



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
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*Copy to Sir Robert Armstrong.*

From the Minister

The Rt Hon Margaret Thatcher MP  
10 Downing Street  
London SW1

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*Bob Walker*

I know after your visit to Hull you expressed concern about the success of Community fishermen at the expense of our own, and you will know also that I mentioned at E Committee the very real potential disadvantage of horticulture and fishing as a result of unequal competition from our major competitors.

I attach a paper which describes the situation and in my judgement it is a situation which must be tackled if we are not to see two more of our industries disappear in order to be replaced by foreign imports. We are, in fact, talking about two industries with a combined production of £400 million who, in this coming year, could lose a considerable proportion of their business to other countries unless they have the opportunity to compete on an equal basis.

Perhaps after you have read this paper we can either have a word upon it or, alternatively, it could be looked at by the appropriate Cabinet Committee.

I am sending copies of this to Geoffrey Howe, Ian Gilmour, David Howell and the other Agriculture and Fisheries Ministers.

Prime Minister.

*Mr Walker's proposals, which have not been discussed with the other departments concerned, are likely to be controversial. We shall probably find that they need further work done on them. I suggest that you do not become too closely involved with them, as you would if you saw Mr Walker about his paper. It would be better to put all this to E, though as I say, we shall probably need more than one bit. Agree?*

*Bob 25 iii 80*

PETER WALKER

*Yes*

ENERGY PRICES AND COMPETITION

NOTE BY THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD

1. This note explains why I am concerned about the prospects for British horticulture and fishing and propose action to defend these sectors from the consequences of unfair foreign competition.

BACKGROUND

2. Both horticulture and fishing are industries which have to exist in volatile and highly competitive markets. They operate in high risk areas even when competing on relatively equal terms with Community rivals. But gross distortions of competition pose an immediate and considerable threat to the viability of these UK industries to an extent quite unrelated to the efficiency of their performance. While immediate short-term aid is being given to our fishing industry, horticulture and fishing face a quite different threat which requires more fundamental long-term action. Other Community members have introduced fuel subsidies, or followed a policy of energy pricing, which allows their industries access to fuel at less than OPEC prices. This threatens irreversible damage to the productive capacity of our industries, and urgent action is needed to preserve them in being.

3. These sectors are abnormally fuel intensive. Fuel oils, the prices of which have risen nearly 70% over the last year, represent over 40% of the operating costs of protected horticultural crops and up to a quarter of those of the fishing fleet.

THE COMPETITION

4. Dutch glasshouses are heated by gas, and as a result of Dutch pricing policy the powerful Dutch industry is securing supplies of fuel, legitimately in terms of the Treaty of Rome, at a price less than  $\frac{2}{3}$  of the price to British growers. The French Government are paying an aid to fishermen, ostensibly for employment protection purposes, but based upon fuel usage and representing between 12% and 15% of fuel costs. Sicilian fishermen receive a direct fuel subsidy. The German Government, with the blessing of the Commission, are about to pay to ~~both~~ horticulturalists ~~and fishermen~~ an aid for 1980 equal to 12% of fuel costs (the

and have it in mind to extend this to fishermen.

cost of financing their fuel purchases for one year) Although both the Dutch and the German arrangements have been attacked in Brussels, the Dutch insist that, since their gas price is not below the cost of production, all they are doing is to take advantage of a natural resource, while the Germans point to the Commission's acceptance of their scheme. I see no sign of any of these serious inequalities of competition being abolished; indeed, I think that they are likely to spread, since the Commission have now issued guidelines for energy aids to horticulture allowing all Member States to assist their glasshouse sector for up to one year at a rate not exceeding 30% of the oil price increase over the last two years. The French are already proposing to assist investment in energy saving equipment by their glasshouse industry.

5. Import penetration for glasshouse crops differs from crop to crop. For example, last year the Dutch took about a third of the important market for early tomatoes (the period on which our industry relies to make its profits), and since their fuel costs have subsequently risen by only about 15%, our growers understandably fear a commercially catastrophic cost/price squeeze on the market this year. Import penetration for fish has been growing markedly, from 25% of total supplies in 1977 to 45% last year. Over the same period imports from the EEC virtually doubled, while first hand market prices have been very weak, cod and haddock being 16% down on January 1979. The fact is that prices which allow our subsidised rivals to survive mean that our fishermen make a loss in putting to sea, and our horticulturalists in growing their crops.

6. North Sea oil gives the UK a comparative advantage. It is possession of the oil which makes sterling strong, but our oil pricing policy, instead of countering the effect on competitiveness of a strong currency by pricing oil to realise a reasonable profit, adds a second blow at competitiveness by deliberately pricing it high. Solely as a result of the strengthening of sterling, compared with last year Dutch returns from tomato sales will increase at constant sterling prices by 7½% (4½p a lb wholesale at this time of year), increasing the relative profitability of Dutch growers by comparison with our own, regardless of their relative efficiency - and Dutch growers have the advantage of cheap energy as well.

7. At a price reflecting costs and a reasonable return on capital, North Sea oil would cost between  $\pounds$  8 and  $\pounds$  10 per barrel. Reflecting world prices, it has been artificially raised to  $\pounds$  33.75 per barrel. Much of the difference accrues to the Exchequer instead of the users. As a consequence the benefits of the comparative advantage are re-distributed; the more fuel-intensive the user, the greater this sacrifice in the redistribution. In the absence of OPEC pricing, our glasshouse and fishing sectors would be poised to dominate the Community competition. Instead they await heavy assault from subsidised rivals.

#### DEFENSIVE MEASURES

8. It is unthinkable that we, the only country in the Community with substantial crude oil supplies that could be sold profitably at prices  $\frac{1}{3}$  of present world levels, should allow two industries producing food worth  $\pounds$ 400 million, to say nothing of their export potential, to continue to suffer so severely because our major EEC competitors can get their fuel at subsidised prices. I agree with these colleagues who, in our discussions, saw action on fuel prices as both appropriate and acceptable in present circumstances. There are two ways in which we could remedy the situation: by charging our industries production prices (the Dutch position) or by helping them to finance their fuel purchases (the German position).

9. The first would recognise that our glasshouse growers and fishermen are having to buy their fuel at prices at which, because we have chosen to follow OPEC upwards, they are unable to compete effectively with their subsidised rivals in other Community countries. In my view it would be right, while the present uncompetitive conditions prevail, to relieve these important industries of part of the burden of what amounts to a Government impost. I do not suggest that this should take them all the way back to production prices, but that our aim should be to effect a reduction which would allow them access to heavy fuel oil at about the same price as the Dutch obtain gas, and give an equivalent reduction in the price of gas oil. At end-1979 prices this would mean a reduction of input costs about  $\pounds$ 25m, of which about  $\pounds$ 12m would go to horticulture and around  $\pounds$ 13m to the fishing industry. This would enable our sectors to seize their competitive opportunities.

10. This is my preferred course. Should it lead to difficulties which prove insurmountable, an alternative would be to follow the German lead. Because of our higher interest rates, to meet the cost of financing fuel purchases for one year would mean 20% of fuel costs; while going up to the peak permitted by the Commission's guidelines would imply 22%. Rather than go all the way, however, I would propose a scheme meeting in 1980/81 15% of their fuel costs. This payment would be both temporary and defensive. It would cost around £12½ million, of which just under £6 million would go to horticulture and about £6½ million to the fishing industry. I have in mind an administratively simple scheme of the kind used for many years for relieving these industries of fuel oil duties. It would go some way to improve the confidence and competitiveness of both industries.

11. Our horticulture and fishing industries are increasingly critical of the marked contrast they see between our policy and that of our EEC partners. They see the other Governments making available to their industries fuel at below OPEC prices for a time, to give them a period in which to adapt to the higher fuel prices, while remaining flourishing and competitive. They see us, on the other hand, deliberately pushing the price of fuel to them to full OPEC prices, despite our inestimable natural resource of relatively cheap oil and gas; and in so doing driving into early bankruptcy two industries which would otherwise be just as competitive. They cannot believe that this is in the national interest; nor can I.