



From the Minister

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

Prime Minister

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PRIME MINISTER

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SALES OF BUTTER TO THE SOVIET UNION

I understand you were tackled on this subject at question time on Thursday and you may therefore find it helpful to have a note of the latest position.

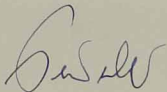
2. The President of the Commission has of course told the European Parliament that there are to be no sales of subsidised butter to Russia in the near future, and that any sales that do take place will be closely controlled in both price and quantity. This broad intention has been reflected in a Commission Regulation which has set the level of refund for bulk butter for the Eastern bloc at zero. In addition, the Commission have extended to butter-oil and skimmed milk powder the export licensing arrangements we managed to secure last autumn for butter, and they have also strengthened the procedure which allows them temporarily to "freeze" applications for pre-fixing refunds to all destinations (thus enabling them to investigate possible disguised sales to the Eastern bloc).

3. All these are useful steps, which we have supported, but there are nevertheless a number of potential loopholes that need to be closed. Although there is no longer an export refund for bulk butter, packeted butter and also butteroil (a possible substitute, not only for butter for certain uses, but also for lard and tallow which the USA had previously sent to Russia) can still be sent to the USSR with the benefit of very large refunds. Moreover - despite our firm opposition - the Dairy Management Committee approved on 7 February a Commission proposal that would enable bulk butter from intervention stocks to go to the Eastern bloc under a system of tendering, which would inevitably involve a degree of subsidisation. Even though the Commission have said they do not in practice intend to invite tenders for at least a month, the possibility of this trade being re-opened is of course contrary to our policy and, although there is unlikely to be any real interest in exporting our salted butter to Russia, there would at least be a technical possibility of butter from our intervention stocks going there - something which we could not legally prevent.

4. I had already made clear to the Commission in advance of Thursday's decision my total opposition to this development and, at the Council meeting on 18 February, I intend to raise the whole question of these exports. In addition to the points mentioned above, I shall argue that - as very large quantities of butter or butteroil are understood to have already been exported, or prefixed

for sending, during 1980 - there is no case for any further subsidized exports to Russia this year, even within the terms of the Foreign Affairs Council's resolution; and I shall insist that all the facts are revealed before any further steps are taken.

5. I am copying this minute to the Foreign and Commonwealth Secretary, to the other members of OD(E) and to Sir Robert Armstrong.



PETER WALKER
11 February 1980



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