

PREM 19/216

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Common Agricultural Policy (CAP)
Review of support for British Agriculture.

EUROPEAN POLICY

Part 1: May 79

Part 4: March 80

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
17.3.80							
20.3.80							
21.3.80							
24.3.80							
31.3.80							
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18.4.80							
23.4.80							
24.4.80							
<u>28.4.80</u>							
PREM 19/216							
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PART 4. ends:-

April 1980

PART 5. begins:-

May 1986

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
OD (E) (80) 14	14.3.80
OD (E) (80) 15	17.3.80
CC (80) 12 th Conclusions, Minute 3 (extract)	20.3.80
OD (E) (80) 5 th Meeting, Minutes	20.3.80

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed Wayland Date 6 May 2010

PREM Records Team

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

1. House of Commons Hansard, 31 March 1980, columns 28 – 34
“European Community (Agriculture Ministers’ Meeting)”
2. House of Commons Hansard, 24 April 1980, columns 718 – 726
“European Community (Agriculture Ministers’ Meeting)”

Signed AWayland Date 6 May 2010

PREM Records Team



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Ref. RC/PW

30th April 1980

Dear Mr. Howell,

Sheepmeat and Apples

The table below shows, for each of the last three years, and for the first quarter of this year, details of the United Kingdom's imports of fresh apples from France, and exports of "meat of sheep and goats, fresh, chilled and frozen" to France. Although this sheepmeat category includes goatmeat the latter is insignificant in quantity.

	<u>IMPORTS OF APPLES</u>		<u>EXPORTS OF SHEEPMEAT, etc.</u>	
	Metric tons	£ thousand	Metric tons	£ thousand
1977	193,396	52,984	19,341	23,341
1978	191,388	53,034	10,233	13,464
1979	245,485	56,419	5,107	6,663
1980 Jan-Mar.	71,014	17,268	187	225

Source:- Overseas Trade Statistics of the U.K.

Yours sincerely,

Robert Clements.

Ralph Howell Esq., M.P.,
House of Commons,
London. S.W.1A. 0AA.

Euro

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file 1/6

*File copy on Euro Council Mtgs Pt 3
Luxembourg*

10 DOWNING STREET

From the Private Secretary

28 April 1980

The Prime Minister has seen the Foreign and Commonwealth Secretary's minute (PM/80/35) on the New Zealand interest in a possible concession on sheepmeat.

I confirm that she approved the draft telegrams enclosed with that minute.

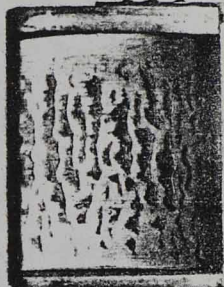
I am sending copies of this letter to the Private Secretaries to the members of OD(E), to John Chilcot (Home Office) and to David Wright (Cabinet Office).

M. A. PATTISON

R. M. J. Lyne, Esq.,
Foreign and Commonwealth Office.

LB

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~~Ewo P. Budget CAP~~
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Top Copy: Italy
Visit of Cossiga, Jan 80

PARTIAL RECORD OF A DISCUSSION BETWEEN THE PRIME MINISTER AND THE PRIME MINISTER OF ITALY, SIGNOR FRANCESCO COSSIGA, AT NO. 10 DOWNING STREET AT 1500 ON FRIDAY 25 APRIL 1980

Present:

Prime Minister

Signor Cossiga

Foreign and Commonwealth Secretary

Signor Ruggiero

Mr. M. Franklin

Signor Berlinguer

Mr. Michael Alexander

European Council: Budget

Signor Cossiga regretted that his illness had prevented him making the trip earlier. As a result he would not be able to visit all the Community capitals. He had spent 2 hours with President Giscard, M. Barre and M. Francois-Poncet that morning. The meeting had been very useful. His interlocutors had been courteous but also very precise. The French had one particular interest: to secure agreement on an agricultural package. Their objectives were both to get the prices fixed and to control the overall expenditure on the CAP. In Signor Cossiga's view there should be no insurmountable difficulty in agreeing a farm price package. But there was a political problem in associating a solution of the agricultural price problem with a solution of the Budget problem. The trick was to so manage affairs that each set of problems were resolved simultaneously. If they were agreed simultaneously, the question of the inter-relationship between the two would become purely theoretical.

On agricultural prices, the French were seeking a settlement based on an increase of between 5 and 6%. A settlement in this range would have the effect of reducing German MCAs by 1 to 1.5%. The French also envisaged a co-responsibility levy of 1.5% with exceptions being made for small farmers. Finally, they wanted a super levy on milk. Signor Ruggiero interjected that this should be progressive and designed to penalise those farmers who put milk into intervention on a very large scale. Signor Cossiga thought that a super levy on the lines envisaged by the French would primarily

CONFIDENTIAL

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CONFIDENTIAL

- 2 -

affect the ~~the~~ Federal Republic and Benelux. (Mr. Franklin commented that it would also affect the UK.) He added that the French recognised that to increase farm prices above certain limits made the British budgetary problem worse because of the consequences of such price rises on the total size of the Budget.

Signor Cossiga said that the French wish to deal with farm prices before the Budget was a problem. Another problem was their wish to have a discussion about the principles underlying the Community. They had circulated a paper on this at the last Foreign Ministers' meeting. Signor Cossiga said that he had told the French that he recognised the principles to which they referred were drawn from Community documents. But there were other principles to which they did not refer notably Article 2 in the Treaty of Rome, which referred to the harmonious development of economic activities, and the other Articles referring to the need for the Community to be dynamic not static, for it to promote convergence, and for it to help members in difficulties. He had told them that he feared the attempt to draw up lists of principles would cause difficulties. He would not wish the discussion of the Community's principles to become an obstacle to progress on the Budget.

He had then discussed the problems of convergence and the Budget. Whether the British net contribution was 1400 or 1800 meu, the sum was enormous. The Council's point of departure was that a solution to the British problem must be found. The method was clear: on the one hand there was the corrective mechanism, on the other hand the need to increase Community expenditure in the United Kingdom. The Community's principles need not be in danger if, for instance, it was agreed that a revised corrective mechanism would run until a certain date; the fact that the date had been set would preserve the Community's principles. The Community had to recognise the fact that the British figure was excessively high and should not get mesmerised by arguments about own resources. He had told the French that it was difficult to contemplate failure when one considered the damage this would do to the image of the Community. How could the Community take decisions on major foreign policy issues if it was unable to solve its own problems? The Prime Minister said that if the present problem could not be resolved, the Community would break

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CONFIDENTIAL

- 3 -

down. She would not agree to the fixing of new farm prices unless the Budget problem was solved simultaneously. France's position appeared to be the mirror image of hers. The difficulty was that farm prices could not be negotiated at the Summit: a procedure for resolving the two issues simultaneously was required. Signor Cossiga said that President Giscard agreed that the European Council could not discuss farm prices. Agreements on the Budget and on farm prices would have to be reached in parallel discussions.

Turning to the Budget itself, Signor Cossiga said that in response to his efforts to try to establish a band within which discussion of figures for budgetary solutions could take place, the French proposed a new approach. They had suggested guaranteeing for a certain period that the British imbalance would not increase above a certain point. They had suggested taking a figure, say that for Britain's net contribution in 1979, comparing it with the net cost at the end of 1980 (including the new farm prices) and setting up a mechanism so that the latter figure should be no higher than the former; i.e. the annual increase would be restored through the financial mechanism and Community investment. There would be a provision for reviewing the mechanism. This would render the British problem independent of farm price increases, would leave the Community's principles untouched and would give a guarantee to HMG that, however the Community evolved, HMG's net contribution would be unaffected. The French proposal would give Britain security. Moreover, the Community was already engaged in a process which would give increasing emphasis to the structural element in budgetary expenditure at the expense of the agricultural price element. This process would benefit the UK and would produce a permanent solution to the British problem in due course.

When the Prime Minister, summarising what Signor Cossiga had said, described the French position as being that Britain would pay no increase above the 1979 contribution, Signor Ruggiero said that the French proposal was more nuancé. The difference between the 1979 and the 1980 figure would be covered in whole or in part. The proportion had not been clearly defined. But Signor Ruggiero said his own impression had been that President Giscard had in mind a rebate amounting to the full amount of the difference. Mr. Franklin

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CONFIDENTIAL

CONFIDENTIAL

- 4 -

pointed out that this meant deferring a decision of the full benefit that Britain would receive until it was clear what the difference between the 1979 and the 1980 contribution would be. The Prime Minister said that the value of the French approach would depend on finding the right starting point.

Signor Ruggiero thought that President Giscard had had a number of reasons for putting forward his new proposal. The Prime Minister had said in Strasbourg that Britain's budgetary contribution in 1980 would be intolerable. This might be said to imply that the 1979 contribution had been tolerable! The new approach should be attractive to Britain because it would give flexibility and security: if the total size of the Budget increased, and hence if Britain's contribution increased, the rebate would increase. Moreover, the fixing of a ceiling would mean that if Britain's eventual contribution for the year was greater than the present estimate of 1683 meua - as might well be the case - Britain's rebate might easily be more than 1000 meua. It seemed clear that the French were trying to be helpful. The Foreign and Commonwealth Secretary said that there was nothing wrong with the French idea except that the base figure they had chosen was too high and their present position on duration was unacceptable. The Prime Minister said that the French still envisaged far too large a British contribution. It would be essential to find some way of lowering the base line. Mr. Franklin suggested proposing that the base figure should be the average of the last 3 years rather than the last year alone. The Foreign and Commonwealth Secretary, agreeing with Mr. Franklin, said that we should accept the French approach but go for a base line calculated as an average of a number of previous years.

Signor Ruggiero said that all his contacts in recent weeks, including those with the Germans, had left him with the impression that the breaking point for the other members of the Community would be a rebate to Britain in the region of 900 to 950 meua. The Prime Minister said that this was not enough. Signor Ruggiero pointed out that such a result would amount to a rebate of 60% of Britain's net contribution. Such a result would have been unthinkable in November and no previous British Government would have had the slightest chance of achieving it. The Prime Minister observed that

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/ nonetheless

nonetheless Britain would remain the second highest contributor. It was no good saying that the Government would have done well. It was still not good enough. Signor Ruggiero wondered whether there was any possibility of achieving movement by describing figures in gross rather than net terms. Mr. Franklin observed that eventually one always came back to the net figures.

Signor Cossiga said that the French had introduced a new element into the situation. There would be a datum line unaffected by the evolution of the Community policies. The figure for Britain's contribution would be fixed even if there was provision for revision. The fact that Britain's contribution could get no worse would relieve a great deal of uncertainty. The Prime Minister said that duration remained very important. She could not afford to have a major row again in three years time. Mr. Franklin said that it must be clear that the new mechanism would continue if the restructuring of the budget had not taken place. The criteria should be that the mechanism should be prolonged if this was necessary to avoid the re-emergence of an unacceptable solution but ^{that it} could be revised to take account of restructuring. The Prime Minister commented that President Giscard was clearly trying to be helpful. Nonetheless the base line proposed was too high.

The Prime Minister said that it was necessary to decide how the negotiations should be carried out. The Foreign and Commonwealth Secretary said that President Giscard wished to get ahead with the discussion on a farm price package. Therefore Agricultural Ministers would have to meet within the next day or so. This would not be possible for the United Kingdom unless there were parallel financial discussions. Signor Cossiga said that the Presidency could of course propose ways of closing the gap. But this would risk involving the Heads of Government in bandying figures at the European Council. There was also the problem that the European Council had no competence to fix farm prices. Therefore the Agricultural Council must meet separately. He did not think it would be possible to give guidelines to Agriculture Ministers to fix prices after the European Council. Therefore the

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CONFIDENTIAL

- 6 -

Agricultural Council would have to meet and continue discussions while the European Council was meeting and report on progress so that the Presidency could formulate proposals against that background. The Presidency would put forward a final proposal when all other issues had been resolved. In that way there would be no surprises on one side or the other.

Signor Cossiga said that he understood the British Government's need for parallelism in ^{the} between discussions on farm prices and on the budget. But it would be too dramatic to have Ministers of Foreign Affairs meeting on the following day in parallel with Agriculture Ministers. The Foreign and Commonwealth Secretary suggested that Signor Ruggiero's group should meet in parallel with a group of senior agriculture officials. Ministers could be brought into the negotiations at a later stage. There would then be two meetings of officials rather than one of officials and one of Ministers. Signor Cossiga said that where agricultural questions were concerned the only level at which useful discussions could be held was among Ministers. The Prime Minister stressed that whether it was Ministers or officials, everything that might be agreed on farm prices would be provisional until the results of the discussions on the budget were available. Signor Cossiga said that he understood that the Prime Minister wanted parallelism in regard to the level as well as the timing of the discussions. The Prime Minister agreeing, said that she must be able to see progress in both fora. She had learned never to give anything away in Community discussions. Signor Cossiga said that he had never thought of allowing the Agriculture Ministers to reach agreement without a parallel agreement on budgetary matters. He wanted to get them working, under his overall direction, partly because he did not want the European Council to get into figures and partly because he did not trust the Ministers to follow guidelines.

Signor Ruggiero said that he hoped the preparatory working parties could identify the positions of the minority and of the majority on both farm prices and on the budget. Their reports could then go to the European Council to agree on a compromise position. After some further discussion, the Prime Minister

/ said that

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- 7 -

said that the meeting had reached a provisional decision that two groups of permanent officials should meet in parallel in Luxembourg the following day to discuss farm prices and, under Signor Ruggiero's chairmanship, the budget problem. Assuming they made progress, Agriculture Ministers would aim to arrive early on Sunday morning. Signor Cossiga suggested that the Agriculture Ministers might arrive in time to dine together on the Saturday evening. The Prime Minister said she would have no objection to this provided it was understood that they could do nothing then. In the end no final decision was taken about the precise timing of the Agriculture Ministers' first meeting.

The discussion ended at 1710.

AmB

25 April 1980

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

From the Minister

Rt Hon W J Biffen MP
Chief Secretary
HM Treasury
Treasury Chambers
Parliament Street
London
SW1P 3AG

NBAA

Handwritten initials and date: "Hand" and "- 28/4"

25 April 1980

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GREEN POUND REVALUATION

Thank you for your letter of 24 April. I must tell you that I cannot accept the arguments you put for an immediate revaluation of the green pound in the context of a price settlement at the European Council.

While I have pressed in Brussels the arguments for a minimal price increase, it would be unreasonable to expect the UK industry to forego part of whatever increase is agreed for Community producers. I believe this would be totally indefensible in economic terms. Our own industry is facing at the moment a higher rate of inflation and higher interest rates than producers in other Member States. The German and Benelux farmers for example, who have the highest level of support prices in national currencies, are confronted with inflation rates of only 5 per cent and 6 to 7 per cent respectively. As you know, the net income of the UK industry has been severely depressed in real terms over the last three years. It fell by 11 per cent in 1978 and a further 17 per cent in 1979. Farmers are confronted with another very difficult year with farm input costs increasing by 15 per cent including a very large wage award.

To do what you propose would imply a worsening of the relative position of our own industry compared with that in other Member States. It has been our policy to remove this disadvantage. But if we were to announce next week that the common price increase was not to be fully applied here, this would be taken as an indication that we were reverting to the sort of policies pursued by our predecessors which have taken a serious toll particularly of the livestock sector. We should be inviting producers in other Member States to increase their share of Community production at our expense.

Continued/

I do not accept the way in which you dismiss my argument about sterling's volatility. We have, in fact, had only two weeks with positive MCAs which will come into effect again next week. If we were to accept and announce in principle a 2½ per cent revaluation next week, we could well find that the pound had weakened again before the Agriculture Council had met to take decisions. This would put us in a very silly and totally indefensible position.

Moreover, the Germans are indicating great reluctance to accept even a 1 per cent revaluation of their green mark in the context of a prices settlement. Even on next week's figures their effective support level is some 8 per cent above ours.

Nor do I see how what you propose is either necessary or helpful in relation to the Prime Minister's discussion in Luxembourg. Following the decision taken at this week's Council on the franchise, there is no reason why this should be raised at Heads of Government level. As to the revaluation of green currencies, the Germans and the Benelux have as much, if not more, reason to be on the defensive than we do.

I am sending copies of this letter to the Prime Minister, other members of OD(E) and to Sir Robert Armstrong.

PETER WALKER *ea*



29 APR 1980



I do not regard the way in which the...
 starting a variety... We have...
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PETER WALKER



Subject filed as Euro Council
Mtp 153
Prime Minister Luxembourg

①

Agree text of telegrams attached?

Yes

Paul

PM/80/35

PRIME MINISTER

European Council: New Zealand Interest in a Possible Concession
on Sheepmeat

1. As you know, one of the points on which we may have to show some flexibility at the European Council is the inclusion of a limited element of intervention in the proposed sheepmeat regime. This is something to which the New Zealanders will be strongly opposed.
2. They fear that any form of intervention would be the thin end of a wedge leading to the development of more elaborate intervention agreements, which would lead in time to increased prices, reduced demand and a drop in New Zealand's exports of lamb. They also fear that the Community would be tempted in addition to extend export restrictions to sheepmeat, thus damaging New Zealand's prospect in third markets as well.
3. There is, of course, no prospect of our conceding all that the French request at the European Council. But we have to recognise the real New Zealand concern about conceding the principle of intervention, even on a limited scale. They have made their views on this clear to us many times, and spoke strongly on the issue to Willie Whitelaw when he paid an official visit to Wellington last week. We therefore have to recognise that any concession by us at the European Council is likely to provoke a critical reaction in New Zealand.
4. One possibility would be to leave the New Zealand Government in ignorance of our position until we see whether it does in fact prove necessary to give some ground over intervention at the European Council itself. I believe, however, that events will move too fast for us to be sure of being the first to break any unwelcome news there may be to the New Zealanders.
5. I therefore favour taking the New Zealanders into our

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confidence and, subject to your approval, would like to send
/ a message to Talboys in the terms of the attached draft. I
would instruct our High Commissioner to deliver this on the
morning of Monday 28 April (which corresponds to the evening
of Sunday 27 April European time).

6. I am sending copies of this minute to the Members of OD(e),
to Willie Whitelaw, and to Sir R Armstrong.

C
/

(CARRINGTON)

Foreign and Commonwealth Office
25 April 1980

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File No.
 Department
 Drafted by
 (Block Capitals)
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[TEXT]

EUROPEAN COUNCIL: POSSIBLE CONCESSIONS ON SHEEPMEAT

1. Please deliver the following personal message from me to Mr Talboys as soon as possible on the morning of Monday 28 April.

Begins:

A

Since I wrote to you on 2 April it has become less likely that there will be any discussion of post-1980 access for New Zealand butter at the European Council. However, as you know, the internal regime for sheepmeat will be one of a number of issues, including, amongst other things, CAP prices (and the Common Fisheries Policy), which some of our Community partners want to have settled in parallel with the UK budget contribution. We of course believe that our case for more equitable treatment

Copies to:--

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the budget stands on its own, But, given the attitude of other Member States, it would be unrealistic to expect to have it resolved in isolation. We have therefore indicated that we too are ready to see progress made in parallel on the various outstanding issues.

So far as sheepmeat is concerned we have to recognise that the French are likely to be unyielding in their insistence that, for there to be progress on an internal regulation, it must include some element of intervention. Other Member States are prepared to acquiesce in this. As you know, we have consistently opposed intervention and we continue to think it unnecessary. But it would be less than frank of me not to tell you that we may be forced to show some flexibility on this point if, in the light of developments, this ~~is~~ seems to be essential in order to secure a successful outcome to the European Council as a whole.

I do of course appreciate your concern that even 'light' intervention would, potentially, be damaging for New Zealand. Willie Whitelaw tells me you repeated your anxieties on this score when you saw him in Wellington recently. As you know, while we do not believe that a 'light' intervention regime would materially damage your interests, we too are conscious of the danger that there might in time be pressure to develop such a regime into something more elaborate and more expensive. This would threaten our interests as well as yours and we would resist it. Our objective at the

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Council will be to avoid, if at all possible, any concessions on intervention and only to give ground in the last resort and subject to strict conditions, if we judge this essential to secure an overall budget settlement. It is of particular importance that knowledge of this possibility should be restricted to as few people as possible. ~~a~~ leak in advance of any concession being made would be damaging to both our interests.

After the Council I shall make sure you receive as soon as possible an immediate authoritative account of what has taken place.

Ends

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FILE Euro PD
Subject filed as Euro PD: PE7
Com. Budget

10 DOWNING STREET

From the Private Secretary

24 April 1980

Dear Paul,

Telephone conversation with President Giscard

President Giscard D'Estaing rang the Prime Minister at 6 pm this evening.

After an exchange of courtesies, President Giscard said that he was ringing to discuss the forthcoming meeting of the European Council in Luxembourg. He was anxious to ensure that there should be no misunderstanding about it. It was out of the question that an agreement would be reached which did not cover all the outstanding issues. This was a fundamental point. Britain had made a demand which the other members of the Community were being invited to meet. The finding of a solution would constitute a burden for the other members. It would be impossible to explain in France that this problem had been resolved while the agricultural prices, which should have been agreed in March, had not been settled. The French Government would not be able to justify a failure to find a solution on other issues than the Budget. It followed that if there was no agreement on those issues, there would be no agreement on the Budget. President Giscard said that he would be making this point to Signor Cossiga in the morning. The Prime Minister said that she also would be seeing Signor Cossiga. She did not think it would be possible for there to be a detailed discussion of farm prices at the European Council. She was worried that a situation would arise in which President Giscard was saying there could be no agreement on Britain's problem until his problems were settled, while she would be saying that there could be no solution to other problems while Britain's problem was unresolved. In the end, all the major problems would have to be sorted out at the same time.

Taking up the Prime Minister's point that the European Council would not be able to discuss farm prices, President Giscard said that the Agricultural Council should have been able to prepare for the meeting. Its failure to do so was causing irritation. The Prime Minister said that both Heads of Government had irritations. The irritations would have to be resolved together. The Budget was acutely difficult for Britain: Sheepmeat was, obviously, acutely difficult for France. They could not be traded off one against the other, but they had to be resolved at the same time.

/ President Giscard said

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- 2 -

President Giscard said that nothing seemed to have happened since the Dublin meeting. Farm prices should have been fixed by 1 April. They always had been in the past. But this year nothing had been done. The Prime Minister replied that the Budgetary problem had been under discussion since Strasbourg and recalled that last year agricultural prices were settled while the European Council was meeting in Strasbourg in June. She was perfectly prepared to see the Budgetary problem and the farm problem solved in the same time-scale. Neither could be solved without the other. She had found the meeting in Dublin very difficult and was anxious to avoid another such discussion.

President Giscard commented that he found it difficult to understand the perpetual postponement of serious discussion of Britain's problem and of other problems. Preparation for the Council could by now have been well advanced but in the event there had been no effective ministerial consideration of either the farm price problem or of Britain's Budgetary problem. The Prime Minister said that Britain's problem was not a technical one. It had been on the table since July. The outlines of a solution were clear but further progress was unlikely until the Heads of Government had discussed it further. It was essential that they should get somewhere this time. With regard to the Agricultural Council, there had been wide differences between a number of members. President Giscard implied in response that if the British and French delegations had been in agreement, the problems could have been resolved. He said that it was absurd that there should be an impression of an Anglo/French rift. He was sorry that the meeting in Luxembourg seemed likely to take place without a global compromise having been prepared.

The two Heads of Government agreed that when they saw Signor Cossiga tomorrow, they would not mention the fact of the telephone call. The Prime Minister having offered to send Sir Donald Maitland to Paris again to discuss the situation, they agreed to review the possibility after Signor Cossiga had left London. The Prime Minister said that she would ring President Giscard tomorrow evening to discuss whether or not Sir Donald should go.

I am sending copies of this letter to John Wiggins (HM Treasury), Garth Waters (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

Yours ever

Richard Alexander

Paul Lever, Esq.,
Foreign and Commonwealth Office

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Subject filed as Euro M: Pt 7 La. Pmt 24/4
Com. Budget

RECORD OF A TELEPHONE CONVERSATION BETWEEN THE PRIME MINISTER AND
PRESIDENT GISCARD D'ESTAING AT 1800 HOURS ON THURSDAY 24 APRIL

PM: Hello.

PRIME MINISTER'S

GD: Hello, how are you?

PERSONAL MESSAGE

PM: I'm well, and you?

SERIAL No. T92A/80

GD: Oh well, as well as one can be under these difficult circumstances. I'm calling you just to tell you a few things about the Luxembourg meeting. We received Mr. Maitland who came last week and I wanted for you personally just to be very clear and to have no misunderstanding I mentioned to that it is absolutely out of the question for us to reach an agreement that will not cover all the issues and this is really fundamental for us for a very simple reason. The question of the British contribution is a question of wage demands adverse to us. If we agree, we will meet to an adequate proportion, your demand but it will be a burden for us and an expense for the French contributors. It is absolutely impossible at the same time to explain that something that should be decided and would normally have been decided level of farming prices because if there is a general solution of the problem, you can explain that, we will bring a contribution to bear to the British the problem but if-even the normal question it is absolutely impossible to justify such support. So this is very very clear and there must be no doubt in your mind if for reasons I don't know you think it's not possible to reach an agreement on the other issues you must know that it will be a question for me to give an agreement. I mentioned this to Helmut also and he more or less shares my view on this so I wanted this to be very clear for you. We will receive Mr. Cossiga tomorrow morning and I suppose he will go and see you also and we will say this to him tomorrow morning.

PM: Yes, Signor Cossiga is coming here tomorrow afternoon and I shall be seeing him. I hope he will arrive about half past three and I will be seeing him then. Now, Mr. President, it's just not going to be possible for us to do the negotiation on the agricultural prices at the Summit. It's much much too complicated and my theory

is we're going to get into a position where you say that we can't reach agreement on the British budgetary problem until we reach agreement on the agriculture prices and also I would expect on Sheepmeat and also where we say we can't reach agreement on those other things until the British budgetary problem is sorted out. And in the end we're going to have to do the three, finally agree the three together. But I can't, I'm not qualified to negotiate and I doubt very much whether other Heads of Government are, round the table at the European Council, the complexities of agricultural prices.

GD: Well, but there was a meeting in Bonn, two days anyhow with Agriculture Ministers and they should have been able to prepare the solution because I don't see why they will be more equipped to do it in a fortnight than they were this week or the week before. Postponement is creating irritation and has no possible justification.

PM: I think, Mr. President that you have certain irritations and I have certain irritations and somehow we have to get them resolved together. But I am afraid that we are going to get into the position where I say because we are, you say that we are demanding something back and we are paying so much that it is an accutely difficult problem for us and I recognise that Sheepmeat is a difficult problem for you and I do indeed recognise that you want a solution on that and I think the difficulty is Mr. President that in the end we've got to get them altogether but I don't think we can trade one off against another. They each have to be done on their own merits and when they're done on their own merits, we haveto agree them altogether.

GD: Yes, but we are now April 23rd. We met in Dublin in November. We expected proposals and works done by the Ministers all the time and there is nothing. So my irritation is not at all against you as a person but the normal work of the Community cannot be stopped forever. Every year we have discussions for the prices, the prices should be fixed on April 1st, they always were and I don't feel

..... your Agriculture Ministers are not able at least to suggest what should be done. There was a debate in the Parliament last month and there was two meetings of the Agriculture Ministers and nothing comes out.

PM: Yes, but we have been discussing too the Budget as you know since Strasbourg and I seem to remember Mr. President that the agricultural prices last year were not fixed until the Strasbourg time because I well remember being telephoned from the Agricultural Ministers' Conference while we were in session in Strasbourg so it's not unusual for the agricultural prices to take a little bit longer to fix.

GD: Well, the proposal by the Commission was submitted in the month of January and we are now in April and we haven't even had a serious discussion on this.

PM: Mr. President, you are going to see Signor Cossiga tomorrow and so am I. You want your problems solved. Of course I understand that because I know that I need mine solving too and so if I'm restless to get mine solved then you are to get your's solved and I'm perfectly prepared to solve them within the same time-scale, within the same period but I doubt very much whether we're going to get any one of those things solved now without the other and I think therefore I'd better pursue this with Signor Cossiga tomorrow because I don't want it to be another impossibly difficult meeting. I really don't. I found the last one extremely difficult and I would really like the meeting to go smoothly. So if I will put our viewpoint to Signor Cossiga tomorrow and he will have seen you, in more detail than we can talk over the telephone. But I do repeat, I don't think we're going to get anything solved until we solve it together. Anything at all.

GD: But I accept this. But what I cannot understand is the perpetual postponement because nothing and nobody will gain by it and there is never a serious discussion on issues and I remember well that in the last Dublin meeting it was suggested that the European Council could be advanced to February 8th for a final solution. I express some scepticism.

PM: I remember well.

GD: Now we are in April and we will meet without due proper preparation.

PM: My problem isn't a difficult one technically in any way. They've got all the technical methods within Community rules. It's just a question of the will. But we are going to be in acute Community difficulty because I will say that my problem has been on the table even longer than the agricultural problem and we haven't got a solution to that one.

GD: There was not I must say frankly not even a serious discussion on this matter either. There was just generality. We instructed our Ministers to engage in a clear discussion in the Brussels meetings but there was never discussion.

PM: There's no technical difficulty in solving the British budget problem. On the formula you and I agreed in Dublin. No technical difficulty at all. It's is only a question of how much in the receipts. It is really only comparatively simple. I doubt whether we're going to get very much further on that until Heads of Government discuss it together. But I do know that none of us are going to get anywhere until we can satisfy us all together and I am very worried for the future if we can't get somewhere at this Community meeting. You will understand Mr. President because you have problems. I understand your problem and I just hope you understand mine.

GD: But I understand yours and instead of engaging in absurd Anglo/French which was suggested by the press. We never went in that direction. I think that we should have our people working seriously to find a sensible compromise. With the others, like for instance the Germans, we have the work done and we are practically agreeing on the solutions.

PM: On the agricultural prices Mr. President it is not only Britain who was different from France there are very very wide differences of view, as I understand it yesterday, according to the statement we have just had in the House of Commons today, very wide differences. It didn't seem to me that there were anywhere near

a solution.

GD: Oh yes yes.

PM: But I know that I can't negotiate all the details on agricultural prices.

GD: Yes, but I just wanted to mention to you is that I am sorry that when we meet again in two days' time without the normal and careful preparation for a proper compromise.

PM: Yes. Would you like me to send Sir Donald Maitland to Paris again before Sunday?

GD: Well if .. I think, we will meet Mr Cossiga tomorrow morning,

PM: Meet Mr Cossiga, yes.

GD: He will report to you tomorrow afternoon.
I will not mention this call because I will avoid anything which looks like an Anglo/French dispute.

PM: I wouldn't call it Anglo/French dispute. I just hate the idea.

GD: It's an absurd idea.

PM: It is.

GD: When you see Mr. Cossiga if you think there is a chance to make progress or to prepare better the meeting it is very easy to send Mr. Maitland Saturday morning or afternoon.

PM: I will keep the possibility open Mr President.

GD: And you let me know tomorrow afternoon after Mr. Cossiga

PM: Of course. If we can get any further by detailed negotiations then of course I will let you know. I am afraid we're giving Mr. Cossiga a very difficult time.

/GD:

GD: The poor one he has the flu.

PM: Yes I'm so sorry.

GD: I hope he will recover in time.

PM: Well I hope so.

GD: Well anyway it will be pleasant to see you.

PM: Thank you very much. We can at least look forward to the dinner in the evening if not the meetings earlier in the day.

GD: Yes

PM: All right. It's very kind of you to telephone. I much appreciate it. Goodbye Mr President.

Subject with briefing for
Cossiga Unit ~~April~~ Italy
Jan 80 Unit of Italian PM.

Ref. A02022

PRIME MINISTER

Preparations for the European Council - Sheepmeat

*In your
order*

The penultimate paragraph of the Minister of Agriculture's Assistant Private Secretary's letter of 23 April to Mr Alexander records the Minister's view that you should not give Signor Cossiga any indication in advance of the European Council that we might be ready to agree to intervention as part of a Community regime for sheepmeat.

2. It is clear that the French are putting in a maximum bid and that we shall not want to concede all their demands (which, as the Minister says, appears to amount to Community-wide intervention all year round). Nor will some other countries want to do so. But that is a different question from what should be said to Signor Cossiga. After the meeting of Personal Representatives on 2 April, the Italians circulated a text which might be acceptable to us in the context of a satisfactory settlement of our Budget problem. It contains safeguards which I have underlined and reads as follows -

"The European Council considers that the future market organisation for sheepmeat, based on principles of free circulation and financial solidarity, must provide appropriate income protection for the farmers concerned through recourse to private storage measures and producer premiums as well as, if the need arises and on a temporary basis, through intervention purchases for certain qualities of meat, this measure being confined to limited periods and certain areas of the Community."

3. When you see Signor Cossiga tomorrow, you might mention during the discussion that, while we could not accept the text on sheepmeat circulated at this week's Agriculture Council by the French, we might be able to accept the Ruggiero text in the context of a satisfactory Budget settlement. In this

way you would indicate the limits of our flexibility. It could be a mistake to say nothing to Cossiga on this point, sheepmeat being an area where concessions are less costly to us than in other areas where the French and others have made a link.

ROBERT ARMSTRONG

24 April 1980

CONFIDENTIAL



From the Minister

The Rt Hon Margaret Thatcher MP
Prime Minister
10 Downing Street
LONDON
SW1

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

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Council Mts

Prime Minister

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Phms

24 April 1980

to Phms

[Handwritten signature]

COUNCIL OF AGRICULTURE MINISTERS 21-24 APRIL

The Agriculture Council which ended at 3am this morning was a very tedious affair, but its outcome was very satisfactory from our point of view and I do not think it has done anything to prejudice your negotiations in the European Council.

Throughout the meeting the French pressed hard for the most precise indications of a likely settlement - particularly on prices and on the co-responsibility levy on milk, and if not from the Council as a whole then from the majority of delegations. They circulated a press release which reported Giscard's view that the Agriculture Council had to reach a degree of agreement which would simply require endorsement by the European Council, if that Council itself were to prove fruitful. This attempt at blackmail was much resented and they got nothing of substance from the Agriculture Council. Nor was this a question of eight against the UK. If any country seemed isolated it was France. But on most of the points we discussed there were as many different views as there were delegations. The agricultural negotiations are nowhere near the point at which they can be quickly resolved.

We spent the first two days differing from one another on the size and nature of co-responsibility levies on milk. Most of the rest of the time was then spent on agreeing a statement for the European Council on the principles which should govern a CAP settlement. It contains only three points of substance. On prices, it simply records that there is a large majority in favour of price increases larger than those proposed by the Commission. That, of course, was already common knowledge.

On co-responsibility levies it endorsed the principle that producers themselves should bear the cost of disposing of the extra milk produced in the Community compared with a base period. The two base periods cited as examples would give estimates of this cost as 346 MEUA or 515 MEUA. But when it came to defining the size and nature of the levies there was total disagreement. The Italians, with support from the Danes, made their acceptance of the principle conditional

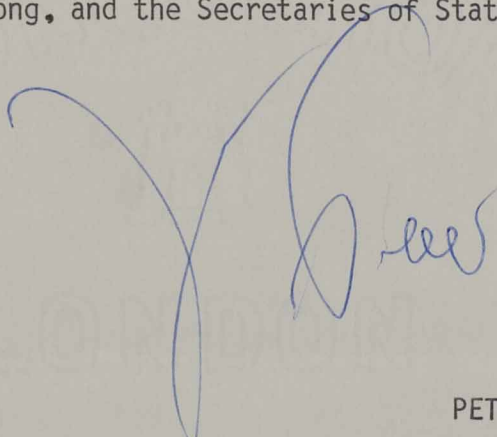
on the levy being charged on products sold into intervention, which was anathema to others. The French made theirs conditional on the levy being "progressive", ie discriminatory against the bigger or more intensive producer, which the Italians, Danes and Dutch joined us in rejecting. The Germans got very agitated about the figures generally, because they seemed to be pointing to a levy of over 3%, which Germany could not accept. Others made it clear that they would be looking for price increases that handsomely compensated for any levy. So the general endorsement of the principle of co-responsibility means, I fear, very little, though it is at least accepted that the flat rate levy should be of at least 1½%.

On the cost of a settlement, there was little disposition to endorse any particular figure. The Commission wanted it stated that the FEOGA Guarantee Section's cost for 1980, which would be about 11.8bn EUA if we simply went on as we are, should be reduced by 1bn EUA. We of course supported them. But others were clearly afraid that any clearly defined limit would place too severe a constraint on the eventual settlement, and in the end all they could agree on was a reference to the ECO/FIN resolution calling for substantial savings.

With this out of the way we turned at 3am this morning to sheepmeat. The Commission had circulated a modified version of the latest French proposals, but Mehaignerie said they would not do and circulated his own text. I circulated a counter-paper setting out our own views. There was no substantive discussion. We simply agreed that both papers should be studied.

Finally, after extending the marketing years to the end of May, the Council agreed to the Commission's temporary compromise on variable positive MCAs. The compromise runs until 30 June and is as I outlined it in my message to you. I accepted it only on the understanding that the whole issue will now be thoroughly studied in the coming weeks.

I am sending copies of this letter to Peter Carrington, the other members of OD(E) and Sir Robert Armstrong, and the Secretaries of State for Scotland, Wales and Northern Ireland.



PETER WALKER

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24 APR 1980

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Top Copy with briefing for
Corriza visit on ~~24~~ April
Jan 80: Vint.

Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Peter Walker MBE MP
Minister of Agriculture
Fisheries and Food
Ministry of Agriculture
Fisheries and Food
Whitehall Place
London
SW1A 2HH

24 April 1980

Dear Minister,

GREEN POUND REVALUATION

I have seen the Lord Privy Seal's letter of 17 April and your reply of 18 April. — attached.

It looks conceivable, though far from certain, following the Agricultural Council, that the European Council conclusions could include some broad indication of the overall level of CAP price increases to be agreed this year. This increase would probably be somewhat higher than we would otherwise have accepted. The Prime Minister would face a difficult task in defending such an outcome to the UK public, even in the context of a satisfactory settlement on the budget, and her position would, I judge, be eased if she could at the same time announce that the green pound was to be revalued so that only part of the price increase would apply in the UK.

I am glad to see that you do not rule out a revaluation of the green pound in principle. You give two reasons for opposing a change now. The first is that the 5% devaluation which was made in December has not yet worked through to all commodities. I should have thought that this was, if anything, an argument which suggested that it was better to revalue now rather than later. It must surely be less disruptive for a price rise to be countermanded than for it to be implemented and then reversed. The second is that sterling is volatile. This is true but this may always be the case. What we do know now is that the exchange rate used to calculate the MCAs which will be due to come into force next Monday, when the broad lines of the price fixing may be agreed by the European Council, is about $2\frac{1}{2}\%$ above the current green rate. Thus it would be possible for a revaluation of the green rate of that amount to be agreed in principle at that meeting.

Apart from the major presentational point I see a number of arguments for such a course:

- a) When we agreed the 5% devaluation in December an important consideration was that it would strengthen our hand in holding out for a price freeze for CAP commodities in structural surplus. We may now need to relax that stand and it is therefore reasonable to reverse in part the devaluation decision.
- b) A willingness to revalue the green pound should help the Prime Minister to maintain a consistent line on common prices and thus may help to minimise any concession that is needed to secure a budget settlement. If we are not ready to revalue she will have the difficult task of explaining to the other heads of government why we believe that common prices should be restrained but that UK farmers should be supported at above the common price.
- c) Demonstrating our willingness to revalue should contribute to a satisfactory final decision on the awkward problem of the franchise. Once we have demonstrated by our actions that we do not propose to apply positive MCAs other than for short periods we should find it easier to convince the other member states (and commentators in the UK) that our position on the franchise is not dictated by a wish to over-protect UK agriculture but by our view of the need to avoid trade distortions on the odd occasions when, due to fluctuations in exchange rates, positive MCAs are needed on a temporary basis.

Of course, if the European Council does not resolve the CAP/Budget issue and the price fixing is further delayed we should postpone a decision on the point. But I suggest we should now take a decision to revalue, contingent on agreement at the European Council which includes a general increase in prices, so that it could be announced by the Prime Minister when she reports to the House on her return.

I am sending copies of this letter to the Prime Minister, other members of OD(E) and to Sir Robert Armstrong.

Yours sincerely,

John Biffen

PP. JOHN BIFFEN

[Approved by the Chief Secretary
and signed in his absence]



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

From the Minister's
Private Office

N Sanders Esq
Prime Minister's Office
10 Downing Street
London
SW1

L. Sanders

24 April 1980

Dear Sir,

COUNCIL OF MINISTERS (AGRICULTURE): 21-23 APRIL
1980

- ... I attach a copy of the statement which Mr Walker hopes to make to the House today. I would be grateful for immediate clearance.

I am copying this letter to Ingham; Stevens (Leader of the House's Office); Maclean (Whip's Office, Commons) Pownall (Whip's Office, Lords); Wright (Cabinet Office) and to private secretaries of the other Agricultural Ministers and members of the OD(E).

Yours sincerely

Garth Waters

Garth Waters
Principal Private
Secretary

STATEMENT ON COUNCIL OF AGRICULTURE MINISTERS 21-24 APRIL

With permission, Mr Speaker, I should like to make a statement about the meeting of the Council of Ministers (Agriculture) in Brussels on 21-24 April, at which I represented the United Kingdom and was accompanied by my Hon Friend the Minister of State.

After two days of inconclusive discussion of the milk surplus, the Council spent its final sessions in agreeing a statement for the European Council on the principles which should underlie this year's prices settlement. This statement contains no commitment as to price levels, though it records that a large majority of Member States is in favour of larger increases than have been proposed by the Commission. France made a determined attempt to secure agreement that the price increases should average 5 per cent, but the UK and the majority of Member States resisted this. I repeated the view of Her Majesty's Government that there should be no price increases on those items in surplus and that price increases elsewhere should be within the limits proposed by the Commission.

The statement also deals with co-responsibility levies on milk. It records a consensus that the cost of disposing of future additional production should be borne by producers themselves, by means of a flat rate levy of not less than the 1.5 per cent level agreed last year and a further levy designed to put additional pressure upon further increases in milk production.

There is, however, no agreement as to the form of this further levy. Some Member States recorded the fact that their acceptance of the principle was conditional on its being implemented by means of a levy on products going into intervention, and others on its incorporating an element of discrimination whereby the rate of levy would be lower for certain classes of producers. We were supported by Italy, Holland and Denmark in our view that there should be no discrimination. Finally the statement refers to the decision of the Economic and Finance Council that substantial savings must be made in agricultural expenditure.

There was virtually no discussion of sheepmeat, but the French Minister and I each circulated a statement of our respective positions, and these will be further considered by the appropriate institutions.

The marketing years for commodities due to end next week were extended to the end of May. Finally, the Council adopted a proposal by the Commission on the treatment of variable positive monetary compensatory amounts. Under this arrangement, during the two months that this proposal operates Britain will be on the same basis as the other members of the Community with regard to both positive and negative monetary compensatory amounts. I made it clear that I accepted this only subject to thorough consideration of the whole issue on a Community basis during the coming weeks.

24 APR 1980



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*Subject with briefing for Cossiga
Visit - Italy: Jan 80. Unit of Italian
Min.*

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



From the Minister's Private Office

*plw briefs for
Cossiga meeting.*

Michael Alexander Esq
Private Secretary
10 Downing Street
London SW1

23 April 1980

Dear Michael

PREPARATIONS FOR EUROPEAN COUNCIL - MUTTON

It is not clear whether the postponed meeting between the Prime Minister and Signor Cossiga is likely to be set up before the European Council.

In case it is, and in view of paragraph 26 of the brief, my Minister considers that the Prime Minister should know the outcome of discussions last Friday with French officials.

It is clear that the French are going for a régime which includes intervention throughout the Community all the year round. The intervention level would be at 85% of a "guide price" initially based on the present French price level and seasonalised to reflect the pattern of marketings over the year. They consider that this would provide a "safety net" at about the market equilibrium price with free circulation. Export restitutions would also be used as necessary. These arrangements, along with voluntary restraint agreements with third country suppliers, would constitute the permanent régime to be implemented from the outset.

In addition the French want premiums to make up the market revenues of producers, notably in France, to pre-régime levels. These premiums would be phased out, perhaps over two or three years, as inflation carried market prices in the Common Market up to the present French levels. There would be no premium payments to British producers, the French arguing these would not be justified because our producers would get improved prices after the opening of the French market and would, along with all other Community producers, benefit from the common support arrangements.

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The French insisted that all parts of this régime - internal and external - would have to be put into effect before they would remove their present national import restrictions. They have thus decided to take a hard line on the type of régime they want which would go well beyond the limited use of intervention in the Autumn which the Commission suggested. If adopted by the Community, the French approach would seriously prejudice the prospects of successfully negotiating Voluntary Restraint Agreements with third country suppliers.

In my Minister's view, this reinforces the argument against giving Signor Cossiga, in advance of the European Council, any hint that we might be ready to move on intervention. He recognises, of course, that we shall need to make a move in the context of a firm budget settlement. But this is a card we can only play once. Moreover, even if we eventually have to make a concession to the French, we must do all we can to limit the role intervention would play in a mutton régime. We are revising the detailed briefing on mutton for the European Council.

I am copying this letter to the Private Secretaries to the Secretaries of State for Scotland, Wales and Northern Ireland, members of OD(E) and Sir Robert Armstrong.

Yours sincerely

David Jones

D E JONES
Assistant Private Secretary

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10 DOWNING STREET

From the Private Secretary

23 April 1980

Dear David

The Minister of Agriculture telephoned the Prime Minister from Brussels at 3.30 p.m. this afternoon.

He explained that President Giscard had today put out a statement to the effect that the Agriculture Ministers would have to make substantial progress towards an agreement on farm prices at their present meeting if there was to be any progress at the next European Council on Britain's budget contribution.

Mr. Walker sought the Prime Minister's confirmation that he should maintain a robust line on farm prices despite this renewed threat of linkage from the French.

The Prime Minister had not seen President Giscard's statement, nor was she aware of the precise form of the farm price proposals as they are now being discussed in Brussels, but she confirmed that she would wish Mr. Walker to maintain a robust line and not to be blackmailed into changing his position.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours ever

Mike Paterson

David Jones, Esq.,
Ministry of Agriculture, Fisheries and Food.

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10 DOWNING STREET

From the Private Secretary

22 April 1980

MCA - THE UK POSITIVE FRANCHISE

You will wish to note, for the record, that the Prime Minister has approved the compromise solution to the problem relating to the franchise on the UK positive MCA that has been proposed by the Commission and is set out in UKRep Brussels telegram no.2004 of 21 April. I have informed Garth Waters on the telephone of the Prime Minister's agreement.

I am sending copies of this letter to David Jones (MAFF), Martin Hall (HM Treasury) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Paul Lever, Esq.,
Foreign and Commonwealth Office.

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FM UKREP BRUSSELS 211527Z APR 80
TO F L A S H F C O
TELEGRAM NUMBER 2004 OF 21 APRIL.

COUNCIL OF MINISTERS (AGRICULTURE) 21/22 APRIL 1980.

MCA - THE UK POSITIVE FRANCHISE

MESSAGE FOR THE PRIME MINISTER FROM THE MINISTER OF
AGRICULTURE.

" 1. THE COMMISSION HAVE VOLUNTEERED TO ME THAT THEY
WISH TO PROPOSE A COMPROMISE SOLUTION OF OUR PROBLEM ON
POSITIVE MCAS AT THIS MEETING OF THE COUNCIL. BUT THEY ARE
NOT PREPARED TO DO SO UNLESS THEY HAVE AN INDICATION FROM
US THAT WE WILL NOT REBUFF THEM.

2. THEIR PROPOSAL IS AS FOLLOWS:

- (A) THE FRANCHISE ON VARIABLE POSITIVE MCAS WOULD BE 1 PER CENT:
- (B) THE SAME "DE MINIMIS" RULE WOULD APPLY TO VARIABLE
POSITIVE MCAS AS TO FIXED, IE WHEN THE CALCULATED MCA,
AFTER ALLOWING FOR THE FRANCHISE, LIES BETWEEN ZERO AND 1
PER CENT, AND MCA OF 1 PER CENT WOULD APPLY.
- (C) THE COMMISSION WOULD WISH THIS COMPROMISE TO BE PERMANENT
IF POSSIBLE, BUT WOULD BE PREPARED TO SEE A DECISION FOR
A LIMITED PERIOD ONLY.

3. I REGARD THIS PROPOSAL AS ACCEPTABLE ON A TEMPORARY BASIS.
WOULD YOU AGREE THAT WE SHOULD INDICATE TO THE COMMISSION THAT WE
WOULD ACCEPT THIS SOLUTION FOR THE REMAINDER OF THE MILK MARKETING
YEAR (I.E. UNTIL THE 1980 PRICE FIXING TAKES EFFECT)? THE EFFECT
WOULD BE TO PUT OUR VARIABLE POSITIVE MCA ON THE SAME BASIS AS
THE FIXED POSITIVE MCAS OF OTHER COUNTRIES."

FCO ADVANCE FLASH TO:-

FCO - PS/LPS, HANNAY
CAB - FRANKLIN
NO 10 - ALEXANDER
MAFF - PS/MINISTER
TSY - ROBERTS

BUTLER

FILES [COPIES SENT TO NO 10 DOWNING ST.]
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PS [ADVANCED AS REQUESTED]
PS/LPS
MR BULLARD
MR FERGUSSON
MR HANNAY
CABINET OFFICE

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MESSAGE TO THE PRIME MINISTER FROM THE MINISTER OF AGRICULTURE

MONETARY COMPENSATORY AMOUNTS

The Commission have volunteered to me that they wish to propose a compromise solution to our problem on positive MCAs at this meeting of the Council. But they are not prepared to do so unless they have an indication that we will not rebuff them.

Their proposal is as follows:

- (i) The franchise on variable positive MCAs would be 1 per cent.
- (ii) The same de minimis rule would apply to variable positive MCAs as for fixed, i.e. when the calculated MCA, after allowing for the franchise, lay between 0 and 1 per cent, an MCA of 1 per cent would apply.
- (iii) They would wish this compromise to be permanent if possible, but would be prepared to see a decision for a limited period only.

X | I regard this proposal as acceptable on a temporary basis.
Would you agree that we should indicate to the Commission that we will accept this solution for the remainder of the milk marketing year (i.e. until the 1980 price fixing takes effect)? The effect would be to put our variable positive MCAs on the same basis as the fixed positive MCAs of other countries.

*Agreed on a temporary basis
ms.*

21 April 1980

CONFIDENTIAL

Tg 0617

~~MR ALEXANDER~~

c Mr Wright

POSITIVE MCAs

1. The Prime Minister has received a message from the Minister of Agriculture seeking her agreement to a compromise solution to our positive MCA franchise problem at the current meeting of the Agriculture Council. Sir Robert Armstrong's minute of 14 April sets out the general background.

2. Under the present franchise rules we cannot acquire a positive MCA until the gap between the green pound and the market rate for sterling is at least $2\frac{1}{2}$ per cent. The effect of the proposed compromise - which is acceptable to the Foreign and Commonwealth Office and the Treasury - would be to reduce this margin to 1 per cent, thus providing the additional protection for the United Kingdom against trade distortion that OD(E) were earlier concerned to secure.

3. If the Prime Minister is content with the substance of the proposal, on the temporary basis suggested by the Minister of Agriculture, she may feel that he should be authorised to accept it during the current session of the Agriculture Council rather than leaving this complex and detailed issue over for possible discussion in the European Council.

Prime Minister.

Agree to Mr Walker's proposal
at XI of flag A below?

If so, may he put it forward
at the Agriculture Council as an attempt
to solve the issue now, rather than leave

it over for the European Council?

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D M ELLIOTT
21 April 1980

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

From the Minister's
Private Office

f.s.
Prime Minister
Mr Walker had not told anyone that he had already sent a message to Mr Marcora. No further message seems necessary.

Michael Alexander Esq
10 Downing Street,
London SW1

April 1980

mt
18/4

Dear Michael

CAP PRICES IN THE COMMUNITY BUDGET

Thank you for your letter of earlier today about a message to Mr Marcora. I should have mentioned when I spoke to you, prior to your sending the letter, that Mr Walker had already given his views on the Lord Privy Seal's two letters of yesterday, which have been recorded in letters to the Lord Privy Seal's office today, and that Mr Walker had sent a message to Mr Marcora following his talks with Mr Mehaignerie earlier in the week. I am circulating a copy of that message with this letter.

I am sending copies of this letter to the recipients of yours.

Yours sincerely

David Jones

D E JONES
Assistant Private Secretary

MESSAGE FOR MR MARCORA

I had a friendly talk with M. Mehaignerie yesterday. He asked about my talks with you and I gave him an outline of your views on the main commodities, as you had expressed them to me.

We spent most of the time on beef and sheepmeat. On beef, Mehaignerie said that the new beef cow subsidy was an absolute necessity for France and I assured him of my support, subject to the condition that the subsidy must be paid at the same rate on all beef herds in the Community, without any limit on the numbers in each herd. On the price, he said that France wanted the beef price increase to be greater than that for cereals. I told him, as I had told you, that I saw no case for an increase bigger than the Commission's proposal of 1½%, which with the proposed beef cow subsidy is equivalent to 3% in all.

On sheepmeat, the French explained in more detail than before how they saw the definitive régime operating. It was clear, however, that they had not fully developed their proposals and we agreed that our officials should meet to clarify French ideas further and also the difficulties which they present for us.

We briefly discussed milk. Mehaignerie argued for a progressive co-responsibility levy. I said that no British Government could agree to a levy unless it applied equally to all farmers not covered by the existing exemptions.

Finally Mehaignerie asked me whether I saw any prospect of a settlement at next week's Council, at prices higher than those proposed by the Commission. I said there was no such prospect, as I had no authority to move from my existing position on prices.

SECRET

12



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

From the Minister's
Private Office

John
Armstrong

Mike Richardson Esq
Private Secretary to
the Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
London SW1

18 April 1980

Dear Mike

CAP: DISCUSSIONS WITH THE FRENCH

My Minister has seen the Lord Privy Seal's letter of 17 April about CAP discussions with the French and has asked me to say that he considers the Italians to be sufficiently aware of our views on the relationship between the budget problem and agricultural prices as a result of his talks with Mr Marcora on 14 April. He would therefore prefer not to take up the Lord Privy Seal's suggestion of a message to Mr Marcora before the weekend.

I am sending copies of this letter to the Private Secretaries to the Prime Minister, other members of OD(E) and Sir Robert Armstrong.

Yours sincerely

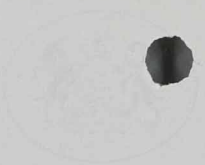
D.E. Jones

D E JONES
Assistant Private
Secretary

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Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW 1A 2NH



CONFIDENTIAL - DISCUSSION WITH THE FRANCH

My Minister has seen the Lord Kerry's letter of 11th April 1980 and has asked me to discuss with you the points raised in it. I have done so and we have agreed to discuss the points raised in it in the next few days. I will be in touch with you again in the next few days.

I am sure that you will find this letter to be of interest and I am sure that you will find it of interest.

Yours sincerely,

[Handwritten signature]



118 APR 1980





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

From the Minister

CONFIDENTIAL

The Rt Hon Sir Ian Gilmour Bt MP
Lord Privy Seal
Foreign and Commonwealth Office
Downing Street
London SW1

L. P. M.

Prime Minister
The franchise argument becomes ever more obscure. But you may like to glance at the last two paras of Mr Walker's letter.

18 April 1980

Ph...
16/4

I can't see why we are making such a fuss

Dear Lord Privy Seal

13

Thank you for your letter of 17 April about the franchise for positive MCAs.

I do not agree with the implication in your letter that it would be a concession on the part of other member states to reduce the franchise for variable positive MCAs from 1½% to 1%. The advice I have been given is that the Commission are on very dubious legal ground in continuing to apply the 1½% franchise after the Regulation providing for it expired on 31 March. An alternative way of proceeding would therefore be to bring a case against the Commission under Article 173 of the Treaty. Indeed it is likely that action by traders here to secure the payment of MCAs which they consider legally due to them will in any case result in the issue coming before the Court as a result of a reference under Article 177. It therefore follows that agreement to any further Regulation on the subject would be a concession on my part to extricate the Commission out of the legally difficult situation into which they have got themselves with the connivance of the other member states.

However, subject to the Prime Minister's views, I would be prepared to try to work towards a compromise at the next Council under which the franchise for variable positive MCAs would be set at 1% for a period of, say, 2 months and the rules about the application of small fixed negative MCAs should also be made applicable to positive MCAs. There would need to be an undertaking that the whole franchise problem would be studied at working level meanwhile and looked at again by the Council before the expiry of this period.

On the rest of your letter I of course agree that if sterling were to go on rising, there could come a point where we might need to consider a revaluation of the green pound. But I would be totally opposed to this being done at the moment, before even the effect of the December devaluation has worked through to all commodities.

/Sterling is

Sterling is clearly volatile at the moment and has fallen by about 1½% from the rate which justified the introduction of the positive MCA of 2.1% on 7 April. In fact, this has led to the removal of the MCA from the beginning of next week. Your statement that Community philosophy is to avoid the creation of new MCAs omits an important word: the decision of the European Council of December 1978 was that no new permanent MCAs were to be created, and it remains to be seen whether our MCAs will be permanent.

As for food prices, even a 5% rise in CAP common prices could add barely 0.25% to the RPI. Against this, our farmers' incomes have already been reduced to the lowest level in real terms for very many years and, unless sterling should fall again to the point where a further green pound devaluation is possible, farmers face a severe cost-price squeeze over the coming year.

I am copying this letter to the Prime Minister, other members of OD(E) and to Sir Robert Armstrong.

Yours sincerely

David Jones

for PETER WALKER

Approved by the Minister
and signed in his absence

18 APR 1980



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four already
three four
PETER WALKER
Approved by the Minister
and signed in his absence

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11

10 DOWNING STREET

From the Private Secretary

18 April 1980

~~BF 22~~

CAP Prices and the Community Budget

The Prime Minister has seen a copy of Mr. Walker's letter of 16 April to the Foreign and Commonwealth Secretary on this subject. She has also seen copies of the Lord Privy Seal's letters to Mr. Walker of 17 April.

As I have already told you on the telephone, the Prime Minister agrees with the Lord Privy Seal's suggestion that a message from Mr. Walker to Mr. Marcora would be useful. However, she would wish to approve the text of the message before it is issued.

As regards the question of the franchise applied to positive MCAs, the Prime Minister does not believe that any decision need be taken on this before the weekend. She would prefer to see this issue sorted out with the rest of the CAP problems but would be willing to look at the matter again on Monday.

I am sending copies of this letter to the Private Secretaries to the members of OD(E) and to David Wright (Cabinet Office).

MWCA

David Jones, Esq.,
Ministry of Agriculture, Fisheries and Food

SP

SECRET

MR ALEXANDER

CAP Prices and the Community Budget

Flag C

Flag A.

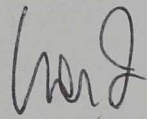
1. Mr Walker's letter of 16 April to the Foreign and Commonwealth Secretary suggests, following his talk with the French Agriculture Minister, that we propose a meeting of the Agriculture Council simultaneously with the European Council. The Lord Privy Seal does not think that this is a good idea. He is right. It would give far too much emphasis to the question of CAP prices (which interests the others) and put pressure on us to settle the budget issue; whereas the pressure must be the other way round. On the other hand, as the discussion at the Prime Minister's meeting on 15 April showed, it is not going to be easy to hold our position on CAP prices while at the same time ensuring that decisions on our budget contribution are not blocked simply because the ground for a decision on CAP prices has not been prepared. This is essentially the task of the Presidency: if they want the budget issue settled and accept that the French (and perhaps others) will not settle without a decision on CAP prices, then they must see that the European Council has a possible compromise in front of it or at least a report on the areas of disagreement in the Agriculture Council. Conversely, they must understand that movement on our part will be conditional upon (and proportionate to) movement towards us on the budget. The Lord Privy Seal's suggestion that a message be sent in this sense to the Italian Minister of Agriculture is probably the right one. The Prime Minister will be able to reinforce it when she sees Signor Cossiga on Tuesday morning.

Flag D
Flag B.

2. On the related issue, of positive MCAs, Sir R Armstrong minuted you on 14 April ^(attached behind) about Mr Walker's letter. I understand the Lord Privy Seal takes the same view as the one expressed in that minute viz.

SECRET

that the question of the "franchise" to be applied to positive MCAs for countries not fully in the EMS should if possible be settled in the Agriculture Council next week rather than held as a bargaining counter at the European Council. Subsequent discussion in Brussels has suggested that a reasonable compromise should be possible, the more so since the question has again become of no immediate practical importance with the disappearance of positive MCAs as from Monday.



M D M FRANKLIN

CABINET OFFICE SW1

17 April 1980

I am both to
settle anything at
present. but it is
sorted out with the rest of
the CAP.



that the question of the "response" to the crisis, in positive terms, is
 something that should be settled in the future. It is not clear
 whether this is a matter of a technical nature or a political
 one. The subsequent discussion in the report has suggested that a
 compromise about the possible, the more so since the question of
 some of the technical practical implications with the response of
 positive will be a later Monday.

SECRET
 CABINET OFFICE
 17 April 1950

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17 APR 1950



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Foreign and Commonwealth Office
London SW1

17 April 1980

Mr Peter,

CAP : DISCUSSIONS WITH THE FRENCH

Thank you for your letter of 16 April to Peter Carrington who is still in Salisbury. You clearly had a useful discussion with Mehaignerie and this is helpful.

I do not think that other Member States really expect us to make concessions on prices at the Agriculture Council next week, however much some of them, particularly the French, may formally press for progress. They should understand that we are not going to give anything away in advance of a budget solution. I would not therefore favour making formal demarches in Community capitals. I do however think it is important that the Italian Presidency should have a clear understanding of our position and I suggest a message from you to Marcora before the weekend would be useful. Perhaps our officials could prepare a draft.

We have all recognised the chicken and egg situation we face about not making any concessions on the CAP in advance of the budget, but I think that there are a number of drawbacks to your suggestion that an Agriculture Council should be held simultaneously with the European Council. The problems of trying to maintain parallel progress in two separate meetings are likely to be formidable and to have Agriculture Ministers present in Luxembourg
/would

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
London SW1

would put pressure on us rather than the reverse. It would surely suit our book better for discussion of agricultural prices at the European Council to be based on a report by the Presidency, perhaps including their proposals or those of the Commission for a possible compromise, with the Agricultural Council only meeting thereafter in the light of whether the European Council are able to agree.

I welcome the development of your discussions⁴ on sheepmeat. It is quite clear that as a major producer we need to discuss the details with the French if an outcome satisfactory to us in the context of a budget settlement is to be obtained. I understand that your officials will be meeting their French counterparts tomorrow to clear the ground without making substantive concessions.

I am sending copies of this letter to the Prime Minister, other Members of OD(E) and to Sir Robert Armstrong.

your w
la



Foreign and Commonwealth Office
London SW1

cc with briefing for
Conipa visit April 1980
Italy, Jan 80. Visit of
Hoban
PM

17 April 1980

Peter Peter,

You wrote to the Prime Minister on 11 April about our position on MCAs and the franchise. We discussed this at the Prime Minister's meeting on 15 April, but I thought it might be useful to let you have our thoughts in writing before next week's Agriculture Council.

We are most unlikely to get agreement to the whole of what we are proposing. Not only are the Commission opposed, but in addition France, Germany and others of our partners are unlikely to agree. As you say, sooner or later we are going to have to go for a compromise. This might be on the lines suggested informally during the last meeting of the Agriculture Council involving the reduction of the franchise from 1.5% to 1% (which I was encouraged to see from the record of the Special Committee meeting on 16 April is still likely to be on offer). I see no objection to us attempting in addition to obtain the abolition of the de minimis rule by which an MCA has to amount to 1% before being payable. I doubt, however, whether we will get very far with this and we may have to settle for the reduction in the franchise alone.

As to the timing, I do not feel that it would be a particularly attractive or helpful issue to raise in the European Council /itself.

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries & Food
Whitehall Place
London SW1A 2HH

itself. Apart from MCAs being far too detailed and technical a matter for discussion between Heads of Government, I doubt whether our partners would see what we are proposing as a concession at all; they may well regard it as a concession on their part to agree to any reduction in the franchise. I feel therefore that any deal we try to strike is best handled in the Agriculture Council.

There is one further aspect of MCAs which we ought to consider in connection with the European Council and that is the fact that we now have, perhaps intermittently, a positive MCA, which has the effect of keeping up prices to our own farmers. It seems clear that we shall have to agree to some increases in most agricultural prices in the context of a settlement of the budget question. The press and popular reaction to the position we have taken over the franchise indicates that any increase in agricultural prices, and therefore food prices generally, however small, will be badly received in this country. We ought therefore to keep in mind the option of revaluing the green pound back to parity. This would mean that our farmers would not benefit from the whole of the Community's price increases, but would have the effect on the other hand of ensuring that such increases did not result in too great increases in the shops. Such a move would also be attractive to our partners, given that the Community orthodoxy is to avoid the creation of new positive MCAs. It is, in my view, this consideration which lies behind French opposition to the abolition of the franchise, rather than any more direct consideration of trading advantage or particular wish to be difficult to the UK.

I am copying this letter to the Prime Minister, members of OD(E) and to Sir Robert Armstrong.

yes ✓
lan



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

8

From the Minister

SECRET

The Rt Hon Lord Carrington KCMG MC
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1

mb

Rennie Minister

(2)

It would be premature to act on the
Walker proposals until Sir H. Anitland
has reported.

Prints 16 April 1980
-16/4

CAP : DISCUSSIONS WITH THE FRENCH

My talks with M. Mehaignerie in Paris yesterday were friendly and, I think, quite useful. After our commodity discussions he took the Ambassador and myself aside and asked whether there was any prospect of a price settlement at next week's Agriculture Council. I said that in my view there was none, since other countries were clearly not prepared to accept our views on prices and we were not prepared to change them. He replied that this did not augur well for the budget discussion in the next European Council, and suggested that this might mean waiting until June.

I am very much afraid that, if we are not very careful, next week's Agriculture Council could greatly sour the atmosphere for the European Council. The others have been looking for material progress on the CAP next week, as a sweetener for the budget discussion, and when we refuse to budge over three days of negotiation they will probably react badly. Clearly we should do all we can to minimise the adverse effects. I think we should immediately make it clear to all other member countries, through our Ambassadors, that there is no prospect of a settlement next week, so that no false hopes are raised. They will not like this, but it would be better to be frank now than to seem to act deviously or to prevaricate.

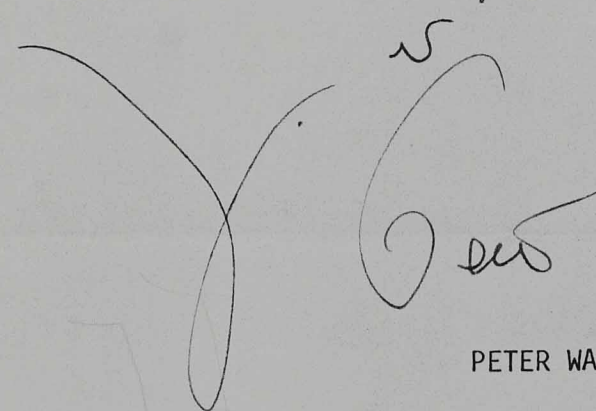
The critical question, however, is how we can make progress on the budget and the CAP simultaneously, for the others will not settle the budget without being sure of the CAP settlement, and we will not settle CAP prices without being sure of an acceptable outcome on the budget. Given the impracticability of dealing with the CAP's fearsome complexities in the European Council, I am driven to the conclusion that the only way to do this may be to hold an Agriculture Council simultaneously with the European Council. I wonder if it would not be sensible for us to suggest this? Next week's Agriculture Council could then be regarded as a preparatory meeting to clear the ground, and the real negotiation could take place simultaneously with the European Council on 27/28 April. Even if the proposal did not commend itself to other countries, the fact of our making it would show that we were seriously prepared to make progress simultaneously

on all the issues, on their merits. And if it were not adopted now, it might well commend itself in June.

There will be a separate report on our commodity discussions, but you may be interested to know at once of the trend of French thinking on sheepmeat. Mehaignerie asked one of his officials to outline French ideas, and for the first time we were given a fairly coherent account of their conception of a definitive common regime. Briefly a reference price would be set at the level of last year's French market price. Community aids for private storage would be given when prices fell to 90% of this reference price. Community financed intervention buying would take place, at least in France, at 85% of the reference price. Export restitutions would also be available. Imports from third countries would be limited by voluntary agreement. Since, in conditions of free intra-Community trade, these measures would not hold up French market prices at the level of the reference price, there would also be a Community-financed premium paid to producers, designed to bridge the gap between the French market price and the reference price. All this was fairly predictable. But the French went on to say that this system could operate at once, throughout the Community, without any transition. If there were to be a transition allowing for different price levels in France and the UK, then there would have to be charges on UK exports to France, despite the legal difficulties of this (which some of the French seemed to think soluble, others not).

I rehearsed in strong terms our objections to intervention, and our apprehensions about the practical effects of a system on these lines. But it was clear that the French had not in any case fully thought through their ideas and Mehaignerie and I agreed that our officials should meet to clarify their proposals and the difficulties we see in them. This is at least the beginning of a dialogue and when we have more of the details of the French proposals we shall need to consider again how far we should be prepared to move towards them in the context of a satisfactory settlement on the budget.

I am sending copies of this letter to the Prime Minister, other members of OD(E) and Sir Robert Armstrong.


PETER WALKER

*P.S. I have already spoken
to Jim about all of this.*

521

116 APR 1960



at all the issues, on their merits, and were not adopted now, it might well

There will be a separate report... interested to know at once of... Ministers asked one of his... first time we were given... definitive common program... of last year's French market... by given when prices fell... intervention buying would... price. Export restrictions... would be limited by... Community funds... level of the reference price... paid to producers... and the reference price... any... it there was to be a transition... levels in France and the UK... the French... seemed to think... not.

I gathered in strong... about the practical... the French had not... and I agreed that... difficulties we see... we have more at... how far we should... settlement on the budget.

I am sending copies of this letter to the Prime Minister, other members of the... and Sir Robert Armstrong.

521

PETER WALKER

[Faint handwritten notes and signatures]

521

SECRET

JH

Subject

cc. Master set



File

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10 DOWNING STREET

From the Private Secretary

15 April 1980

Dear Sir,

The CAP and the European Summit

The Prime Minister held a meeting yesterday with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Minister of Agriculture and the Secretary of State for Trade to consider your Minister's minute of 10 April on this subject and the Chancellor of the Exchequer's related minute of 14 April.

After some preliminary discussion of the current position on Britain's positive MCAs, which is the subject of separate correspondence, the Minister of Agriculture reported on his discussions with Signor Marcora last night about the CAP prices and economy package. Signor Marcora's minimum requirement for a settlement was an increase in the milk price of 3½ per cent, with a 2 per cent co-responsibility levy; a reduction of 2 per cent in German positive MCAs; and a price increase of 1½ per cent on sugar coupled with the retention of last year's quotas but with an improvement for Italy. Signor Marcora had stressed that the Italian Presidency were determined to work for a solution to our budget problem, which in his view would be facilitated if next week's Agriculture Council could agree a package ad referendum to the 27/28 European Council.

The Minister of Agriculture said that he had made clear to Signor Marcora that we could not accept price increases for surplus products. Apart from maintaining our opposition to any price increases for surplus products (which included wine and olive oil) we should oppose any increase in the threshold price of maize; and seek a refund on cereals used in the production of whisky, on which we could hope for a gain of £20 million per annum; the continuance of the present Northern Ireland milk aid; a reduction in hard wheat import levies; the maintenance of the 100 per cent UK Community financed butter subsidy; and the retention of last year's sugar quotas, with no price increase.

There was general agreement that we should give nothing away on CAP prices until we were sure of securing a satisfactory settlement on the budget issue. This would make discussions at the 21/22 April Agriculture Council difficult, since we were likely to end up in an 8-1 position on all the major CAP price issues. It was therefore urged that, to avoid an irretrievable souring of the atmosphere in which the discussion of our budget problem would take place in Luxembourg, the Minister of Agriculture

/should be

SECRET

should be empowered to indicate the prospect of some movement on our part on CAP prices at the European Council if a satisfactory settlement on the budget were achieved. Unless the Agriculture Council registered some progress towards an eventual overall settlement there was a risk that the ground would be inadequately prepared for a further advance by our partners on the budget. Against this it was strongly argued that any such move would seriously weaken our negotiating position at the European Council, at which the need of our partners for a settlement on CAP prices would be our strongest bargaining card apart from the unpalatable threat of withholding our contribution. As the Cabinet had already agreed, we might well have to make concessions on CAP prices in the end to get what we wanted on the budget, but it would be wrong to do so in advance of the European Council. It would be helpful if at the end of the Agriculture Council the Presidency or the Commission could come forward with a compromise proposal, which we would not accept but which would enable the question to be discussed at the European Council along with the budget issue. On sheepmeat the Minister of Agriculture should listen sympathetically to the French requirements at his meeting with M. Mehaignerie, provided that we gave nothing away at this stage.

Summing up the discussion, the Prime Minister said that, while the Minister of Agriculture should do his best within his remit in his talks in Paris on 15 April and in the 21/22 April Agriculture Council to avoid clouding the atmosphere for the European Council discussions on the budget, we could not agree to any concessions on sheepmeat or CAP prices until we had secured a satisfactory solution to the problem of our net contribution to the Community budget. If a Presidency compromise on the CAP prices and economy proposals emerged at the Agriculture Council the Minister of Agriculture need not oppose its presentation to the European Council provided he maintained a clear United Kingdom reserve on any price increase going beyond his present mandate.

I am copying this letter to the Private Secretaries of the other members of OD(E) and to David Wright (Cabinet Office).

Yours sincerely

Michael Alexander

Garth Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.

SP.



10 DOWNING STREET

Prime Minister.

Two problems

- (a) parallelism between the price fixing & the budget
- (b) When should the 'parachute' issue be resolved.

As regards (a) you might agree that Mr Walker should write to his Italian colleague but on the basis that you approved the text first. *Agreed Mr.*

As regards (b) I should have thought a decision could await your meeting on Monday morning. This will still give plenty of time to resolve the issue during the Agricultural Council if that is what you decide to do.

pm

Phms

17.4.

meeting record

Mr Franklin

I attach a draft record of this morning's meeting. I have adjusted it to reflect Mr Walker's brief on maize.

ll

15/4

~~Mr. Alexander~~

Ward
15/4

Issue

Print
- 15/4

6

DRAFT LETTER FROM MR ALEXANDER TO MR WATERS

THE CAP AND THE EUROPEAN SUMMIT

1. The Prime Minister held a meeting ^{yesterday} ~~this morning~~ with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Minister of Agriculture, and the Secretary of State for Trade to consider your Minister's minute of 10 April on this subject and the Chancellor of the Exchequer's related minute of 14 April.

2. After some preliminary discussion of the current position on Britain's positive MCAs, which is the subject of separate correspondence, the Minister of Agriculture reported on his discussions with Signor Marcora last night about the CAP prices and economy package. Signor Marcora's minimum requirement for a settlement was an increase in the milk price of $3\frac{1}{2}$ per cent, with a 2 per cent co-responsibility levy; a reduction of 2 per cent in German positive MCAs; ^{and} a price increase of $1\frac{1}{2}$ per cent on sugar coupled with ^{the retention of} last year's quotas but with an improvement for Italy; ~~and an average increase of $1\frac{1}{2}$ per cent on the remaining~~ ~~products.~~ Signor Marcora had stressed that the Italian Presidency were determined to work for a solution to our budget problem, which ^{in his view would} ~~will~~ be facilitated ^{if} if next week's Agriculture Council could agree a package ad referendum to the 27/28 European Council.

3. The Minister of Agriculture said that he had made clear to Signor Marcora that we could not accept price increases for surplus products. ~~There was general agreement that we should stand fast on this approach and not yield any concessions on CAP prices or sheepmeat in the forthcoming bilateral talks with~~

~~M. Mhaiguerie or in next week's Agriculture Council, though we need not oppose any procedural measures designed to enable the prices and economy package to be put to the European Council in some form. Apart from maintaining our opposition to any price increases for surplus products,~~ ^(which includes milk and olive oil) ~~it was also agreed that we should~~

oppose any increase in the threshold price of maize; and

seek a refund on cereals used in the production of whisky, on which we ~~were owed some £60 million~~ and could hope for a gain of £20 million per annum in future; the continuance of the present Northern Ireland milk aid; ~~a refund on maize used in the manufacture of starch;~~ a reduction in hard wheat import levies; the maintenance of the 100 per cent UK ^{Community financed} butter subsidy; ^{and} the retention of last year's sugar quotas, with no price increase; ~~and we should resist any increase in the price of maize.~~

There was general agreement that we should give nothing away on CAP prices we were sure of securing a satisfactory settlement on the budget in time. This would make

4. ~~The meeting recognised that the discussions at the 21/22 April Agriculture Council, which will take place just before the European Council, could be difficult for the UK if we maintained this hard line, since we were likely to end up in an 8 - 1 position on all the major CAP price issues. It was therefore urged that, to avoid an irretrievable souring of the atmosphere in which the discussion of our budget problem would take place in Luxembourg, the Minister of Agriculture should be empowered to indicate the prospect of some movement on our part on CAP prices at the European Council if a satisfactory settlement on the budget were achieved. Unless the Agriculture Council registered some progress towards an eventual overall settlement there was a risk that the ground would be inadequately prepared for a further advance by our partners on the budget. Against this it was strongly argued that any such move would seriously weaken our negotiating position~~

at the European Council, at which the need of our partners for a settlement on CAP prices would be our strongest bargaining card apart from the unpalatable threat of withholding our contribution. As the Cabinet had already agreed, we might well have to make concessions on CAP prices in the end to get what we wanted on the budget, but it would be wrong to do so in advance of the European Council.

on sheepmeat
There was nevertheless no reason why the Minister of Agriculture should ~~not~~ listen sympathetically to M Mehaignerie *with* requirements on sheepmeat, provided that we gave nothing away at this stage.

5. Summing up the discussion, the Prime Minister said that, while the Minister of Agriculture should do his best within his remit in his talks in Paris on 15 April and in the 21/22 April Agriculture Council to avoid clouding the atmosphere for the European Council discussions on the budget, we could not agree to any concessions on sheepmeat or CAP prices until we had secured a satisfactory solution to the problem of our net contribution to the Community budget. If a Presidency compromise *on the CAP prices and economy proposals* emerged at the Agriculture Council the Minister of Agriculture need not oppose its presentation to the European Council provided he maintained a clear United Kingdom reserve on any price increase going beyond his present mandate.

6. I am copying this letter to the Private Secretaries of the other Members of OD(E), and to David Wright (Cabinet Office).

[Handwritten signature]

It would be helpful if at the end of the Agriculture Council the Presidency or the Commission could come forward with a compromise proposal, which we would not accept but which would enable the question to be discussed at the European Council along with the budget issue.



Enno P.S.

Foreign and Commonwealth Office
London SW1

15 April 1980

to Peter,

NRAN

Paul - 16/4

DEBUDGETISATION OF CAP AND 1% CEILING

Thank you for your letter of 24 March. I agree that Hugh Arbuthnott's letters of 13 and 28 February offer some useful insights on French Ministerial and official thinking. They also point up the apparent gap between President Giscard's own views and those of other members of the French Government - a gap which was further emphasised by Chancellor Schmidt's remarks on 28 March to the Prime Minister about Giscard's attitude.

I recognise that the French are currently against debudgetisation (or 'renationalisation'). That is why we have been advocating development of a mix of policies in our own approach to reform rather than nailing our colours solely to the proposal for partial debudgetisation.

I am copying this letter to the Prime Minister.

Yours ✓

lan

The Rt Hon Peter Walker MBE MP
Minister of Agriculture, Fisheries & Food
Whitehall Place
London SW1A 2HH



16 APR 1961

SECRET

Top copy on
Env for Pt 7
Community Budget.

PRIME MINISTER

Community Budget and the CAP: Ad Hoc Meeting
15th April - 11.00 am

You have called this meeting to consider whether any shift in our tactics on CAP prices and sheepmeat is desirable to enhance the prospects of a successful outcome on our budget problem at the European Council now fixed for 27th-28th April. The meeting is taking place now so that the Minister of Agriculture can take its conclusions into account in his talks with his French opposite number, M. Mehaignerie, later in the day, and in the discussions at the 21st-22nd April Agriculture Council.

2. Before the European Council was postponed, the Cabinet concluded (CC(80) 12th Conclusions, Minute 5) that the budget problem was unlikely to be settled at the March Summit, that our objective should therefore be to make as much progress as possible in March towards a final settlement in June, and that "unless and until the budget problem was satisfactorily settled there was no question of agreeing to increases in CAP prices, or indeed of resolving any other issues that would be linked to our budget problem such as sheepmeat".

3. Since then:-

- (a) You said in Cabinet on 27th March that the postponement of the European Council made it even more important to come as close as possible to settling the budget problem at the April meeting.
- (b) The prospect that European Community issues will figure largely at the Labour Party Special Conference on 31st May - before the June meeting of the European Council - makes it even more desirable to get as near as possible to settling the budget problem at the April meeting.
- (c) Your discussions with Chancellor Schmidt on 28th March showed that he wanted the budget issue settled but thought other issues would have to be dealt with too. You expressed readiness to try to settle other issues like CAP prices and sheepmeat within the same timescale as the budget issue, provided that they too were dealt with on their merits.

SECRET

- (d) Other evidence, including the meeting of Personal Representatives in Paris on 3rd April, suggests that the French and others share the desire for at least an outline settlement on the budget at the 27th-28th April European Council, even if detailed implementation has to be left till later. But they all see agreement on CAP prices - and for the French a resolution of the sheepmeat problem - as essential ingredients in an overall budget settlement. There will accordingly be moves at the April Agriculture Council to make sufficient progress on the Commission's prices and economy package to enable it to be presented in some form to the European Council.
- (e) Signor Cossiga's new Government has been formed, but it now seems unlikely that he will be able to embark on a tour of Community capitals until the week before the European Council.
4. The main tactical questions for your meeting are therefore:-
- (i) Should we continue to block any price increase for surplus commodities until we get full satisfaction on the budget, or should we show some signs of conditional movement at the April Agriculture Council in order to pave the way for an acceptable budget solution at the European Council?
- (ii) If some movement is thought desirable, what form should it take:-
- (a) A price settlement ad referendum to the European Council, but with a United Kingdom reserve: this was the solution urged at the Personal Representatives meeting on 3rd April, but unless we know by 21st April that we are getting near to a satisfactory outcome in our budget contribution, this would probably give away too much in advance; OR
- (b) Acquiescence in the Presidency/Commission making a compromise proposal, subject to ratification after the European Council: OR
- (c) A situation report on the various components of the prices and economy package, leaving the European Council to hand down guidelines on which the Agriculture Council would

SECRET

subsequently act: this might not be workable, since the French (and perhaps others) might argue that the European Council should not get into the necessary degree of detail.

- (iii) Likewise on sheepmeat, should we stick to our present hard line until the budget discussions in Luxembourg, or should we bring into play now the limited concessions to the French that have already been approved by the Cabinet?
- (iv) If the latter, should Mr. Walker be authorised to make our signal to M. Mehaignerie on 15th April, or should we hold it back as a new tactical card for Signor Cossiga to play on our behalf in his second round of talks?

5. The meeting will have before it the Minister of Agriculture's minute to you of 10th April, and his paper OD(E)(80) 15. His minute suggests that at the Agriculture Council he should do no more than tell his colleagues informally that, if the European Council were to settle the budget issue, he would probably be able to accept something like the Commission's proposals (an average increase of 2.4 per cent). On sheepmeat he thinks an agreement with the French might be possible but is reluctant to go too far until we have made irreversible progress on the budget.

HANDLING

6. You may think it best to limit discussions at this meeting to CAP prices and sheepmeat; a further meeting to review tactics generally on the budget issue is provisionally scheduled for 23rd April.

7. You may wish to invite the Minister of Agriculture to introduce the discussion on the basis of his minute of 10th April.

8. Thereafter you may wish to take CAP prices and sheepmeat separately, exploring in each case the tactical questions set out in paragraph 4 above.

9. On CAP prices it will first be important to get Mr. Walker's assessment of what a final package would look like. On the average level of price increases most people are now talking about 4 to 5 per cent. Each 1 per cent added, on

SECRET

the Commission's figures, about 150 MEUA to the budget and, on MAFF calculations, 0.2 per cent to food prices. These figures are therefore less important than -

- (a) the different pattern of price changes for products in surplus, especially milk, as compared to others;
- (b) the net effect on the budget which depends largely on what is done about co-responsibility levies for milk; and
- (c) the effect on our own net contribution, which depends largely on the butter subsidy and whether the milk levies are discriminatory or not.

10. Most countries will no doubt agree that the milk price increase should be less than the average, and they seem anxious to preserve something of the Commission's original economy package. The Commission's proposals in their entirety would have left us making a small net saving, but there is no prospect of agreement on that basis. Would it be realistic to think that we could end up with a package which would leave our net budget contribution unchanged? If so, this might be a position to move to in due course, coupled with the lowest possible increase in prices of milk and sugar.

11. On tactics, you will want to hear the views of others, and especially the Foreign and Commonwealth Secretary. How do we give a signal that we might be prepared to move on CAP prices without prejudicing our ability to block any settlement if the budget issue is not satisfactorily resolved? Mr. Walker's proposed line with his colleagues at the Agriculture Council could be combined with the alternative in paragraph 4(ii) (b) above, i. e. allowing the Presidency or the Commission to put forward a compromise package at the end of the Agriculture Council to which no one was formally committed. But before deciding to go that far, it would be desirable for there to be further bilateral contacts, above all with the French, to discuss figures. We should make it clear that how far we were prepared to meet their requirements on CAP prices would depend on how much they were willing to meet us on the budget. I understand that you have already discussed possible approaches with the Foreign Secretary.

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12. Sheepmeat is more straightforward, because Cabinet has already agreed on the substance. On tactics, is it agreed that the Minister of Agriculture should use his meeting with M. Mehaignerie to explore the outlines of an agreement on premia and strictly limited form of intervention which we might be willing to concede provided that the budget issue is satisfactorily resolved?

CONCLUSIONS

13. You may be able to conclude that -

- (a) Mr. Walker should use his meeting with M. Mehaignerie to explore the basis for a possible agreement on sheepmeat provided that the French subscribe to an acceptable settlement on the budget, making it clear that no regulation could be adopted until after the European Council;
- (b) for the 21st-22nd Agriculture Council, Mr. Walker should not oppose any procedural measures designed to enable the prices and economy package to be put to the European Council in some form, though he should maintain a United Kingdom reserve on any price increase beyond the average of $2\frac{1}{2}$ per cent proposed by the Commission.

ROBERT ARMSTRONG

(Robert Armstrong)

14th April 1980

CONFIDENTIAL

Prime Minister

MR. ALEXANDERAgree that draft of Flag A
Should issue?

Purd

Positive MCAs

The Minister of Agriculture has now responded, in his letter and enclosures of 11th April, to the Prime Minister's request for a note on the various factors involved in the decision to introduce positive MCAs for Britain.

2. Under Community Regulations, positive MCAs (which act as a subsidy on exports and a tax on imports) are applied when the market rate for a currency rises above its ECU parity. This is now the position for sterling, with a current gap of about $3\frac{1}{2}$ per cent. But MCAs do not cover the whole gap. There is a franchise (or "neutral zone") which is deducted before MCAs are calculated. Mr. Walker's letter principally deals with the relatively narrow question of the franchise, explained in more detail in Annex B to his letter.

3. In the March Agriculture Council Mr. Walker sought the elimination of the franchise on our positive MCAs, rather than merely its reduction to the 1 per cent level applicable to the German positive MCAs, intending to block the extension of the relevant regulation to get his way. This line was agreed in OD(E) (OD(E)(80) 5th Meeting, Item 1), but has since been frustrated by the Commission's insistence on acting as though the regulation was still in force. In the fourth paragraph of his letter he accordingly suggests that we might accept a compromise, either at the European Council or at the April Agriculture Council. The Prime Minister may feel that it would be unwise to inject this technical point into the European Council's discussions, and that the Minister of Agriculture should accordingly seek to remove this point of conflict before those discussions begin.

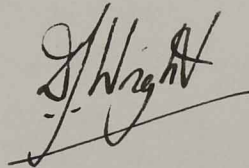
4. There is however the wider question as to the appropriate level for the Green Pound in present circumstances. When the appreciation of sterling eliminated our erstwhile negative MCA the Government theoretically had (and still has) two choices: to accept a positive MCA at the level dictated

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by sterling's relationship to other Community currencies, or to revalue the Green Pound to bring it nearer or up to the market rate for sterling.

Mr. Walker prefers the former because a revaluation of the Green Pound would reduce United Kingdom farm incomes at a time when they are already being squeezed, and because he regards the introduction of a positive MCA as consistent with the Government's Manifesto commitment to allow United Kingdom farmers to compete on equal terms. On the other hand, positive MCAs involve public expenditure and an increase in our net budget contribution of about £20 million for each percentage point. This is because we are net importers of food and have to hand over to the Community the higher levies on our imports. The Prime Minister may feel that the Green Pound rate (which was not considered as such by OD(E)) should at least be kept under review. If, for example, we are forced to agree to higher price increases than we would like in order to secure a satisfactory budget deal, it would be possible to offset a small part of its effect on food prices at home by a small revaluation (as the Germans will be doing) if it appears that the higher level of sterling is likely to be maintained (though the latest movement of sterling suggests that positive MCAs may disappear again soon).

4. I attach a draft letter in this sense.



(Robert Armstrong)

(approved by Sir R. Armstrong
and signed in his absence)

14th April 1980

CONFIDENTIAL

DRAFT LETTER FROM MR. ALEXANDER TO
MR. WALKER'S PRIVATE SECRETARY. MAFF

United Kingdom Positive MCAs

The Prime Minister has seen your Minister's letter of 11th April about the level of the United Kingdom's positive Monetary Compensatory Amounts and is grateful for the background information provided with it. She would prefer if possible that the dispute between ourselves and other member states on the question of the neutral zone be resolved before the 27th-28th April European Council, if necessary by means of the United Kingdom concession mentioned in the fourth paragraph of your Minister's letter.

[sideline is attached text.]

2. The Prime Minister also feels that OD(E) will need to keep the level of the Green Pound under review in the light of movements in sterling and the forthcoming negotiations on common prices.

3. I am sending copies of this letter to ^{the Private Secretaries to} members of OD(E) & to David Wright (Cabinet Office).

Would rather have
this for the time being.



From the Minister

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

Unfaxed to Chequers Prime Minister

S. J. Pike Duty Clerk

12.4.80

The Rt Hon Margaret Thatcher MP
10 Downing Street
London
SW1

11 April 1980

The decision as to our position on MCAs was taken in the appropriate Cabinet Committee under the chairmanship of the Foreign Secretary and was, of course, discussed.

The fact is that the French and the Germans, and indeed most of the other countries, are opposed to the reduction of the neutral zone for changing from negative to positive MCAs.

The reason why they are opposed is, of course, that any such reduction gives us a trading advantage over them for the first time since we joined the Community.

It is therefore a useful negotiating point for you at the Summit and you can, for example, as a concession, agree to move to a situation where the neutral zone is at least reduced for us to the same size as it is for them.

If, however, at Tuesday's meetings it is judged that we should show some sign of movement before the Summit, we could do it at the meeting of Agriculture Ministers on 21 and 22 April, but I would personally advise that you keep this as a further negotiating position for your meeting.

--- There has been a great deal of nonsense written and spoken this week. I enclose a Press handout that I have issued today that summarises the position. The Economist took up the lead given by John Palmer of the Guardian (a person with known International Socialist background). The fact is that what we are doing in no way increases the cost of food and gives us a trading advantage in a sphere where over the last six years Europe's exports to us, due to the MCA system working against us, have increased by nearly £1.7 billion. There is no doubt in my judgement that in economic

terms we are wise to try to reverse this trend.

As for the nonsense spoken about the return to farmers, it is only the green pound devaluations that directly benefit their incomes and they do not receive the same direct benefit from appreciations in sterling, which is the reason for us going into positive MCAs.

As for the nonsense spoken about taxes on food, with Sam Brittan and the Guardian saying it is the first tax on food since the Corn Laws, the reality is, as you well know, that we have had enormous taxes on food over the last seven years in the form of the import levies that the CAP requires.

On this occasion there is a Community levy that helps our exports and handicaps their exports and that is why the French and the Germans do not like it.

--- I enclose also a factual note on MCAs which you might find useful.

I am sending copies of this letter to members of OD(E).

P. Walker

PETER WALKER
Dictated by the Minister
and signed in his absence

PRESS ENQUIRIES 01-217 6342/6212/3874/3918

After hours 01-217 6200: Copies 01-217 6001: Switchboard 01-217 3000

April 11, 1980

PETER WALKER SPEAKS ABOUT EEC PRICES

The Rt. Hon. Peter Walker, M.P., Minister of Agriculture, Fisheries and Food, speaking in Worcestershire today, Friday, said:

"Over seven years, including the entire period of the last Government, a system operated for food transactions between Community nations which protected them against changes in the currency rates. Now, due to the strength of sterling, Britain has a positive monetary compensatory amount (MCA), which means that exporters obtain a form of benefit enjoyed by countries like Germany, Holland and Belgium for many years past, and EEC exporters to Britain will during this period have a disadvantage, be it a small one, similar in nature to that which British food exporters have had when sterling was weak.

"Some commentators have said in recent days that I am supposed personally to have introduced new taxes on food. They say these will put up the price of food in the shops and that the Government has changed its E.E.C policy.

"I have done no such thing, and prices will not rise in the shops as a result of what has happened. The change that has taken place this week has been brought about by the strength of the British pound - a good thing in itself because it brings confidence and trade to our country. The commentators fail to explain that the Common Agricultural Policy of the E.E.C. works by taxing imports which stabilises prices within the Community and - whether we like it or not - we have been operating this system for over seven years.

"The Regulation which has been introduced this week for MCAs

was a Regulation agreed by my predecessor. Under the last Government, farm prices were held down far below the average level in the rest of the E.E.C., and British agriculture suffered seriously as a result. The present Government undertook to remove this disadvantage, and has done so, and prices are now about on a level with the E.E.C. on average and, because the pound has strengthened, there is a small Community tax on some imports from some other E.E.C. countries. This is because the Common Agricultural Policy system operates so as to stabilise prices in each member country irrespective of the movements in its currency. But it does not put up the price of food in the shops. On the contrary, the prices of a number of our food imports will be cheaper because of the stronger pound. Even where it does apply, the present level of the tax is very small indeed - representing less than half of 1p in the £, on a limited range of food.

"If the pound were to fall again the tax would disappear. So let us keep this in perspective, and not talk about disasters where there are none.

"In the wider context the Government firmly believes it desirable to hold down common farm prices to reduce the cost of the Common Agricultural Policy and to benefit consumers. At the last E.E.C. farm price fixing, in stark contrast to all previous price fixings, I obtained a freeze on the price of milk, which is Europe's biggest surplus, and it was the first price fixing out of which Britain obtained a net benefit and gained British consumers their biggest ever benefit. The Government is also committed to ensuring that United Kingdom food exporters and food producers can compete on fair terms with those in other countries who at present have captured so much of our market. With the removal of the massive disadvantages which they suffered under the previous Government our food exporters are in a far better position.

"Between 1973 and 1979 Britain's food ^{7M} exports from Europe increased by nearly £1.7 billion, twice as much as the increase in our food exports to Europe. This is a trend we need to reverse."

LINE TO TAKE

Positive MCAs

In accordance with its Manifesto commitment, the Government has devalued the green pound so that our farmers can compete on level terms with those in the rest of the Community. Because sterling has risen nearly 9% against the other Community currencies since December a small positive MCA of 2.1% has had to be introduced for some commodities. This compares with the huge negative MCAs of anything up to 45% which obtained under the last Government and which put our farmers at a severe disadvantage.

Effect of positive MCA on food prices

Positive MCAs have been introduced due to the strengthening of sterling against other Community currencies. They will not put up UK food prices. The whole purpose of the MCA system is to stabilise prices in national currency terms.

Effect of positive MCAs on budget contribution

All changes in MCAs, whether resulting from green rate changes or merely from currency movements, affect our budget contribution. There is no need to single out positive MCAs in this respect.

Revaluation of green pound to eliminate positive MCA

The Government will of course keep the level of the green pound under review, just as it has done up to now. But a revaluation in response to what might be only a temporary movement in the exchange rate would hardly be appropriate.

MONETARY COMPENSATORY AMOUNTS

Green Rates

- 1 Support prices under the CAP - which also determine the market prices for the commodities concerned - are set in European Currency Units (ECU), the unit used as the basis of EMS. For the practical operation of the CAP, they have to be converted into national currencies. Properly speaking, they should be converted at each currency's market rate of exchange against the ECU. But this would mean that they would fluctuate with each change in that rate. They are therefore converted at special fixed rates of exchange (called "green rates"), which are set by decision of the Council of Ministers.

- 2 The price level which would result if CAP prices were converted at market exchange rates is termed the "common price level". If a country's currency appreciates and no corresponding change is made in its green rate, its prices will obviously rise above the common price level: and vice versa if its currency depreciates. Thus countries with historically strong currencies (Germany and Benelux) have acquired high prices and countries with weaker currencies (France, Italy, Ireland and - in the past - the UK) have had lower prices.

- 3 Countries may, of course, negotiate changes in their green rates. But the convention has been that these changes may only move their prices in the direction of the common price level, never away from it.

- 4 The table at Annex A shows the present spread of prices. Except for Germany (who has not been prepared to move her green rate by nearly as much as her currency has appreciated over the last 10 years),^{almost} all prices are within a band of 6-7%. This is unusually small: at times in the past the spread has been as much as 50% or even more. It has narrowed for two reasons: first, the annual rises in CAP prices expressed in ECU have been very low recently (3.9%, 2.1% and 1.3% in 1977, 1978 and 1979 respectively) so that countries operating prices

below the common level have had an incentive to raise them by devaluing their green rates; and second, the relationship between most Community currencies has been more stable than in the past so that, once narrowed, the gaps have not tended immediately to widen again.

5 Both these factors have also operated in the case of the UK, with the added points that: the Election Manifesto promised to move UK prices up to the common price level; and sterling has not only ^{not} fallen against other Community currencies, as it mostly did from 1973 to 1978, but has risen appreciably against them.

Monetary Compensatory Amounts (MCAs)

6 As soon as farm prices in different Member States first diverged in 1969, it was necessary to introduce levies and payments on farm products crossing Member States' boundaries. Otherwise products from a low-price country would have been sent to a high-price country to be bought into intervention there. These levies and payments are called MCAs. They are broadly equal to the difference between the common price level and the national price level of the country concerned. For a country operating prices above the common price level, they act as levies on imports and subsidies on exports: and vice versa for a country operating prices below the common price level. Levies on imports from, and subsidies on exports to, third countries have to be similarly differentiated.

7 MCAs are expressed as the approximate percentage difference (plus or minus) between each country's green rate and the market rate of its currency against the ECU. They are calculated automatically each week by the Commission according to currency movements. Applying the percentage to the support price of the commodity concerned produces the actual amount to be levied or granted on trade. Current MCA rates are also shown at Annex A.

Recent Developments

8 Ever since accession the UK had operated the lowest farm prices in the Community through not having devalued the green pound by as much as sterling had fallen. Large MCAs were payable on our imports of agricultural goods from other Member States and charged on our exports to them. At its highest (November 1976) our MCA was minus 45%. At the time of the 1979 Election it was minus 13%.

9 Since the Election there have been two 5% devaluations of the green pound in June and December 1979 (and an extra small devaluation of 1.1% for technical reasons in October). The December devaluation applies to most products, but will not take effect for cereals eggs and poultrymeat until 1 August.

10 As a result of the December devaluation, the MCA fell to minus 3.5%. Since then sterling has appreciated by almost 9% against the other Community currencies. Accordingly the MCA fell to zero on 28 January and a positive MCA of 2.1% was introduced on 7 April. (These are the rates for those products for which the December green pound change already applies; for cereals, eggs and poultry, the current rate of MCA is nil).

Effect of positive MCA on food prices

11 It has been claimed in the press that the introduction of a positive MCA will put up food prices in the shops. This is totally untrue. It will be clear from the above that the whole purpose of the MCA system is to keep farm (and therefore food) prices stable in national currency terms. Because sterling has risen, prices in other Member States have fallen relative to UK prices: hence, where they have become lower, a levy has to be imposed on imports from them to protect the price level here.

12 In fact the strengthening of sterling will tend to reduce farm and food prices: partly because there are some commodities to which the MCA system does not apply (notably lamb, potatoes, fruit and vegetables); and partly because, even where they do apply, MCA changes tend to under-compensate for currency changes.

MCAs and the Budget

13 MCAs are financed from, or accrue to, the Budget. Thus every time the MCA rate changes - whether due to a green pound change or the movement of sterling - our budget contribution is affected. However since MCAs are applied to trade between Member States, they can be paid or collected at either end of the transaction: and to which Member State they should be attributed for budgetary purposes is a question for debate.

14 When MCAs were paid as subsidies on our imports, the Commission claimed they should be treated as our budget receipts (even though they were in practice paid out in the exporting Member State); they thus claimed that our net budget contribution was much lower than it really was. We claimed that, on the contrary, they should be regarded as a subsidy enabling the exporting Member State to compete in our market, and therefore as that Member State's receipts.

15 Now that we have positive MCAs acting as levies on imports from other Member States, they will be collected in the UK and will thus increase the sums handed over to Brussels (the corresponding payments on our exports will, of course, be a partial offset). Using the same argument as above, we could logically claim that these levies should properly be regarded as falling on the exporting Member State and therefore as part of its contribution. But, in present circumstances, it is not to our advantage to minimise our net budget contribution.

The Future

16 The level of support for UK farmers is of course a proper matter for public debate. But there is no reason why this debate should be triggered by the mere fact that, after being easily the lowest for 7 years, UK prices have, owing to the unexpected strength of sterling, moved up to around the EEC

average and marginally above the common price level. Nor is there any reason why this should impel the Government, having weighed up the respective claims of farmers and consumers as recently as December and decided on a green pound devaluation, to reverse that decision at this stage by revaluing the green pound again and thus reducing farmers support prices in sterling terms. Although the strength of sterling may marginally curb the rate of inflation of farm costs, nothing has happened since December which materially affects the outlook: given the accepted need to keep CAP prices down to the maximum extent, farmers face a severe cost-price squeeze -unless sterling should fall to the point where a further green pound devaluation is possible.

17 In fact, although nothing can be based on short term movements in the exchange rate, sterling has fallen over the last two days to a level which, if sustained, would automatically result in the removal of the positive MCA from 21 April.

Method of Calculating Positive MCAs

18. The precise method of calculating positive MCAs - about which the Prime Minister was questioned in the House before Easter - was discussed at the Agriculture Council on 26-27 March. This is a technical matter, concerned with whether the MCA system entirely achieves the intended effect of compensating for price differences between Member States. The point at issue is explained in Annex B.

MCAs AND RELATIVE PRICE LEVELS, WEEK ENDING 12 APRIL 1980

		Rate of MCA %	Relative price level (common price level ⁽¹⁾ = 100)
Germany	- milk	+ 10.8	113.4
	- other products	+ 9.8	112.1
Benelux	- milk	+ 2.4	102.6
	- other products	+ 1.9	102.0
UK	- most products	+ 2.1	103.7
	- cereals eggs and ⁽²⁾ poultry	0	98.6
Denmark		0	100.0
Ireland		0	98.7
France	- pigs, milk, beef ⁽³⁾	0	98.7
	- other products	- 3.7	95.2
Italy	- milk, beef ⁽³⁾	- 1.3	97.3
	- other products	- 6.7	92.4

Notes

- (1) The price spread is somewhat different from the spread of MCAs, largely due to an arbitrary deduction (termed a "franchise") made from the percentage gap between the market rate and the green rate for the purpose of calculating the MCA.
- (2) The rate for cereals, eggs and poultry will be aligned with that for other products on 1 August 1980.
- (3) The French and Italian rates for "other products" will be aligned with the rates for milk and beef at the start of the various marketing years.

The "Franchise" Rules

In principle the MCA applied to trade between two Member States bridges the gap between the different price levels in the Member States concerned. In practice, however, the Community regulations provide for a percentage deduction (called a "franchise"). So long as UK prices were lower than those elsewhere, so that MCAs applied as subsidies on our imports and levies on our exports, this deduction meant that imports were not quite as cheap as they would otherwise have been. There was thus less danger of market prices here being pushed down to intervention level; and exports to other Member States were facilitated.

However, now that we have positive MCAs, the deduction has the opposite effect. It makes imports more competitive and exports less so; and it increases the danger that market prices will fall to intervention level with the risk of big purchases into intervention and a consequent addition to public expenditure.

The regulation providing for a deduction from a positive MCA was due to expire on 31 March. At the time of the Agriculture Council of 26-27 March the deduction was preventing the immediate introduction of positive MCAs. There was a danger of increased intervention and also of distortion of trade - for example, an Irish exporter of butter to a non-Community country would have made a profit of about £50 per ton through exporting via the UK instead of direct from Ireland.

Mr Walker accordingly requested the deletion of the provision for the deduction and, when this was not forthcoming, blocked the extension of the Regulation. So far, however, the Commission - illegally, in our view - have continued to act as if the Regulation still existed.

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MR. ALEXANDER

Positive MCAs

The Minister of Agriculture has now responded, in his letter and enclosures of 11th April, to the Prime Minister's request for a note on the various factors involved in the decision to introduce positive MCAs for Britain.

2. Under Community Regulations, positive MCAs (which act as a subsidy on exports and a tax on imports) are applied when the market rate for a currency rises above its ECU parity. This is now the position for sterling, with a current gap of about $3\frac{1}{2}$ per cent. But MCAs do not cover the whole gap. There is a franchise (or "neutral zone") which is deducted before MCAs are calculated. Mr. Walker's letter principally deals with the relatively narrow question of the franchise, explained in more detail in Annex B to his letter.

3. In the March Agriculture Council Mr. Walker sought the elimination of the franchise on our positive MCAs, rather than merely its reduction to the 1 per cent level applicable to the German positive MCAs, intending to block the extension of the relevant regulation to get his way. This line was agreed in OD(E) (OD(E)(80) 5th Meeting, Item 1), but has since been frustrated by the Commission's insistence on acting as though the regulation was still in force. In the fourth paragraph of his letter he accordingly suggests that we might accept a compromise, either at the European Council or at the April Agriculture Council. The Prime Minister may feel that it would be unwise to inject this technical point into the European Council's discussions, and that the Minister of Agriculture should accordingly seek to remove this point of conflict before those discussions begin.

4. There is however the wider question as to the appropriate level for the Green Pound in present circumstances. When the appreciation of sterling eliminated our erstwhile negative MCA the Government theoretically had (and still has) two choices: to accept a positive MCA at the level dictated

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by sterling's relationship to other Community currencies, or to revalue the Green Pound to bring it nearer or up to the market rate for sterling.

Mr. Walker prefers the former because a revaluation of the Green Pound would reduce United Kingdom farm incomes at a time when they are already being squeezed, and because he regards the introduction of a positive MCA as consistent with the Government's Manifesto commitment to allow United Kingdom farmers to compete on equal terms. On the other hand, positive MCAs involve public expenditure and an increase in our net budget contribution of about £20 million for each percentage point. This is because we are net importers of food and have to hand over to the Community the higher levies on our imports. The Prime Minister may feel that the Green Pound rate (which was not considered as such by OD(E)) should at least be kept under review. If, for example, we are forced to agree to higher price increases than we would like in order to secure a satisfactory budget deal it would be possible to offset a small part of its effect on food prices at home by a small revaluation (as the Germans will be doing) if it appears that the higher level of sterling is likely to be maintained (though the latest movement of sterling suggests that positive MCAs may disappear again soon).

4. I attach a draft letter in this sense.

ROBERT ARMSTRONG

(Robert Armstrong)

14th April 1980

CONFIDENTIAL

**DRAFT LETTER FROM MR. ALEXANDER TO
MR. WALKER'S PRIVATE SECRETARY. MAFF**

United Kingdom Positive MCAs

The Prime Minister has seen your Minister's letter of 11th April about the level of the United Kingdom's positive Monetary Compensatory Amounts and is grateful for the background information provided with it. She would prefer if possible that the dispute between ourselves and other member states on the question of the neutral zone be resolved before the 27th-28th April European Council, if necessary by means of the United Kingdom concession mentioned in the fourth paragraph of your Minister's letter.

2. The Prime Minister also feels that OD(E) will need to keep the level of the Green Pound under review in the light of movements in sterling and the forthcoming negotiations on common prices.

3. I am sending copies of this letter to members of OD(E).

APR 11 1972
MAFF

CONFIDENTIAL

DRAFT LETTER FROM MR. ALAN BROWN TO
MR. WASHINGTON FIELD OFFICE, NEW YORK

Special Agent in Charge

The following information was received from a letter of
the New York Office dated 4/11/80. The letter advised
that the New York Office is currently conducting an investigation
into the activities of the [redacted] in the New York area.
It was stated that the [redacted] has been identified as
being active in the New York area and is currently
operating out of the New York area. It was also stated
that the [redacted] has been identified as being active
in the New York area and is currently operating out of
the New York area.

Very truly yours,

Alan Brown
Special Agent in Charge
New York Office
New York, New York
Enclosure

APR 15 1980

115 APR 1980



From the Minister

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

Prime Minister

S. J. P. S. Duty
12.4.80

The Rt Hon Margaret Thatcher MP
10 Downing Street
London
SW1

11 April 1980

?!.

The decision as to our position on NCAs was taken in the appropriate Cabinet Committee under the chairmanship of the Foreign Secretary and was, of course, discussed.

The fact is that the French and the Germans, and indeed most of the other countries, are opposed to the reduction of the neutral zone for changing from negative to positive NCAs.

The reason why they are opposed is, of course, that any such reduction gives us a trading advantage over them for the first time since we joined the Community.

It is therefore a useful negotiating point for you at the Summit and you can, for example, as a concession, agree to move to a situation where the neutral zone is at least reduced for us to the same size as it is for them.

If, however, at Tuesday's meetings it is judged that we should show some sign of movement before the Summit, we could do it at the meeting of Agriculture Ministers on 21 and 22 April, but I would personally advise that you keep this as a further negotiating position for your meeting.

There has been a great deal of nonsense written and spoken this week. I enclose a Press handout that I have issued today that summarises the position. The Economist took up the lead given by John Palmer of the Guardian (a person with known international Socialist background). The fact is that what we are doing in no way increases the cost of food and gives us a trading advantage in a sphere where over the last six years Europe's exports to us, due to the NCA system working against us, have increased by nearly £1.7 billion. There is no doubt in my judgement that in economic

terms we are wise to try to reverse this trend.

As for the nonsense spoken about the return to farmers, it is only the green pound devaluations that directly benefit their incomes and they do not receive the same direct benefit from appreciations in sterling, which is the reason for us going into positive MCAs.

As for the nonsense spoken about taxes on food, with Sam Brittan and the Guardian saying it is the first tax on food since the Corn Laws, the reality is, as you well know, that we have had enormous taxes on food over the last seven years in the form of the import levies that the CAP requires.

On this occasion there is a Community levy that helps our exports and handicaps their exports and that is why the French and the Germans do not like it.

I enclose also a factual note on MCAs which you might find useful.

I am sending copies of this letter to members of OD(E).

P. E. Jones

PETER WALKER
Dictated by the Minister
and signed in his absence

PRESS ENQUIRIES 01-217 6342/6212/3874/3918

After hours 01-217 6200: Copies 01-217 6001: Switchboard 01-217 3000

April 11, 1980

PETER WALKER SPEAKS ABOUT EEC PRICES

The Rt. Hon. Peter Walker, M.P., Minister of Agriculture, Fisheries and Food, speaking in Worcestershire today, Friday, said:

"Over seven years, including the entire period of the last Government, a system operated for food transactions between Community nations which protected them against changes in the currency rates. Now, due to the strength of sterling, Britain has a positive monetary compensatory amount (MCA), which means that exporters obtain a form of benefit enjoyed by countries like Germany, Holland and Belgium for many years past, and EEC exporters to Britain will during this period have a disadvantage, be it a small one, similar in nature to that which British food exporters have had when sterling was weak.

"Some commentators have said in recent days that I am supposed personally to have introduced new taxes on food. They say these will put up the price of food in the shops and that the Government has changed its E.E.C policy.

"I have done no such thing, and prices will not rise in the shops as a result of what has happened. The change that has taken place this week has been brought about by the strength of the British pound - a good thing in itself because it brings confidence and trade to our country. The commentators fail to explain that the Common Agricultural Policy of the E.E.C. works by taxing imports which stabilises prices within the Community and - whether we like it or not - we have been operating this system for over seven years.

"The Regulation which has been introduced this week for MCAs

was a Regulation agreed by my predecessor. Under the last Government, farm prices were held down far below the average level in the rest of the E.E.C., and British agriculture suffered seriously as a result. The present Government undertook to remove this disadvantage, and has done so, and prices are now about on a level with the E.E.C. on average and, because the pound has strengthened, there is a small Community tax on some imports from some other E.E.C. countries. This is because the Common Agricultural Policy system operates so as to stabilise prices in each member country irrespective of the movements in its currency. But it does not put up the price of food in the shops. On the contrary, the prices of a number of our food imports will be cheaper because of the stronger pound. Even where it does apply, the present level of the tax is very small indeed - representing less than half of 1p in the £, on a limited range of food.

"If the pound were to fall again the tax would disappear. So let us keep this in perspective, and not talk about disasters where there are none.

"In the wider context the Government firmly believes it desirable to hold down common farm prices to reduce the cost of the Common Agricultural Policy and to benefit consumers. At the last E.E.C. farm price fixing, in stark contrast to all previous price fixings, I obtained a freeze on the price of milk, which is Europe's biggest surplus, and it was the first price fixing out of which Britain obtained a net benefit and gained British consumers their biggest ever benefit. The Government is also committed to ensuring that United Kingdom food exporters and food producers can compete on fair terms with those in other countries who at present have captured so much of our market. With the removal of the massive disadvantages which they suffered under the previous Government our food exporters are in a far better position.

"Between 1973 and 1979 Britain's food ^{im}ports from Europe increased by nearly £1.7 billion, twice as much as the increase in our food exports to Europe. This is a trend we need to reverse."

LINE TO TAKE

Positive MCAs

In accordance with its Manifesto commitment, the Government has devalued the green pound so that our farmers can compete on level terms with those in the rest of the Community. Because sterling has risen nearly 9% against the other Community currencies since December a small positive MCA of 2.1% has had to be introduced for some commodities. This compares with the huge negative MCAs of anything up to 45% which obtained under the last Government and which put our farmers at a severe disadvantage.

Effect of positive MCA on food prices

Positive MCAs have been introduced due to the strengthening of sterling against other Community currencies. They will not put up UK food prices. The whole purpose of the MCA system is to stabilise prices in national currency terms.

Effect of positive MCAs on budget contribution

All changes in MCAs, whether resulting from green rate changes or merely from currency movements, affect our budget contribution. There is no need to single out positive MCAs in this respect.

Revaluation of green pound to eliminate positive MCA

The Government will of course keep the level of the green pound under review, just as it has done up to now. But a revaluation in response to what might be only a temporary movement in the exchange rate would hardly be appropriate.

MONETARY COMPENSATORY AMOUNTS

Green Rates

1 Support prices under the CAP - which also determine the market prices for the commodities concerned - are set in European Currency Units (ECU), the unit used as the basis of EMS. For the practical operation of the CAP, they have to be converted into national currencies. Properly speaking, they should be converted at each currency's market rate of exchange against the ECU. But this would mean that they would fluctuate with each change in that rate. They are therefore converted at special fixed rates of exchange (called "green rates"), which are set by decision of the Council of Ministers.

2 The price level which would result if CAP prices were converted at market exchange rates is termed the "common price level". If a country's currency appreciates and no corresponding change is made in its green rate, its prices will obviously rise above the common price level; and vice versa if its currency depreciates. Thus countries with historically strong currencies (Germany and Benelux) have acquired high prices and countries with weaker currencies (France, Italy, Ireland and - in the past - the UK) have had lower prices.

3 Countries may, of course, negotiate changes in their green rates. But the convention has been that these changes may only move their prices in the direction of the common price level, never away from it.

4 The table at Annex A shows the present spread of prices. Except for Germany (who has not been prepared to move her green rate by nearly as much as her currency has appreciated over the last 10 years), ^{almost} all prices are within a band of 6-7%. This is unusually small; at times in the past the spread has been as much as 50% or even more. It has narrowed for two reasons: first, the annual rises in CAP prices expressed in ECU have been very low recently (3.9%, 2.1% and 1.3% in 1977, 1978 and 1979 respectively) so that countries operating prices

below the common level have had an incentive to raise them by devaluing their green rates; and second, the relationship between most Community currencies has been more stable than in the past so that, once narrowed, the gaps have not tended immediately to widen again.

5 Both these factors have also operated in the case of the UK, with the added points that: the Election Manifesto promised to move UK prices up to the common price level; and sterling has not only ^{not} fallen against other Community currencies, as it mostly did from 1973 to 1978, but has risen appreciably against them.

Monetary Compensatory Amounts (MCAs)

6 As soon as farm prices in different Member States first diverged in 1969, it was necessary to introduce levies and payments on farm products crossing Member States' boundaries. Otherwise products from a low-price country would have been sent to a high-price country to be bought into intervention there. These levies and payments are called MCAs. They are broadly equal to the difference between the common price level and the national price level of the country concerned. For a country operating prices above the common price level they act as levies on imports and subsidies on exports; and vice versa for a country operating prices below the common price level. Levies on imports from, and subsidies on exports to, third countries have to be similarly differentiated.

7 MCAs are expressed as the appreciable percentage difference (plus or minus) between ^{EACH} ~~THE~~ COUNTRY'S green rate and the market rate of its currency against THE ECU. They are calculated automatically each week by the Commission according to currency movements. Applying the percentage to the support price of the commodity concerned produces the actual amount to be levied or granted on trade. Current MCA RATES are also shown at Annex A.

Recent Developments

8 Ever since accession the UK had operated the lowest farm prices in the Community through not having devalued the green pound by as much as sterling had fallen. Large MCAs were payable on our imports of agricultural goods from other Member States and charged on our exports to them. At its highest (November 1976) our MCA was minus 45%. At the time of the 1979 Election it was minus 13%.

9 Since the Election there have been two 5% devaluations of the green pound in June and December 1979 (and an extra small devaluation of 1.1% for technical reasons in October). The December devaluation applies to most products, but will not take effect for cereals eggs and poultrymeat until 1 August.

10 As a result of the December devaluation, the MCA fell to minus 3.5%. Since then sterling has appreciated by almost 9% against the other Community currencies. Accordingly the MCA fell to zero on 28 January and a positive MCA of 2.1% was introduced on 7 April. (These are the rates for those products for which the December green pound change already applies; for cereals, eggs and poultry, the current rate of MCA is nil).

Effect of positive MCA on food prices

11 It has been claimed in the press that the introduction of a positive MCA will put up food prices in the shops. This is totally untrue. It will be clear from the above that the whole purpose of the MCA system is to keep farm (and therefore food) prices stable in national currency terms. Because sterling has risen, prices in other Member States have fallen relative to UK prices: hence, since they have become lower, a levy has to be imposed on imports from them to protect the price level here.

12 In fact the strengthening of sterling will tend to reduce farm and food prices: partly because there are some commodities to which the MCA system does not apply (notably lamb, potatoes, fruit and vegetables); and partly because, even where they do apply, MCA changes tend to under-compensate for currency changes.

MCAs and the Budget

13 MCAs are financed from, or accrue to, the Budget. Thus every time the MCA rate changes - whether due to a green pound change or the movement of sterling - our budget contribution is affected. However since MCAs are applied to trade between Member States, they can be paid or collected at either end of the transaction: and to which Member State they should be attributed for budgetary purposes is a question for debate.

14 When MCAs were paid as subsidies on our imports, the Commission claimed they should be treated as our budget receipts (even though they were in practice paid out in the exporting Member State); they thus claimed that our net budget contribution was much lower than it really was. We claimed that, on the contrary, they should be regarded as a subsidy enabling the exporting Member State to compete in our market, and therefore as that Member State's receipts.

15 Now that we have positive MCAs acting as levies on imports from other Member States, they will be collected in the UK and will thus increase the sums handed over to Brussels (the corresponding payments on our exports will, of course, be a partial offset). Using the same ARGUMENTS above, we could logically claim that those levies should properly be regarded as falling on the exporting Member State and therefore as part of its contribution. But, in present circumstances, it is not to our advantage to minimise our net budget contribution.

The Future

16 The level of support for UK farmers is of course a proper matter for public debate. But there is no reason why this debate should be triggered by the mere fact that, after being easily the lowest for 7 years, ~~our~~^{UK} prices have, owing to the unexpected strength of sterling, moved up to around the EEC

average and marginally above the common price level. Nor is there any reason why this should impel the Government, having weighed up the respective claims of farmers and consumers as recently as December and decided on a green pound devaluation, to reverse that decision at this stage by revaluing the green pound again and thus reducing farmers support prices in sterling terms. Although the strength of sterling may marginally curb the rate of inflation of farm costs, nothing has happened since December which materially affects the outlook: given the accepted need to keep CAP prices down to the maximum extent, farmers face a severe cost-price squeeze - unless sterling should fall to the point where a further green pound devaluation is possible.

17 In fact, although nothing can be based on short term movements in the exchange rate, sterling has fallen over the last two days to a level which, if sustained, would automatically result in the removal of the positive MCA from 21 April.

Method of Calculating Positive MCAs

18. The precise method of calculating positive MCAs - about which the Prime Minister was questioned in the House before Easter - was discussed at the Agriculture Council on 26-27 March. This is a technical matter, concerned with whether the MCA system entirely achieves the intended effect of compensating for price differences between Member States. The point at issue is explained in Annex B.

MCAs AND RELATIVE PRICE LEVELS, WEEK ENDING 12 APRIL 1980

		Rate of MCA %	Relative price level (common price level (1) = 100)
Germany	- milk	+ 10.8	113.4
	- other products	+ 9.8	112.1
Benelux	- milk	+ 2.4	102.6
	- other products	+ 1.9	102.0
UK	- most products	+ 2.1	103.7
	- cereals eggs and poultry (2)	0	98.6
Denmark		0	100.0
Ireland		0	98.7
France	- pigs, milk, beef (3)	0	98.7
	- other products	- 3.7	95.2
Italy	- milk, beef	- 1.3	97.3
	- other products (3)	- 6.7	92.4

Notes

- (1) The price spread is somewhat different from the spread of MCAs, largely due to an arbitrary deduction (termed a "franchise") made from the percentage gap between the market rate and the green rate for the purpose of calculating the MCA.
- (2) The rate for cereals, eggs and poultry will be aligned with that for other products on 1 August 1980.
- (3) The French and Italian rates for "other products" will be aligned with the rates for milk and beef at the start of the various marketing years.

The "Franchise" Rules

In principle the MCA applied to trade between two Member States bridges the gap between the different price levels in the Member States concerned. In practice, however, the Community regulations provide for a percentage deduction (called a "franchise"). So long as UK prices were lower than those elsewhere, so that MCAs applied as subsidies on our imports and levies on our exports, this deduction meant that imports were not quite as cheap as they would otherwise have been. There was thus less danger of market prices here being pushed down to intervention level; and exports to other Member States were facilitated.

However, now that we have positive MCAs, the deduction has the opposite effect. It makes imports more competitive and exports less so; and it increases the danger that market prices will fall to intervention level with the risk of big purchases into intervention and a consequent addition to public expenditure.

The regulation providing for a deduction from a positive MCA was due to expire on 31 March. At the time of the Agriculture Council of 26-27 March the deduction was preventing the immediate introduction of positive MCAs. There was a danger of increased intervention and also of distortion of trade - for example, an Irish exporter of butter to a non-Community country would have made a profit of about £50 per ton through exporting via the UK instead of direct from Ireland.

Mr Walker accordingly requested the deletion of the provision for the deduction and, when this was not forthcoming, blocked the extension of the Regulation. So far, however, the Commission - illegally, in our view - have continued to act as if the Regulation still existed.

CONFIDENTIAL

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



From the Minister

No progress to be agreed until we settle the budget issue

10 April 1980

PRIME MINISTER

F₄ 12/4/80

THE CAP AND THE EUROPEAN SUMMIT

It may be helpful to you and our colleagues if, before our meeting on Tuesday, I set out the current position on the agricultural price-fixing and on sheepmeat, as I see it.

My general conclusion from the last meeting of agricultural Ministers was that there was little prospect of settling the agricultural prices before the European Council, but since then the French and the Germans appear to be requesting that we make some move towards higher prices before the European Council takes place. I do not see any good reason for moving from the position on which we have agreed until we have made positive progress in solving our budget problems. If I make concessions at the April Council of Agricultural Ministers and the European Council is not as helpful as we hope, it will be very difficult indeed to recall them. I do not think I should go beyond making it clear to my colleagues unofficially that if the European Council is successful, I could probably accept something like the Commission's proposals. I do not, however, believe that this will satisfy any of the other Member States, all of whom are now committed to increases of the order of 4-5%. At the present time there is no sign of any agreement on the question of milk levies.

No

On sheepmeat, I might in the last resort be prepared to agree to Community-financed premiums on the basis of the Commission's proposals provided they were aligned to a common market-related level within two years. I would also agree, on certain conditions, to the introduction of limited intervention, preferably in the form of storage aids to public intervention agencies. It is possible that, after a certain amount of negotiation, we might get the French to agree to something on these lines. But again I am reluctant to go too far until we have made irreversible progress on the budget.

CONFIDENTIAL

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I suggest that this minute is read in conjunction with my paper OD(E)(80)15. Flag B

I am sending copies of this minute to the members of OD(E) and to Sir Robert Armstrong.

D.E. Jones

PETER WALKER
Approved by the Minister
and signed in his absence

CONFIDENTIAL



11 APR 1980

CONFIDENTIAL

EGro P22. DSE

bcs: Mr. Alexander
Mr. Harlested

~~B/K 11.4.80.~~ FUE

9 April 1980

POSITIVE MCAs

As I told you on the telephone this morning, the Prime Minister has asked for a restatement of the factors which led your Minister to agree to the introduction of positive MCAs for Britain. She would like a short note going back to first principles and explaining the alternative courses of action which were open to the Government, together with a suggested line for her to take in defending the decision next week in the House of Commons and elsewhere.

I think it would be helpful if your reply could also discuss what is likely to happen next. The Prime Minister has also asked to be reminded briefly of how the decision was reached and whether there was any collective discussion beforehand.

I asked you to let us have a submission by Friday afternoon. It would be helpful if it could arrive here by 1600 on Friday.

I am copying this letter to David Wright (Cabinet Office).

N. J. SANDERS

Miss Ros. Bratley,
Ministry of Agriculture, Fisheries and Food.

CONFIDENTIAL

AB

(CASP)

Original: Europe P7
European
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Budget. (4)

Ref: A01897

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MR. ALEXANDER

Community Budget: Proposed Ad Hoc Meeting on 15th April

It is clear from the meeting of Personal Representatives which Mr. Franklin attended in Paris yesterday that agriculture prices and sheepmeat will play a crucial role in the prospects for a successful outcome of the European Council at the end of April.

2. There may accordingly be moves at the 21st-22nd Agriculture Council to make sufficient progress on the Commission's prices and economy package to enable it to be presented in some form - if necessary, ad referendum - to the European Council. Whether or not this happens, CAP prices are bound to figure prominently among the issues related to our Budget problem at the European Council. For the French, a resolution of the sheepmeat problem will also be important and the French Minister of Agriculture has asked for a meeting with Mr. Walker.

3. The Minister of Agriculture's present mandate from the Cabinet and OD(E) is to block any price increase for surplus commodities until we get satisfaction on the Budget, carrying this policy right up to the next European Council and beyond if necessary. The Prime Minister's discussions with Chancellor Schmidt about the handling of related issues and yesterday's discussions in Paris suggest that we may need to review our tactics. If there are signs e.g. from a tour by Signor Cossiga that movement is possible on the Budget provided that we move on agricultural prices, then it may be necessary to give Mr. Walker a greater measure of negotiating flexibility at the next Agriculture Council, subject to a satisfactory outcome of the European Council (and perhaps to corresponding progress on the Budget contribution at the meeting of Foreign and Finance Ministers in the week beginning 21st April). Similarly it might be desirable to send a signal to the French, either through Signor Cossiga or in the course of Mr. Walker's meeting with Monsieur Mehaignerie, indicating our willingness to contemplate some limited intervention on sheepmeat if they subscribe to an acceptable Budget solution.

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4. Mr. Walker is expected to put round the usual pre-Council letter to his OD(E) colleagues setting out the line he proposes to take on 21st-22nd April. Instead of considering it in OD(E), the Prime Minister might prefer to call an ad hoc meeting of the Ministers directly concerned to consider tactics both for the agriculture Council and the meeting with Monsieur Mehaignerie scheduled for the late afternoon of 15th April. To cover this latter point the ad hoc meeting would need to take place some time during the morning of 15th April. It would need to include the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Lord Privy Seal, the Minister of Agriculture and the Secretary of State for Trade.

(Robert Armstrong)

3rd April 1980

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Subject file
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10 DOWNING STREET

Scott-Hopkins - July 79

From the Private Secretary

2 April 1980

Dear Richard,

Call by Mr. Jim Scott-Hopkins

As you know, Mr. Scott-Hopkins called on the Prime Minister this morning. The Lord Privy Seal was also present.

After Mr. Scott-Hopkins had described the debate in the European Parliament on the next round of agricultural price fixing, the Prime Minister said that she was not prepared to contemplate unwarrantedly high increases in agricultural prices in order to strike a deal on Britain's budgetary problem. Mr. Scott-Hopkins said that he thought that the European Parliament might well try to block any price increase over about 3.5%. After the Lord Privy Seal had pointed out that the Minister of Agriculture would block all price rises until the budgetary problem was settled, the Prime Minister said that even after a budget solution had been found, the UK would not be able to afford too large a price rise. To do so would be to cancel out much of what might have been gained in the budgetary settlement.

In discussion of ways of mitigating the rise of the CAP, Mr. Scott-Hopkins said that the idea of a super-levy was dead. But he hoped that the idea of a tax on those who benefited directly from intervention, e.g. the owners of freezer factories and those who were selling directly out of intervention, could be pursued vigorously. It was a far better approach than the attempt to tax agricultural producers.

The Prime Minister asked about the position on the Community's overall budget. Mr. Scott-Hopkins said that consideration of the problem was in abeyance until the CAP prices could be fixed and therefore, in effect, until the UK's budgetary problem was solved. One consequence of this would be that the Parliament would probably have to apply for a derogation in July. He did not think they would be able to keep going beyond mid-summer without additional money. Even if the UK problem was solved in June, it would not be possible to agree the new budget as a whole by July.

Mr. Scott-Hopkins said that the atmosphere in Strasbourg at the moment was not good. The French were excessively hostile and there was a general air of confrontation. Messieurs Chirac and Debré were actively engaged in stirring things up.

/ Mr. Scott-Hopkins

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Mr. Scott-Hopkins told the Prime Minister that a debate was under way in the Parliament about the institutions of the Community. A specific point on which he would be grateful for guidance related to HMG's position on the number of Commissioners after enlargement. The Prime Minister said that she thought that one Commissioner per member state would be sufficient. However, she did not wish to pursue this line in public at present. Mr. Scott-Hopkins should therefore avoid taking a line at present. Mr. Scott-Hopkins indicated that he had already argued in favour of a continuation of the status quo.

Mr. Scott-Hopkins told the Prime Minister that he thought the Parliament would wish to debate in the autumn the programme proposed by the next President of the Commission. If they were denied the opportunity to hold such a debate, they might well try to reject the new Commission in its entirety. It was also, of course, possible that they would try to reject the new President's programme if they did not like it. The Prime Minister said that this would be intolerable. If there had to be a debate, surely it could be on the basis of a "take note" motion.

Finally, Mr. Scott-Hopkins told the Prime Minister that pressure was growing for the selection of a single seat for the European Parliament. Its members were fed up with commuting between the present seats. The Lord Privy Seal said that if, as he understood, the objective of the EMPs was to get to Brussels, they had made a mistake in deciding not to go to Luxembourg this year. The Prime Minister said that she regarded Strasbourg as the seat of the Council of Europe and not as the seat of the European Parliament.

The Prime Minister told Mr. Scott-Hopkins that Madame Veil would shortly be receiving an invitation to visit this country after the summer holidays.

I am sending copies of this letter to the Private Secretaries to the members of OD(E) and to David Wright (Cabinet Office).

Yours ever

Richard Alexander

Michael Richardson, Esq.,
Lord Privy Seal's Office.



Euro 182

PA
MS

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

From the Minister's Private Office

N Sanders Esq
Prime Minister's Office
10 Downing Street
London SW1

31 March 1980

Dear Nick

COUNCIL OF MINISTERS (AGRICULTURE): 26-27 MARCH 1980

I attach a copy of the statement which Mr Walker hopes to make to the House today. I would be grateful for immediate clearance.

I am copying this letter to Ingham: Stevens (Leader of the House's Office); MacClean (Whip's Office, Commons); Cumming-Bruce (Whip's Office, Lords); Wright (Cabinet Office) and to private secretaries of the other Agricultural Ministers and members of OD(E).

Yours sincerely

David Jones

for Garth Waters
Principal Private Secretary

STATEMENT ON AGRICULTURE COUNCIL 26/27 MARCH 1980

With permission, Mr Speaker, I wish to make a statement about the Council of Agriculture Ministers meeting in Brussels on 26 and 27 March, at which I represented the United Kingdom with my hon. Friend the Minister of State.

After a brief discussion on some of the Commission's prices and economies proposals the Presidency engaged in a series of bilateral meetings with each Minister. I gave our view that there should be no price increases for the commodities in structural surplus - milk, sugar and wine. I recorded our demand for the continuance of the Consumer Butter Subsidy, the need to retain the Beef Premium Scheme until a better system could be agreed and the need in the Price Fixing to provide the whisky industry with the export refunds to which it is entitled.

When the Council reassembled, the President reported that there was no prospect of progress being made at this week's meeting. He expressed the hope that it would be possible to move towards a solution at the next Agriculture Council which is due to take place on 21 and 22 April.

Because of the delay in reaching a settlement on agricultural prices for 1980/81, the Council had to consider extensions to a number of regulations which would otherwise have expired.

The Commission also proposed the extension of one of the agri-monetary regulations which deals among other things with the calculation of monetary compensatory amounts. The regulation agreed to a year ago now gives an unreasonable advantage to foreign food exporters to Britain and puts Britain's food exporters at an unfair disadvantage. As some other Member States were unwilling to amend the regulation so as to decrease our disadvantage by $1\frac{1}{2}\%$, I refused to extend the regulation beyond 31 March.

At a previous meeting of the Council, agreement had been reached to devalue the green franc on 31 March for those items whose marketing year ended on that date. When the Council was asked to confirm that this applied to the theoretical end of the marketing year rather than the extended marketing year I demanded and obtained from the Council a statement approved of by all Ministers that "any Member State may ask for a reduction in negative MCAs and that agreement to such a decision should be independent of agreements on matters of another nature". This clear statement should therefore prevent the reduction of negative MCAs becoming a matter for negotiating positions in the future.

EXTRACT

SECRET

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Original on Germany,
Visch by Schmidt PRZ

RECORD OF A MEETING BETWEEN THE PRIME MINISTER AND CHANCELLOR SCHMIDT
HELD AT CHEQUERS AT 0945 ON FRIDAY 28 MARCH 1980

Present: Prime Minister
Mr. C.A. Whitmore

Chancellor Helmut Schmidt
Herr Otto von der Gablentz

* * * * *

Reform of the CAP

The Prime Minister said that the problem of the UK's net contribution to the Community budget had grown worse since Dublin. The more the total of Community expenditure rose, the greater was the disproportionate increase in the British net contribution. For this reason the UK would stand absolutely firmly on the 1% VAT ceiling. It was in our own national self-interest that we should do so, but it was also in the interest of the Community as a whole that we should take this line, since some elements of the CAP were absurd. There was no hope that the Community would develop the will to reform the CAP until it was brought up against the necessity for change; and that would happen when the 1% VAT ceiling was reached. Chancellor Schmidt said that he agreed completely.

The Prime Minister continued that she knew that Chancellor Schmidt would like the UK to take the lead on CAP reform. But she was very concerned that if we were to do so, the UK would be accused of being non-communautaire and other members of the Community might attempt to use such action on our part against us. She was therefore reluctant to see the UK take the lead on this. Rather, she hoped that it would be possible for all members of the Community to agree upon the need to change a policy which was so outdated and out-of-tune with reality.

Chancellor Schmidt said that he hesitated to agree with what the Prime Minister had ^{just} said. Much would depend on the way in which the reform of the CAP was brought up in the Community. He had had it in mind for years that reform would be brought about only on the initiative of the UK. He took this view because the British agricultural system was such that the UK was better placed than any other member of the Community to give a lead. Most continental

/ members

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members have much stronger vested interests which were opposed to the reform of the CAP. Nonetheless, he did not believe that those countries would criticise the UK for raising the issue of reform. He had mentioned this when talking to President Giscard two days previously. He had put it to the President that the question of medium-term reform of the CAP would need to be included in any package designed to solve the problem of the UK's net budgetary contribution. President Giscard had said that he thought that procedural reform of the CAP would have to be included in any package, though he had gone on to point out that it would not be possible to say very much about the substance of reform in a deal that had to be struck this Spring. He had said that to give the issue of reform concrete substance would take much more time. President Giscard had suggested that it might be possible to ask Agriculture Ministers or the Commission to come forward with firm proposals on how to proceed, perhaps in time for the meeting of the European Council in Venice.

Chancellor Schmidt continued that he had mentioned his conversation with President Giscard to show the Prime Minister that there was not a general reluctance within the Community to consider reform of the CAP. He was sure that, as well as Germany and the UK, France, Denmark, Holland and perhaps Italy would all agree at the level of Heads of Government that reform was necessary, in particular in order to be able to reduce expenditure on the CAP. He believed that President Giscard would stick to the 1% VAT ceiling and the President had implied to him that he accepted the need to limit agricultural expenditure.

The Prime Minister said that she was encouraged to hear what Chancellor Schmidt had said. She had been concerned by some French statements which suggested a rather different attitude. Nonetheless, she remained concerned that if the UK took the lead on CAP reform we should be charged with being non-communautaire and we would then have to retreat very quickly. She would prefer to see the UK, France and Germany taking the initiative together.

/ Community Budget

EXTRACT

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Mtg PM/ Chancellor Schmidt, Chequers Friday 28 March
0945 hrs.

Sheepmeat

Original a German.
Visit by Schmidt Pt 2.

In response to a question by Chancellor Schmidt, the Prime Minister said that the issue of sheepmeat was of considerable domestic importance in the UK. Just as it would be unconstitutional to interfere with the transfer of levies to the Community, so the interruption of the free movement of goods within the Community - which was what the action being taken by the French on sheepmeat amounted to - was also illegal. In the UK's view the French were in clear breach of the Treaty. Britain was the biggest producer of mutton in the Community, and if there were to be any benefits available, we should receive them. We did not want an intervention regime for sheepmeat. We could not see why the French could not provide financial assistance nationally for their sheep farmers.

Chancellor Schmidt said that he did not pretend to understand the details of the sheepmeat problem. He agreed with what the Prime Minister had said about the unconstitutional nature of the action taken by the French, though he understood President Giscard to claim that there was a provision in the Treaty which allowed a country to apply to the European Court twice on any particular issue and that the Court's first ruling was therefore not yet final. But he agreed that it was dangerous if any country defied a ruling of the Court, even though the problem of sheepmeat was in itself a small one. He did not believe that the rest of the Community understood what the argument about sheepmeat was all about and he thought that if the UK and France could reach an agreement between them, the other members would accept it (though he added that he did not wish this to be quoted in Community circles). It would be psychologically very good for the Community if France and the UK could pull an agreement out of their pockets and say the problem of sheepmeat was solved.

Chancellor Schmidt continued that one way of dealing with the disposal of the present surpluses might be to make food from them available to Third World countries and to use the Community's Development Aid Budget to meet the cost. This might sound absurd but it made political sense and he thought the possibility should be explored. The Prime Minister agreed.

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/Fish

Euro RA



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

From the Minister

NBON

[Handwritten signature] 24/3

The Rt Hon Sir Ian Gilmour Bt MP
Foreign and Commonwealth Office
Downing Street
London SW1

24 March 1980

[Handwritten signature]

DEBUDGETISATION OF THE CAP AND THE 1% CEILING

In case you have not seen it, I am sending you a copy of the Chancery letter that Hugh Arbuthnott at our Paris Embassy sent to Nick Spreckley in your Department. It sheds an interesting light on the attitude of the French to the questions of the 1% ceiling and of the debudgetisation of the CAP.

I think it is clear from Hugh Arbuthnott's report of his discussion with M. Cardon that any hopes of assistance from France are unfounded.

I am copying my letter to the Prime Minister and to the Foreign Secretary.

[Handwritten signature]

PETER WALKER

1. 3/3-62
RESTRICTED



BRITISH EMBASSY

PARIS

28 February 1980

J N T Spreckley Esq
EID (I)
FCO
London SW1

Dear Mr. ...

DEBUDGETISATION OF THE CAP AND THE 1% CEILING

1. In my letter of 13 February to David Hannay, I said we would continue to ask French officials about debudgetisation. In fact I have not had a chance to speak to Bochet, but I did talk to Cardon in M. Méhaignerie's cabinet about it on 25 February. I enclose a copy of my minute recording this conversation.

2. I should say that, while I was talking to Cardon, Len Appleyard was hearing from Schrameck in the SGCI that the principal reason why the French Government was against raising the 1% ceiling was political. A change in the ceiling would require ratification by member Parliaments. The French Government was reluctant to submit a proposal on these lines to Parliament, and, indeed, reluctant to be seen contemplating putting such a proposal. The Government did not want an extensive debate in Parliament which would open up a whole series of European issues in a pre-election year. He said that there had been no official discussion of debudgetisation.

3. Cardon's and Schrameck's views on the 1% ceiling are perhaps eventually reconcilable since Schrameck's argument, which is perhaps also President Giscard's, is one of timing rather than substance since it would presumably no longer apply after next year's Presidential elections.

Handwritten signature

H J Arbuthnott

cc M Ring Esq
EEC 2
MAFF

P Pooley Esq
UKREP
BRUSSELS

RESTRICTED

H (S)

cc: C (P)

Mr Sidgwick

CAP: THE 1% CEILING AND DEBUDGETISATION

1. When I had lunch with M. Cardon, M. Méhaignerie's Deputy Directeur de Cabinet, on 25 February, I said that I did not understand what France's interest was in preserving a 1% ceiling. It seemed likely that even if France did not make a net gain from the Community budget, it was unlikely to be a very large net contributor. In this case, it would in political terms be worth it for the French to accept a breach of the 1% ceiling in order to allow higher agricultural spending (even if not on the surplus products), particularly in a pre-electoral period.

2. Cardon said that he had recently been looking at France's gains from the FEODA in 1979, and provisional estimates were that she had made a net gain of F1 billion. He and other officials, including in other Ministries, agreed with the reasoning I had put forward. They believed it was in France's interest that the 1% ceiling should be breached. He realised this would require Parliamentary ratification, and certainly never expected that it would get through a number of Parliaments, particularly the British. But he did not consider there would be any difficulty with the French Parliament. He said this was in fact all the more reason why he believed the French Government should argue for the breach of the 1% ceiling; it would be popular with the farmers, yet hold-ups could be blamed on the member states responsible.

The fact was that French policy on the 1% ceiling had been a decision taken by the President himself in agreement with Chancellor Schmidt.

3. I then asked about debudgetisation. I referred to Mr Walker's speech and to the explanation given by M. O'Cornesse about the distinction the French made between debudgetisation and re-nationalisation (my letter of 13 February to Mr Hannay - copy attached). Cardon agreed with this distinction. He went on to say there was only one person in the French administration who supported Mr Walker's idea of debudgetisation, and this was the President. None of the three Ministers most concerned (Agriculture, Economy, Foreign Affairs) agreed with it. The first that French officials had heard about it was from the Germans, who said that they had learned from the British that President Giscard had mentioned it to Mrs Thatcher. He knew of no studies being done of the idea - unless one counted various papers which demonstrated that re-nationalisation was entirely against French interests.

4. I asked what, in this case, the French thought should happen when the 1% ceiling was reached. Cardon thought that in the end the 1% should be breached. But if not, then member states would be forced towards national aids. In the French case, he thought that this would take the form of direct aids to farmers whose incomes had suffered. The alternative was that national Governments should make up the difference between a maximum paid by FEODA and the common price for each product. But this was less flexible and meant that well-off farmers would continue to get high rewards as well as those who were less well-off. But no system of national aids really suited the French Government since they would lead to endless competition between member states, competition in which France, given the weight of the agricultural lobby, would probably lead until the whole thing became too expensive, and frontiers started to close.

26 February 1980

H J Arbuthnott

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25 MAR 1950

This is a copy. The original
has been extracted and
retained under Section 3(4).

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Ref. A01784

Community Budget Pt 7.

MR. ALEXANDER

* ~~~~~ * when
President Giscard and Chancellor Schmidt met at
Hamburg, President Giscard told Chancellor Schmidt
that, on the question of the British budget contribution,
the French Government was ready to accept a package
which should also include sheepmeat.

President Giscard seems to have argued that the French
position on sheepmeat was not a violation of Community
law: we do not know the basis of that argument.

President Giscard also said that the French were against
the British entry into the exchange rate arrangements of
the EMS at this time.

ROBERT ARMSTRONG

24th March, 1980

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* ~ * Passage deleted and retained
under Section 3(4).

Wayland
6 May 2010

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Reference

Kg
Plumb

CONFIDENTIAL

NOTE OF A MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND SIR HENRY PLUMB MEP, CHAIRMAN OF THE AGRICULTURE COMMITTEE OF THE EUROPEAN PARLIAMENT: 20 MARCH 1980

1. I was present when Sir Henry Plumb called on the Minister in his room at the House of Commons yesterday. The Minister had asked him to come to be briefed for his forthcoming meeting with the French Prime Minister.
2. The Minister said that he was concerned at a report that he had received from the British Ambassador to Italy about Mr Mehaignerie's view of Sir Henry Plumb. Mr Mehaignerie had said to the British Ambassador at the Verona Fair that he found it impossible to negotiate with the Minister and that he thought he could easily settle the lamb dispute with Sir Henry Plumb. The Minister said that he had heard too that the French Prime Minister had asked to see Sir Henry. There could be but one reason for this invitation - to line up Sir Henry on the French side.
3. The Minister explained that France had all other eight Member States against her over her refusal to accept the compromise tabled at the last Agriculture Ministers Council. That would have allowed Community financed premiums and French financed intervention, but France had refused it. Her only friend was the journalist Cherrington of the Financial Times on whom French hospitality had been lavished. It would be disastrous if the French Prime Minister were to succeed in putting Sir Henry in a position where he could be quoted as having said that the United Kingdom was in the wrong.
4. Sir Henry said that the implication that he had talked to Mr Mehaignerie was absolutely false. He had met the junior French Foreign Minister (M. Reymond) in Strasbourg and had been asked for his views, as a British farmer, on the CAP, sheepmeat and milk. Sir Henry had said that there was a wide difference of view on sheepmeat and had promised him a report from the Scottish rapporteur of the European Parliament which concluded that there was no room for intervention in a sheepmeat régime, though it conceded a place for private storage as well as premiums. Sir Henry said that he had warned the French Minister that the French insistence on intervention would attract British lamb to the French market in masses. He had also said that British farmers could not tolerate the French behaviour.
5. Sir Henry said that he had subsequently asked the Scottish rapporteur, Mr Provan, to withdraw the report, despite Mr Scott-Hopkins' displeasure, because he feared that it would get lost in the European Parliament and attract only counter-productive publicity.

6. The Minister said that the implication that Mr Mehaignerie and Mr Plumb had met was obviously wrong. Nevertheless he repeated that it would be disastrous if the French were able to nail Sir Henry to a statement that the British position was wrong. Clearly the British Prime Minister might wish to extract an advantage from France by some concession on sheepmeat, but her position would be undermined if the French Prime Minister was able to say that Sir Henry had admitted to him that the British were in the wrong. It was clear that Sir Henry's conversation with the junior French Foreign Minister had been reported to the French Government and to Mr Mehaignerie, and that there was one object only in the invitation to Sir Henry to see the French Prime Minister.
7. Turning to the allegation that Mr Mehaignerie had made of Mr Walker's refusal to negotiate, the Minister pointed out that it was Mr Mehaignerie who had consistently refused to negotiate and he recalled the bizarre series of moves which led to the meeting of the two Ministers in the British Embassy in Paris at which Mr Mehaignerie had dumbly insisted on intervention.
8. The Minister advised Sir Henry to say to the French Prime Minister that he saw no need for intervention in the sheepmeat sector: that a reasonable deal could be done and that a compromise had been available at the last Council. It was important to keep the position eight to one against France. On present form, the interim Court measures would be taken against France on the day before the Summit meeting.
9. Sir Henry Plumb again insisted that he had not spoken to Mr Mehaignerie. He said that the meeting with the French Prime Minister would be attended by others. Mr Mehaignerie's view that he could do a deal with Sir Henry probably stemmed from conversations that had taken place between French and British members of the European Parliament. The Minister suggested that it would be helpful if Sir Henry could say before the Summit, perhaps in his constituency or in his meeting with the French Prime Minister, that it was tragic that France would not act reasonably. He warned that the French Government might make play of the fact that Sir Henry had withdrawn the rapporteur's report on sheepmeat.
10. Turning to prospects for the price settlement, Sir Henry said that he expected the European Parliament to go for a 5% increase in common prices. He confirmed that one of the Conservative MEPs, Mr Paul Howell, had voted in favour of the 7.9% price increase demanded by COPA. Sir Henry did not dissent from the Minister's description of Mr Gundelach as one of the most dishonest and unreliable persons that he had met.
11. Sir Henry asked how British farmers were to be helped if common prices were frozen. The Minister replied that the freeze would be maintained only if no deal were struck over the budget. He thought that returns from the lamb market would be better this year, that producers' returns from milk would be better and that farmers would save on fodder because

the winter had been good. There were thus several factors operating to the advantage of farmers as well as ones adverse to them. However, the position was very uncertain at the moment. If all went well, he would not need to ask for assistance for farmers from his Cabinet colleagues. If it did not he would. However, the position might be changed if Britain were offered, say, £600 million across the exchanges. In that case a 4% or 5% common price increase might be possible.

Finally, the Minister told Sir Henry that he would be announcing an increase in the fat sheep guarantee of 155p per kilo. Sir Henry reported that many people had said to him that the Minister had done extraordinarily well for the hill farmers to increase the hill livestock compensatory allowances at a time when public expenditure was being cut back.

G R Waters

G R WATERS
21 March 1980
Principal Private
Secretary

Mrs Brock + 1

cc Miss Rabagliati
Mr Steel
Mr Sadowski
PS SOSFA
Mr Alexander - No 10
PS/SS Scotland
PS/SS Wales
PS/SS Northern Ireland
Mr J H V Davies
Mr Andrews
Mr Wilson
PS Cabinet Secretary

24 MAR 1960



(CAP)

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Euro (P)

EXTRACT FROM MEETING NOTE PM/JENKINS 17/3/80 AT NO. 10

DOWNING ST.

- 4 -

Subjects on Euro P2: Calls on
the P.M. by Roy Jenkins: May 1979.

On the CAP, the Prime Minister was critical of the Commission's latest package. Mr. Jenkins said that it did not constitute at all a bad deal for the United Kingdom. Any attempt to control the CAP would involve discomfort for all members of the Community. The Commission's proposal certainly bore harder on the Federal Republic, on Denmark and on the Netherlands than on the United Kingdom. The Commission's concern was that, thanks to the criticism of Britain and other members, the super co-responsibility levy would be lost, that the surpluses would rise and would have to be financed in some other way. The French were pressing hard for higher prices. In the absence of the super co-responsibility levy, the only way to contain the cost of the CAP would be through a negative price fixing. This would not be obtainable. There was a real possibility that the United Kingdom would be faced with the need to agree to a 5% price rise in return for agreement to a solution on the Budget. The Prime Minister said that she would not be prepared to accept a substantial price rise because of the effect it would have on the retail price index in this country. Mr. Jenkins said that the Prime Minister should seek to avoid a crunch in Brussels on CAP prices. The end of March was in any case too soon in the CAP price negotiations to try to bring matters to a head. The Prime Minister might, however, be asked to agree to, e.g., "a flexible approach" to the price fixing.

The Prime Minister commented on the fact that Chancellor Schmidt wanted the United Kingdom to take the lead on CAP reform. This was a "poisoned chalice". Mr. Jenkins said that Chancellor Schmidt seemed to be schizophrenic on this subject. He was inclined to argue:-

(a) that the United Kingdom should actively pursue CAP reform; but that

/ (b)

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- 5 -

- (b) the United Kingdom should seek to create a conciliatory atmosphere in which the Budget negotiations might be pursued with France.

These two objectives were mutually contradictory.

Mr. Jenkins asked about the Government's attitude towards full entry into the EMS. The Prime Minister said that she would be reluctant to enter the EMS unless she could be sure that it would leave her freedom to manage the currency unimpaired. She was concerned lest the effort to hold a rising pound within EMS prescribed margins should affect the money supply in this country. Mr. Jenkins expressed some doubt as to whether the pound was likely to go on rising. He was less sure than the Prime Minister that the fact that Britain's exchange rate was determined by sterling's role as a petro-currency rather than by the country's industrial performance was relevant to the issue of entry into the EMS. Differential exchange rates were what counted. The problems of the DM were at least as difficult to cope with as those of the pound. The political fact which mattered was that Chancellor Schmidt was violently in favour of British membership of the EMS. A British decision in favour of full membership of the EMS would greatly improve the atmosphere in which the budgetary discussions would take place. Mr. Franklin pointed out that the French were unenthusiastic about British membership. Mr. Jenkins said that in so far as the tactical objective in the present negotiations was to isolate the French, French hostility to British membership of the EMS was a very good reason for joining. The Prime Minister said that the question of British membership of the EMS was being looked at again. The final decision would depend on a judgement as to how far our freedom to manage the currency would be limited. She did not wish to have to spend money holding the exchange rate down. Mr. Jenkins said it was arguable that membership of the EMS would in itself help to hold the exchange rate down.

/ Mr. Jenkins

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NRPM

Rms

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

17 March 1980

Dear Peter

INSTITUTE FOR FISCAL STUDIES: PAPER ON THE COST OF THE CAP

You replied on 3 March to my letter of 27 February, in which I had suggested that it would be worthwhile developing the IFS approach on measuring the cost of the CAP.

It is by no means my intention to try to find means of exaggerating the economic cost of EEC membership. Indeed, at this stage the use of any estimates that may emerge from this approach is something we would need to consider in terms of negotiating tactics, and it will be some time before it becomes a live issue. My main purpose was to pick up the suggestion in the IFS paper that the work which the Government has done so far does not fully measure the costs and benefits associated with the use of a major fiscal instrument like the CAP. It seems to me that this is a criticism of some substance given that the CAP has a major impact on the allocation of resources, the distribution of incomes, and food prices. In important areas of domestic fiscal policy we do our best to try to assess the full economic implications of fiscal changes along the lines suggested by the IFS. I cannot see that there is any case for exempting expenditure on agriculture from this kind of analysis.

My officials would, of course, be happy to co-operate with yours in an exercise on a long term objective for EEC food output which you mention in your letter. Since the surpluses resulting from the CAP are evidence of a major waste of productive resources I can see that some idea of long term production goals would be a helpful contribution to the debate. But I would have thought that this kind of work would also need to incorporate some assessment of costs and benefits in terms of trade transfers between countries as well as the effect on the flow of resources within each country, and that, therefore, it would fit into the broader

/exercise I

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



exercise I have in mind. Perhaps the best way to proceed would be if our economists could get together to produce a short feasibility study which would examine the usefulness of the techniques already to hand and the availability of the relevant data. This should not be time consuming and it would help to sort out not only the possibilities but the value and use of developing this kind of capacity. As this would be a job for professional economists, I suggest, if you agree, that we should ask the Deputy Chief Economic Adviser here to take charge of this. He could report jointly to us.

I accept what you say about needing to be cautious regarding Chancellor Schmidt's recent remarks to the Prime Minister. I understand that officials are preparing a response for consideration by OD(E).

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

GEOFFREY HOWE

A handwritten signature in dark ink, appearing to read 'Geoffrey Howe', with a horizontal line underneath.



17 MAR 1981



Qz 01484

MR ALEXANDER

Fr. Amis

NATIONAL AIDS FOR SHEEPMEAT AND PIGMEAT

1. During the briefing for the Prime Minister's French TV interview, the question of maintaining the income of French sheepmeat producers came up. This is just to confirm that the Prime Minister was right (and I was wrong) about the reason why we could accept national financing of aids to French sheepmeat producers when an earlier European Court decision had quashed our nationally-financed aid for pigmeat.

2. The pigmeat aid introduced by the previous Government was a temporary headage payment on pigs marketed for slaughter, introduced to meet a market crisis. Since there was a common organisation of the Community pigmeat market at the time, the aid was subject to the full rigour of the competition rules as set out in Articles 92-94 of the Treaty of Rome. We introduced it before the Commission gave its approval; they took us to Court and got an interim injunction to stop it. Since there is not yet a common organisation in the market for sheepmeat, Articles 92-94 do not apply in their full rigour (by virtue of Article 42 of the Treaty) and therefore there is scope for national aids (including our own Fat Sheep Guarantee), although the Commission would still have to give its approval. But the essential difference is that a common organisation of the market already existed for pigmeat but does not yet exist for mutton and lamb.

M D M FRANKLIN

Cabinet Office, SW1

12 March 1980



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PP ROME

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~~THE FRANKLIN DISTRICT~~ OFFICE

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FRAME AGRICULTURE

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TO IMMEDIATE FCO

TELEGRAM NUMBER 226 OF 12 MARCH 1980

INFO PRIORITY UKREP BRUSSELS BONN AND ROME

INFO SAVING TO BRUSSELS COPENHAGEN DUBLIN LUXENBOURG AND
THE HAGUE

C. M. Alexander

MINISTERIAL COUNCIL ON CAP

1. FOLLOWING IS TEXT OF COMMUNIQUE ISSUED BY ELYSEE LAST NIGHT:

ON MARCH 11, 1980, THE PRESIDENT OF THE REPUBLIC HELD A RESTRICTED MINISTERIAL COUNCIL ON THE SUBJECT OF THE COMMON AGRICULTURAL POLICY. THOSE TAKING PART WERE: THE PRIME MINISTER, THE MINISTER OF AGRICULTURE, THE MINISTER FOR FOREIGN AFFAIRS, THE MINISTER OF THE ECONOMY, THE MINISTER FOR THE BUDGET, THE MINISTER FOR FOREIGN TRADE, THE STATE SECRETARY FOR AGRICULTURAL AND FOOD INDUSTRIES, THE STATE SECRETARY TO THE MINISTER OF AGRICULTURE, THE SECRETARY GENERAL OF THE SGCI AND THE DIRECTOR OF THE NATIONAL BUDGET.

THE COUNCIL NOTED THAT THE RAPID DEVELOPMENT OF FRENCH AGRICULTURE IN THE LAST 20 YEARS AND THE IMPROVEMENT IN THE INCOME OF FRENCH FARMERS DERIVE FROM THE APPLICATION OF THE CAP.

IT IS CONSIDERED ESSENTIAL THAT THIS EXPANSION SHOULD CONTINUE, BOTH FOR ECONOMIC REASONS, GIVEN THE CONTRIBUTION MADE BY AGRICULTURE TO THE BALANCE OF PAYMENTS, AND FOR SOCIAL REASONS, SINCE THE PRESENCE OF A LARGE NUMBER OF COMPETITIVE FAMILY FARMING UNITS IS INDISPENSIBLE TO THE PRESERVATION OF A FABRIC OF SOCIO-ECONOMIC ACTIVITY THROUGHOUT THE COUNTRY.

THE MINISTER OF AGRICULTURE HAS BEEN GIVEN THE TASK OF ENSURING THE MAINTENANCE AND STRENGTHENING OF THE THREE MAIN PRINCIPLES OF THE CAP (UNITY OF PRICING, FINANCIAL SOLIDARITY, AND COMMUNITY DEFERENCE) WHOSE APPLICATION IS ONE OF THE CONDITIONS OF THE

THE MINISTER OF AGRICULTURE HAS BEEN GIVEN THE TASK OF ENSURING THE MAINTENANCE AND STRENGTHENING OF THE THREE MAIN PRINCIPLES OF THE CAP (UNITY OF PRICING, FINANCIAL SOLIDARITY, AND COMMUNITY PREFERENCE), WHOSE APPLICATION IS ONE OF THE CONDITIONS OF THE CONTINUATION OF THE PROGRESS IN AGRICULTURE MADE SO FAR IN ALL THE COUNTRIES OF THE COMMUNITY. HOWEVER, THE COMMUNITY IS FACED WITH A REAL BUDGETARY PROBLEM WHICH MUST BE SOLVED.

FRANCE HAS ALREADY PRESENTED A PROGRAMME OF SAVINGS AND PROPOSALS FOR THE REDUCTION OF THE NET BURDEN ON FEAGA OF SUPPORT FOR MILK PRODUCTS. THESE PROPOSALS ARE BASED ON THE DRAWING OF A DISTINCTION BETWEEN THE CONTRIBUTIONS EXPECTED FROM SMALLER AND LARGER UNITS OF PRODUCTION. THEY ALSO DRAW A DISTINCTION BETWEEN UNITS THAT CONSUME PRODUCTS FROM THE COMMUNITY AND THOSE THAT IMPORT ANIMAL FEED FROM OUTSIDE.

AS REGARDS THE PRICE INCREASES FOR THE NEXT AGRICULTURAL YEAR, PROPOSALS ARE INADEQUATE, BOTH IN TERMS OF MAGNITUDE AND OF DIFFERENTIALS: IN PARTICULAR, BEEF PRICES OUGHT TO ENCOURAGE BEEF PRODUCTION. THE OBJECTIVE ESTABLISHED IS TO ARRIVE AT AN INCREASE IN FRENCH FRANCS THAT WILL PROVIDE A GUARANTEE FOR THE SPENDING-POWER OF FARMERS IN 1980, TAKING ACCOUNT IN PARTICULAR OF THE RISING COST OF PRODUCTS REQUIRED BY AGRICULTURE.

FINALLY, AS REGARDS THE QUESTION OF SHEEP-MEAT, FRANCE'S POSITION REMAINS UNCHANGED: SHEEP FARMERS ARE ENTITLED TO THE SAME PROTECTION AS OTHER LIVESTOCK PRODUCERS, AND FRANCE WILL MAKE NO CONCESSION TO GREAT BRITAIN SO LONG AS BRITAIN REMAINS OPPOSED TO AN EQUITABLE AND EFFECTIVE SOLUTION IN THIS MATTER.

2. FCO PLEASE PASS ADVANCE COPIES TO MAFF (FOR PRIVATE SECRETARY/ MR WALKER AND PS/PERMANENT SECRETARY) AND CABINET OFFICE (FOR FRANKLIN).

FCO PLEASE PASS TO SAVING ADDRESSEES

HIBBERT

NNNN

PART 3 ends:-

RTA to PM 10.3.80

PART 4 begins:-

Part Tel 12.3.80
~~Chex to spm app 17.3.80~~

