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Prime Minister (2)

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PRIME MINISTER

CAP Reform: Consequences of Price Restraint for British
Agriculture

1. I have read with great interest the Minister of
Agriculture's minute to you of 30 September and his paper
on the future of British agriculture. I agree with your
comments (Charles Powell's letter of 7/October) and those
of the Lord President, the Chancellor of the Duchy of
Lancaster and the Chancellor of the Exchequer.

2. Michael Jopling does not say what assumptions about
price cuts underlie his paper's predictions on land usage
between now and the early 1990s. But the figure given
for the reduction in the land area devoted to cereals
necessary to stabilise surpluses at current levels (15
per cent) implies a need for deep price cuts if surpluses
are to be reduced. At the last two price rounds, Michael
Jopling did well to secure agreement to real price cuts.
Last year the fall was 4% and this year the figure is
3½%. Guarantee thresholds have been established and milk

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quotas introduced. The latter are administratively cumbersome but they are reducing production. FEOGA expenditure is still going up, but over the past three years the trend has been a declining one.

3. The Agriculture Council could not agree to a deep cut in prices for cereals at this year's price fixing. The final outcome was a price cut of about 6-7% in real terms. Unless more stringent cuts are made, projections from the Home Grown Cereals Authority show that on present trends, the cost to the Community budget of supporting cereals production alone could reach 14 billion ecu by 1991, i.e. five times the appropriation for cereals contained in this year's Community budget.

4. I see no alternative to pressing the case for curbing surplus production through price restraint if we are to succeed in improving economic efficiency, reducing costs to the consumer, containing the growth of the Community budget, reducing the proportion of the budget devoted to agriculture; and avoiding further exacerbation of our trading relations with developed and developing countries alike.

5. Price policy is the most effective way of achieving CAP reform. At the same time, Michael Jopling's paper shows that the effects of a price policy could be severe,

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even for our farmers who are among the largest and most efficient in Europe. Other Member States are all too conscious of the impact of price policy on their smaller, less efficient farms: we saw this year how the Germans, the wealthiest Member State in the Community were not willing to contemplate a deeper cut in cereal prices.

6. The Germans and others, therefore, have been looking at alternative approaches such as quotas, co-responsibility levies and Community financed income aids. All these courses have disadvantages; and none of them could be effective unless coupled with a sustained policy of price restraint. The main problem in my view is not so much the effects of CAP reform on British farmers - though Michael Jopling is right to point out that these could in some respects be severe - as the risk that CAP reform will be held up, with the serious costs that would entail.

7. We can only succeed if we carry a majority of member states with us. We must continue to put the main emphasis firmly on price restraint and I agree with the line which Michael Jopling is taking on the Agriculture Council (his letter to me of 18 October). But we shall have also to examine whether any elements in the thinking of other Member States, combined with price policy, could

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form the basis of an agreed outcome which will maintain the pace of reform at next year's price fixing.

Mr Williamson has produced a paper which usefully describes how a policy of price restraint could be buttressed by other measures. Further studies are in hand among officials. We should consider their conclusions in relation to the issues raised in Michael Jopling's paper.

8. I am copying this minute to the Minister of Agriculture, the Chancellor of the Exchequer, the Lord President, the Secretaries of State for Scotland, Wales and Northern Ireland, the Chancellor of the Duchy of Lancaster and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

24 October 1985

AGRICULTURE : Expenditure ; Sept 1983

