

SUBJECT
cc NCRS

MIC JR



10 DOWNING STREET

From the Principal Private Secretary

16 March 1984

Dear Ivor,

Sir Richard Butler called on the Prime Minister last night to discuss developments in the negotiations about the Common Agricultural Policy. Your Minister was present.

Sir Richard Butler said that he and his Council were very concerned about the agreement on milk which had been reached at the Council of Agricultural Ministers. Their anxiety was not just about the effect on milk producers but also about the knock-on effect on beef and on the farming community in particular areas of the country. The reduction in volume of production, together with the decrease in returns, would cause quite a number of farmers to go out of business.

The Prime Minister said that the Community was producing 40 per cent more than they could consume. This problem had to be tackled. A transitional year had been included in the agreement, but this had to be financed: this was the reason for the increase in co-responsibility levy, which the British Government had not sought.

Sir Richard Butler said that he believed that surpluses had to be brought under control, and he had his Council's endorsement of that statement. But the proposals on milk provided a way of putting a lid on the surpluses. His only concern was that the lid should not be brought down too sharply. Your Minister intervened to say that the price of the transitional period was the increase in co-responsibility levy. He had thought this preferable to a 2.75 per cent reduction in price, which would have been the alternative. Sir Richard Butler agreed that his Council would have been even more opposed to a reduction in price of this order.

The Prime Minister said that the problem of getting rid of surpluses was bound to be difficult. It might have been easier if earlier action had been taken, as both the Government and the NFU had wished. She recalled that in its Manifesto for the 1979 Election, the Government had declared its intention of not raising prices for goods in structural surplus; but it had not been able to carry the Community partners along on this

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course. She reminded Sir Richard that when the Government came to power, farmers' returns had been depressed by the low value of the green pound and had been correspondingly helped by the increase in MCAs. Sir Richard Butler commented that if the proposed agreement on MCAs was adopted and the pound weakened against European countries, the positive MCAs might disappear and might even turn negative by the end of April. He asked the Prime Minister if the Government would take action to correct this. The Prime Minister commented that she could not answer this question until she saw what happened to the value of the currency.

Sir Richard Butler reiterated his request for a three-year transition period. In answer to a question from the Prime Minister about financing of this, he said that it ought to be financed from national resources. The Prime Minister said that this would be an additional subsidy to farming and she could see no realistic prospect that the period of the transition would be increased. She reminded Sir Richard that there were now nearly 1m tonnes of surplus butter under refrigeration.

Sir Richard Butler accepted this point but said that the NFU felt that farmers had been encouraged to increase production as they had done, and their response had been good for the country. This was now being thrown into reverse and many farmers would be put into difficulty. The Prime Minister pointed out that, in the recent recession, many other businesses had had to make more severe adjustments. In agriculture, pig farmers had had a very difficult time and she had heard what they had had to say recently about cereal farming.

Sir Richard Butler asked whether there was any chance of remission of the co-responsibility levy. If there was not, the NFU would probably prefer no transitional period at all.

The Prime Minister noted this point, and reiterated that the transitional period was directly related to the co-responsibility levy. As regards the general agreement, she said that we would have to insist on arrangements to ensure that it was strictly enforced in other Community countries. Sir Richard Butler agreed, and commented that the arrangements negotiated by Agriculture Ministers offered a good prospect of this.

Turning to other matters, Sir Richard Butler said that the NFU would support your Minister in resisting pressure for the abolition of the beef variable premium. The NFU also felt strongly on the sheepmeat regime: this had been costly but did provide Britain with a way of getting money back from the Community. The NFU would also like to see a rise in lamb prices. As regards pigmeat, the December census showed a slight fall in breeding which was likely to cause shortages later this year. This would bring Dutch and Danish imports into this country. The Prime Minister commented that British producers simply had to be as good in bacon production as their continental competitors.

/ Thanking

Thanking the Prime Minister for receiving him, Sir Richard Butler said that he hoped that the Prime Minister would take an early opportunity to comment on the value which the Government attached to farming. He asked for the Prime Minister's guidance on what he could say the following morning on "Farming Today" about the meeting. The Prime Minister said that she would leave that to him. But, summing up the Government's position, she said that, while the surpluses had to be dealt with, the Government had tried to make their priorities the same as those of the farming community: the Government greatly valued the contribution which farming made to British life, our balance of payments and the structure of our society.

I am copying this letter to Brian Fall (Foreign and Commonwealth Office), John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours sincerely,

Robin Butler

Ivor Llewelyn, Esq.,
Ministry of Agriculture, Fisheries and Food.

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THE NATIONAL FARMERS' UNION

FROM THE PRESIDENT
SIR RICHARD BUTLER

Prime Minister.

14th / 3. March 16th

Dear Prime Minister ^{mt}

Thank you very much for seeing me last evening. It was kind of you to fit me in to your very busy programme.

The milk agreement is very tough and if there is anything which you can do to mitigate its impact, I believe that this would be beneficial and welcome. I hope that Michael Topping is successful in his negotiations

in Brussels to-day and tomorrow.

I wish you success at the
Summit meeting in Brussels next
week.

Yours sincerely

Richard Butler

16 MAR 1984

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