

PRIME MINISTER

CAP price fixing

*Must - leave to this
Peter Walker. He is
a very good negotiator. (i)*

A decision on this is needed tonight because Peter Walker continues his negotiations in the Agriculture Council tomorrow.

The attached Treasury letter sets out the problem. The proposal is that we should agree that the central rate for sterling in the ECU should be realigned, on three conditions:

(a) The Commission's present proposals for the CAP price settlement would be adopted;

(b) New negative MCAs created by the monetary adjustment will not be removed until the end of the 1983/84 marketing year - the point of this is to prevent Member States who obtain higher negative MCAs from devaluing their green rates;

(c) Some further improvement of the present CAP price package for UK farmers.

The Minister for Agriculture, the Chancellor and the Foreign and Commonwealth Secretary support this proposal - largely because the only alternative way of reaching agreement is through higher price proposals.

There is, however, a disagreement about tactics. The Treasury and the FCO are inclined to give a hint now to our partners that we could accept this arrangement. Mr. Walker would prefer us to express opposition to the proposal now, thereby creating a situation where he can negotiate benefits during the course of tomorrow (see his letter attached). The risk in his course of action is that we may upset the Germans whose goodwill we need for the budget problem. But if the price package is successfully concluded by the end of tomorrow, any loss of goodwill will probably be temporary. You may think it best to give Mr. Walker a free hand on tactics.

/ Agree

Agree that the central rate for sterling in the ECU should be realigned, subject to the conditions above - but that we should not hint that we are ready to do this in advance of tomorrow's Agriculture Council?

This will still leave a further disagreement between Departments as to the precise message which the Treasury should send to the Chairman of the Monetary Committee (the Foreign Secretary has just commented on this point - see attached minute). I do not think you need get involved in this. If you are content with the policy set out above, I will tell Departments that they must agree on the drafting of the message.

A.S.C.

26 April 1983

CONFIDENTIAL



10 DOWNING STREET

From the Private Secretary

27 April, 1983

Sterling: the ECU and Agricultural Monetary Issue

The Prime Minister has now considered the issues raised in your letter of 26 April, and the Minister of Agriculture's letter and the Foreign and Commonwealth Secretary's minute of the same date.

The Prime Minister agrees that we should accept that the central rate for Sterling in the ECU should be realigned on the three conditions set out in paragraph 9 of the enclosure to your letter under reference. As regards tactics, she believes that it would be unwise to hint to our partners before today's Agriculture Council that we could accept this arrangement. She hopes that this will enable the Minister of Agriculture to negotiate further benefits for the United Kingdom in the course of the meeting.

As regards the proposed reply to the Monetary Committee, Mrs. Thatcher hopes that Departments will be able to agree a draft in the light of the foregoing. Your letter of 26 April to Robert Lawson is relevant in this connection.

I am copying this letter to Robert Lawson (Ministry of Agriculture), Roger Bone (Foreign and Commonwealth Office) and Richard Hatfield (Cabinet Office).

A. J. COLES

John Kerr, Esq.,
H.M. Treasury

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FCS/83/84

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Your letter of 26^{list AR} April to Geoffrey Howe enclosed a draft message to the Chairman of the Monetary Committee.

2. I am sure we should be prepared to go along with the German proposal if it will secure a CAP price settlement. To stand out against it would not only put at risk what promises to be a very good price settlement from our point of view, but would also put us in real difficulty with the German Presidency at a time when their help is absolutely vital to our chances of securing a successful outcome on the budget.

3. At the same time I fully agree with you that we must get the maximum benefit out of going along this road and that the arguments in your draft message should be fully deployed in the Agriculture Council. I must say though that I think that a message in the terms you propose would risk being seen as an outright rejection of the German proposal. The draft enclosed with the letter of 26 April from the Chancellor's office to No 10 would avoid this danger, while leaving you free to deploy all your arguments in the Agriculture Council; and it

/may



may be that the same purpose could be served by some other formula to the effect that our position on the German proposal will be made known in the Agriculture Council. I would very much prefer such an approach and hope you can agree.

4. I am sending copies of this minute to the Prime Minister, the Chancellor of the Exchequer, and Sir Robert Armstrong.

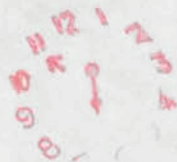
A handwritten signature in dark ink, appearing to be 'FP', written in a cursive style.

(FRANCIS PYM)

Foreign and Commonwealth Office

26 April 1983

26 APR 1983





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

26 April 1983

R C Lowson Esq.
Principal Private Secretary to the
Minister of Agriculture, Fisheries and Food

A. J. C. ²³/₄
h.c.

Dear Robert,

STERLING: THE ECU AND AGRICULTURAL MONETARY ISSUE

The Chancellor has seen Mr Walker's letter of this afternoon and his suggested revision of the proposed reply to the Monetary Committee.

The Chancellor fully agrees with Mr Walker that we should not give any indication at this stage that we are likely to agree to the German proposal. Such agreement must be contingent on securing our other objectives as set out in paragraph 9 of the memorandum enclosed with my letter to you of this morning.

The Chancellor does not think, however, that it would be appropriate for the Treasury Members of the Monetary Committee to set out in their reply the agricultural arguments as suggested in Mr Walker's revised draft. He believes that it would be much more effective if these points were made by Mr Walker himself in his opening statement at tomorrow's resumed Agricultural Council, and if the message to the Monetary Committee were simply to make it clear that the United Kingdom does not accept that decisions on this issue should be taken before further discussion in the Agricultural Council.

The Chancellor therefore intends to substitute for paragraphs 3 to 5 of Mr Walker's revised draft the attached paragraph, which will leave Mr Walker free to deploy the agricultural arguments as he thinks best at the Agriculture Council.

I am copying this letter to John Coles at No.10, Roger Bone at the FCO and Richard Hatfield in the Cabinet Office

Yours ever,

J O Kerr

J O KERR
Principal Private Secretary

3. The United Kingdom members note that the present proposal has been made because of "severe problems" in the agricultural area, and that it is suggested that the procedure proposed would "alleviate" these problems. The proposals in themselves, however, raise very considerable general difficulties in the agricultural area in addition to particular problems for the United Kingdom. They therefore propose that no decision should be taken by the Monetary Committee before the agricultural problems have been discussed further in the Agricultural Council on 27 April. The United Kingdom Minister for Agriculture will be ready to explain the United Kingdom's position in full at that Council.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON S.W.1



From the Minister

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
London SW1

2 April 1983

I understand that you have, on balance, decided that it would be better to obtain a settlement along the lines of the German suggestion to the Monetary Committee and that at the Agriculture Council meeting I should negotiate an arrangement on the basis of which you would immediately agree to the German proposal.

If I am to do this it is absolutely vital that no indication is given in Brussels, Bonn or elsewhere that this is our intention. Indeed it is important that at this stage our communications to Brussels and Bonn should clearly indicate that we are against such a procedure in order that I can negotiate the maximum benefit out of this request to us. I do not therefore accept the draft message originally suggested by officials which may since have been amended in discussions with the Treasury, but want a message which clearly implies our hostility to the suggestion and therefore creates a situation where I can negotiate benefits during the course of Wednesday. I therefore enclose my suggestion of the draft which of course contains within it the strong condemnation of the possibility of price increases resulting from this device and leaves me in a strong negotiating position.

I am copying this letter to the Prime Minister, Francis Pym and Sir Robert Armstrong.

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PETER WALKER

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DRAFT MESSAGE FROM THE UK MEMBERS TO THE CHAIRMAN OF THE MONETARY COMMITTEE

With reference to your telex of 25 April, the United Kingdom members are somewhat surprised at the procedure proposed. They can find nothing in the Monetary Committee's Opinion of 2 April 1980 which prescribes any method for the proposal and adoption of a new imputed central rate for sterling except in the context of a realignment of currencies participating in the exchange rate mechanism.

2. The suggested procedure is an expedient, related to no agreed principles, and will be publicly judged as such. It will not reflect well on the standing of the exchange rate mechanism of the European Monetary System. It does not conform with the view, which the UK members thought was implicit in the Interim Opinion of 1 February 1982, that there should be systematic rules governing the imputed central rate for sterling. As that Opinion noted, the approved method had on the occasion of the realignment of 22 March 1981 "facilitated decisions in the agricultural field". But it went on to say that "the opposite case is however possible". We had assumed it to be agreed that procedures should be orderly and symmetrical.

3. The suggestion being made would amount to an increase in the common price level. We believe that this is totally contrary to the firm declaration by the Commission that under no circumstances would they make any proposals for further price increases during this price fixing. The changes that would be achieved by the

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/device

device being suggested would add 1% to the negative MCAs of a number of countries and therefore give them the opportunity of a further 1% increase in prices. This we totally reject in the circumstances of the horrific figures presented by the Commission as to the budgetary cost of the agricultural policy.

4. It would also cause a deterioration in the British position with regard to United Kingdom trade with Ireland and Denmark. The United Kingdom is therefore being asked to make considerable sacrifices in order that other member countries can obtain their desire for a lower German positive MCA; a desire that we never pressed.

5. We therefore suggest that other methods, that neither increase the prices enjoyed by a number of member countries, nor put the United Kingdom at a trading disadvantage are considered at the meeting later this week.



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

A J Coles, Esq
Private Secretary
No 10 Downing Street
LONDON SW1

26 April 1983

Dear John,

STERLING: THE ECU AND AGRICULTURAL MONETARY ISSUE

A problem concerning sterling's central rate in the ecu has arisen in relation to current proposals by the Commission to the Agriculture Council for the removal of MCAs as part of their package of proposals for the present price fixing. Although others are affected, the main issue affects France and Germany.

In essence the problem is that the Germans are currently resisting Commission proposals for a differential revaluation of the green DM by 2%-3%, to reduce their MCAs, since this would wholly or partly vitiate, for German farmers, the effect in DM of new price increases suggested by the Commission. If the Germans refuse to revalue the green DM as proposed the French are likely to reject the Commission's price increases in view of the resultant disparity in prices (in national currencies) that would result as between French and German farmers, and the competitive advantage the latter would have both in France and in third markets. The French would therefore be likely to press for higher price proposals. Equally, Germany would only be likely to accept the Commission's proposals for removing MCAs if they were also accompanied by an increase in the present price proposals.

The German Finance Minister has therefore proposed, through the Monetary Committee, that this deadlock should be broken by our agreeing to a realignment of the central rate for sterling in the ecu. The arrangements are complex, but in essence the arrangement is as follows. In accordance with the normal rules sterling was taken into the ecu at its 21 March level after last month's EMS realignment. Since this level was very low, the effect was to weaken the ecu overall, thus increasing positive MCAs for Germany. The

/present proposal



present proposal is that sterling should in effect be realigned again within the EMS by being included at its market rate of 22 April (ie 7.3 per cent higher than the rate on 21 March). Other countries would remain at their same bilateral parities with each other, although their central rates with the ecu would change. The effect of this proposal would be to increase the value of the ecu by just over 1 per cent; reduce German MCAs by 1 per cent; and increase French negative MCAs by 1 per cent.

Our soundings indicate that if we agree to this device there is a very good chance that agreement will be reached at the Agriculture Council on the basis of the Commission's present price proposals. Her Tietmeyer, the State Secretary of the German Finance Ministry, has assured us that this will be their intention and that they would propose to follow this up by making firm proposals for bringing the agricultural spending regimes under control, building on the discussion between the Chancellor and Herr Stoltenberg on this subject on 22 April.

... The pros and cons of the proposal are discussed in the attached note by the Treasury, MAFF and FCO, which was agreed following a meeting at the Treasury yesterday afternoon. The conclusion of this note, which the Chancellor endorses, is that, subject to certain conditions, we should accept the German Government's proposal.

As far as the sterling exchange rate is concerned, the proposal has no practical consequences. The disadvantage on the EMS side is that it is an arbitrary variation of the agreed procedures. More important, on the agriculture side, the increase in the value of the ecu would mean that the agricultural common price level expressed in ecus will be higher, and which would have practical effect if member States with higher negative MCAs were allowed to devalue their green rates correspondingly.

As against these disadvantages, we believe that there is a serious risk that the problem could otherwise only be resolved by higher price proposals. These would be likely to cost at least 150 million ecu in a full year and we could find ourselves isolated (and in particular at odds with Germany), in a manner inconsistent with our general posture on agricultural spending and the budget in refusing to accept what others would represent as a technical change.

... In the circumstances, the Chancellor considers that, subject to the conditions set out in paragraph 9 of the attached note, we should be prepared to agree to the German Government's proposal. We should not, however, do so immediately; there should be further discussion in the Agriculture Council tomorrow so that we can be satisfied that our objectives can be attained before we assent to the proposal.

/I understand that

This would be prevented by condition (b) in para. 9 of the enclosed note.

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I understand that both Mr Walker and Mr Pym support this proposal. I should be grateful if you would put it to the Prime Minister.

I am copying this letter to Roger Bone at the FCO, Robert Lowson at MAFF and to Sir Robert Armstrong.

Yours,

Auditt Limpton

PP. J O KERR
Principal Private Secretary

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STERLING: THE ECU AND AGRI MONETARY ISSUES

The Proposal

As foreshadowed at the end of last week, the German Presidency have now proposed a realignment of the central rate for sterling in the ecu with the intention of making it easier for the Agriculture Council on Wednesday this week to settle outstanding differences about Germany's green D Mark rate and positive MCAs.

2. The proposal, which is set out in the attached telex to members of the Monetary Committee, is that there should be a realignment within the EMS in which sterling would be included in the ECU at its market rate of 22 April (ie. 7.3% higher than the central rate agreed at the last realignment). Other currencies would remain at their same bilateral parities with each other, although their central rates with the ECU would change. The effect of this proposal is to:

- increase the value of the ECU by just over 1%;
- reduce the Germans' MCA by 1%;
- increase the negative MCAs of France
by 1%

3. The purpose of this manoeuvre is to make it easier for France to accept the Commission's present price proposals by the (wholly cosmetic) reduction in the German MCA, which would, presumably, substitute for part of the 3% German green Mark revaluation proposed by the Commission. We understand that the Monetary Committee telex is the outcome of consultation between France, Germany and the Commission and is likely to have the support of other Member States.

4. The pros and cons of this proposal, which were discussed at a meeting of Departments under Treasury Chairmanship this afternoon, are set out below. The telex to members of the Monetary Committee asks for the UK's agreement to the proposal by 7 pm this evening. With the agreement of the other Departments the Treasury has informed the Monetary Committee Secretariat that it cannot give a response until UK Ministers have been consulted and that the deadline therefore cannot be met.

Pros and Cons

5. Departments see four disadvantages in the new proposal:

(a) the proposed "phantom realignment" is a wholly opportunistic device, which is not consistent with the agreed system for adjusting the £ sterling rate in the ECU. The only reason for choosing the sterling ECU rate of 22 April is that this suits the German and French Agriculture Ministers. Ad hoc adjustments of this nature are not consistent with an orderly system which aims to promote a wider role of the ECU;

(b) the increase in the value of the ECU means that the agricultural common price level expressed in ECUs will be higher. This increase can be realised if the Member States with higher negative MCAs (see paragraph ² above) choose or are allowed to devalue their green rates correspondingly;

(c) because of the operation of the MCA "franchise system", the proposed adjustment will lead to competitive distortions to the UK's disadvantage. Specifically, Danish and Irish exporters of meat products, including pigmeat and poultry, will have an uncovenanted advantage in competing in the UK market. This will be particularly unwelcome to our hard-pressed intensive livestock sector;

(d) the proposal would set an unwelcome precedent, which could be exploited on subsequent occasions whenever the Agriculture Council sees advantage in doing so. Over a period this would have an upwards ratchet effect on common prices.

6. On the other hand, Departments also agree that if the UK resists this proposal, there could be the following unwelcome consequences:

(i) the UK could be wholly isolated in the CAP price negotiations. If the Germans persisted in their refusal to revalue the green D-Mark by the amounts proposed, other Member States could seek to resolve the problem by agreeing on higher price proposals; and the Commission, notwithstanding

its earlier refusal, might go along with this, blaming the UK. The cost of an extra 1% price increase would be of the order of 150-200m ECU in a full year. Higher price increases would be both unwelcome politically (after the favourable outcome of last week's Agriculture Council) and would be inconsistent with our aim of keeping down the costs of agriculture in the 1984 budget;

(ii) the Commission could also react by putting forward proposals to the disadvantage of UK farmers in the price fixing, eg. an attack on our variable beef premium or a revaluation of the green pound;

(iii) our relations with France and, more important, Germany would be worsened at a time when we will be relying on their support for a satisfactory solution of our budget problem.

Recommendations

7. Departments are agreed that the proposed device is an unwelcome one, which has specific disadvantages for the UK. But on balance it is nevertheless clearly preferable to the possible alternative of the Commission deciding to propose further increases in common prices (although it is not clear how likely it is that they would do that or at what stage). The Treasury and FCO also draw particular attention to the risk that a refusal to help the Germans in the way proposed could be harmful to the prospects of our success in the negotiations on our budget refunds, in which we will need to rely heavily on their help.

8. Departments accordingly recommend that the UK should not stand out against the German proposal if all other Member States see this as the only way out of the impasse on the price fixing. They also agree, however, that it would be premature to give our agreement in response to the present Monetary Committee telex. If we do so, we would have conceded what the French and Germans want without any firm assurance that the CAP price negotiations will be concluded on terms which we can regard as satisfactory.

9. Departments accordingly recommend that we should send a holding reply to the Monetary Committee, which makes it clear that we would not be prepared to consider the present proposal until after Wednesday's Agriculture Council. At the Council we would then seek to obtain the following objectives;

(a) an understanding that the Commission's present price proposals would be adopted, if the proposed change in the sterling ecu rate is then made;

(b) a similar understanding that the new negative MCAs created by the monetary adjustment would not be removed until the end of the 1983-84 marketing year;

(c) some further improvement of the present CAP price package for UK farmers, MAFF are considering various possibilities for removing disadvantageous proposals in the sheepmeat and livestock sectors.

In addition, the draft reply makes it clear that the Monetary Committee must urgently agree on an orderly system for adjusting the rate of sterling in the ecu for the future.

10. A draft reply to the Monetary Committee telex is attached at Annex B. Ministers are invited to agree to a reply being sent in these terms and to the strategy outlined in paragraph 9 above.

DRAFT MESSAGE FROM THE UK MEMBERS TO THE CHAIRMAN OF THE
MONETARY COMMITTEE

With reference to your telex of 25 April, the United Kingdom members are somewhat surprised at the procedure proposed. They can find nothing in the Monetary Committee's Opinion of 2 April 1980 which prescribes any method for the proposal and adoption of a new imputed central rate for sterling except in the context of a realignment of currencies participating in the exchange rate mechanism.

2. They are, further, concerned that the suggested procedure, being an expedient, and related to no agreed principles, will be publicly judged as such; and will not reflect well on the standing of the exchange rate mechanism of the European Monetary System. It does not conform with the view, which the UK members thought was implicit in the Interim Opinion of 1 February 1982, that there should be systematic rules governing the imputed central rate for sterling. As that Opinion noted, the approved method had on the occasion of the realignment of 22 March 1981 "facilitated decisions in the agricultural field". But it went on to say that "the opposite/^{case}is however possible". We had assumed it to be agreed that procedures should be orderly and symmetrical.

3. The United Kingdom members note that the present proposal has been made because of "severe problems" in the agricultural

area, and that it is suggested that what is proposed would "alleviate" the problems on the agricultural side. In view of the monetary issues referred to above the UK consider it essential to establish in the Agriculture Council that, with this ingredient, the Agriculture Ministers could in fact reach agreement on all the outstanding issues being discussed in this round of price fixing negotiations. In this event the UK would be ready to join in a further consultation of the proposal by telephone among the members of the Monetary Committee. They would however consider it preferable that any change in sterling's imputed central rate should be initiated by the UK and that, preferably, it would relate to the nearest appropriate date.

4. In case this untidy situation should recur, the United Kingdom members stress that, in their view, an examination should be undertaken not later than the Monetary Committee meeting on 4 May 1983 of methods to be used in future for imputing a central rate for sterling, whether at the time of, or in between, realignments of other currencies.

26 APR 1983

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

26 April 1983

The Rt. Hon. Peter Walker MBE MP
Minister of Agriculture, Fisheries and Food

A.S.C. 27/4

h.a.

Dear Peter

**CAP PRICE FIXING 1983/4:
UK DECLARATION ON AGRICULTURAL EXPENDITURE**

Thank you for your letter of 25 April. I am grateful to you for your willingness to make a statement at the end of the price fixing so as to protect our position in relation to the Budget. I think that the text attached to your letter serves this purpose admirably.

I am sending copies of this letter to the Prime Minister, the Secretary of State for Foreign and Commonwealth Affairs and Sir Robert Armstrong.

GEOFFREY HOWE

[Handwritten signature]

Evans Polk
COR, PA-1

27 APR 1983



010



From the Minister

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

Handwritten initials

Prime Minister

The CAP price-fixing negotiations resume on Wednesday.

A.S.C. 25/4

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

25 April 1983

Handwritten signature

PRICE FIXING 1983/84

At last Thursday's Cabinet, there was discussion of the Statement that I intend to make at the conclusion of the price-fixing negotiations to protect our flank in relation to the Budget.

I attach the text which I propose to use for this purpose.

I am copying this letter to the Prime Minister, the Secretary of State for Foreign and Commonwealth Affairs and Sir Robert Armstrong.

Large handwritten signature

PETER WALKER

CONFIDENTIAL

PRICE FIXING 1983

STATEMENT FOR RECORD ON FINANCIAL IMPLICATIONS

The Commission has advised the Council that FEOGA Guarantee expenditure is now increasing more quickly than the Community's potential own resources whatever basis of comparison is used. This is a reflection of the excessive price fixing decisions in 1982, which the UK opposed, and of the Council's failure to adopt sufficiently effective measures to restrain the growth of surpluses and the cost of these. The Commission has also indicated that it can offer no assurance that expenditure in 1984 could be met within the existing limit of own resources.

The UK's attitude to the growth of agricultural spending remains as entered in the Council Minutes of 30 March/1 April 1981. Accordingly the UK Government's view is that more effective action must urgently be taken to restrain surplus production and its associated cost increases in certain sectors and that to this end the Commission should bring forward proposals to allow the decisions needed to bring guarantee expenditure back within the rate of growth of own resources. The UK's approach to budgetary provision for 1983 and 1984 will be based on this objective. In particular, the UK Government's agreement to the price fixing does not commit it to any specific amounts for agricultural expenditure in 1983 and 1984; nor to the need for any increase in the Community's own resources.