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SUBJECT CC MASTER

10 DOWNING STREET

From the Private Secretary

5 March 1986

Dear Colin,

EUROPEAN COMMUNITY: AGRICULTURE

The Prime Minister discussed this morning with the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury, the prospects for the Community's 1986 agricultural price fixing. Mr. Williamson was also present.

The main points made in the discussion were:

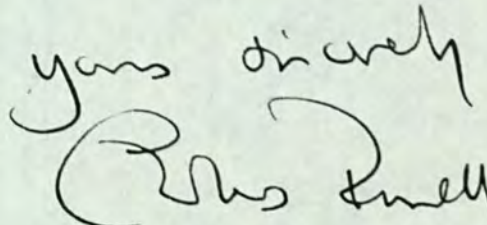
- (a) the main thrust of the United Kingdom's policy should continue to be to restrain Community support prices. The Commission's proposals on prices were tough and we should do all we could to prevent them being eroded;
- (b) since it was unrealistic to expect agreement within the Community on price cuts sufficient in themselves to correct structural surpluses, we had also to look favourably at indirect methods of reducing support, in particular by making intervention less rigid and less favourable (as proposed by the Commission for cereals);
- (c) the form in which some of the supporting measures had been put forward by the Commission was, however, contrary to the interests of efficient farming and, in particular, of United Kingdom agriculture. It was agreed that the Foreign and Commonwealth Secretary would write to Monsieur Delors, President of the Commission, indicating that, while we supported the strong line being taken by the Commission on prices and some related proposals on intervention, we were opposed to the introduction into the support arrangements of discrimination against efficient farming and against large farms such as those found in the United Kingdom;
- (d) the proposed co-responsibility levy for cereals presented serious problems. The proposal was now on the table and would raise money. There were, however, objections of principle to using a co-responsibility levy: such a levy, as a substitute for price cuts, did not pass on the benefit to the consumer and did

881

not expand the market. In addition, the form in which the Commission had now proposed the levy (on sales off farms and excluding the first 25 tonnes per farm) obviously benefited those parts of the Community where there was more use of cereals on the farm itself and a pattern of smaller farms. We should oppose such discrimination;

- (e) although this price package was tough, it was doubtful whether the Agriculture Council would be able to agree on measures sufficient to correct the imbalances, particularly in the cereals sector. We should give serious consideration to reducing production more directly; in particular, a voluntary set-aside scheme should be examined together with the possibility of transferring more land into timber production. The Minister of Agriculture, Fisheries and Food said that he would be circulating shortly some figures on the costs and benefits of possible set-aside arrangements. It was also important that the planning controls should not be used unreasonably to prevent changes of use in rural areas, in particular for small businesses, workshops and similar enterprises;
- (f) although the effect of the price package on budgetary expenditure was a saving, other factors had led the Commission to suggest that a supplementary budget of 790 million ecu would be needed. It was important that we should continue to exercise maximum restraint on budgetary expenditure and that the Finance Ministers in the ECOFIN Council should play a moderating role;
- (g) the latest developments in the United States made it likely that international trading difficulties would be greater in the coming year, with a consequent pressure from the Commission to spend more on disposal. The United States were intending to spend considerable sums under mandatory provisions to subsidise their agricultural exports directly. As a consequence world prices would probably be even more depressed.

I am sending copies of this letter to Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Richard Broadbent (H.M. Treasury) and Michael Stark (Cabinet Office).

yours sincerely


Charles Powell

Colin Budd, Esq.,
Foreign and Commonwealth Office.