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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
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From the Minister

Prime Minister

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Recently the French Chambers of Agriculture (APCA) published their assessment of the impact on the French current account if France were to withdraw from the CAP and instead support her agriculture by national measures. The cost was put at no less than 17.8 thousand million francs, a figure which generated an instant and somewhat embarrassed response from Mme Cresson.

The APCA figure was probably too high but what cannot be in doubt is that France is a major beneficiary from the CAP. The attached note indicates that in 1980, the year chosen by APCA, the current account costs of French withdrawal would have amounted to some 8.6 thousand million francs. This figure is based on the assumption that the volume and pattern of French agricultural trade would remain unchanged were she to withdraw. In the event, she would surely find it more difficult to maintain her strong position in EC food markets and therefore the figure above is probably the minimum cost she would have to bear.

Given that for many years France has shown a singular lack of appreciation of this country's difficulties as a major contributor to the financing of the CAP, it is helpful to have on the record a French assessment of the benefits which accrue to her. At the right moment this is a message we should be able to deploy with advantage to counter French questioning of our position towards both the CAP and to its financing.

I am copying this letter to the Prime Minister, other Cabinet colleagues and to Sir Robert Armstrong.

PETER WALKER

COST TO FRANCE OF WITHDRAWAL FROM THE CAP

1. The French Chambers of Agriculture (APCA) recently issued a statement in which they estimated that the cost to France of withdrawing from the CAP would be 17.8 billion francs. The French Minister of Agriculture, Mme Cresson, criticised this estimate as being too high on four counts. This note sets out the basis of the APCA figures, comments on Mme Cresson's criticisms and provides some Ministry estimates based on rather more detailed analysis.

Basis of APCA estimate

2. The APCA estimate relates to the cost to the French of maintaining producer prices entirely by national measures on lines similar to those operating under the CAP. Thus, export refunds and various intervention measures would be nationally rather than FEOGA financed, and additionally refunds would have to be paid on exports to other Member States to allow them to compete. But the existing levies charged on imports into France from third countries would be retained by the French authorities and also other contributions to the Community budget for CAP purposes would no longer be made. The figures presented by the APCA are as follows:

	Based on 1980 figures thousand million francs
Loss of direct revenues from FEOGA	
Export restitutions	9
Intervention subsidies	7.5
Social and regional payments benefiting agriculture	1
Loss of trade receipts	
Exports of food to other Member States at world rather than at Community prices	12
Gross Loss	29.5
Subtract present French contribution to total FEOGA budget	11.7
Net loss	17.8

Mme Cresson's criticisms

3. Mme Cresson criticised the estimate as being too large on the following four counts:

(a) if France had to pay 12 thousand million francs by way of refunds on the 44 thousand million francs of exports of food to other member states, then she would collect 8 thousand million francs by way of levies on the 30 thousand million francs the APCA imported from them. This major source of revenue was omitted from the APCA calculation and should be deducted from the cost;

(b) cereals represent a major proportion of the French trading surplus and the best price hierarchy France could achieve would reduce the budget cost of these exports;

(c) part of the national agricultural budget represents corrective amounts in relation to certain inadequacies of the CAP;

(d) other member states would not turn away from French products in order to patronise "other markets which might perhaps secure them more substantial returns". It was also stressed that the agricultural advantages which the EC secures for France are to a great extent compensated for by the industrial benefits which certain partner countries derive from the Community.

4. The first criticism is valid and would reduce the APCA estimate by almost half to about 10 thousand million francs. The second may have some validity but it is difficult to see how any adjustment could be made to allow for this effect which, in the event, would probably be small. The third and fourth criticisms are not strictly relevant to the figures but are restatements of arguments frequently used by the French to justify, for example, national aids, the high levels of support provided by the CAP and the French receipts from FEOGA.

Ministry estimates

5. MAFF estimates of the cost to France of withdrawal from the CAP, but maintenance of CAP levels of support by nationally financed measures, are compared in the attached table with the APCA estimate adjusted to take account of Mme Cresson's first criticism. The two estimates of France's receipts from FEOGA are similar; the small differences in the make up of these figures being due to small variations in exchange rates used. There are, however, substantial differences in the other elements as follows:

(a) Trade with other member states. The French estimate simply assumes that her loss on intra-Community trade, through selling at world rather than CAP supported prices, would be proportionately the same as that on third country trade. In other words, the value of intra Community trade is taken to be raised at present by the same proportion as export refunds are to the value of exports to third countries. In practice a larger proportion of exports to other member states than to third countries is of items such as fruit and vegetables on which export refunds are nil or small. The MAFF estimate is based on a commodity by commodity assessment for the main products and should therefore be more reliable.

(b) French contribution. France's overall contribution to the Budget is 19.2% and applying this percentage to FEOGA expenditure yields 13.4 bn francs for 1980. There are alternative methods of estimating France's contribution which could yield a slightly lower figure but even so, the APCA estimate of 11.7 thousand million francs appears low. The APCA paper states that the source of their estimate of 11.7 bn francs is French Budget documents; our Embassy in Paris is attempting to obtain further details from this source.

Conclusion

6. The APCA estimate is undoubtedly too high for the reason given by Mme Cresson. The more detailed assessment of the effects of French withdrawal on trade with other member states yields a higher net figure and if the saving on the French contribution to the Budget has been under-estimated by some 2 bn francs the total net cost to France of withdrawal from the CAP may have been overstated by APCA to the tune of nearly 10 bn francs or some 1½ bn francs after the adjustment suggested by Mme Cresson. Even so, the losses in current account terms of 8.6 thousand million francs (equivalent to £760m) arising from withdrawal, would be substantial. If as a result of withdrawal France encountered difficulties in maintaining the volume of her exports to other member states, then their diversion to third country markets could well add to this cost.

Econ/Stats Group
23 March 1982

ESTIMATES OF COST OF FRENCH WITHDRAWAL FROM CAP

billion francs

	French estimates		MAFF
FEOGA guarantee section			
Loss of refunds	9		8.8
Loss of intervention expenditure	7.5		7.8
		16.5	16.6
FEOGA Guidance section		1	0.8
Loss of levy rebate		-	0.1
Total loss of receipts from FEOGA		17.5	17.5
Trade with other member states			
Loss of value of exports	12		9.0
Higher cost of imports (1)	8		4.3
Net loss on trade with EC		4	4.7
TOTAL LOSSES		21.5	22.2
SAVING ON CONTRIBUTION		11.7	13.6
NET COST OF WITHDRAWAL		9.8	8.6

Note: (1) The original APCA calculation did not include this item and thus the APCA published net cost of withdrawal was put at 17.8 thousand million francs.