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EUROPOL

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
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From the Minister

NBPM

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13 February 1980

CAP PRICE PROPOSALS

Next Monday there is to be a one-day meeting of the Council of Ministers (Agriculture) to allow Gundelach to present the Commission's CAP price proposals. There will of course be no time for detailed discussion, but all the Agriculture Ministers can be expected to give their first reactions, both in the Council and to the Press. The line I take will be important, both for the future CAP negotiations and for the budget negotiation with which in my view they will inevitably become linked.

In order to set up the strongest possible negotiating position on the budget I have obviously got to take a very tough line on the CAP proposals. But it has also to be a credible line; it must not be one which will embarrass us too much when we eventually settle; and it should not be overtly linked by us with the budget negotiation, though the link will be made by others and will be obvious enough.

I would propose to state the principle that I am not prepared to agree to proposals which would increase the financial or economic burden on the UK or which discriminate against the UK in any way. I should then review each of the main proposals against this criterion. I should however take care not to say specifically that I could not agree to any single proposal that did not meet the test: the time will come when we reach a CAP settlement which offers us a net benefit overall (just as last year's did, to the tune of over £30m), but in which there are elements that impose a cost on us.

On the basis of this principle, the Commission's proposals measure up very badly. They are heavily biased against our interests and would increase the net resource cost which the policy imposes on our economy. The Commission claim that they represent a total saving to Community funds of 823 million EUAs by comparison with the draft 1980 budget presented last October. But over half this alleged saving is represented by the co-responsibility levies on milk,

/which are not a reduction .....

which are not a reduction in cost but a new source of revenue. The real saving is only about 370 million EUAs, and this net figure conceals an additional cost as a result of the price increases proposed. My officials are preparing a detailed analysis of all the proposals for discussion with other Departments. But the general picture is clear.

On the basis of the general principle I have suggested, my line on the main proposals would be as follows:-

Prices Virtually all increases in common prices impose an additional cost on us, either through the budget or in trade. I should say therefore that, while recognising the difficulty that a total freeze would produce in a time of rapid cost inflation, we start with an initial bias against any price increases. In particular we are totally opposed to price increases for the commodities in structural surplus, milk and sugar.

Milk Levies I should oppose the Commission's new proposal exempting the first 60,000kg of milk production by producers in less favoured areas from the proposed general co-responsibility levy of 1.5%, pointing out that while this would exempt 40% of Irish milk production, 30% of Italian and over 20% of French and German, it would exempt only 4% of ours. I would however support the principle of a non-discriminatory general levy, provided it were linked with an unchanged common price. I would oppose the revised proposal for a super-levy of 84% of the price on milk purchases by dairies above 99% of 1979 levels, on the grounds that it would freeze the existing pattern of production, discriminate against new low-cost production, and enshrine and discriminate in favour of existing surplus production.

Butter subsidy I would point out that the proposed abolition of the UK butter subsidy would deprive us of a net benefit of £75m. It discriminates unacceptably against a method of surplus disposal which affords a benefit to the UK while other methods of surplus disposal such as export restitution are left untouched.

Sugar Quotas I would oppose the Commission's proposals on sugar quotas since they still discriminate heavily against us (the new proposals give us a small B quota of about 74,000 tonnes but would still cut our A quota from 1,040,000 to 936,000 tonnes. This year's UK production is 1,150,000 tonnes. No other country is being asked to take a comparable cut in current production levels.) Marcora will propose that the existing quotas should be extended for one year, since there is no time to negotiate new ones before planting takes place and since the rise in the world price should in any case greatly cut the cost of surplus disposal in 1980/81. At this stage I should argue against giving up the struggle for quota reduction on a fair basis. In March however I think we should agree to his proposal. It is in my view realistic, and it would have the great advantage for us of removing a booby-trap which otherwise lies in wait on 1 July. (If next year's sugar regime, which begins then, had no quotas because none had been agreed, the full price guarantee would apply to all sugar produced, at much greater cost to Community funds and to the UK.)

Beef On beef, the Commission have proposed a new beef suckler cow subsidy, and as expected, have made no proposal to continue the UK beef slaughter premium. Since we have 27 per cent of all beef cows in the Community, and since the subsidy would be financed entirely by Community funds (instead of the 25 per cent contribution they make to the existing premiums) a beef cow subsidy should in principle be financially advantageous to us, as well as helping us with our difficulties over producers on marginal land. But the Commission have greatly reduced its potential benefit to us by restricting it to the first 15 cows on a holding which does not produce milk (which would mean that we received only 19 per cent of the expenditure instead of 27 per cent). I would oppose this limit as discriminating against us.

/Cereals The Commission ...

Cereals The Commission have proposed for cereals a 2 per cent increase in intervention prices and a 3.75 per cent increase in target and therefore threshold prices. This differential is intended to discourage imports, particularly of maize. It would bear disproportionately on us by increasing the price of maize imports and of hard wheat from North America which we need for our bread. I would argue against both the price increases and the discrimination against our interests, and would press for changes in the cereals regime so as to discourage intervention buying of breadmaking wheat, as we have discussed in OD(E). On the related question of phasing out the starch subsidies, on which I have corresponded with others interested, I would accept no commitment to any reduction so long as the proposal to increase the price of maize, the raw material of our maize starch industry, is still on the table.

Wine On wine I shall argue that there are no grounds for any price increase, let alone ones which range as high as nearly 4%, for a commodity where there is arguably an underlying structural surplus and not a mere seasonal surplus, as the Commission imply.

This would of course be a mainly negative line and I should doubtless be challenged to say what I would myself propose for reducing the cost of the CAP. At this stage I would confine myself to saying that there must above all be a policy of firm restraint over a course of years on prices for commodities in structural surplus. I would go on to recognise that this would not in the short term meet the problem of rising cost and that other measures must be found to limit the cost to Community funds. I should point out that the Commission's super-levy proposal for milk has the effect of passing on to member countries themselves (in the shape of their producers) the cost of disposing of new surplus production; and that I can see no reason in principle why the cost of disposing of existing surplus production should not also be transferred in part, perhaps on a progressive basis, from Community funds to member states through their national exchequers. I would however decline at this stage to be drawn into the detail of how this might be done. I do not think we need be at all hesitant about taking this fairly aggressive line. The French have just come out with a package of counter-proposals on milk which carefully eliminates every measure which is of little or no benefit to them and retains every one from which they profit.

Before negotiation begins in earnest in March I propose to circulate a paper to OD(E) setting out my proposals for CAP reform, basically on these lines, ie the progressive transference of cost from Community to national funds. My purpose would be to formulate an intellectually respectable policy which would actually cut the cost to the Community budget and to us. It would not of course be readily negotiable, but the retention of the VAT limit will in my view inevitably push the Community in time towards some switch to national financing. Our task must be to ensure that such a switch benefits us to the maximum possible extent, and this will require very careful attention to the details.

This however need not be decided now. At present we need only to decide the line to take next week, and I should be grateful to know if you are content with what I have proposed.

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

Yrs Peter

PETER WALKER