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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
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From the Minister

CONFIDENTIAL

Prime Minister

THE CONSEQUENCES OF PRICE RESTRAINT FOR BRITISH AGRICULTURE

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At your meeting on 26 June with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and myself, you asked me, in collaboration with the other Agriculture Ministers, to prepare a paper on the implications of price restraint for land use and population in rural areas of the United Kingdom. I enclose such a paper, which we would be happy to discuss with you.

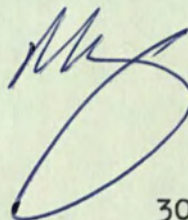
I should like to call attention to two aspects. First, the paper proposes that we should continue with our prime objective of getting CAP prices reduced so that supply and demand come more into balance, in accordance with market requirements. I am quite sure that we must keep the pressure up on this - that is the way that we shall achieve benefits for our economy as a whole. But I am under no illusion about how difficult that will be. The arguments we had with the Germans on cereal prices earlier this year make that crystal clear. We are bound to be under great pressure (both at home and abroad) to mitigate our demands for a rigorous price policy, and to rely on other measures such as quotas on cereals.

It was not appropriate for the paper enclosed to go into this matter in detail. Suffice it to say that reduction in support for agriculture by means of quotas or any device other than reduced prices must still bring about considerable reductions in rural profitability (though the geographical incidence may vary), but without many of the compensating advantages of a rigorous price policy.

Secondly, the territorial Secretaries of State and I agree in thinking that the domestic political repercussions of changes on the scale outlined in the paper would be very serious. After all, we are talking about a surplus land area nearly as big as Yorkshire. In those circumstances the countervailing measures suggested in the paper might well be regarded as quite insufficient Government response. This criticism would be particularly acute in Scotland, Wales, Northern Ireland, and parts of Northern and South Western England, where, for geographical reasons, a higher percentage of our farmers operate at the margin of viability. The various ideas mentioned in the papers as alternative sources of income are unlikely to come anywhere near to replacing the income lost. There are hints of this towards the end of the paper. But the Secretaries of State and I feel it essential to point out to our colleagues that the scenario in the paper could spell disaster for the party in the rural areas of all the UK countries unless we make it absolutely

plain that we are prepared to counterbalance the effects by positive
and imaginatives action. *what?*

I am sending copies of this minute and its enclosure to the Foreign
and Commonwealth Secretary, the Chancellor of the Exchequer, the
Lord Pesident, the Secretaries of State for Scotland, Wales and
Northern Ireland, the Chancellor of the Duchy of Lancaster, and to
Sir Robert Armstrong.



M J

30 September 1985