Copied to: Euro Pol, Budget: Part 8

Treasury Chambers, Parliament Street, SWIP 3AG
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19 May 1980

The Rt. Hon. Peter Walker, MBE., MP

Dear Peter

SHEEPMEAT AND THE BUDGET

We are to discuss in OD(E) on Wednesday the way in which we should deal with the next stage in the discussions on sheepmeat. I have yet to see your proposals but I thought that it would be helpful if I gave you an advance indication of the main considerations as I see them.

Clearly, our first objective must be to convince the rest of the Community that a heavy intervention regime leading to a new sheep mountain would be a disaster, not just for this country but for the Community as a whole. I note that the Foreign and Commonwealth Secretary made this point very forcibly when he saw Colombo in Brussels on 14 May (UKDEL Nato telegram No.230, paragraph 2). There is some evidence that we are beginning to make an impression on the Commission. For example, I note from your 13th May discussion that the Commission are preparing a sheepmeat regulation "based on very limited intervention and no export rebates". If in the event a settlement on the Budget turns on our accepting a sheepmeat regime we must keep them up to that.

Even supposing, however, that we succeed in severely limiting the scope of intervention in the other member states, I share your view that we must avoid applying it in the UK and I am prepared to accept that if our producers are not to have recourse to intervention here, we should continue to underpin their returns by some kind of deficiency payment system. The proposals made by the

/Commission

Commission at an earlier stage in the sheepmeat negotiations that the regime should include the option for member states to operate variable premia provide an opening for you to argue for such a system in the UK, and I understand that you have already raised this possibility with Commissioner Gundelach.

If the Commission are prepared to renew this variable premia proposal and the other member states, including France, accept in principle that we should have the option of operating it as an alternative to intervention, the key question will be the level of the target price.

In determining our objectives for the UK target price we need to take account of our general view that the CAP should not encourage more production than can be absorbed by the market, and of the interests of New Zealand in continuing her traditional supplies to the UK. We also have to avoid a price level which will provoke excessive expenditure both because of our general views on the need to limit CAP spending and for the particular reason that if we achieve a settlement of the problem of the UK contribution to the EEC budget which sets a ceiling to our net contributions, expenditure on premia in the UK will reduce the public expenditure advantages of the budget settlement itself.

Against this background, I consider that we should apply to the decision on the UK target price the same considerations that were applied to the recent decision determining the guaranteed price for fat sheep for 1980-81. This suggests that the target price should be at or close to the present guaranteed price of 155p per kg. To choose a significantly higher price would, in my view, risk stimulating more production than could be disposed of at the target price level. This would be a recipe for escalating expenditure and depressed market prices, which would be almost as damaging to our general CAP objectives and to the interests of New Zealand, as an intervention system.

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

GEOFFREY HOWE