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Alexander Policy
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10 DOWNING STREET

From the Private Secretary

1 October 1979

Your Minister called on the Prime Minister at 1430 hours today to discuss the state of British agriculture. They were later joined by Mr. Buchanan Smith to discuss fisheries problems; we will be writing to you separately about that.

Mr. Walker said that he was extremely concerned about the general state of the agricultural industry, and he wanted to be sure that the Prime Minister fully appreciated the seriousness of the position. The Conservative Party had severely criticised Labour during the Election campaign for having undermined the industry - by allowing investment and profitability to decline. In spite of the two Green Pound devaluations this year, and the increase in farm prices, farmers were now faced with the prospect of lower incomes than at any time since 1973. The index of farm incomes was forecast to be down to 76 for 1979, compared with 90 in 1978 and 105 in 1977 - and higher still in the preceding years. As a consequence, bank borrowings by agriculture had risen very considerably; and unless steps were taken to improve the position, there was likely to be a substantial downturn in investment and cutback in production. The political reaction of the farming community, which had been led to believe that the Government would bring about an improvement in its position, would be immense. The reason for the deteriorating position was that costs had risen by more than twice the amount that could be attributed to the Green Pound devaluations and the price increases.

Mr. Walker went on to say that other Governments in the E.E.C. were increasing their budgetary support for agriculture. This was particularly the case with the French. By contrast, it was being proposed by the Treasury that MAFF's budget should be cut - for example, with a reduction in capital grants and hill farm subsidies. If the policy of cutting back U.K. agricultural support were pursued, while other countries' support measures increased, this would almost certainly lead to less production in the UK and larger imports from Europe.

/ The Prime Minister

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The Prime Minister noted what Mr. Walker had said. But she expressed serious doubts about his analysis. In the first place, she questioned the realism of the MAFF forecast for farmers' incomes in the current year - especially given that the harvest was likely to be at least as good as the previous year's. Secondly, she pointed out that, whereas the Conservative Manifesto had indicated that the Government would "devalue the Green Pound within the normal lifetime of a Parliament to a point which would enable our producers to compete on level terms with those in the rest of the Community", the Government had in fact achieved this within months of the Election. It could not therefore be said that the Government were neglecting the farmers' interests. Thirdly, she could not accept that prices should be increased for products which were in surplus. Thus, she would find it very hard to go along with Mr. Walker's proposal to increase the price of milk at a time when a very substantial part of the UK's milk production was going into intervention. Fourthly, she could not accept the argument that, because other countries were increasing their agricultural subsidies, the UK should do the same. Efforts should be made through the Commission to put a halt to the escalation of such subsidies rather than try to match them. Moreover, the argument that MAFF expenditure should be increased ignored the overall budgetary constraints within which the Chancellor was operating. Fifthly, she did not feel that Mr. Walker was giving sufficient weight to the interests of consumers. A major priority for the Government must be to get the rate of inflation down, and policy in respect of agriculture must contribute to this.

Mr. Walker said that he was equally determined to avoid unnecessary price increases or expenditure. At the same time, however, he did not believe that the Prime Minister's strictures were justified, and he remained very concerned about the prospects for the industry. It was clearly essential that the CAP be reformed; but for this he needed the co-operation of other agricultural Ministers. He proposed to submit to the Prime Minister a position paper on the state of British agriculture which he hoped the Prime Minister would be willing to discuss with him. This would include figures on farm incomes, and a commodity-by-commodity analysis. The Prime Minister said that she would be glad to see such a paper, and to have a further discussion with Mr. Walker in due course.

I am sending a copy of this letter to Martin Vile (Cabinet Office).

T. P. LANKESTER

G.R. Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.

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Monday 11/9/79
@ 14.30.



please file.

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PRIME MINISTER

Yes

Peter Walker has requested an hour with you before the Party Conference. Apparently you agreed to this in Cabinet one day.

The two points he wishes to discuss are:-

- (i) Assessment of European agriculture; and
- (ii) Fisheries.

Mr. Walker would be most grateful if you would agree to Alick Buchanan-Smith attending the latter half of this meeting?

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11 September 1979