



MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
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From the Minister

CONFIDENTIAL

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CAP REFORM

The Chancellor kindly sent me a copy of the reflections he sent you recently on future agricultural and fisheries policy. While I agree with much of what he said, you may find it helpful to have my own comments.

First, the outcome of this year's CAP price negotiations. The Chancellor speaks of our ending up short of our initial objectives, and stresses in particular the size of the price increase. If however one considers what had happened to farmers' incomes throughout the Community I do not think the outcome ought either to surprise or dismay us. The Commission's paper on the background to their proposals showed that real incomes in agriculture in the Community as a whole had fallen by 2% in 1979 and a further 9% in 1980, and were falling further and further behind incomes in the rest of the economy. There is no way in which democratically responsible governments could be expected to ignore this. I agree, of course, with the Chancellor when he says that at the price levels agreed we can expect surplus production to continue to increase. But this simply underlines the fact that it is quite impractical and unrealistic to suppose that Community surplus production can be eliminated by action on prices. We have got to find other ways of containing surplus production; and to the extent that we fail we must get redress for our own situation through budgetary correctives.

Quite apart from the impracticality of a draconian policy on common prices, I do not see how we could reconcile it with our responsibility to our own agriculture or with our pledges. You will recall that our Manifesto condemned Labour for seriously undermining the profitability of agriculture. But since 1978, ie broadly since we came to power, real net farming income has fallen by no less than 38% (since 1976 it has fallen by 52%). Investment is declining, with dramatically adverse consequences for the agricultural machinery and construction industries. As the next election approaches we are going to be asked more and more forcefully in the farming constituencies whether

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we are satisfied with the results of our stewardship, and what hope we can hold out for the future. If our answer, as the Chancellor suggests, is to say that we favour a much tougher stance on common prices, implying an even deeper cut in the industry's depleted income, I do not think we shall get a friendly hearing.

Against this background, I do not think we need apologise for the size of this year's common price increase. With production costs continuing to rise, our estimates show that, even with the increase in support prices, the falling trend in the real net income of British farming is unlikely to be reversed in 1981. Our support prices of course reflect only the bare increase in common prices: all other countries except Germany got more than the Common price increase, as a result of the monetary changes. But even over the Community as a whole the outcome can in no sense be regarded as a bonanza for farmers. And the price-fixing contained a number of highly significant advantages for us: the butter subsidy, sheepmeat premiums and beef premiums to help the housewife; a number of useful steps to contain Community expenditure; and stronger statements of intent about the control of future CAP expenditure than the Chancellor had found it possible to secure in ECO/FIN.

The Chancellor remarks that it was a disappointment that we could not make a stronger link between agriculture and fish so as to secure more progress on the latter. But such links can only be made effectively at the Heads of Government level, and you will recall that the circumstances were far from favourable. The French were clearly not prepared to do a trade-off between the two issues and would not, I suspect, have been too distressed to see us isolated in seeking to hold up a reasonably satisfactory agricultural settlement by ourselves making an overt link with fish. You decided against this and I am sure you were right to do so.

As for the future, I agree entirely with the Chancellor that we must seek the earliest possible agreement on the CFP. That is indeed what we have been doing for the last two years. We came very close to success in December, but the then French Government decided to block it. It remains to be seen whether the new French Government will be genuinely ready to settle. So far they show no great hurry to come to the conference table: they talk of September rather than July. My aim is to test their intentions in bilateral meetings as soon as possible. But I think we have to face the fact that they may not be prepared to make the concessions on access that, in the light of your assurances to the fishing industry, are essential for us. In that case we shall need to do two things: to consider what progress of a limited kind can be made on other issues, such as a marketing regulation and the EEC/Canada agreement; and to decide what our own policy towards the British fishing industry is to be over the next 18 months, on the assumption that there may be no agreement on the linked questions of quotas and access during that time. I shall be circulating a paper on this during the next few weeks.

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I turn now to future policy on the CAP. I have already commented on the price question. I do not of course argue that we should go for big common price increases: I say only that we must be realistic about the likely attitudes of other member countries, and take due account of the requirements of our own industry. We must also recognise that even if it were possible to hold common prices down, this would not stop the continued increase of surplus production and therefore of disposal costs, for other countries would pour in even more money in national aids than they do now, in order to make good the effect on farm incomes: it is significant that the new French Government has already agreed to meet the farmers' leaders in September to discuss incomes, with the implication of a decision on new direct aids in November or December. Otherwise I agree with what the Chancellor says about the general thrust of our future policy. I have to point out, however, that the policy he suggests is the same policy as we have pursued over the past two years. He suggests that we should put the case for a tough stance on prices to the Commission well before they formulate their 1982 price proposals: this we did in 1981. He suggests that we must strongly oppose any further increases in the linear co-responsibility levy on milk: we did so in 1981 and were at least able to contain the increase at half of one per cent. He recognises the difficulty of getting agreement to a super-levy on milk: despite its difficulty, I think we must persist in pressing for it, for I know of no other way of restraining expenditure in this area that would not be either more unacceptable to other member countries or more damaging to ourselves. When the Chancellor goes on to say that we must develop a clear position on all these issues and be prepared to stick to it, I can therefore only comment, while agreeing with him, that we already have such a clear position and will stick to it just as firmly as circumstances and political imperatives allow.

Just two final points. First, the Chancellor does not mention what is for me one of the most threatening aspects of the present situation: I mean, the way in which other countries are subsidising massive attacks on our markets. The French are launching an assault on our poultry market over the next two years, with the clear aim of destroying our poultry industry. Our glasshouse industry faces similar pressures from the Dutch, who have just announced national aid to that sector alone of nearly £60m. Potato processing is another vulnerable area: Hector Laing tells me he will have to locate his next processing plant in the Netherlands, because he can get his raw material cheaper from Dutch growers. We are going to have to decide how we can meet all these threats to future production, employment and balance of payments; or whether we must reconcile ourselves to seeing whole sectors destroyed between now and the election.

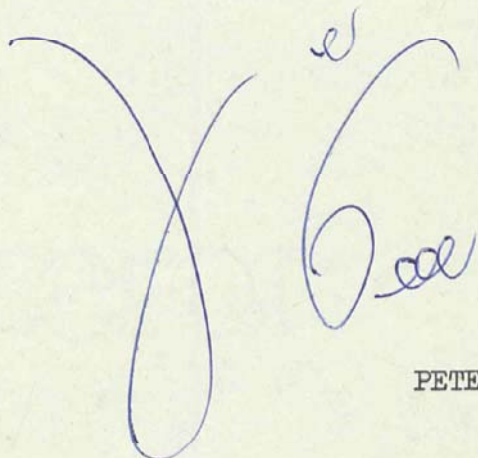
Secondly, I agree of course with the Chancellor that we must do all we can to persuade the Schmidt faction in the German government of our views. But you will remember that when I reported at the Chequers meeting the extent of my disagreement with Herr Ertl, and the issues on which we differ, there was not a word of dissent from either Chancellor Schmidt

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or his Finance Minister. The Dutch too are broken reeds: they make no secret of their insistence that the 1 per cent VAT limit must be lifted. In our dealings with both of them we must be very careful not to give any encouragement to measures that may suit them but not us: in particular, the discriminatory use of further co-responsibility levies to finance yet further increases in surplus production at our expense.

I am sending copies of this minute to the Foreign Secretary, the Chancellor and other members of OD(E), the Secretaries of State for Scotland and Wales and Sir Robert Armstrong.

A large, stylized handwritten signature in blue ink, consisting of a large loop on the left and a more complex, cursive-like structure on the right.

PETER WALKER