



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

From the Minister's  
Private Office

Michael Pattisson Esq  
Private Secretary  
10 Downing Street  
London SW1

10 May 1979

*p.a.*

*Dear Mike,*

UK AND GERMAN INTERESTS IN THE COMMON  
AGRICULTURAL POLICY

--- In preparation for the Prime Minister's meeting  
with the German Chancellor, my Minister has  
asked me to send you the attached note which  
he has approved.

*Yours sincerely*

*Garth Waters*

Garth Waters  
Principal Private  
Secretary

NOTE FOR THE PRIME MINISTER

UK AND GERMAN INTERESTS IN THE CAP

*Prime Minister*

*Jan*


*1975*

1. The underlying economic interests of the UK and the FRG in relation to the CAP are superficially similar in the sense that both countries are net food importers and make a big gross contribution to the Community budget of which 75% goes towards the CAP. Both would therefore benefit from a reduction in the budgetary cost and in the negative resource transfers which result from unduly high CAP prices. But there are important differences of outlook which affect the approach to negotiations on the CAP and the FRG have proved to be very unreliable allies in the past in our attempts to get improvements. Although some parts of the German Government, in particular the Chancellor's Office and the Economics Ministry, publicly acknowledge the need to contain the cost of the CAP, German agricultural spokesmen in Brussels see themselves as defending the farmers' interest and their negotiating line on prices is weak.

2. It is sometimes argued that this ambivalent attitude in the German Government reflects the political importance of Ertl in the balance of the coalition. Ertl is clearly a powerful figure and his vigorous policies have played an important part in maintaining support for the coalition in the Free Democratic Party. He is a particularly influential figure in his native Bavaria but his views on the importance of agriculture in a settled German society find some sympathy more generally.

3. But Ertl's personal influence cannot alone account for the consistent willingness of the Federal Government to go along with decisions on the CAP which run counter to Germany's financial interests and are contrary to the economic philosophy behind her post-war recovery. The other factors which need to be recognised include the following:-

- a. Germany puts a high price on the continued existence of the EEC and still regards the CAP as the "cornerstone" of the Community;
- b. Germany has had a low rate of inflation for many years and food prices have never become such a sensitive issue as they have here; in addition she has been very successful economically and does not find the financial burden intolerable;
- c. Despite the rapid run-down in the German agricultural population since the war Germany still has proportionately twice as many people (6%) employed directly on the land as does the UK. Tough policies towards the CAP would inevitably drive people out of agriculture and give rise to social problems, particularly against a background of high unemployment in the economy generally;



d. In the years since green currencies became an important factor in the operation of the CAP, as a result of maintaining her internal agricultural prices above Community levels, Germany has substantially increased her receipts under the CAP so that her net budget contribution had fallen from DM 3592 million in 1975 to about DM 2000 million in 1978.

Reconciling UK and German objectives

4. Against this background, getting a change in the attitude of the German Government is likely to be a slow process. They are more likely to look for other ways of easing the net burden of the budget on the UK, rather than making any significant reduction in the cost of the CAP. In the short term our main objective should be to get German support for a price freeze on commodities in structural surplus. They would probably be prepared to accept this provided that it did not lead to any reduction in prices in deutschmarks. But they are strongly influenced by French pressures on Germany to make some move towards realigning her prices towards the common price level through a revaluation of the green mark and a reduction in the German MCA. In the CAP price negotiations so far it has become clear that the Germans are prepared to accept a small general price increase, perhaps of the order of 2%, to give themselves headway to make such a revaluation without decreasing their internal prices. We need to persuade them that the best way of containing the cost of

the CAP is to hold down the average level of national prices on which the common price effectively puts a ceiling. If, by giving way to French pressure to reduce MCAs, they let the common price creep up towards the German level then national prices will inevitably follow suit and production, and hence the cost of the CAP will increase sharply.

5. For the longer term we could try to persuade the Germans that the way in which the CAP is operated at present, with common prices being bid up annually in order to maintain incomes for the less efficient farmers is not acceptable. The Germans are already concerned about the situation which will exist when the current provision for providing the Community's own resources becomes insufficient to cover the cost of the budget, perhaps in 1981. In this context they might be willing to look at the possibility of more radical changes in the CAP, e.g. different forms of support, perhaps with a greater element of national financing, to meet the needs of the less efficient farmers who are most dependent on the CAP regimes. But so far they have shown little interest in such possibilities.

