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Ref. A05169

Prime Minister

MR. ALEXANDER

Yes

Apex draft letter?

Am

CAP Reform and the Common Fisheries Policy

15/6/87 TDM

In a recent undated minute to the Prime Minister, the Chancellor of the Exchequer set out his reflections on the outcome of this year's price fixing and their implications for future policy. The Minister of Agriculture has commented in his letter of 22nd June.

2. The main purpose of the Chancellor's minute is to place on record his assessment of the extent to which the package emerging from the 1981 CAP price fixing fell short of agreed Ministerial objectives and to press for timely action to settle the United Kingdom's line for 1982. He also urges the need for an early settlement on a revised Common Fisheries Policy to avoid a link with the budget restructuring negotiations and further trouble with the Germans on the Canada Agreement.

3. The Chancellor notes that the average CAP price increase of 9 per cent was within the margin Ministers had been prepared to accept, but that the associated exchange rate realignment gave several member states greater increases in their own currencies, with the result that surpluses can be expected to go on growing. There was in his view little progress with agricultural economy measures, although he acknowledges the value for the future of Mr. Walker's success in securing Dutch and German support for the United Kingdom declaration that the growth of CAP guarantee expenditure should be markedly below that of own resources. On fish, the Chancellor regrets that it proved impossible in the event to block the price fixing negotiations until a settlement on the CFP had been agreed.

4. He concludes that the Government should hold to the three main elements in their CAP reform policy: price restraint, with real prices moving towards equilibrium levels; economy measures for individual commodities, but with no further increase in the linear coresponsibility levy on milk; the firm application, in concert with the Germans, of the formula for restraining the growth in CAP expenditure, on which action will be needed in the context of the 1982 Community budget.

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5. While saying that he accepts many of the Chancellor's points, the Minister of Agriculture argues that it is politically unrealistic to believe that CAP surpluses can be eliminated by price restraint, since the continuing fall in real farm incomes throughout the Community - including the United Kingdom - will make it impossible to press this course too far. He voices particular disquiet about the political risks the Government would run at home if they sought to impose a still tougher price policy on British farmers.

6. Mr. Walker clearly sees less scope for price restraint than the Chancellor and places correspondingly more weight on finding a solution for the United Kingdom's net contribution problem through a budget adjustment mechanism. He is also more sceptical of the feasibility of achieving an effective alliance with the Germans and the Dutch; and expresses concern about the threat to our farmers from the widespread use of national aids by other member states.

7. On fish, the Minister of Agriculture agrees that we should press the French to reach agreement quickly, in line with the conclusions reached recently in OD(E)(81) 8th Meeting, Item 2. But he says that he will shortly circulate a paper on the future of the British fishing industry if there is no early settlement of the CFP.

8. No immediate operational decisions are called for on any of the issues raised by the Chancellor of the Exchequer or the Minister of Agriculture. Officials are working on how best to apply the "markedly lower" formula to the 1982 Community budget and Ministers will be consulted as necessary. Detailed reactions to the CAP reform aspects of the Commission's report on the 30th May mandate will probably not be needed until the September Agriculture Council. OD(E) has already agreed that there should be general price restraint to avoid generating structural surpluses (OD(E)(81) 6th Meeting) and more recently has also agreed that the United Kingdom should be ready to study income aids for farmers as a means of facilitating price restraint (OD(E)(81) 8th Meeting, Item 1). These decisions should provide an adequate basis for constructive participation in the period of elucidation that will follow the presentation of the Commission's report.

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9. The Prime Minister might nevertheless think it useful to comment briefly on these exchanges in a way that would serve to confirm the policies so far agreed by Ministers on CAP reform. A draft letter in this sense is attached.

REA

ROBERT ARMSTRONG

26th June, 1981

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DRAFT LETTER FROM MR. ALEXANDER TO  
A. J. WIGGINS, PS TO CHANCELLOR OF THE  
EXCHEQUER

The Prime Minister has seen the Chancellor of the Exchequer's recent minute on agriculture and fisheries policy and the Minister of Agriculture's comments of 22nd June.

The Prime Minister agrees that it will be necessary to prepare the United Kingdom's approach to the 1982 CAP price fixing in good time, and to pursue the Government's objectives for the reform of the CAP with vigour and resolution in the forthcoming negotiations on the restructuring of the Community budget. The Commission's report appears to offer a number of suggestions which are in line with the policy on the CAP as agreed in OD(E).

The Prime Minister also agrees that it will be vital to avoid the Common Fisheries Policy getting tangled up with the budget restructuring negotiations, and understands that bilateral meetings with the French are being arranged with a view to securing an early agreement in the Fisheries Council.

I am copying this letter to the Private Secretaries to the Foreign and Commonwealth Secretary, the Minister of Agriculture and other members of OD(E) Committee, the Secretaries of State for Scotland and Wales and Sir Robert Armstrong.

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