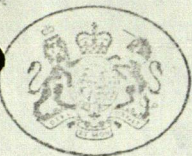


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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

The Rt Hon Margaret Thatcher MP  
10 Downing Street  
London SW1

7 March 1980

*Bob Munn*

Your television interview to France on Monday is a wonderful opportunity and I thought I would write to you to tell you the latest scene, having come back from Paris last night.

According to our Ambassador, the last few days have seen the first occasion in which the British position has come through to the French people.

They have been mis-led by Government controlled media that our intention was to flood their market with cheap English lamb and New Zealand lamb and so ruin their sheep producers.

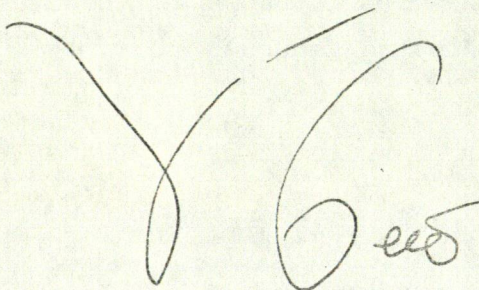
They are therefore shocked to find that eight countries in Europe, including their friends Germany, have lined up against them and even more shocked when at the French agricultural Show, to a battery of television cameras, radio stations and newspapers, one was able to explain that we have never been against the French Government supporting the French sheep producer, we have been willing to consider a Community financed system which would enable them to pay premiums to their sheep producers and that taking illegal action against one Member State was a very dangerous precedent, particularly when, in the area of CAP commodities, France exports to Britain twice as much as we export to them.

During this week, on Tuesday night the news broke that the Council of Ministers had gone eight to one against France, on Wednesday there was the impact of the Commission taking an interim injunction against France, and on Thursday the impact of the statements I was able to make publicly in Paris.

You are, as you have probably been advised, a popular and admired figure in France and for them to be able to hear you explain the reality of our case, our commitment to Europe and our sadness that on this issue the basic concept of free trade between Member countries of the Community has been broken, could have a very considerable impact.

If they are interviewing you they will undoubtedly throw the New Zealand lamb question at you and there is the very simple explanation that France agreed with all other Member States that New Zealand lamb could only come into the Community if a 20% tariff was imposed upon it. That remains the policy of the whole of the Community and it is untrue to say that there is no position of Community preference when in fact the whole of the Community, including Britain, discriminates against New Zealand lamb with a 20% tariff.

I am sure the interview will go well. I am not sure how your briefing is being organised, but it might not be a bad thing if you had the time immediately prior to the recording having a word on the 'phone to our Ambassador who will be able to up-date you to the very last minute as to the state of the debate that has really got going for the first time in France during this past week.

A handwritten signature in dark ink, appearing to read 'Peter Walker', with a stylized flourish at the end.

PETER WALKER

SHEEPMEAT

LINE TO TAKE

French Import Controls

1. Respect for the EEC Treaty is essential if Community is to develop. This creates difficulties for all Member States but is the price of an economic union.
2. The European Court ruled unequivocally nearly 6 months ago that both France's closure arrangements and her levies were illegal under the Treaty. The French Government must comply.
3. The UK complied with a parallel judgement against the potato ban 11 days after judgement was given and is bearing the cost of supporting producers affected on her national budget.
4. Nothing to stop the French Government introducing its own legal measures of support to cushion effect on producers.
5. French consumers would benefit from additional supplies of excellent UK lamb.
6. We are not seeking to harm French producers. But French controls have damaged UK producers. Prices have been depressed and we have spent about £11 million (about 110m FF) in guarantee payments to farmers since last September.

Interim Arrangements

X | 7. Agriculture Ministers were close to agreement on principles of an interim package last week. But French could not accept consensus against Community - financed intervention <sup>as</sup> part of the package or give satisfactory assurances that import restrictions would not be reimposed.

X | 8. Anxious to seek constructive solution. Package would have afforded support to French farmers and its rejection illustrates depressingly unconstructive approach of French Government to negotiations.

Sheepmeat Regime

9. We remain ready to negotiate constructively. But this is a separate issue from introduction of free trade as required by the Treaty.

10. We played a constructive part in securing Council approval of a mandate for the negotiation for voluntary restraint agreements under which 3rd Country suppliers of sheepmeat, notably New Zealand would restrict sendings to traditional levels. This is quite adequate to meet French concern.

11. We have the major interest in sheepmeat production. Any support measures must recognise this fact and give the UK a fair share of receipts. We should of course have to give up our own national support measures (Fat Sheep Guarantee) when a regime was introduced.

12. Strongly opposed to intervention. To put good fresh meat in the deep freeze in order to support market prices is economic nonsense. This would be expensive and disposing of intervention stocks would disrupt markets.

13. Linkage with budget unjustified; must be decided on its merits.

## BACKGROUND NOTE

### General

1. France has nearly one-third of Community sheepmeat production; the UK nearly half. The French have linked progress on sheepmeat with a solution to the <sup>budget</sup> problem. They continue to argue strongly for market price support through intervention. French producers are said to dismiss direct aids as "charity".

### French Import Controls

2. The French failure to comply with the European Court ruling of 25 September condemning their levy/closure system of controls on imports of all sheepmeat ( which stated that France was not precluded from adopting legal measures of support pending the introduction of a common regime) led to the Commission bringing a second case on 14 January for non compliance with the ruling, particularly as regards the import ban. The Commission also took preliminary steps for a third action against the levies. On 5 March they decided to ask the Court for an interim injunction against the French Government.

3. French prices have firmed up and the French market is open at present to UK sheepmeat but subject to a prohibitive levy of 7.90 FF (86p/kg). UK prices are now above the guarantee level.

### Interim Arrangements

4. At the Council meeting on 3-4 March the Commission proposed a package of transitional measures which would involve the lifting of France's import controls, and temporary FEOGA provision for

national support measures in the UK and France. The UK could accept this on condition that the French promised not to re-introduce illegal measures, that FEOGA money would not be used to finance intervention and that the funds were fairly allocated. The French insisted on intervention and rejected a Presidency compromise which excluded FEOGA financed intervention.

#### Sheepmeat Regime

5. As regards internal arrangements the two main areas of difficulty are

(i) whether there should be support of market prices through intervention;

(ii) how far Community-financed premiums should compensate producers for any fall in market returns due to free trade. The majority of Member countries favour full compensation in the first year but with gradual degression of premiums thereafter.

6. Our position has been, first, total opposition to Community-financed intervention and, second, we have argued that premium arrangements should not perpetuate the present discrimination against the UK due to the French import restrictions and should reflect our predominant position in this sector. The premium proposals as they stand do not meet these UK requirements. In particular they would result in little or no Community expenditure on premiums in the UK.

7. On the external side, the Commission rejected French pressure for de-consolidation of the GATT bound 20% tariff and proposed that voluntary restraint arrangements should be negotiated with the principal third country suppliers, notably New Zealand. The Commission have now opened negotiations on the basis of a mandate approved by the Council. New Zealand is willing to negotiate subject to not becoming firmly committed until the form of the common regime as a whole is known.

## THE COMMON AGRICULTURAL POLICY

### General

1 The cost of the Community's agricultural policy must be of concern to both the French and the British Governments. There is a limit on the Community's financial resources and both Governments have made it clear that they will oppose an increase in this limit: so has the German Government.

2 But the limit is threatened by expenditure on agriculture. Last year this reached 60 billion francs; it has doubled since 1976 and trebled since 1973. These increases must be sharply moderated to keep within the limit which we both agree should be observed. So, on the need for changes, there should be no dispute between us.

3 Most of the money does not go directly to improve farmers' incomes. About 70% goes to dispose of food surplus to the Community's requirements.

4 This is unsatisfactory for the Community as a whole:

- the Community's inhabitants have to pay twice: first, as consumers, for the food they need; then, as taxpayers, for the food they do not need.
- consumers can reasonably complain that they pay too much, since the amount they need could clearly be produced at a lower price.
- to sell food to other countries at a heavy loss is wasteful: it means transferring part of the Community's wealth to those countries.
- large exports by the Community take away the legitimate markets of other food exporting countries, some of whom are poor developing countries.

- devoting so much of its energy and financial resources to a single policy prevents the Community from developing in other directions.

It is surely logical to make the production of surplus commodities less attractive, by holding down prices. This is our policy.

5 Of course we accept the social importance of agriculture. But if the Community is to bear the costs of a social policy, it should do so for all sectors, not just agriculture. Meanwhile, national governments should meet the cost of policies which they wish to pursue for social reasons.

#### UK Imports from outside the Community

6 Our partners agreed in 1973 that Britain should continue to import certain limited quantities of sugar from developing countries and butter from New Zealand. This was not done to help Britain: we get no benefit from these imports. The purpose was to prevent our accession to the Community having unacceptable effects on these countries' economies.

7 The quantities involved are far less than Britain used to import from these countries. Our imports of butter from New Zealand have fallen by 30% since 1973. At their present level, they are equal to the amount by which the Community's milk surplus increases every 18 months.

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PRIME MINISTER'S APPEARANCE ON ANTENNE 2

General

The United Kingdom in common with most other industrialised countries has suffered from relatively slow growth and high inflation in recent years. But the UK is still a substantial manufacturing country and has broadly held its 10 per cent share of world trade in manufactures over the past five years. About 40 per cent of UK trade is with the Community. The UK's industrial performance, however, has for some time lagged behind that of many of its competitors. The present Government is determined to correct this.

Present policies

2. The Government is giving priority to the reduction of inflation and to the improvement of the supply side of the economy. The reduction of inflation requires a firm control of monetary growth supported by strict limits on Government spending and borrowing. The Government has not hesitated to act both through its fiscal and interest rate policies to restrain the growth of the money supply. The growth in public spending planned by the previous administration both for this financial year and next has been curbed. The check to public spending, however, has taken time and meanwhile the Government has raised interest rates to rein back monetary growth.

3. The improvement of the supply side of the economy requires a climate in which enterprise can flourish and market forces can work freely and flexibly. The Chancellor in his first Budget reduced the UK's high marginal income tax rates and brought them more into line with those of other countries. This will allow people to keep more of the extra earnings that their efforts bring them. The Government has also allowed price and dividend controls to lapse and has abolished exchange controls.

## Inflation

4. The Government believes that a slowdown in monetary growth is vital to reduce inflation, but there must also be realism in pay bargaining. The Government itself will not interfere in wage bargaining. It believes that this is best left to negotiators in industry and should be based on what individual companies can afford. Slower monetary growth will take time to have its full effect on inflation and the present wage round is not a test of the Government's policies. After four years of incomes policy, there is bound to be a period of adjustment as distortions are corrected. There have, however, been a wide range of settlements and there are signs of realism.

5. The underlying rate of increase in prices in the UK, after allowing for the once-for-all effect of the Government's increase in VAT last year, has shown little increase. The UK in spite of North Sea oil suffers from the effect of higher oil prices like other countries.

## Prospects

6. The outlook for economic growth in the UK, as in many other industrial countries, in the coming year is poor. The recent rise in oil prices, engineered by OPEC, has harmed the prospects for world trade. The UK as a relatively small oil producer cannot influence the world oil price. The UK, however, is particularly dependent as an open economy on the growth of world trade and we are harmed by any slowdown in world activity.

7. The forecast published by the Government last November was for some decline in output this year. Developments since then have confirmed the likelihood of this. The Government, however, is convinced that its policies offer the best prospects in the medium-term for achieving sustainable economic growth without inflation.

## PRESENT SITUATION

GDP output estimate level in Q4 1979 from Q3 GDP in 1979 same as 1978 H2. Industrial production down 0.5% in latest 3 months to December; manufacturing production up 0.7% in latest 3 months to December. Underlying level unchanged during 1979.

Consumers' expenditure rose 1.7% in Q4 1979. Retail sales (volume) up 2.3% in latest 3 months (to December) on previous 3 months. Export goods volume up 1.1% in November. Latest 3 months 0.3% higher than previous 3 months. Import goods volume down 6.0% in November. Latest 3 months 0.4% lower than previous 3 months. Private sector investment in manufacturing and distribution in 1979 rose 5% over 1978. 1979 Q4 on Q3 rose 1½%. Latest DI investment intentions survey suggests fall of 6 - 10% in manufacturing in 1980 (revised downwards on previous survey); distributive and service industries (excluding shipping) investment to increase not more than 5% in 1980 (held from previous survey).

Stockbuilding in 1979 rose 1.1% over 1978.

February unemployment (UK, seasonally adjusted excluding school-leavers) was 1,383,100 (5.7%) up 46,400 on January. Vacancies fell for 8th month running to 191,400.

January RPI (all items) up 2.5% on December. Change over 12 months to January 18.4%. Change in TPI over 12 months to January 16.1%

Wholesale input prices (fuel and materials) rose 3.1% in January. Wholesale output prices ("factory gate") rose 2.5%. In last 6 months input prices have risen 32.2% (annual rate); wholesale output prices have risen 15.6% (annual rate). Average earnings index for December up 19.6% compared with the same month 1978. RPDI little changed in Q3 1979 and up 2.6% on Q3 1978.

PSBR in first 3Qs' of financial year 1979/80 £9.97 billion compared with full year Budget forecast of £8.3 billion. CGBR for April to January £7.7 billion. 1979/80 HI figures swollen by GPO strike and VAT delays.

Sterling M3 rose 1.1% in banking January, bringing cumulative growth since mid-June to 12¼% p.a compared to target 7-11% growth p.a over period to October 1980. Banks' eligible liabilities rose 2½% in January. MLR raised to 17% on 15 November.

Balance of payments current account recorded a deficit of £296m in January; total deficit for 1979 of £2437m. Reserves at end-February \$23.935 billion. Exchange rate closed at \$2.2445 on 5 March with effective exchange rate index standing at 72.3.

Q. Recent economic forecasts (eg by the OECD) have painted a gloomy outlook for the British economy ....

A. Our own domestic Budget forecast last June showed the same thing, and the recent oil price increases have not made things any easier either for our own domestic economy or for our overseas markets. . . . on whom we depend so much.

But this Government has never sought to disguise the difficulties facing our economy over the next year or two, and we have always warned that the task of making the British economy really strong again will take several years.

In the same Budget last June we made a very positive start: we began the tough monetary and fiscal regime which is absolutely essential to curb inflation - and which incidentally the OECD regard as essential for Britain - and we began the sweeping liberalisation of personal incentives and business controls which is equally essential to the recovery of the British economy.

The more quickly Britain can regain her economic strength the better for the economic health of the European Community as a whole.

However, I am sure you will appreciate that the task of British recovery is not helped by the penal contribution that Britain is currently having to make to the Community: for the third poorest member to be paying by far the largest contribution is totally indefensible and totally illogical.

Q. Strikes, industrial relations problems - will Britain ever escape?

A. Of course we have a problem, but may I point you to two things:

- first, the British Government is introducing legislation to help redress the balance between the strength of unions and employers, partly to discourage early industrial action in pursuit of pay claims;

- secondly, I believe that there is a growing sense of realism breaking out in Britain. The most spectacular example - and your viewers may recall this - was the overwhelming vote by workers at British Leyland not to take industrial action in support of a militant shop steward who had been dismissed for urging non co-operation with the management's recovery programme. / There was also the clear vote by Welsh miners against industrial action in support of the current strike in the nationalised steel industry, and the return to work by private sector steelworkers. 7

But you should beware of expecting overnight transformations in our national attitudes: the process of adjustment in Britain by employers and unions alike may take months - even years - rather than days or weeks. For myself, I am constantly reminding our people that the world does not owe us a living.



UNITED KINGDOM TRADE WITH FRANCE

1979

	<u>£ million</u>
UK Exports	<u>3070.5</u>
of which	
Agricultural Produce	149.0
<del>Whole</del> Beef	88.1
Manufactured Goods	<u>2321.2</u>
Road Vehicles	191.7
Passenger Motor Cars	53.6

~~2321.2~~

UK Imports	4064.2
of which	
Agricultural Produce	304.8
Wheat	39.5
Maize	73.7
Apples	56.4
Manufactured Goods	<u>3047.0</u>
Road Vehicles	691.9
Passenger Motor Cars	519.7

474.4

3070.  
4064

1000	4064
	3070
	<u>          </u>

OTHER FACTS  
AND FIGURES

## FRANCE: FACTS AND FIGURES

1.	<u>Population</u>	<u>Land Area</u>	
	53 million	551,000 sq km	
2.	GDP Growth:	3.3% 1978 )	official French forecast
		3.7% 1979 )	
		2.5% 1980 )	
3.	<u>Rate of Inflation</u>	10.7% 1979	
		12.9% 1980	(January 1980 on January 1979)
4.	<u>Exchange Rate</u>	F9.375 = £1	(3 March 1980)
5.	<u>Unemployment</u>	1,423,900	(January 1980)
	% of total working population	6.7%	approx (January 1980)
	Growth in unemployment	9.5%	(January 1980 on January 1979)
6.	<u>Gross Fixed Investment</u>	2.5% in volume 1979	
		1.0% 1980	
7.	<u>Budget Deficit</u>		
	1978 £4.04 bn	(forecast £1.03 bn)	
	1979 £4.21 bn	(January 1980 Estimate)	
	1980 £3.43 bn	(Projected)	
8.	<u>Balance of Payments</u>	<u>1978</u>	<u>1979</u>
	Current Account	+ £1.94 bn	+ £1.1 bn
	Trade Balance	+ £0.29 bn	- £1.1 bn (forecast)
9.	<u>French Exports</u>	(1979) £38.49 billion	
	West Germany	17.2%	
	Italy	11.4%	
	Belgium/Luxembourg	9.8%	
	UK	7.7%	
	USA	4.9%	
10.	<u>French Imports</u>	(1979) £41.98 billion	
	West Germany	18.0%	
	Italy	10.1%	
	Belgium/Luxembourg	9.0%	
	USA	7.6%	
	Netherlands	6.1%	
	UK	5.6%	
	Saudi Arabia	5.4%	

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BRITISH AND FRENCH FORCES STATIONED IN WEST GERMANY

British Forces in West Germany, including Berlin:

British Army of the Rhine:	55,000 (of which 3,000 are serving in Northern Ireland at any one time)
Army personnel in Berlin:	3,000
RAF personnel stationed in West Germany:	9,000
RAF personnel in Berlin	500
Total (exclusive of the 3,000 service personnel always serving in Northern Ireland)	<u>64,500</u>

French Forces in West Germany, including Berlin:

The important point here is that there is a big difference between the published figure and what we know confidentially.

The Institute for Strategic Studies says in its annual survey 'Military Balance' that the French Army has 3 armoured divisions in West Germany (34,000 men). In addition there are about 2,000 French personnel in Berlin.

Confidentially the French military authorities have always said that French strength in West Germany, including Berlin, is about 49,000 and our Ministry of Defence accept this figure as being accurate.           

Conclusion:

If the Prime Minister chooses to make a comparison between the published figure of French Forces and our own, it would irritate the French who know that they have more Forces than publicly admitted in West Germany. If, on the other hand, she quoted the higher figure of 49,000 French personnel in West Germany, including Berlin, we run an equal risk of irritating the French because it is confidential.

We believe that there is not a sufficient difference between the level of British and French service personnel in West Germany to be able to make a political point of it.

*Quater A*

15,000