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CONFIDENTIAL

FROM: CHIEF SECRETARY
DATE: 10 November 1986

Keep for meeting.

PRIME MINISTER

ALTERNATIVE USES OF AGRICULTURE LAND AND SOURCES OF RURAL EMPLOYMENT

at 11 cup

I have been following with interest the correspondence on this subject starting with Michael Jopling's minute to you of 22 September. I understand that Michael will be circulating a further note on the financial implications and objectives of his proposals for your meeting on 13 November. But you may find it helpful to have a note of my views before we meet.

2 My view is that, whilst it is entirely appropriate for us to consider the consequences for the rural economy of a substantial reduction in the current levels of CAP support, it would be premature to rush into announcing a new programme of support measures until we have a better idea of the scale and the direction of the sort of CAP reforms which can be achieved and the PES savings which can thereby be realised (and this means in particular seeing the savings being achieved in practice before committing ourselves to the introduction of any items in the programme). I understand that the Commission have promised to bring forward far reaching proposals in next year's Price Fixing and their "ex novo" review of the Community's finances. Drastic action is certainly required in view of the budgetary situation and the current level of intervention stocks. But it remains to be seen exactly what measures the Commission will propose and, more important, what proposals the Council of Ministers can be persuaded to adopt. The effects on land use, farm income and employment in the UK could differ substantially depending on the means adopted to reduce CAP budgetary costs.

3 As I indicated above, I believe that we must avoid introducing new schemes with additional expenditure before the CAP savings have been achieved. Moreover, given the problems which IBAP expenditure has caused the PES planning total in recent years, we clearly cannot proceed on the basis that all savings on the IBAP programme can be hypothecated in favour of the agriculture programme, although I would be prepared to concede that a small proportion of the potential savings might be used to assist the necessary process of adjustment.

4 In considering the scale and type of any measures we must bear in mind that in other sectors of the economy we have been prepared to allow as great and sometimes even greater structural changes to take place without Government intervention. I therefore fully agree with David Young and Paul Channon that the emphasis in any adjustment programme should be on creating the right environment for private enterprise to flourish. Relaxing the current planning restrictions on the development of agriculture land is clearly a candidate in this context.

5 I would not seek to rule out of consideration altogether some new interventionist measures of a pump priming nature, if they can be justified in terms of the accepted rationale for Government intervention in industry, i.e. if it can be demonstrated that they will produce a net benefit for the economy as a whole (not just for farmers) or that there are significant environmental factors where some funding would produce new benefits; that they will be time limited and that they can be financed within the existing PES totals. I hope that we can agree that any further work at official level on Michael's proposals, which is clearly needed before any decisions in principle can be taken, should be aimed at satisfying us that they will be cost-effective in these terms.

terms.

6 I am sending copies of this minute to Michael Jopling, Willie Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Malcolm Rifkind, Nicholas Ridley, David Young, Paul Channon, Norman Tebbit and Sir Robert Armstrong.

pp Mrs Fellstead

JOHN MacGREGOR

(Approved by the Chief Secretary and signed in his absence.)