall want to consider how far we should press this objection in subsequent negotiations and it would be better not to give it too much emphasis at this Council. On the supplementary levy, understand that we still do not have final details of what the Commission propose. Should at least reserve our firm view until this appears. While agree that it would act like a quota, we have already accepted quotas for sugar and, if used with a price freeze, would squeeze high cost producers and reduce surpluses.

#### BUTTER SUBSIDY

Agree with your views. The difficulty is that this subsidy is much more expensive than other disposal methods (660 ECU/kg as against 180 ECU/kg for export refunds). But should emphasise that preference in disposal should be given to Community consumers and the UK already suffers from less than average receipts from the Agriculture sector.

#### SUGAR QUOTAS

Confess to some scepticism about our arguments on this front. The inclusion of the 1979/80 marketing year in the reference period has lessened the level of discrimination inherent in the original Commission proposals. The cut in our quotas remains higher than for others, but not the cut in real production. 1979/80 has been an exceptional year for the whole Community with a record harvest of 12.2 m tonnes. Although the immediate prospect is for a tightening in the world market, many experts seem to believe that it will not last. Can see the attraction of  
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extending the present arrangements for a further year. Presumably, would hope for a good UK harvest next year and we should then have two good reference years on which any cut in our quota would be based. May be an objective worth pursuing, although in so far as Community production as a whole increases, the cuts proposed next year might then have to be rather deeper.

BEEF

No objection to your proposal as our opening bid. All the more important to give general support to the Commission's economy proposals on beef as agreed in OD(E).

CEREALS AND WINE

Agree with proposed line, though may have to look again at starch refunds as negotiations progress.

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15 FEB 1980