

PRIME MINISTER

GREEN POUND

You will want to see Mr. Williamson's note (attached). The choices seem to me:

i) If Mr. Jopling has calmed down sufficiently, you could get him to agree that there should be no change to the Green Pound now, but it would be understood that you would support a change at the annual price fixing next year (this would be normal).

ii) If he is still in a state, you might offer a 6% devaluation for beef - where there is actually a case - but 0% for other animal products and 0% for crops. The public expenditure cost would be £8 million this year and £23 million next.

The cost of 6% for beef, 3% for other animal products & 0% for crops would be £27 million this year & £61 million next].

C.D.P.

C.D. POWELL

17 September 1986

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MR WICKS

The Green Pound

You may find it helpful to have the following in summary form -

(i) the United Kingdom monetary compensatory amount (mca) (a charge on exports and a subsidy on imports) is now 17.3 per cent for animal products and 19 per cent for crops. It fluctuates up and down with the changing value of the pound. The mca was substantially less three months ago and could fall back again. The high mca makes our market less remunerative for our producers but their basic support prices in £ are not affected: they are just the same as was agreed at the last price fixing;

(ii) the Irish monetary compensatory amount has now been reduced by 6 percentage points (animal products) and 3 percentage points (crops) by a change in the green punt voted through the Agriculture Council (United Kingdom and France abstained);

(iii) the Minister of Agriculture, Fisheries and Food wanted to devalue the green pound to make the same change in the United Kingdom mca - 6 percentage points (animal products) and 3 percentage points (crops) - as has now been agreed for the Irish Republic. Estimated public expenditure cost: about £39 million in 1986/87 and about £102 million in 1987/88. The Chief Secretary, Treasury did not agree. There was therefore no United Kingdom request in the Agriculture Council;



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(iv) apparently the Chief Secretary might have been prepared to go to 3 per cent for livestock products only but Mr Jopling did not consider this sufficient;

(v) Mr Jopling may now have accepted that there should be no change for cereals. He still seeks a change of 6 percentage points on beef and 3 percentage points on other animal products. Estimated public expenditure cost: £19 million in 1986/87, £49 million in 1987/88 and £56 million in later years. The PSBR effect for these years is estimated at £8 million, £24 million and £30 million respectively.

The choice may be -

(1) should we change the green pound now, particularly as the reaction to no action on this in the Agriculture Council does not seem to be particularly strong? If we make such a request, there is some risk that we might get no proposal from the Commission or be held off for an embarrassingly long time. There is no absolute link with the Irish change, although there will be aggravated difficulties on the Republic of Ireland/Northern Ireland border. Might we do better to go for some acceptable change in the green pound in the Commission's price proposals at the end of the year when such a proposal is probable in any event? This would have been the normal course of events on a green currency issue;

(2) if we do ask for something now, should we go for 6 per cent on beef only? We estimate that this would cost (PES) about £8 million in 1986/87 and about £23 million in 1987/88 (Mr Jopling may not have these figures which are Cabinet Office estimates). It might well instigate a French demand for a change in their beef mca which would add to Community budgetary costs. Mr Jopling might find a devaluation for beef alone defensible. He could argue, correctly, ~~in~~ that the beef sector is the most affected by the newly decided change in



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the Irish mca and that margins, already low, would be likely to be under particular pressure. The more general question of a green pound devaluation on other commodities would fall to be considered, as is normal, in the Commission's price proposals at the end of the year unless there were any new factors arising before then.

I am sending a copy to Sir Robert Armstrong

D F Williamson

D F WILLIAMSON

17 September 1986

GREEN POUND

The Republic of Ireland devalued the punt by 8% in August. This created for them a monetary compensatory amount in agricultural trade. They then asked for a devaluation of the green punt and this week got in the Agriculture Council a change reducing the MCA by 6 percentage points (livestock) and 3 percentage points (crops).

The UK MCA (charge on exports and subsidy on imports) have been increasing as the pound has been floating down. They are now 17.3% for livestock products and 15% for crops.

Mr. Jopling argued to his colleagues that the UK should seek a devaluation equal to the Republic of Ireland's, at a public expenditure cost of some £100 million next year. The PSBR cost would be less (about £48 million). If the French also then successfully sought a devaluation of the green franc the cost might be £140 million. (Mr. Jopling believes the French would not seek a devaluation; the Treasury and Cabinet Office believe they probably would.)

Mr. Jopling argues that a net MCA of about 15½% between the UK and the Republic of Ireland if we do not devalue is too damaging to the livestock industry, particularly in Northern Ireland. He also refers back to commitments made during the 1979 election campaign and after (including at the NFU annual dinner this year by both him and the Prime Minister) that we wanted British farmers to be treated fairly.

The Treasury are firmly opposed to any devaluation now on grounds of cost. The Foreign Secretary proposed a compromise of a 4% devaluation for animal products and 2% for cereals at a public expenditure cost of £33 million this year and £80 million next. The Chief Secretary was apparently prepared to go to 3% for livestock products but Mr. Jopling refused.

Mr. Jopling has now accepted that there should be no devaluation for cereals, but continues to press for a 6%

devaluation for beef and 3% for other animal products, at a public expenditure cost of some £20 million this year and £50 million next year, assuming no French devaluation.

The key issues are

(1) Should we change the green pound now? Our MCA goes up and down (in June it was much lower and last year there was no negative MCA at all). There is no absolute link with the Irish change. Might we do better to set up a reasonable charge in the Commission's price proposals at the end of the year? There is some risk that we might get no proposal from the Commission now or be held off for an embarrassingly long time.

(2) If we do ask for something now, should we go for 6% on beef only (which should not cost the Treasury more than the 3% on animal products they offered earlier) because of the greater effect of the Irish change in this sector and low UK margins.

Personal



Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq,
No. 10 Downing Street

15.9.86

Dear Charles,

GREEN POUND

I offered you a quote on costings (Treasury, out of MAFF officials)

Scenario A

% devaluation

	<u>animals</u>	<u>crops</u>	
UK	-6	0	
Ireland	-6	-3	
France	parity	-	
<u>Cost</u>	1986	1987	(wecu)
EC Budget	+97	+389	
	1986-7	198788	(£m)
PES: IBMP	+31	+86	
prog 2.7	+17	+24	
	<u>+48</u>	<u>+110</u>	
P88R (i.e. net of levies)	+26	+65	

Scenario B

	<u>crops</u> <u>animals</u>	<u>crops</u>
UK	-3	0
Ireland	-6	-3
France	parity	0
EC Budget	1986 +66	1987 (mean) +262
PES: IBAP	<u>1986-7</u> +21	<u>1987-8</u> (kn) +46
2.7	<u>+24+8</u>	<u>+13</u>
	+29	+59
P8BR	+19	+41

PES costs of 4/2 for UK and France are roughly the same as Scenario A (low officials have doubts about MAFF's EC Budget - and \therefore the Programme 2.7 calculation).

No doubt all overtaken already,

Yours,

Jin

CDP
16/9.

PRIME MINISTER

GREEN POUND

I have had a personal word with Mr. Jopling's Private Secretary who is an old friend. He is completely baffled by Mr. Jopling's behaviour. He has not discussed matters with his staff at all: indeed the first they knew that he was talking of resignation was when they heard him speaking on the telephone to the Chief Secretary today. Apparently he keeps harping on the commitment in the 1979 Manifesto. I said that I hoped he would discourage Mr. Jopling from any precipitate action. At the very least he should come to see you for a personal talk when you get back from Germany (he is not due back himself until Wednesday evening). He promised to pass this on.

Michael Franklin (the Permanent Secretary) has also been in touch with Nigel to ask if we have any idea why his Minister is in such a state. He is not under any great pressure from the department on this issue.

CDP.

(C.D. POWELL)

15 September 1986

I know why - he has been unfairly criticised by the farmers for the consequences of having to reduce surpluses. They think he hasn't stood up for them. Now he has a chance to show that he has is. He supports the general policy to reduce surpluses but will not stand discrimination between Rep. Ireland & the U.K.

E. R.

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PRIME MINISTER

THE GREEN POUND

I attach notes by the Foreign Secretary and Mr. Williamson on the Green Pound.

The Foreign Secretary proposes:

- (a) we should argue for a lower devaluation of the Irish green punt than at present proposed (6% for animal products and 3% for crops):
- (b) if that fails, we should request a devaluation of the green pound not exceeding 4% for animal products and 2% for crops;

The PES cost of this would be

1986/7
+33

and the PSBR effect
+15

1987/8
+80

+48

1988/9
+86

+50

$\frac{1}{3}$
 $\frac{1}{3}$
 $\frac{1}{3}$

Mr. Williamson is sceptical whether a change in the green pound is really justified. He points out that our mca fluctuate rapidly. Were the pound to strengthen, it could wipe off an amount of mca equivalent to the Irish change quite quickly.

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Mr. Jopling is reported to very strongly feel that we should have exactly the same as the Irish.

It seems to me that your first step should be to speak on the telephone to the Chancellor this weekend. It would be very bad if you seemed to over-rule him right at the beginning of a PES round. You might try to extract some flexibility from him to deal with an undoubtedly delicate political problem (say 3% and 1%). You could subsequently instruct the Foreign

Secretary to press for a settlement on the basis of whatever
the Chancellor tells you privately he could accept.

If the Chancellor insists that he has no flexibility, you may
want to telephone Mr. Jopling and convince him of the
over-riding need to give priority to restraining public
spending.

Agree to telephone the Chancellor?

Yes

CDP

CHARLES POWELL

13 September 1986

VC4AJF

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Foreign and Commonwealth Office

London SW1A 2AH

13 September 1986

PRIME MINISTER

THE GREEN POUND

I discussed this morning with the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury, whether we should seek any change in the green pound at the Agriculture Council next week. This decision is likely to have a significant effect on United Kingdom farmers' competitive position, on employment in Northern Ireland and perhaps most important of all on public expenditure.

The background is as follows. The Irish punt was devalued by 8 per cent within the EMS on 2 August. The green punt was not immediately devalued (green rates are the rates at which Community agricultural prices, which are expressed in terms of ecus, are converted into national currencies). The Irish government has now requested a full green rate devaluation, which would have two effects: it would remove Irish monetary compensatory amounts (7.2 per cent for most animal products and 8.8 per cent for crops, acting as an import subsidy and an export charge) and it would raise Irish farmers' support prices in national currency. The Commission is formally proposing to meet the greater part of this request by a change in the Irish mca of 6 per cent (animal products) and 3 per cent (crops).

The Minister of Agriculture, Fisheries and Food, supported by the Secretaries of State for Northern Ireland, Wales and Scotland, has asked for agreement to request a similar change for the green pound. After a devaluation of the green pound at the price fixing in April of 3 per cent, United Kingdom monetary compensatory amounts (mcas) stood at 7.1 per cent for livestock products and 10.7 per cent for crops. United Kingdom mcas fluctuate with the value of the pound. Recent changes in the value of the pound against the ecu have led to an increase in these monetary compensatory

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amounts to 17.3 per cent for livestock products and 19 per cent for crops. The change in the green pound requested by the Minister of Agriculture, Fisheries and Food would cut these mcas and would raise support prices for United Kingdom farmers in sterling. The Minister of Agriculture, Fisheries and Food bases his argument mainly on the need not to put United Kingdom farmers in a worse competitive position and on the undertakings we have given that there should be no discrimination against them in the operation of the common agricultural policy. The Commission has made no proposal for a change in the green pound nor in the French green franc.

The Chief Secretary, Treasury, is opposed to a matching devaluation of the green pound on two main grounds: first, because of the serious adverse effect on public expenditure in the United Kingdom and, secondly, because it would weaken our position as strong advocates of budgetary rigour and restraint of agricultural expenditure in the Community and, in particular, in relation to proposed levels of Community expenditure in the 1987 draft Community budget. The change would also have a small but unwelcome effect on the RPI. The Chief Secretary also fears that a request by the United Kingdom for a devaluation of the green pound would stir up the French, even though their situation has not changed since the price fixing, to ask for a change in the green franc, which would add considerably to Community expenditure.

OD(E) was unable to agree whether we should seek any devaluation of the green pound and asked for additional information on the potential cost and on the Commission's proposals. This information is now available and I have summarised the main figures in the annex. At my meeting today there was no agreement but I think that we should be able to reach agreement on the following lines -

(1) at the Agriculture Council next week the United Kingdom should argue that the Commission's proposal on the Irish green punt is too high, in the light of the budgetary constraints. The Irish themselves will be asking for even more but there is some grumbling,

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for example from the French, that the Irish are getting too much too soon. In the last resort we would not be able to block the Irish green punt change if there is a qualified majority for it but we must do our utmost to reduce it.

(2) we should make a determined effort, if the green punt is devalued, to secure some recognition from the Irish that there must be further action to restrain surplus in the dairy (the Commission has just made important proposals) and beef sectors;

(3) we should make clear that, because of the competitive situation of United Kingdom farmers and, in particular, because of the accentuated problems on the border between the Republic of Ireland and Northern Ireland (increased smuggling, further reduction in throughput of Northern Irish meat plants and other problems) we are requesting some change in the green pound. Since, however, we believe that the size of the Irish mca change should be reduced eg by half to 3 per cent (animal products) and 1½ per cent (crops), we should follow our own logic and not request as large a change in the green pound as the Commission currently proposes for the green punt. The decision on the maximum figure we might request is necessarily arbitrary. I do not think that we should exceed an mca change of 4 per cent (animal products) and 2 per cent (crops). Even at this level the public expenditure consequences are considerable;

(4) if we decide to request any change in the green pound, we should explore at once with the Commission whether they are prepared to make such a proposal as we would not wish to risk a rebuff.

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

for Michael Foster
for GEOFFREY HOWE
(Resident Clerk)

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ANNEX

MCA CHANGE OF 6% (animal products) AND 3% (crops)

(1) for Republic of Ireland

	1986		1987
i) EC Budget	+33		+131 mecu
	1986-7	1987-8	1988-9 and future years
ii) PES: prog 2.7	+7	+12	+6 £m
iii) PSBR	+7	+12	+6 £m

(2) for the United Kingdom

	1986		1987
i) EC Budget	+5		+21 mecu
ii) PES prog 3.1	1986-7	1987-8	1988-9 and future years
	+49	+112	+112 £m
prog 2.7	-10	-10	+9
net effect	+39	+102	+121
iii) PSBR	+12	+48	+67 £m

(3) for the Republic of Ireland and the United Kingdom, ie (1) and (2) together

	1986		1987
i) EC Budget	+38		+152 mecu
	1986-7	1987-8	1988-9 and future years
ii) PES: prog 3.1	+49	+112	+112 £m
prog 2.7	-3	+2	+15
net effect	+46	+114	+127
iii) PSBR	+19	+60	+73 £m

(*) for the Republic of Ireland, United Kingdom and France
(to page 2)

	1986	1987	
i) EC Budget	+105	+425 mecu	
	1986-7	1987-8	1988-9 and future years
ii) PES: prog 3.1	+49	+112	+112
prog 2.7	+14	+30	+28
net effect	+63	+142	+140
iii) PSBR	+36	+88	+86

(5) MCA CHANGE OF 4% (animal products) AND 2% (crops) FOR THE UNITED KINGDOM

	1986	1987	
i) EC Budget	+3	+14 mecu	
	1986-7	1987-8	1988-9 and future years
ii) PES prog 3.1	+32	+74	+74
prog 2.7	-6	-6	+6
net effect	+26	+68	+80
iii) PSBR	+8	+36	+44

(6) MCA CHANGE OF 6% (animal products) AND 3% (crops) FOR THE REPUBLIC OF IRELAND AND OF 4% (animal products) and 2% (crops) FOR THE UNITED KINGDOM, ie (1) AND (5) TOGETHER

	1986	1987	
i) EC Budget	+36	+145 mecu	
	1986-7	1987-8	1988-9 and future years
ii) PES: prog 3.1	+32	+74	+74
prog 2.7	+1	+6	+12
net effect	+33	+80	+86
iii) PSBR	+15	+48	+50



(7) MCA CHANGE OF 3% (animal products) AND 1½% (crops) FOR THE UNITED KINGDOM

	1986		1987	
i) EC Budget	+2		+10	mecu
	1986-7	1987-8	1988-9 and future years	
ii) PES: prog 3.1	+24	+56	+56	£m
prog 2.7	<u>-5</u>	<u>-5</u>	<u>+4</u>	
net effect	<u>+19</u>	<u>+51</u>	<u>+60</u>	
iii) PSBR	+6	+24	+33	£m

(8) For each 1% change in the UK mca the net effect on PES is about £10 million in 1986-7 and about £25 million in 1987-88.

These figures differ slightly from those used earlier because they relate to percentage changes in mcas (as the Commission now proposes) rather than to percentage changes in the green rate.