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PRIME MINISTER

6 July 1984

REVIEW OF DOMESTIC SUPPORT FOR AGRICULTURE: HANDLING

I attach a note which comments on the officials' report. It recommends that a number of the options which are identified there should be pursued in this PESC round. If you agree with this approach, there are three options for handling the report:

- i.(a) reconvene the meeting with the Chief Secretary and Mr Jopling which initiated this work;
- i(b) convene a meeting of the Ministers represented on MISC 100 ie including the "Territorials";
- ii. launch the report into a wider ministerial group, such as E(S);
- iii. invite the Chief Secretary and Mr Jopling to take account of the report in the course of their expenditure bilaterals.

We recommend option (i) because:

- i. Without a firm steer from you, MAFF Ministers are unlikely to agree to any significant reductions in the bilateral. They are naturally nervous of farmers' sensibilities. They can deploy the defensive patten which their officials have deployed for several months in the official group, namely: that now is not the

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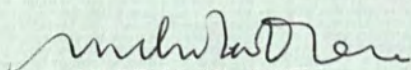


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appropriate time to make changes. We need to know more about the future of the CAP. Support measures have either been "reviewed" internally by MAFF (and found good) or are under review.

ii. Bilaterals are essentially an attritional process. If we want the radical changes in agricultural support which match the mood of the country, and the growing sense of realism in the farming community, now is the time to grasp it.

iii. Option (ii) - the wider ministerial discussion - might be kept in reserve if option (i) fails to achieve significant movement. It might allow leaks. Leaks would embarrass MAFF Ministers but leaks would also assist them to marshal resistance to expenditure reductions. Nonetheless, the high security status of this report was Mr Jopling's idea. He will not want a wider discussion.

  
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AGRICULTURAL SUPPORT

The Officials' Report confirms the staggering amount of support and protection received by agriculture, equivalent to between 70 per cent and 110 per cent of value-added (paragraph 2.15). In relation to its contribution to the economy, agriculture received about seven times as much support and protection as does manufacturing. It is more akin to a pampered pet than a working sheepdog.

THE POLICY ARGUMENTS

The Treasury and No 10 representatives on the official group have asked why we spend £850 million on this support and sought hard evidence of any beneficial effects. We found little of either. The only possible reason for support is either that farmers are not well-informed and the Government is; or that farmers cannot raise the money to back their judgements. But British farmers are exceptionally well-informed, and financed. They are force-fed with information - from farming by ADAS, farming journals fertiliser companies, consultants. The banks have been, it is said, too willing to lend to farmers, for their own good.

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Government support either:

- subsidises farmers for doing what they would do anyway; or
- encourages them to invest in doubtful projects - doing extra work on their buildings or drainage which they would not be prepared to back with their own money.

MAFF have not seriously contested these arguments.

#### R&D

MAFF cannot say what difference it would make to halve expenditure on R&D. They claim that the "Priorities Board" will improve the allocation, but this is not an argument for sustaining the amount, as Robin Nicholson has pointed out in a separate note to you. If a research manager in the private sector could not say why halving his budget would make no noticeable difference, he would be under great pressure to halve it.

#### Less Favoured Areas

Geography rules out farming ever becoming viable in these areas. If we have to support LFAs on social grounds, let us do so in more cost-effective ways:

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- Reduce the absurdly high levels of grant, eg 70 per cent for field drainage. Capital improvements are not a cost-effective way of compensating for geographical disadvantage. We are doubtful that capital works cost very much more in the LFAs, as MAFF argue.
- Direct the policy more to humans than to animals. At present, each animal attracts a subsidy, whether it is part of a herd of 50, 500 or 10,000. MAFF cannot say how many jobs are sustained by this policy.

#### THE POLITICAL ARGUMENTS

Michael Jopling will argue that he is too beleaguered to adopt any of these options now. But this is the only real opportunity to reduce support. When things were going well for British farming, farmers were egged on with generous support. Now that there is a growing sense of realism, it is possible to explain to farmers that there is no point in encouraging more investment, by more farmers, when demand is less than supply and real prices likely to fall. This will only lead to frustration and disappointment, as we have seen in the milk sector. The position of those already in farming will not be helped by subsidised competition from newcomers.

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Michael Jopling cannot argue convincingly that reductions in domestic support would jeopardise our effort to restrain CAP expenditure: we are too deeply and publicly committed to this objective.

Farmers will be less sensitive to cuts in measures which do not directly threaten their incomes, as milk quotas have done.

#### THE OPTIONS FOR REDUCING EXPENDITURE

Table 1 summarises the options, and the savings they could achieve. They total £260-290 million, or 30% of the domestic support identified in the paper. We should examine each option with two principle criteria in mind:

- the cost-effectiveness of each measure in improving performance or maintaining incomes of poorer farmers
- farmers' likely sensitivity to withdrawing/reducing support.

On this basis, the following look the best areas for cuts:

1. Capital grants (saving: £110 m): MAFF are unable to offer any hard evidence, after 25 years of grants, that they have useful effects. Farmers sense that grants are a racket and take them because they are

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available, encouraged in many cases by ADAS  
officials. The suspension of some grants this year  
 (for rooting out hedges and for larger milk farmers)  
 caused hardly a murmur. Grants also incense  
conservationists.

2. R&D (saving: £65 m): Farmers are not impressed by a large R&D expenditure and bureaucracy. Better research laboratories can earn their keep eg the Plant Breeding Institute at Cambridge. Why not others?
3. Drainage (saving: £20 m?): If drainage projects offer real prospects of better yields, farmers could be persuaded to see the logic of contributions. Farmers will demand to know what they are paying for and will press MAFF to reveal their 'cost-benefit' analyses.
4. Charging for advice (saving: £20 m?): If advice is worth paying for, why should farmers object? They can always opt for alternative sources of advice, or do without.

The other options look politically more difficult:

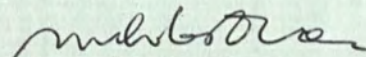
- Charging for animal health may be difficult to extend. Farmers probably regard health measures as a Government responsibility, even though many of them



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yield commercial benefits to farmers. They could also play on fears about public health implications.

- Making the ATB self-financing would raise problems in a fragmented industry, and would save only £8 million.
  
- Reducing HLCAs is the only option which would hit farmers' incomes directly. If we go for this, we should restrict the application to a maximum herd size, rather than cut the rate per animal.

  
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TABLE 1 - OPTIONS FOR REDUCTIONS IN EXPENDITURE

	1984-85 Expenditure £m	Possible Savings £m
1. Reductions in capital grants from an average level of 30% outside LFAs to an average level of 10%; and from around 50-60% in LFAs to levels currently applied outside LFAs.	167	110
2. Contributions from farmers towards drainage projects.	66	30
3. Placing Agricultural Training Board on self-financing basis.	8	8
4. Reduction of publicly funded R&D in agriculture.	170	65
5. Charging for, or privatising, or discontinuing advisory service (to be considered further, following internal review).	42	20?
6. Charging more for provisions for animal health (to be considered further, following internal review).	52	10?
7. Reductions in hill livestock compensatory allowances (HLCAs), either by adopting EC minimum rates or restricting application to predetermined herd sizes.	98	50
8. Increase vehicle excise duty on farmers' food vehicles (to be considered further, pending MAFF/DTP review).	15	-
9. Other domestic support (including central and miscellaneous services, outgoers scheme).	234	-
TOTALS	<u>852</u>	<u>260-290</u>

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