

cc: FCO  
HMT  
DTI  
LOP  
MS/FCO.



bc PC

10 DOWNING STREET

From the Private Secretary

21 April 1986

Dear Ivor,

EUROPEAN COMMUNITY: AGRICULTURAL PRICE FIXING

The Prime Minister has seen a copy of your Minister's letter of 17 April to the Foreign and Commonwealth Secretary and of the Chancellor of the Exchequer's letter of 18 April. She has commented that, if there are to be green rate changes which have the effect of increasing some prices in national currencies, it is all the more important to maintain a tough stance on Community price levels and to get some weakening of intervention.

I am sending copies of this letter to the Private Secretaries of members of OD(E), the Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robert Armstrong.

Yours sincerely,

Charles Powell

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.



Restrictions in Europe would require

①

10 DOWNING STREET

From the Private Secretary

CAP Rice Fixing On Douglas  
intervention  
proposed

The Chancellor refuses to be  
bounced by Mr. Jopling into  
giving a commitment now to a  
Green Pound devaluation. He obviously  
fears that it will remove any  
incentive to restrict toughly. He  
points to the horrendous  
implications for the Community Budget  
(e to extra £50 million on public  
expenditure).

At the end of the day, there

will have no - be a green  
pound devaluation. And politically  
I doubt if you can accept  
British farmers getting less than  
the French.

But you won't want to  
undermine the Chancellor. Agree  
not to express any view at  
this stage? - other than

CDD  
18/4

that of the  
top of the

note  
not

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CPC

Treasury Chambers, Parliament Street, SW1P 3AG  
 01-233 3000

18 April 1986

The Rt Hon Michael Jopling MP  
 Minister of Agriculture, Fisheries & Food  
 Whitehall Place  
 LONDON SW1A 2HH

*Dear Minister,*

**CAP PRICE FIXING 1986**

Thank you for sending me a copy of your letter to Geoffrey Howe about possible green currency devaluations.

*will request if req'd.*

I can understand your concern that UK farmers should not be treated less favourably than their French counterparts in any green currency devaluation. Circumstances in the two countries are, however, different, since sterling floats outside the exchange rate mechanism and our MCA is therefore variable. Moreover, we have to consider the possibility of green currency devaluations in the context of budget discipline, the observance of which is a major UK objective in the price fixing negotiations. You state that the devaluation package outlined in your letter would cost 240 mecu this year and twice this amount in a full year. The Commission have also said that the EMS realignment has an immediate impact on the budget of 388 mecu this year and 664 mecu next year. Although we think the latter figures are overestimates, these costs are potential additions to the overrun of agricultural expenditure this year. The Commission put this at 790 mecu in February, but since then the dollar has fallen further against the ecu and they did not make any allowance for the possibility of the Agriculture Council increasing the cost of the price proposals. There is, therefore, the threat of a very large overrun of agricultural expenditure this year, which, given the other pressure for extra spending, could even pose a threat to the 1.4 per cent VAT ceiling.

A devaluation of the green pound would also increase UK public expenditure. I understand that your officials have calculated that the effect could be to increase IBAP's expenditure in 1986-87 by over £50 million.

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It is essential, therefore, that we do not adopt a position on green currency devaluations which simply adds to the pressures on the Budget. Instead you should point to the potential costs of a devaluation, to all the competing pressure for additional expenditure and to the necessity of reaching an overall settlement consistent with the 1984 budget discipline agreement. You should put the onus on those who are seeking devaluations to say how the cost is to be absorbed within the budgetary limits. It follows from this that I could not agree to your supporting any devaluations, even modest ones, until the shape of a possible overall package has emerged and our officials have had a chance to examine its consistency with budget discipline and with the 1.4 per cent VAT ceiling, and its implications for domestic public expenditure. You should, in any case, insist that decisions in the Agriculture Council should be provisional pending consultation with the Ecofin Council on the reference framework for 1986 and the financial guideline.

To summarise my views:

- i. you should give no hint that the UK government is seeking a devaluation;
- ii. you should stress the need for restraint on prices, the budgetary constraints, the cost of green rate devaluations and the need to weigh this option against the costs of an overall settlement;
- iii. you should ask the Commission for its estimates of the budgetary costs of varying degrees of devaluation;
- iv. without prejudice to our basic position, you should argue for any devaluation to be small;
- v. the UK's final position on a devaluation should not be decided until my officials have had a chance to study the EC and domestic costs of an overall settlement;
- vi. you should remind your colleagues that the Agriculture Council should not take decisions on the price fixing which would break the reference framework or financial guideline without first consulting the Ecofin Council.

If it looks as if the Agriculture Council is moving towards a provisional settlement next week there will need to be further consultations with my officials and with me on any proposal for devaluations, as well as on the budgetary implications generally.

I am copying this letter to the Prime Minister, the Foreign Secretary, members of OD(E), the Secretaries of State for Scotland, Northern Ireland and Wales and Sir Robert Armstrong.

*John Major*

*Nigel Lawson*

NIGEL LAWSON

*approved by the Chancellor & signed in his absence*



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

18 April 1986

The Rt Hon Michael Jopling MP  
 Minister of Agriculture, Fisheries & Food  
 Whitehall Place  
 LONDON SW1A 2HH

*CDP*  
*2/14.*

*Dear Minister*

**CEREALS SET ASIDE**

*WILL REQUEST  
 IF REQUIRED*

Thank you for sending me a copy of your letter of 14 April to Geoffrey Howe.

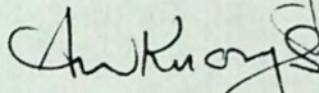
I am content for you to float your ideas on set-aside in general terms in Brussels and, subject to clarification of various points at official level, to follow up by putting more detailed proposals to the Commission. My officials are still discussing with yours estimates of the UK Exchequer costs but it does look as if a set-aside scheme, on the basis of the specifications and assumptions set out in your paper, would be cost-effective compared with a situation in which the Council failed to take effective action to curb cereals production. I have to point out, however, that these "savings" would not prevent expenditure in this sector rising further and posing problems for budget discipline.

The chances are that the details of any scheme which emerged from a negotiation in the Agriculture Council would differ, possibly substantially, from the model we favour. This could affect significantly its cost-effectiveness in EC and domestic terms and it is important therefore that our officials complete urgently their analysis of the sensitivity of the results to changes in the details of the scheme so that we can identify our minimum requirement for an acceptable scheme. Two of the requirements that I would like to emphasise particularly are the need for a set-aside scheme to be firmly linked to a severe price policy and for there to be a high rate of national financing. It would also be wise in further analysis of this option to pay careful attention to the US experience with set-aside, which has not been entirely happy.

I am asking my officials to report back to me on the Exchequer effects of set-aside and on the results of the sensitivity analysis.

I am sending copies of this letter to the Prime Minister, members of OD(E) and to Sir Robert Armstrong.

Yours sincerely



pp NIGEL LAWSON

(approved by the Chancellor)







From the Minister

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The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing St East  
SW1

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD  
WHITEHALL PLACE, LONDON SW1A 2HH

CSPC  
①

Prime Minister  
Mr. Topping agrees that we should  
go for a devaluation of the Green  
Pound no less favourable than whatever  
for the Green Franc.

The Council should have a  
dance to commit. But 17 April 1986  
subject to his views, are  
you content with that?

Dear Secretary of State

COP. 7/4  
Yes no

CAP PRICE FIXING 1986

It has become clear in the last few days that there may be a serious attempt at next week's Council to reach agreement on CAP prices and related matters. We have agreed in OD(E) our line for the negotiations except on green rate changes where it was noted at the Prime Minister's meeting on 19 March that following a realignment it would be necessary to look at a possible green pound adjustment. Next week's meeting is in any case to discuss the agrimonetary issue and I shall need to be clear on our approach to this.

M. Guillaume made it clear to us this week in Paris that the French will be seeking a two stage devaluation. At the present price fixing, they want:-

- (a) to devalue the green rate applied for commodities except pigs and poultry sufficient to reduce MCAs and increase prices by about 4%. This would leave French MCAs for most of these commodities at -2.2% (-1.0% for milk);
- (b) to devalue the green rate applied for pigs and poultry sufficiently to remove the present MCA. This would result in a (largely notional) support price rise of 4.7% for pigs and 6.3% for poultry but would eliminate the MCA subsidy on French imports of these commodities.

From our discussions with the Germans, it is clear that Mr Kiechle is concerned about a significant French devaluation

/which would ....

which would give their farmers price increases in francs with the Germans facing a price freeze in Deutschmarks. The position on cereals and milk will be particularly sensitive for German farmers. We need to recognise that other Member States will also be looking for green rate devaluations to give price increases for their producers. The Irish may be looking for 3%, the Italians up to 6.5% and the Greeks substantially more. →

We do not know precisely what the Commission have in mind for the French. But they are likely to resist going as far as the French want (in order to reduce the difficulties for the Germans and for budgetary reasons). We understand that they are likely to propose a smaller devaluation for cereals than for animal products.

Our general policy stance on MCAs is that Member States should be able to dismantle these in the context of the price fixing. But we must clearly ensure that the budgetary implications of green rate changes are fully taken into account before decisions are taken. We would not want to oppose a moderate Commission proposal responding to the French and other requests provided this does not lead to market distortion especially as a result of any different treatment between cereals and pigmeat and poultry in France alone. We should in any case get no support in doing so. But we should use green rate changes to reinforce our arguments for price restraint, including on the Mediterranean commodities. We should certainly be ready to support a smaller devaluation for cereals, though it would be likely to cause the French to line up with the Germans against the proposed changes in the cereal arrangements which would if adopted effectively reduce producer returns.

So far as the green pound is concerned, I consider that, politically, we must ensure that our farmers are not treated less favourably than their French counterparts; this was recognised by the Prime Minister at Cabinet this morning. We must, therefore, secure devaluations equivalent to the arrangements agreed for the green French franc. Over the past two years the real prices received by our farmers have fallen by 11.8% compared with a fall for French producers of 7.7%. The level of inflation in the UK was 5.1% in the year to February 1986 compared with only 3.4% in France. Although inflation is falling in both countries the signs are that it will be lower in France. Thus producers would be put at a continuing disadvantage if we did not use this opportunity to devalue the green pound on a par with the green franc to give support price changes of a similar amount.

I would propose to make it clear to the Commissioner privately that he should keep the devaluations of green rates as small as possible to contain pressures from the Germans for price increases and for budgetary reasons. I should also tell him we shall need a proposal on the green pound which has corresponding effects on UK support levels to those which the French are granted from the green franc devaluation. Depending how the negotiations develop, I shall need to be ready to make our position clear in the Council.

/The budgetary ....

The budgetary consequences would depend on how far the Commission comply with the French request and what is included for the other green currencies. On the assumptions that France obtained exactly what they have indicated to us they want; Belgium, Luxembourg, Demark and Ireland devalued to parity; Italy devalued sufficiently to extinguish MCAs; Greece devalued to give a price rise of 15% and the UK kept in step with France; the cost would, we estimate be about 240 mecu in 1986 (roughly half the full year effect) net of the own resources gain? The major part of this cost (about 195 in 1986) would arise in France and so the efforts I propose making to seek a more moderate proposal by the Commission for France will be important. The cost of seeking equivalent treatment for the UK is relatively much smaller (corresponding UK figure about 15 mecu). The effect on the Retail Price Index would be about one tenth of one percentage point. These costs reflect what the French are asking for. They would be reduced insofar as the devaluations were smaller and if the cereals devaluations were more limited than for other commodities.

Throughout the negotiations I shall continue to press for the proper application of the budgetary guideline, for full costings of any new or compromise proposals (including those on green rates) and for the Council and Commission to look for savings to ensure that the guideline is respected. If it becomes clear that the Council is going to agree a package which would cost more than the guideline we shall press for adoption to be suspended until ECOFIN has been able to consider the situation.

This is, I consider, a defensible approach for us to adopt both in relation to the interests of farmers and in relation to our objectives for budgetary restraint and for reforming the CAP. I hope that colleagues will agree that I proceed in the way I have described.

I am sending copies of this letter to the Prime Minister, members of OD(E), the Secretaries of State for Scotland, Northern Ireland and Wales and Sir Robert Armstrong.

Yours Sincerely  
C. J. J. J.

MICHAEL JOPLING  
(Approved by the Minister  
and signed in his absence.)

