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QCBG



Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

NBPN at this stage.

From the Minister's Private Office

CONFIDENTIAL

David Norgrove Esq
10 Downing Street
London
SW1A 2AA

21 November 1986

Dear Mr Norgrove,

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

Following the Prime Minister's meeting last week to discuss the above subject, my Minister thought it might be helpful for the Prime Minister and colleagues to see a copy (attached) of a letter he recently received from Sir Stephen Roberts, Chairman of the Milk Marketing Board (MMB).

As you can see, the letter gives the MMB's response to the latest EC Commission proposals for the milk sector. My Minister thinks that this usefully demonstrates the potential impact on rural communities of cut-backs in agricultural production and the need for measures for developing alternative uses of land and alternative economic activities in rural areas.

I am sending copies to Joan MacNaughton (Lord President's Office), Colin Budd (Foreign and Commonwealth Office), Colin Williams (Welsh Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Neil Ward (Northern Ireland Office), Robin Young (Department of the Environment), Jill Rutter (Chief Secretary's Office), Robert Gordon (Scottish Office), Michael Gilbertson (Department of Trade and Industry), John Turner (Department of Employment) Helen Ghosh (Minister of State's Office, Department of the Environment), and Mr Williamson (Cabinet Office).

Yours sincerely,

E. M. Morris

MRS E M MORRIS
Private Secretary

MILK MARKETING BOARD

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From: Sir Stephen Roberts
Chairman

13 November 1986

The Right Hon. Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
London SW1A 2HH

Dear Michael

LATEST EEC COMMISSION PROPOSALS - MMB REACTION

The EEC Commission proposals for a 9.5% cut in Community milk supplies in a two year period would be devastating. The impact on milk producers, butter creameries and the rural community would be immeasurably greater than that of the 7.2% cut-back stemming from the initial imposition of quotas.

The worst effects of the initial cut-back were ameliorated by producers cutting input costs in general and concentrate feed in particular. The "fat" has now been shed; there is no similar way out.

Impact on Producers

A 9.5% cut in supplies would almost certainly result in 5,000 milk producers going out of business in a very short space of time. Whilst some 2,000 of those are already in severe financial difficulties, others would be trading profitably were it not for inadequate quota. The casualties will, therefore, be loaded towards those who are still awaiting the make-up of their development quota and those who obtained rough justice from the Quota Tribunals (e.g. those who were only awarded a nominal development quota because they had "prudently" postponed acquisition of additional cows until they knew where they stood).

In such an environment, it is almost inconceivable that the Commission should also be proposing intervention ~~weakening~~ measures which would inevitably lead to reductions in price. It is one thing for the price mechanism to operate in a free market, but it is verging on the unethical to operate in a similar manner in an industry operating under quota control.

Why?

Impact on Creameries

In 1985/86, 3,580 million litres of milk was used for butter production. A 9.5% cut in supplies would reduce butter production by 1,200 ml, or one third of current production. This implies closure of some 9-10 butter making plants, the majority from July of next year.

Impact on Rural Communities

The closure of 9-10 butter creameries implies more than 2,000 redundancies, all in rural areas with relatively few opportunities for alternative employment. This will be aggravated by the response at farm level to eliminate all items of non-essential expenditure. This indicates bankruptcy for many supply industries.

SUGGESTED ACTION

We have consistently argued that any effective cut in supplies in a quota-controlled environment must be through fully-funded outgoers schemes. The current proposals fall far short of this, attempting to drive supplies down below the quota level. This is inequitable.

We have also demonstrated that, of all the bases that could have been chosen for initial imposition of quotas, 1981 was the worst conceivable for the UK. These proposals do nothing to rectify this, indeed the proposed abolition of the "Formula B" basis of levy collection is, of itself, likely to depress England and Wales' supplies by around 4%, considerably worsening our relative position.

The agricultural policies of all developed western countries embrace social and strategic issues. For the UK to support any agreement that would effectively guarantee countries such as Denmark, Ireland and Holland a permanent share of our butter market is indefensible. In particular it will perpetuate the dumping of marginal production on our market, with all the implications that has for our industry returns and viability.

We therefore implore you to:-

- (1) Resist back-door cuts in quota, i.e. those that prevent us from filling our national quota.
- (2) Ensure that all cuts in quota are fully funded via an outgoers scheme.
- (3) Ensure that any package ameliorates rather than aggravates the UK share of EEC quota and production.
- (4) Reject any weakening of intervention arrangements.

Yours sincerely

Steve

