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Prime Minister

Qz.03585

MR COLLES A.S.C. $\frac{5}{2}$

his
Very good
speech!

COMMUNITY AGRICULTURE: GREEN RATES AND POSITIVE MONETARY
COMPENSATORY AMOUNTS

The United Kingdom's position on our own green rate and positive monetary compensatory amounts both in the agricultural price negotiations and in the post-Stuttgart negotiations generally must take proper account of -

(i) the political difficulty of changing the United Kingdom's green rate (thus reducing our positive monetary compensatory amounts and our producers' and consumers' prices) in a package which already amounts to a virtual freeze on farmers' support prices

(ii) the fact that, because our positive monetary compensatory amount is variable, it has not had such an incentive effect on production as, for example, the German green rate and positive monetary compensatory amount which has been giving stable support to German producers at about 10% above Community levels. A separate arrangement is clearly needed for variable monetary compensatory amounts.

2. Nonetheless, since the question of the positive monetary compensatory amounts may again play an important role at the next European Council, you may wish to see - and, if you think it appropriate, to show to the Prime Minister - the attached extract from a speech which the Director General for Agriculture in the Commission made in London on 8 February. It does set out rather precisely how this question is viewed in the Commission and in the seven member states which do not have positive monetary compensatory amounts.

3. I am sending a copy to Sir Robert Armstrong.

D. F. Williamson

D F WILLIAMSON

13 February 1984

In his essay "The language of Economics" J.K. Galbraith discussed why people use this kind of jargon. He observed that "professional economists, like members of religious congregations, aboriginal tribes, British regiments, fashionable clubs, holders of diplomatic passports, and followers of the more intellectually demanding criminal pursuits, have a natural desire to delineate the boundary between those who belong, and those who do not".

I think this may be true also of the language of the common agricultural policy. If we did not conceal some of our actions by a barrier of jargon, they would not long survive.

That is probably the case with monetary compensatory amounts and green rates. If we reflect on the ends and means of those measures, we see that :

- their end is to protect agriculture from the normal effects of changes in currency rates;
- their means is a system of border charges, which protects agriculture in richer countries and disadvantages agriculture in poorer countries.

Put in those terms, how could one possibly defend their continuation ?

Of course, we accept that in the interest of stability, MCAs are proper and even correct as transitional measures, to avoid abrupt changes in price as a result of devaluation or revaluation. But we cannot accept that they are used to make permanent price differences within the common market.

Let me put it this way :

- How can I justify to a cereals farmer in France that, in order to buy a ton of fertilisers, he needs to produce 20 % more cereals than his German counterpart?
- How can I justify to an Italian farmer that his counterpart in Holland enjoys price support 6 % higher, in Britain 8 % higher, and in Germany 10 % higher ?

It is for these reasons that the Commission proposes to phase out existing MCAs in two stages, despite the fact that, with a restrictive price policy in ECU, this will lead to price reductions in national money.

.../...

Last week I asked my experts to tell me the rate of exchange of the pound sterling against the ECU. They told me that since June it has been practically stable. That is good news. A country which has a stable rate of exchange enjoys a privilege. That is why the European Monetary System is a good thing.

But let me remind you that with privileges go obligations. The United Kingdom cannot expect to evade the common discipline of dismantling its monetary compensatory amount, on the grounds that the pound is unstable. Although the pound is not fully participating in the EMS, it is rather stable. And the British rate of inflation is now practically the lowest in the Community. Again that is good news : good news for consumers, good news for farmers, good news for the economy as a whole.

Let me make my point in this way. On the Continent we owe much to the language of Shakespeare. The English language is one of your invisible exports. Thus in French we have the expression "le fair-play". So on monetary compensatory amounts, I say: "jouer le jeu avec fair-play". Do not try to keep for ever these positive MCAs which - when they were negative - British farmers denounced with such vigour.

By the way, when it comes to fair play, I insist on it equally on the other side of the Channel.



10 DOWNING STREET

From the Private Secretary

MR. WILLIAMSON

Community Agriculture: Green Rates and Positive
Monetary Compensatory Amounts

The Prime Minister has read your minute of
13 February and the accompanying extract from
a speech by Monsieur Villain.

JC

17 February 1984

JK