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PRIME MINISTER

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Agricultural Expenditure

BACKGROUND

*Flag A (MAFF)*  
*Flag B (Tsy)*

Your Private Secretary's letters of 28 September and 8 November commissioned papers from the Ministry of Agriculture, Fisheries and Food and the Treasury on agricultural expenditure. The purpose was to prepare for a meeting on the 'longer-term options for reducing the resources which the Government devotes to agriculture'. Both departments have now provided papers. They are to be discussed at an informal meeting tomorrow under your chairmanship.

2. The MAFF paper suggests that the Government's principal objectives over the next few years should be:

(a) to correct the excesses of the CAP to the maximum extent possible;

(b) to ensure that British agriculture enjoys conditions of fair competition within the improved CAP; *even to produce surpluses*

(c) to enable British farmers to raise their efficiency at least as rapidly as in the past; to produce surplus?

(d) to sustain the rural economy, particularly in certain disadvantaged areas which rely heavily on livestock farming.

It also suggests that there should be studies of the provision of advice to farmers and development work by the Agricultural Development and Advisory Service (ADAS); the



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organisation of R & D for agriculture and food is already under review. In general, however, the paper takes the line that it would be premature for the UK to reduce support to agriculture while negotiations in the Community on adjustments to the CAP are in progress.

3. The Treasury paper draws attention to the high level of support for agriculture, relative both to other industries and to its contribution to the economy. (Not all the figures in the paper are accepted by MAFF: in particular, the figure of £4½ billion a year for the cost of the CAP to UK consumers depends on rather artificial assumptions and is almost certainly too high. MAFF economists might argue for a figure more in the range of £2 to £3 billion. Nevertheless, the proposition that agriculture receives exceptionally favourable treatment can hardly be disputed). The Treasury paper therefore concludes that there is no case for substantial support from the Exchequer, over and above what agriculture receives through the CAP; and that officials should prepare options for reducing expenditure from the Exchequer in time for decisions to be taken before next year's public expenditure survey.

4. I understand that you have received briefing from the Policy Unit on the substance of the issues, and that the Chief Scientist is submitting advice on agricultural R & D. This brief concentrates on handling the meeting and the organisation of future work.

#### MAIN ISSUES

5. I suggest that the main issues to be discussed at your meeting might be:

- i. how far does the Government wish to support agriculture in the United Kingdom?

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ii. in the light of i., which, if any, areas of agricultural expenditure should be reviewed; and if so, should this be done:

- immediately; or
- in due course, subject to the outcome of the post-Stuttgart negotiations?

iii. how should further work be organised?

How far should UK agriculture be supported?

6. The case for support for UK agriculture is variously argued on economic, social and political grounds. From the economic point of view there is a fundamental difficulty about the present level of agricultural support. It leads to more production than the market needs. It does so moreover by placing a burden on other sectors of the economy. It can properly be argued that the main problem is the CAP, and that the Government is already trying hard to deal with that problem in the post-Stuttgart negotiations. But this is not the whole problem. There are several ways in which the UK Government supplements the CAP by national measures of assistance on a scale denied to other sectors of the economy (eg capital grants of 30 per cent on average irrespective of geographical area, compared with a maximum rate of 22 per cent to manufacturing industry in special development areas only, and highly subsidised R & D, technical advice and training). Moreover the present level of the Green Pound, undervalued by about 6 per cent, increases the CAP support prices and increases the costs to the consumer. Is there not an economic case for reducing agricultural support within our own control, irrespective of our effort to reform the CAP?

7. It is argued by MAFF that reform of the CAP might cause other Community members to rely more on national aids and that we might

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have to increase rather than reduce our national aids to help UK agriculture to remain competitive. But if we secure reform of the CAP, why should we object if other countries choose to subsidise their farmers and so enable us to buy cheaper food? (One of the main 'anti-dumping' arguments - that once domestic producers had been driven out of business overseas suppliers will increase their prices - is hardly likely to be valid in this case).

8. If it is accepted that the case for agricultural support on anything like the present scale is weak, it may nevertheless be argued that there are important social and political arguments, for example for preserving rural communities and to take account of the degree of dependence on agriculture of Scotland, Wales and Northern Ireland. But, as in the case of regional policy, it may be necessary to ensure that resources are deployed, so far as they are within the UK Government's control, in a manner more closely directed to the Government's objectives.

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#### Review of UK measures

##### Timing

9. If it is agreed that a review of measures within the UK's control is desirable, it is necessary to consider how far such a review might weaken our position in the post-Stuttgart negotiations. A note summarising the UK position in the negotiations, with which you are familiar, is annexed. MAFF evidently feel that there is some danger that the UK's position could be weakened by changes in domestic policies. It should be borne in mind however that a review of UK domestic measures, even if set in hand now, will take some time and it is unlikely that changes would be made before the next Public Expenditure Survey in the autumn. The post-Stuttgart negotiations ought to have made some progress by then. Moreover, although it might be tactically unwise to make changes in certain measures which benefit

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particularly certain groups of disadvantaged UK farmers such as hill farmers, it seems unlikely that changes in general measures of assistance such as capital grants would significantly affect the negotiations. Correcting the undervaluation of the Green Pound, as opportunity arises in price fixing, would be consistent with the UK view that CAP support prices are too high.

Particular measures

10. We understand that there is already a large measure of agreement between the Treasury and MAFF on the following.

Land drainage

Many of the outstanding issues have been resolved at a recent meeting between the Chief Secretary, Treasury and agriculture Ministers; officials are to draft a consultative document.

ADAS

Treasury officials are advising the Chief Secretary to agree to the suggestion that the new Director-General of ADAS should be asked to consider and report urgently on the scope for reducing, privatising, hiving-off or charging for the services provided to agriculture by ADAS.

Organisation of R & D

The organisation of agricultural R & D is already under review. The MAFF paper also indicates willingness to consider the scope for getting producers to finance research. The Chief Secretary is likely to welcome this and to try to build on it with a view to securing agreement that the whole scale of agricultural R & D, so far as it is financed by the taxpayer, should be reviewed.

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11. Other issues raised by the papers are as follows.

Capital grants

These are the largest single item of domestic agriculture expenditure. The discussion will be heavily influenced by the view Ministers take of the general issues mentioned above and the relevance of the post-Stuttgart negotiations.

Price support

There are some (fairly small) schemes of national price support, notably the variable beef premium. This is a form of deficiency payment, and hence a subsidy to consumers. Removing it would save at least £10 million a year. UK farmers would then have to rely on intervention, like other farmers in the Community; and the cost of beef would rise slightly.

Training

The whole cost of the Agricultural Training Board falls on the Exchequer. Other industrial training boards, so far as they are not being abolished, are funded by levies on their industry.

Hill allowances

The support for hill farmers which overlaps the CAP regime for beef and sheep meat serves a social purpose. Although it may be undesirable to make changes in this area until the post-Stuttgart negotiations are resolved (see para 9 above) some review of effectiveness may be desirable.

Tax allowances

Although tax allowances do not count as public expenditure they do, of course, affect the PSRB. Agriculture enjoys exceptional concessions through exemption from rates and a reduced rate of vehicle excise duty. There is, in principle,

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a strong case for reviewing these concessions. But the recent White Paper on rates said that the Government did not intend to reopen the question of the rating of agricultural land and buildings.

#### Revaluation of Green Pound

Revaluation of the Green Pound would reduce food prices, and support to agriculture. The meeting will wish to bear in mind that the 1979 Manifesto said that the Government would "aim to devalue the Green Pound within the normal lifetime of a Parliament to a point which would enable our producers to compete on level terms with those in the rest of the Community". The 1983 Manifesto claimed credit for reversing "the Labour Government's disastrous policy for the Green Pound which harmed British farmers". It need not however preclude the Government from correcting undervaluation.

#### Future work

12. The organisation of future work will depend on how far there is a basis for agreement between Agriculture and Treasury Ministers on how far UK agriculture should be supported. If there is fundamental dispute about that it may be necessary to assess the economic arguments in more depth in preparation for a further informal meeting under your chairmanship. If only because of the danger of premature leaks, you will probably not wish to commission anything which could be represented as a "major Government review of agricultural policy". Obviously the basic factual material must be provided by the Treasury and MAFF. However, if you felt it would be useful for the Cabinet Office to hold the ring for a small informal group of officials, and to take editorial charge of a further report to Ministers on the fundamental issues, we would offer our services. No doubt it would be desirable to involve the Policy Unit.

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13. If however there is sufficient common ground at the meeting it may be possible to ask Treasury and MAFF officials jointly to review the particular measures listed in paragraphs 10 and 11 above and to put forward options for consideration by Ministers in time for decisions to be taken before the <sup>start of</sup> next Public Expenditure Survey.

\* don't give  
impression that  
MAFF have  
until next  
Autumn.

#### HANDLING

14. You may find it helpful to divide the discussion into three main sections:

- i. how far support of UK agriculture is justified on economic, social and political grounds;
- ii. whether the post-Stuttgart negotiations need inhibit a review of those measures which are within the UK's own control;
- iii. particular measures.

On each of these it would be appropriate to invite the Minister of Agriculture, Fisheries and Food to open the discussion, and the Chief Secretary, Treasury to respond.

15. In the light of the views expressed in this part of the meeting you could then discuss, and give instructions for, the carrying out of further work.

#### CONCLUSIONS

16. Since it seems likely that the main decisions at the meeting will relate to further work by officials, it may not be necessary to aim at formal conclusions on the issues of substance. The main thing is that officials should have clear instructions, for each item of further work, on:

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- i. who is responsible for preparing any further report, and to whom the report should be addressed;
- ii. what the timescale is;
- iii. what, if any, guidance Ministers wish to give at this stage?

*Peg*

P L GREGSON

20 December 1983

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ANNEX

REFORM OF THE COMMON AGRICULTURAL POLICY  
- POST-STUTTGART NEGOTIATIONS

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1. The future of the Common Agricultural Policy is one of the central points in the European Community's continuing negotiations to follow up the Stuttgart European Council. The United Kingdom's main objectives on the CAP in those negotiations are to secure:

(i) Establishment of a strict financial guideline to hold the rate of growth of FEOGA guarantee expenditure markedly below that of Own Resources;

(ii) A commitment to a rigorous price policy, to implementation of effective guarantee thresholds (ie limits on the open-ended guarantees) whenever production exceeds or threatens to exceed the possibility of remunerative outlets; and to restraint in expenditure on all products.

(iii) Effective measures to cut back milk production, including a price freeze for a period of 5 years;

(iv) A commitment to narrowing the gap between Community cereals prices and prices on other markets.

In addition we are seeking agreement on a safety net which would limit the United Kingdom's net contribution to the Community's Budget by reference to United Kingdom GDP and not by reference to our unadjusted net contribution.



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2. The purpose of the strict financial guideline for FEOGA guarantee expenditure is to provide a new discipline for Community agricultural expenditure which has been missing to date. To be effective it will need to be accompanied by actual reforms of the CAP which will lead to the removal or diminution of structural surpluses for individual commodities with resulting reductions in CAP guarantee expenditure. The outcome of the negotiations on the safety net will affect the way the Government views Community expenditure in the United Kingdom. The case for additional FEOGA expenditure in the United Kingdom simply to reduce the size of our unadjusted net contribution to the Community Budget will become much weaker if the size of our net contribution is determined by reference to GDP. In these circumstances the economic benefits or otherwise of the expenditure will become considerably more important than hitherto. Following the failure of the Athens Summit to bring the post-Stuttgart negotiations to an end, they will not now come to a head before the European Council in March and may well continue to the June European Council.

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