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PRIME MINISTER

4 October 1985

THE CONSEQUENCES OF PRICE RESTRAINT FOR BRITISH AGRICULTURE

Michael Jopling is right to be thinking ahead about this question, but it is early days yet to be planning a response.

He refers in his note to "a surplus land area the size of Yorkshire". But MAFF's analysis (at Annex A) is less dramatic. The arable acreage might fall by 10%. Agricultural land will become cheaper. Some of it will revert to pasture. Lower land prices will encourage less intensive stocking practices. It is not clear, then, that there will be a "land problem" in the sense that large tracts of land will be abandoned to nature.

The impact on the rural economy: would it "clearly be profound"?

MAFF envisaged that the exodus from the land would rise from 5,000-10,000 to, perhaps, 25,000 a year, or 4% of the total agricultural labour force. But this assumes that the CAP surpluses could be eliminated within a space of only 4 years. Would that this were possible. Given our partners' resistance to price reductions, we may need a 10-year adjustment period. This would imply a rate of exodus from the land no higher than present levels.

What matters is not the size of the exodus, but the capacity of the local economies to absorb it. Agricultural

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redundancies are, by their nature, spread fairly thinly, in contrast to the very lumpy industrial closures. Nowhere does farming account for more than 10% of a labour force. So even a 4% annual exodus won't amount to $\frac{1}{2}$ % of a local labour force. This makes for easier adjustment.

The effects would be patchy. In some rural areas, the population is growing quite strongly. One of the surprises of the last 10 years is the reversal of rural depopulation. Several factors contribute to this: decentralisation of manufacturing, in search of lower costs and better industrial relations; earlier retirement; dissatisfaction with urban life; the pursuit of leisure. These movements create rural - but non-farming - jobs, in providing services and repairs.

Agriculture and forestry may themselves have potential to adjust. We may increasingly adopt the continental habit of part-time farming. Woodlands could help. Farms which convert part of their land to forestry increase their employment.

The aggregate picture may, therefore, be less bleak than Michael suggests.

Conclusions

Before reaching for the cheque book to solve problems which may not exist, or may be magnified unduly, we must first secure real reform of the CAP. We don't want to prepare to

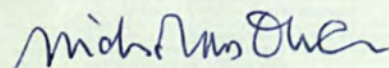
pay for adjustments which either won't happen or which the market may be able to cope with.

I recommend that you reply to Michael Jopling, rather than have a meeting, making the observation that reducing CAP surpluses must be our priority. When we have a clearer idea of the rate at which this is achievable, it would be appropriate to work up this paper in more detail. The themes below might then be explored, in conjunction with other departments.

1. Local Employment Implications: In which counties and travel-to-work areas will farming workers be displaced? What are the local unemployment rates and job prospects? (MAFF and Department of Employment)

2. The opportunities which land availability offers: Many people in our overcrowded island are itching to acquire some land and live on it. We need to consider whether the planning system can accommodate these hopes. Can the planning system be relaxed to allow farmers, and others, to develop non-farm businesses? (DoE)

3. Government Assistance: Have we got the right mix of assistance for rural non-farming businesses, with our various quangos and grants? (MAFF, DTI, DoE and Treasury)


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