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PART 7

Confidential Filing

Common Agricultural Policy (CAP)

EUROPEAN POLICY

Part 1: May 1979

Part 7: December 1980

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
~~2.12.80~~		~~18.3.81~~					
~~4.12.80~~		~~19.3.81~~					
10.12.80		25.3.81					
~~12.12.80~~		31.3.81					
~~15.12.80~~							
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~~5.3.81~~							
~~12.3.81~~							
~~13.3.81~~							

PREM 19/455

PART 7 ends:-

31.3.87

PART 8 begins:-

1.4.87

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
CC (80) 43rd Conclusions, Minute 3	4.12.80
CC (80) 44th Conclusions, Minute 3	11.12.80
CC (81) 4th Conclusions, Minute 3 (extract)	29.1.81
OD (E) (81) 5	13.2.81
OD (E) (81) 3rd Meeting, Minutes	18.2.81
CC (81) 7th Conclusions, Minute 3	19.2.81
OD (E) (81) 6	20.2.81
CC (81) 8th Conclusions, Minute 4	24.2.81
OD (E) (81) 8	3.3.81
CC (81) 9th Conclusions, Minute 3	5.3.81
OD (81) 16	5.3.81
OD (81) 18	9.3.81
CC (81) 11th Conclusions, Minute 3	12.3.81
OD (81) 5th Conclusions, Minute 1	12.3.81
OD (81) 20	17.3.81
CC (81) 12th Conclusions, Minute 3	19.3.81
OD (81) 6th Meeting, Minutes	19.3.81

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 OWayland Date 31 March 2011

PREM Records Team

NX

Pt 7

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GRS 1420

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FRAME AGRICULTURE
DESKBY 010830Z
FM UKREP BRUSSELS 312041Z MAR 81
TO IMMEDIATE FCO
TELEGRAM NUMBER 1178 OF 31 MARCH
AND TO PEKING (FOR PS/S OF S)
INFO ROUTINE COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN ATHENS

COUNCIL OF MINISTERS (AGRICULTURE) 30 MARCH - 1 APRIL 1981

STATE OF PLAY - DINNERTIME TUESDAY

SUMMARY

1. SEE MIPT. REACTIONS TO THE COMMISSION'S COMPROMISE PROPOSAL WERE IN GENERAL MUTED. WHILE NOBODY EXPRESSED ANY GREAT ENTHUSIASM FOR IT, AND ALL SAID THEY WOULD HAVE DETAILED POINTS TO MAKE AT A LATER STAGE, MOST MEMBERS THOUGHT

ANY GREAT ENTHUSIASM FOR IT, AND ALL SAID THEY WOULD HAVE DETAILED POINTS TO MAKE AT A LATER STAGE, MOST MEMBERS THOUGHT IT CONSTITUTED A GOOD BASIS FOR NEGOTIATION AND LIMITED THEMSELVES, IN THE FIRST TABLE-ROUND, TO EXPRESSIONS OF REGRET THAT THE PACKAGE DID NOT CONTAIN A LITTLE MORE OF THIS OR A LITTLE LESS OF THAT. GREECE MADE A GREAT NOISE OVER ALLEGED DISCRIMINATION AGAINST THEM, BUT THEIR SPECIFIC COMPLAINTS WERE CONCERNED WITH A NARROW RANGE OF PRODUCTS. ONLY THE UK VOICED MAJOR AND NUMEROUS OBJECTIONS. ONLY UK VOICED ANXIETY ABOUT BUDGETARY IMPLICATIONS, GERMANY ONCE AGAIN REGISTERING NO CONCERN EXCEPT FOR THE 1 PER CENT CEILING, WHICH (ERTL SAID) HE COULD NOT CONTEMPLATE BEING BREACHED WITHOUT WRITTEN INSTRUCTIONS FROM HIS CABINET.

DETAIL

2. NETHERLANDS (DE ZEEUW) PRESSED FOR A FINANCIAL ESTIMATE AND TO KNOW WHEN AND HOW GREEN RATE ADJUSTMENT WOULD BE MADE. ON DAIRY PRODUCTS, THEY SOUGHT TO KEEP SUPER LEVY PROPOSALS ALIVE FOR NEXT YEAR. ON CEREALS, THEY RETAINED DOUBTS ABOUT THE PRACTICABILITY OF THE CO-RESPONSIBILITY SYSTEM PROPOSED. THEY DID NOT SPELL OUT A GENERAL VIEW, BUT GAVE INDIRECT INDICATIONS THAT ALTHOUGH THEY FOUND SOME OF THE PRICE INCREASES A LITTLE HIGH, THEY WOULD GO ALONG WITH THEM IF ALL OTHERS WOULD.

3. FOR THE UK, MR WALKER SAID THAT THE COURSE OF INFLATION AND OF FARM INCOMES IN THE UK ARGUED FOR SUBSTANTIAL PRICE INCREASES, BUT WE WERE VERY CONSCIOUS OF THE NEED FOR BUDGETARY RESTRAINT. COMPROMISE PROPOSALS WORSENED THE POSITION FOR THE UK AND FOR THE COMMUNITY. THE PROPOSED CUT IN OUR MCAS WOULD COST THE COMMUNITY BUDGET 100 MILLION ECU, AND WOULD COST THE BRITISH FARMER A REDUCTION OF 3.4 PER CENT IN THE PRICES PROPOSED. THERE WAS NO WAY WE COULD AGREE TO A SETTLEMENT INVOLVING A REDUCTION IN REAL TERM FARM INCOMES IN THE UK ALONE IN THE COMMUNITY, AND AT THE SAME TIME THE INFLATIONARY LEVEL OF PRICE INCREASE NOW PROPOSED FOR OTHER COUNTRIES, AND ON TOP OF THAT CUTS IN SUBSIDIES WHICH HIT THE UK HARDER THAN ANYONE ELSE.

4. MR WALKER MADE A NUMBER OF POINTS ON COMMODITIES, INCLUDING A STRONG ARGUMENT FOR REDUCING THE MILK PRICE INCREASE RATHER THAN INCREASING THE LEVY AND FOR ELIMINATING ALL MENTION OF EXTRA LEVIES ON INTENSIVE PRODUCTION, DOUBTS ABOUT THE PRACTICALITY OF CEREALS CO-RESPONSIBILITY, RESISTANCE TO CHANGE IN THE BEEF PREMIUM ARRANGEMENTS FOR NORTHERN IRELAND, AND THE STRONGEST OBJECTION TO REDUCTIONS IN THE STARCH AND BUTTER SUBSIDIES. HE MAINTAINED OUR POSITION ON NORTHERN IRELAND. HE CONCLUDED

ALITY OF CEREALS CO-RESPONSIBILITY, RESISTANCE TO CHANGE IN THE BEEF PREMIUM ARRANGEMENTS FOR NORTHERN IRELAND, AND THE STRONGEST OBJECTION TO REDUCTIONS IN THE STARCH AND BUTTER SUBSIDIES. HE MAINTAINED OUR POSITION ON NORTHERN IRELAND. HE CONCLUDED BY UNDERSCORING MR BUCHANAN-SMITH'S REMARKS ON THE UNACCEPTABLE BUDGET COST, GIVING HEAVY EMPHASIS TO THE ''MARKEDLY LESS'' FORMULA.

5. BELGIUM (LAVENS) BEGAN BY SAYING THAT IT WAS INSUFFICIENT TO ADD SIMPLY ANOTHER PERCENTAGE POINT TO THE PRICE INCREASES ORIGINALLY PROPOSED. HOWEVER, IN ELABORATION IT BECAME CLEAR THAT BELGIUM WOULD BE BROADLY SATISFIED WITH JUST ONE FURTHER PERCENTAGE POINT ADDED AND THE CONSOLIDATION OF TWO PHASE PRICE INCREASES INTO ONE. THEY ACCEPTED THAT THE MILK LEVY PROPOSALS WERE NOT ONEROUS FINANCIALLY BUT SAID THEY WERE POLITICALLY DIFFICULT.

6. DENMARK (WESTH) WERE AMONGST THE WARMEST IN THEIR RECEPTION OF THE COMPROMISE, WHICH THEY DESCRIBED AS CONSTRUCTIVE AND USEFUL. THEY MADE A FEW DETAILED COMMODITY POINTS. THEY ACCEPTED THE PROPOSALS FOR IRELAND IN PRINCIPLE, BUT WERE NOT READY TO BE COMMITTED ON MAGNITUDE.

7. GERMANY (ERTL) COMPLAINED ABOUT NEGOTIATING UNDER PRESSURE FROM THE MOB DEMONSTRATING VERY NOISLY OUTSIDE. THEY WERE NOT READY TO GIVE DETAILED REACTIONS, AND MOST OF THIS INTERVENTION HAD THE FLAVOUR OF OFF THE CUFF REMARKS. THEY DID SAY, HOWEVER, THAT THEY WERE READY ''TO GO TO A SOLUTION ON THIS BASIS'' GIVEN SOME ''ADJUSTMENT TO THE BALANCE''. THEY THOUGHT THE PROPOSALS UNBALANCED ON MILK (BY IMPLICATION, COMPARED WITH CEREALS) WHERE THE PROPOSALS ''WENT TO THE LIMIT'' THE MCAS CUT PROPOSED WAS TOO BIG. THEY WANTED BUDGET ESTIMATES FOR 1981 AND 82, AND ASSURANCE THAT THERE WAS NO DANGER OF THE 1 PER CENT CEILING BEING BREACHED AS A RESULT OF THESE PROPOSALS. ERTL SAID HE COULD NOT CONTEMPLATE THE CEILING BEING BREACHED WITHOUT WRITTEN INSTRUCTIONS FROM HIS CABINET WHICH COULD NOT BE OBTAINED TODAY. AMONGST A NUMBER OF RANDOM COMMODITY POINTS, GERMANY EMPHASISED THEIR INTEREST IN A PENALTY BEING CHARGED FOR INTENSIVE MILK PRODUCTION, THE NEED TO DISCOURAGE PRODUCTION OF SKIMMED MILK POWDER AND BUTTER, AND THEIR DOUBTS ABOUT THE WISDOM OF THE SIZE OF INCREASES FOR MEDITERRANEAN PRODUCTS.

8. GREECE (KANELLOPOULOS) FOUND THE COMPROMISE A CONSIDERABLE

8. GREECE (KANELLOPOULOS) FOUND THE COMPROMISE A CONSIDERABLE IMPROVEMENT IN THAT IT DROPPED CO-RESPONSIBILITY FOR MEDITERRANEAN PRODUCTS. THE PRICE INCREASES ENVISAGED, HOWEVER, WERE STILL NOT ENOUGH. THERE WAS NO MENTION OF DRIED GRAPES AND COTTON YARN. ON TOBACCO AND COTTON THE PRICE INCREASES SHOULD BE GREATER, GIVEN THE DEFICIT POSITION OF THE COMMUNITY, AND THE BASIS FOR THE CALCULATION OF PREMIUMS FOR TOBACCO AND PRICES FOR COTTON WERE INCORRECT FOLLOWING AN EARLIER FAILURE TO PUT THE EXCHANGE RATE OF THE GREEN DRACHMA ON THE RIGHT FOOTING. THEY MENTIONED, WITHOUT BEING VERY SPECIFIC, THEIR VIEW THAT PROPOSALS ON WINE AND CEREALS ALSO DISCRIMINATED AGAINST GREECE.

9. FRANCE (MEHAIGNERIE) SAID IN A BRIEF INTERVENTION THAT THE SMALL ADDITIONS TO THE PRICE INCREASES WERE INSUFFICIENT. A 2 PER CENT INCREASE ABOVE THE ORIGINAL PROPOSALS WAS THE VERY MINIMUM. THEY MADE A NUMBER OF FAMILIAR COMMODITY POINTS, INCLUDING SUPPORT FOR THE PRESENT CLAWBACK SYSTEM ON SHEEPMEAT AND FOR THE EARLY INTRODUCTION OF THE BEEF GRID.

10. IRELAND (MCSHARRY) SAID THAT THEY COULD GO ALONG WITH MUCH OF THE PACKAGE. THEY WOULD, HOWEVER, WANT THE IRISH PACKAGE TO BE READY FOR ''A'' POINTS PROCEDURE AFTER PARLIAMENTARY OPINION HAD BEEN GIVEN. THE PRICE INCREASE ON MILK WAS INSUFFICIENT AND THEY NEEDED MORE BY WAY OF LEVY EXEMPTIONS FOR DISADVANTAGED AREAS. THEY WANTED THE CALF PREMIUM EXTENDED TO IRELAND AND HAD CONCERNS OVER THE DETAIL OF INTERVENTION PROPOSALS FOR BEEF.

11. ITALY (BARTHELEMEI) GAVE NO GENERAL INDICATION OF ATTITUDE, CONCENTRATING ON A NUMBER OF FAIRLY FAMILIAR COMMODITY POINTS. THEY ONLY STRONGLY EXPRESSED OPPOSITION WAS TO THE TOBACCO PROPOSALS. THEY WERE READY TO ACCEPT OLIVE OIL PROPOSALS, AND TO MAKE CONCESSIONS ON CEREALS AND WINE.

12. LUXEMBOURG (NEY) RE-EMPHASISED THEIR DEPENDENCE UPON MILK PRODUCTION AND INTEREST IN A PROGRESSIVE LEVY.

13. BRAKS SUMMED UP THE REACTION AS GENERALLY FAVOURABLE AND A VERY GOOD BASIS FOR NEGOTIATIONS.

FCO ADVANCE TO:-

FCO - PS/LPS, PS/PUS, HANNAY, FITZHERBERT, SPRECKLEY, FAULKNER

CAB - FRANKLIN, WENTWORTH

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CABINET OFFICE	DOT	PLUS OGDS
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H M TREASURY	M A F F	
SIR K COUZENS MR D R ROBERTS MR FITCHEW	SIR B HAYES MR D H ANDREWS PS/MOS (C) PS/MOS (L) MRS PICKERING MR MADDON MR GORD	MR MACKAY (CZTDIV) DOI MR YOUNG D'ANI MISS BROWN MR D GLEDSON (GW II) MR GORDON DATS MR T.I. DAVIES (1) WORD MR I.A. RICHARDS ARCH WORD

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TO IMMEDIATE FCO

TELEGRAM NUMBER 1177 OF 31 MARCH

AND TO PEKING (FOR PRIVATE SECRETARY TO SECRETARY OF STATE)

INFO COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN ATHENS

COUNCIL OF MINISTERS (AGRICULTURE): 30 MARCH - 1 APRIL

TUESDAY, 31 MARCH 1981.

WHEN THE COUNCIL RECONVENED AT 15.00 HOURS ON TUESDAY AFTERNOON, FOLLOWING A MORNING OF BILATERAL DISCUSSIONS, DALSAGER CIRCULATED A COMPROMISE PACKAGE, SAYING THAT THERE WAS VERY LITTLE ROOM FOR FURTHER MOVEMENT. THE AMENDMENTS PROPOSED TO THE ORIGINAL PROPOSAL (WHICH OTHERWISE STAND) ADDED 97M ECU TO THE 1981 BUDGET AND 188M ECU IN A FULL YEAR WHICH WAS ACCEPTABLE. AFTER EXHORTATIONS FROM ERTL AND DALSAGER TO GET DOWN TO NEGOTIATION, MINISTERS BROKE

(WHICH OTHERWISE STAND) ADDED 97M ECU TO THE 1981 BUDGET AND 188M ECU IN A FULL YEAR WHICH WAS ACCEPTABLE. AFTER EXHORTATIONS FROM BRAKS AND DALSAGER TO GET DOWN TO NEGOTIATION, MINISTERS BROKE FOR A COUPLE OF HOURS TO PREPARE THEIR POSITIONS ON THE COMPROMISE.

THE COMPROMISE TEXT CONTAINS THE FOLLOWING MAIN ELEMENTS

MILK .

- INCREASE ALL AT ONCE: NOT TWO STAGES
- PRICE INCREASE OF 9 PER CENT FOR MILK, BUTTER AND SMP
- PRICE INCREASE OF 12 PER CENT FOR ITALIAN CHEESE
- BASIC LEVY TO BE 2.5 PER CENT: EXEMPTIONS AS AT PRESENT
- VAGUE FORMULA ABOUT REDUCING INTERVENTION PRICES IN FUTURE YEARS IF DELIVERIES CONTINUE TO INCREASE
- COMMITMENT TO EXAMINE FURTHER A '' FORAGE HECTARE '' FORMULA
- 20 PER CENT REDUCTION IN FEOGA CONTRIBUTION TO UK BUTTER SUBSIDY
- 25 PER CENT REDUCTION IN OTHER BUTTER SUBSIDIES

BEEF AND VEAL.

- 10 PRICE INCREASE PHASED 7.1/2, AND 2.1/2 ON 7 DECEMBER
- GRID TO APPLY TO INTERVENTION FROM 1 JUNE 1981
- PROPOSAL TO CONFINE INTERVENTION TO MALE ANIMALS DROPPED
- COMMISSION DECLARATION TO SUSPEND INTERVENTION IN IRELAND WHEN MARKET PRICE BELOW 85 PER CENT OF GUIDE PRICE
- SUCKLER COW PREMIUM TO STAY AT 20ECU BUT 75 PER CENT FEOGA FINANCED, AND A ''NEGATIVE LIST'' OF BREEDS TO BE INTRODUCED
- ITALIAN CALF PREMIUM TO CONTINUE AT 32 ECU
- UK BEEF PREMIUM TO CONTINUE: SINGLE RATE FOR GB AND NI

PIGS.

- PRICE INCREASE OF 10 PER CENT

SHEEPMEAT.

- PRICE INCREASE OF 7.5 PER CENT
- THIRD COUNTRY CLAWBACK EXEMPTION CONTINUED FOR NEXT YEAR
- COMMISSION DECLARATION TO BASE CLAWBACK ON THE DIFFERENCE BETWEEN THE GUIDE PRICE AND THE MARKET PRICE FOR ''EXPORT QUALITY''

CERALS.

- SLIGHTLY LOWER TARGET PRICE INCREASES
- CORESPONSIBILITY FOR DURUM WHEAT WITHDRAWN
- FURTHER CUTS IN STARCH REFUNDS

FURTHER CUTS IN STARCH REFUNDS

SUGAR.
- BASIC AND INTERVENTION PRICE INCREASE 8.5 PER CENT

OLIVE OIL.
- INTERVENTION PRICE INCREASE OF 8 PER CENT: OTHER PRICES MAINTAINED.
- CORESPONSIBILITY WITHDRAWN

COLZA.
- CORESPONSIBILITY WITHDRAWN
- DAY AID TO BE CONTINUED

WINE.
- GUIDE PRICE FOR WHITE A1 TO BE INCREASED BY 8.5 PER CENT

FRESH FRUIT AND VEGETABLES.
- 11 PER CENT INCREASE IN ASIC PRICES (EXCEPT FOR APPLES AND TOMATOES, FOR WHICH EXISTING PROPOSALS MAINTAINED) AND MARKETING PREMIA

PROCESSED FRUIT AND VEGETABLES.
- CORESPONSIBILITY RETAINED BUT PRODUCTION CEILINGS REVISED UPWARDS

TOBACCO.
- INTERVENTION TO REMAIN AT 90 PER CENT OF NORM PRICE FOR 1981, EXCEPT FOR ORIENTALS AND KENTUCKY AT 85 PER CENT
- PRICES AND PREMIA TO BE REVISED TO TAKE ACCOUNT OF THIS (AND FOR GREEK VARIETIES) OF REVISED WORLD PRICES. THE RESULT WOULD BE A SLIGHT INCREASE IN GREEK PREMIA.

COTTON.
- AS PROPOSED.

POSITIVE MCAS.
- GERMAN CUT 4 POINTS: UK CUT 3 POINTS

WHISKY REFUNDS AND MINIMUM PRICES FOR WINE.
- THE LATEST TEXTS OF THESE PROPOSALS TO BE ADOPTED.

IRISH SPECIAL MEASURES.
- THE COUNCIL TO GIVE A FAVOURABLE OPINION AND TAKE A DECISION AS SOON AS PARLIAMENT HAS GIVEN AN OPINION.

GATT BEEF QUOTA

SOON AS PARLIAMENT HAS GIVEN AN OPINION.

GATT BEEF QUOTA.
- AS PROPOSED

GREEN RATE DEVALUATIONS.
- PROPOSED FOR BELGIUM, NETHERLANDS, LUXEMBOURG, DENMARK, FRANCE AND IRELAND.

MINI PACKAGE.
- AN EXTRA 90,000 TONNES OF A QUOTA, WITHIN THE EXISTING MAXIMUM FOR ITALY ON SUGAR
- NO OTHER CHANGES FOR THE PACKAGE

FOR FIRST TABLE-ROUND, BEFORE THE DINNER ADJOURNMENT, SEE MIFT.

FCO ADVANCE TO:-

FCO - PS/LPS, PS/PUS, HANNAY, FITZHERBERT, SPRECKLEY, FAULKNER
CAB - FRANKLIN, WENTWORTH
NO 10 - ALEXANDER
DOI - MACKAY (CST DIV)
DOT - VINALL
MAFF - PS/MOS (C) PS/MOS(L) MRS PICKERING, HADDON, GURD, MISS BROWN, DICKENSEN (GWH)
DAFS - GORDON
TSY - FITCHEW
DANI - YOUNG
WOAD - J I DAVIES (I)
WOAD - I A RICHARDS (ABER)

BUTLER

NNNN

Must know all the costs
Full restoration of subsidy.

P.M. Nothing on milk

P.W. If milk goes up by 1% or more it is to be clawed back. Special levy technique.

P.M. What about increased output resulting. Will put our refund in jeopardy

P.W. ∴ Walker going through figures. Tel later to-day.

Not committed to package.

P.M. National aids?

P.W. Germans of no help. Confronted with words

P.M. Fearful of fishing community's reaction. Worst combination.

P.W. No use fighting a battle on issues that we lose.

9.5%

Beef premiums

No revaluation (FRG 3%)

Package for N. Ireland (£10 m)

Total cost 20 million ECU extra

Total extra 1052 million ECU

i.e. No supp budget for 1981

If there is 11% provision in own resources, within it.

No butter subsidy: 25% that would be price of settling.

P.M. Worried about structural surplus affecting our refund.

P.W. Commission will say 1% ceiling not breached

P.M. Must be room for refund.

P.W. 9 have agreed, if we disagree must be something well win on

P.M. Language on surpluses.

CAP

File

Top copy:
Fishing Ind, Pt 4
Fishing Limits.

10 DOWNING STREET

From the Private Secretary 30 March 1981

AGRICULTURAL PRICES AND THE FISHERIES AGREEMENT

In the letter I wrote to you this morning about the meeting held earlier today by the Prime Minister on this subject, I said that the dates set aside for the next Agriculture Council Meeting were 9/10 April. I now understand that this is incorrect and that the actual dates are 13-15 April.

I am sending copies of this letter to John Wiggins (H.M. Treasury), Kate Timms (Ministry of Agriculture, Fisheries and Food), Godfrey Robson (Scottish Office) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Stephen Gomersall, Esq.,
Lord Privy Seal's Office.

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SUBJECT.

file

dh
Gen. Ld.

cc. Fishing Industry: Aid to Fishing Ind: Pt 4.

cc. Master Set,

10 DOWNING STREET

From the Private Secretary

30 March 1981

Dear Stephen,

Agricultural Prices and the Fisheries Agreement

The Prime Minister held a meeting this morning to discuss the outcome of the meeting of the Fisheries Council on Friday 27 March and its consequences for this week's meeting of the Agricultural Council. The Minister of Agriculture, the Lord Privy Seal, the Secretary of State for Scotland and Mr. Franklin were present.

The Minister of Agriculture briefed the Prime Minister on his meeting with M. Hoeffel at Northolt on 26 March and on the subsequent meeting of the Fisheries Council. He said that the net result of the discussions had been to make it clear to all that the blame for the absence of progress towards a Common Fisheries Policy lay with France. There were however some signs that the French might be inclined to make a serious effort to reach agreement after the Presidential elections in May. One incentive for them to do so was the prospect of Spanish accession to the Community. Had they been intent on resisting any agreement, it would have been natural for them on Friday to have emphasised their position of principle on the question of access. They had not done so. On the other hand it was argued that this last point might equally be explained by a desire on the part of the French to avoid provoking an unyielding stand on our part in the agricultural price discussions.

In a more general discussion of tactics at the Agricultural Council, the Prime Minister said that we should go hard for everything we wanted. If we achieved all our requirements i.e. on both prices and economies, we could not hold up an agreement.

It was pointed out that there was little if any chance of this eventuality arising. It was, for instance, virtually inconceivable that we would get agreement on a super levy. Both the Germans and the French were strongly opposed to this. The Prime Minister said that in these circumstances agreement should not be concluded this week. A further meeting of the Agricultural Council was scheduled for 9/10 April. The Prime Minister said that she would like to have a further discussion in OD and/or Cabinet before that meeting.

As regards contacts with the French Government in the interim, the Prime Minister said that the drafting of a message from her to President Giscard should be put in hand (I should be grateful if you

/could

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ds.

could see that this is done). The objective of the message would be to get down in writing the various remarks made by M. Hoeffel and to extract from the French the best available undertaking about their intentions after the Presidential election. (It was recognised that this might not amount to much.) One way of following up the message might be for the Prime Minister to talk to President Giscard on the telephone.

The timing of the despatch of the message will be decided in the light of developments at the Agricultural Council. It was argued that there would be advantage in allowing the firmness of our position in Brussels this week to become apparent before sending any communication to President Giscard.

I am sending copies of this letter to Kate Timms (Ministry of Agriculture, Fisheries and Food), John Wiggins (HM Treasury), Godfrey Robson (Scottish Office) and David Wright (Cabinet Office).

Yours ever

Michael Alexander

Stephen Gomersall, Esq.,
Lord Privy Seal's Office.

O.P.

CONFIDENTIAL

Michael Alison

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

27 March 1981

The Rt Hon Peter Walker MBE MP
Minister for Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON SW1A 2HH

Dear Minister,

COMMISSION PROPOSALS TO AID BEEF PRODUCERS IN THE IRISH REPUBLIC

You sent me a copy of your letter of 4 March to Rodney Elton on this subject. I have also seen a copy of George Younger's letter of the same date to yourself. I understand there have now been discussions between officials. I am writing to record my concern about the implications of this element in this year's CAP negotiations, and in particular about its public expenditure aspects.

First, I understand it was generally agreed between officials of interested Departments here that our general objective in negotiation on these proposals should be to limit the scale of any action taken in favour of the Irish Republic and hence to minimise the risk of repercussions more generally throughout the Community. It would clearly be inconsistent with our wider objectives for CAP reform and containing the level of agricultural expenditure to do anything which encouraged a further bidding-up of new measures of this kind within the Community. I recognise that it would be particularly difficult for us to take the lead in opposing measures in favour of the Irish Republic. But I suggest that so long as there is substantial resistance on the part of other member states to the measures we should likewise oppose them.

If, however, some special help for the Irish Republic is judged to be unavoidable as an element in the final CAP package this year I suggest that we must nevertheless

/make every

make every effort to get the action confined to the structural Guidance Section measures proposed by the Commission and to exclude the proposal for additional Community finance for suckler cows. The advantages of this are that it should be easier to resist the demands for equivalent action in other member states and that in any case the Community expenditure would have to be financed within the existing Guidance Sector ceiling. Moreover our impression is that this element in the Commission's proposals was the object of particularly strong opposition from other member states, including France and Germany. And it can also be argued that the scope given to the Irish for a green rate devaluation as a result of last weekend's exchange rate realignment should obviate the need for more guarantee expenditure in their favour under the suckler cow premium.

I recognise that, if special measures are agreed for the Irish Republic, we may expect strong pressures from our own beef producers, particularly in Northern Ireland, for some equivalent Community assistance. I understand that, if the measures are confined to Guidance Sector expenditure, you would be prepared to limit yourself to arguing for equivalent 50% FEOGA financing for the measures currently under consideration to help the livestock sector in Northern Ireland. I can agree to this on the condition (which I believe Humphrey Atkins' officials have accepted) that the full cost of the additional expenditure is found from the Northern Ireland budget within the £10 million figure already agreed for special support to agriculture. I agree with you that in these circumstances it would not be appropriate, or defensible in Brussels, to look beyond Northern Ireland.

Your letter to Rodney Elton suggests that, if the extension of the suckler cow subsidy is also agreed for the Irish Republic, you would want to press for similar 100% FEOGA financing throughout the UK. As I understand it, this involves taking up the possibility permitted under the existing Community regulation to pay an additional and optional national subsidy on top of the Community payment already available and to seek Community finance for this addition. There is a strong presumption that a discretionary national decision of this kind should be subject to the normal public expenditure constraints, relating to expenditure flowing from new policy decisions. For this among other reasons I would strongly prefer that we should

/get the suckler

get the suckler cow subsidy excluded from the package altogether. And I am particularly concerned by the risk that the line you suggest will lead to demands for similar treatment in other Member States. Nevertheless I recognise the political difficulties of allowing Irish producers to benefit from this measure if UK producers did not. In these circumstances I am only prepared to agree to your seeking the application of the Commission's proposal to the UK if two provisions were met. First, there must be no repercussions in any other Member States, ie this element in the package would apply only to Ireland and the UK. Second, I accept that, if the discretionary additional subsidy were 100% FEOGA funded, the normal public expenditure arrangements for Guarantee Section spending should apply. If, however, the FEOGA financing were less than 100%, then offsetting savings would have to be found from within your programme for the amount not covered by Community funds.

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

Yours sincerely

JMWiggins

for GEOFFREY HOWE
(Approved by the Chancellor & signed in his absence)

PT 7 CAP

Ref. A04544

PRIME MINISTER

Cabinet: Community Affairs

You might wish to give the Cabinet a brief account of the discussions at the Maastricht European Council, following your statement to the House. The main discussions were on fisheries (which, as a result of the decision to call a Fisheries Council on 27 March, the Minister of Agriculture will be discussing with his French opposite number while Cabinet is meeting); on unemployment (with a sensible communique); and on Poland. Heads of Government also agreed to confirm the status quo on the seat of the European Parliament.

2. Pending the outcome of Mr Walker's bilateral with Monsieur Hoeffel and of the Fisheries Council itself, you may prefer not to enter into further discussion in the Cabinet of the possible linkage between fisheries and CAP prices on which you reported last week.

3. The Chancellor of the Exchequer might explain the implications for the CAP price fixing negotiations of the recent devaluation of the Italian lira. The changes may make it easier to settle on the Commission's proposal since Italy, and to a lesser extent France, Denmark, Ireland and Greece, will be able to increase their producer prices by about $2\frac{1}{2}$ per cent by devaluing their green currencies. MCAs in the United Kingdom, Germany and Benelux will be reduced.

4. The Steel and Transport Councils meet on 26 March; and, as noted above, the Fisheries Council on 27 March and the Agriculture Council on 30 March.

D J Wright

ROBERT ARMSTRONG

(approved by Sir R. Armstrong and signed on his behalf)

25 March 1981

European Policy

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

25 March 1981

The Rt Hon Peter Walker MBE MP
Minister for Agriculture
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON SW1A 2HH

Dear Peter

CAP PRICE FIXING : EFFECT OF EMS REALIGNMENT

Thank you for your letter of 24 March regarding the implications of the realignment for the negotiations on the price fixing.

I agree with your general assessment that the scope now available for some member states to secure price increases via green rate devaluations should strengthen our hand in seeking the objectives agreed at OD. But in addition I think this development, wholly unexpected at the time of the OD discussion, does significantly alter the essentials of our negotiating position. In the light of the information then available OD concluded that we should probably need at the end of the day to accept something slightly higher than the average price increases proposed by the Commission. In the light of the new situation I no longer accept that that is the case.

The set of increases in producers' prices in national currency terms that would result from implementation of the Commission's proposals for common prices and the potential green rate devaluations could not be described as representing progress towards market-clearing prices within the Community as a whole. Even higher increases resulting from a larger average increase in common prices would be quite indefensible. While I accept that, if the average increase in common prices is held to that

/proposed by the

proposed by the Commission, you should resist any green rate revaluation, I consider that in the new situation you should also firmly resist any increase in the average price rises proposed by the Commission.

At the same time the scope now in prospect for very large increases in prices in some member states, with all the implications for future levels of surpluses and consequent Community expenditure, makes it the more important to secure our agreed objective of a formula limiting the growth in agricultural expenditure from 1982 onwards to markedly lower than the growth in the own resources base. If we are to defend a prices settlement involving these high increases we must be able to demonstrate that we have taken action effectively to curb the rapid growth of expenditure in future years that could otherwise result.

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

GEOFFREY HOWE

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

f.s. Prime Minister ②

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

24 March 1981

Dear Geoffrey

CAP PRICE FIXING: EFFECT OF EMS REALIGNMENT

The decisions taken at the weekend by the Members of the European Monetary System have, as you will be aware, substantial repercussions for the common agricultural policy. These arise not so much from the devaluation of the lira as from the updating of the imputed sterling central rate. This together with the operation of the so-called "Gentlemen's Agreement" means that France, Denmark, Ireland and Greece are able to get an unconvenanted support price increase of about 2.5 per cent, while Italy could have the scope to increase her price support level by up to about 9.1 per cent. The United Kingdom, Germany and (probably) the Benelux will on the other hand have unchanged support price levels but a reduction (or in the Benelux case abolition) of the positive monetary compensatory amounts.

The uncovenanted price increase for those Member States who have been most vociferous in attempting to argue up the level of common prices for 1981/82 will clearly strengthen our own hand in resisting increases in common prices in e.c.u. terms above those proposed by the Commission, and in pressing for lower increases in a number of sectors, as agreed in OD on 12 March.

The result of the changes will mean a reduction in our MCA, probably to about 12 per cent. This is, of course, lower than the level which would have resulted had the Commission's original proposals (based on an 18.2 per cent MCA) taken effect. We are, therefore, in a stronger position to resist the proposed revaluation of the green pound. From the point

/of view of our own industry,

of view of our own industry, the pressures on us to do so will be strengthened because of the differential price increases which all but the Germans, us and probably the Benelux will obtain. It would clearly be even more difficult to explain to our industry an outcome in which we had not only had to accept that certain Member States receive higher common price increases because of devaluations but we had agreed to further disadvantage ourselves by accepting a revaluation of the green rate.

I do not think any of this alters the essentials of our negotiating position as agreed at OD, although it will strengthen our hand in seeking the agreed objectives.

I am copying this letter to the Prime Minister, to Members of OD and to Sir Robert Armstrong.

Pw

24 MAR 1981

PETER WALKER

CONFIDENTIAL

PAC(81)4

2

PRIME MINISTER

MS 25/3

AGRICULTURAL DEBATE - 26 MARCH 1981

(The EEC Price Review and related measures)

It is hoped that this brief will help Members to understand the annual legislative documents presented by the European Commission to the Council of Agricultural Ministers, and the European Parliament, for the organisation of European Agricultural Markets in the coming year.

Index

Conservative Research Department,
32 Smith Square,
London, SW1.

RBC/FB

24th March, 1981

1. The Motion for Debate

"That this House takes note of European Community documents 5091/81 and 5091/81 Add I on CAP prices 1981/82; 5191/81 on the agricultural markets situation 1980; 12271/80 on Reflections on the CAP; and the Ministry of Agriculture, Fisheries and Food's unnumbered explanatory memorandum of 17 March on the development of livestock production in Ireland; recognises the contribution United Kingdom agriculture makes to the national economy and the need to obtain adequate returns for United Kingdom producers; and supports the Government's intention to seek an agreement designed to reduce production of structural surpluses where these exist, to contain the cost of the CAP and to take account of the interests of food processors and consumers".

2. Introduction

(a) The State of the Industry

The Government's White Paper - Annual Review of Agriculture 1981, (Cmnd.8132), outlined the background to the price negotiations which will take place in the coming week/months. The relevant parts of the White Paper which clearly show the critical state of the British Agricultural Industry, are as follows:-

"The average prices paid for the industry's inputs in increased by some 14%, Prices of outputs, on the other hand, only increased by some 6%...

"The sum of farming income, net rent and interest is expected to rise by 1½% in 1980, a fall of 14% in real terms. Farming income alone is expected to fall by some 10%, which is a fall of some 24% in real terms. (this follows a fall of 19% in real terms between 1978 and 1979)

"The volume of new fixed investment in agriculture is expected to decline by some 10%...

"Bank advances to agriculture for 1980 as a whole are forecast to be £2,900 million, some 30% above the average for 1979 and some 70% above 1978. (Annual Review 1981, pages 1,3 and 4)

The above statement on the situation in the agricultural industry outlines the seriousness of the present situation.

This is the result of the general recession, high inflation and high interest rates, despite the many measures taken by the Government to help the industry since the last election, the most important of which are listed below:-

- The devaluation of the Green Pound equivalent to a 17% increase in prices.

- 36% increase in the liquied price of milk since the election.

.../ - Massive

The overall effect of the proposals, that is the price increases, revaluation of the green pound and the corespon-sibility proposals, on the farm incomes in money terms in the UK would be nil - infact "... would reduce our producers returns in a full year possibly to some £5 million below the level that might otherwise obtain.." (Alick Buchanan Smith, Hansard, 18 March 1981, Col. 133).

b) Price increases and individual commodity proposals

(i) Cereals. The most important proposal here is the introduction of coresponsibility. It is obviously intended to contain the budgetary costs of supporting the cereals market if output and surpluses continue to rise. By lowering the intervention prices in response to higher production the Commission would be likely to push down market prices and reduce the restitutions needing to be paid in order to export extra production. Since threshold prices would not be reduced, imports would become more expensive relative to domestically produced cereals and therefore should be an incentive to farmers to produce more high quality breadmaking wheat.

However, it should be questioned as to whether this is the best method of controlling surplus production.

(ii) Olive Oil. The proposed increases of 10%, 6% and 7.5% for the target price, intervention price and production aid respectively are excessive for a commodity already in surplus. They are expensive proposals in budgetary terms. However, there are proposals for a system of producer coresponsibility which would certainly help the budgetary costs to some extent.

(iii) Oil seeds. The UK produces about 15 per cent of the Community's total oilseed production in the form of rape seed (300,000 tonnes in 1980). Therefore, the proposal to introduce producer coresponsibility is important to the UK.

(iv) Wine. Wine has been in structural surplus for several years and the size of the price increases must therefore be considered to be excessive. The proposals will contribute to greater problems in this sector as well as adding to its budgetary cost.

(v) Milk. There are eight proposals for the continued management of the dairy sector:

- Two part increase in support prices (target price) of 6% on 1st April 1981 and 2% on 16th September 1981.

- Extension of the consumer butter subsidy

.../ wholly

wholly financed by the Community.

- An increase in the maximum aid for school milk and an assurance that the Community contribution to this aid would continue for a period of five years.

- A change in the range within which the subsidy for SMP used for calf feed can be set.

- An adjustment of the level of pre-fixed export refunds.

- An increase in the commitment for butter oil food aid by 10,000 tonnes annually.

- An extension of the existing 2% coresponsibility levy on the target price, and a proposed higher levy 6% of the target price on milk produced on farms where the annual production of milk exceeds 15,000kg of milk per hectare of forage area, ie., the most efficient milk producers.

- An additional super levy as per last year if total Community milk deliveries in 1981 are 3% or more above the level in 1979.

(iv) Beef. The proposals incorporate various measures as follows:-

- A two phased increase in the common guide price of 9% (6% on 6 April and 3% on 7th December)

- The introduction of a common Community grading scale for the carcasses of adult animals to be used for price reporting together with the existing mechanisms (agreed to already by the Council of Ministers).

- An increase in the Community suckler Cow subsidy and continued authorisation for national grants of equal proportions.

- The phasing out over three years of the special Italian subsidy on the birth of calves. The proposals do NOT include a continuation of the UK variable beef premium, but do imply the use of coresponsibility in the operation of intervention in order to reduce Community expenditure.

(vii) Sheepmeat. The proposals include a 6% increase (6 April)

.../ in the

in the guide price, an increase in the variable premium payments to UK producers, and a resulting increase in the clawback charge which has to be paid on exports to Europe (3rd country exports are now exempt the clawback).

The 6% increase in reference prices would infact mean a UK reference price increase of some 10.7% and a weighted average Community reference price increase of about 7.8%.

(viii) Pigmeat. The proposals incorporate an increase in the basic price of some 9%.

(c) Green Currencies

The proposals include reductions in the MCAs (monetary compensatory amounts), as follows:-

- Green Mark revalued by 5.543% (6.726% for milk products) giving a cut of 5% in positive MCAs (6% for milk products).
- Green pound revalued by 6.188% giving a cut of 5% in positive MCAs.
- Benelux green rates revalued by 1.833% (2.354% for milk products) thereby eliminating their MCAs.

These proposals would have a direct effect on producers prices, by cutting the support prices paid for all commodities by a similar amount. A reduction in the value of sterling against EEC currencies on World money markets does NOT cut producers returns and equally, the appreciation of sterling has NOT increased farmers price one bit.

The following table shows how the appreciation of sterling has created the present positive MCAs:

.../ Week beginning

	Week beginning:	MCA percentage
1980	April 28	+ 1.7
	August 18	+ 3.0
	Sept. 1	+ 4.1
	Oct. 6	+ 5.6
	Oct. 27	+ 8.1
	Nov. 3	+ 10.4
	Nov. 10	+ 11.8
	Nov. 24	+ 10.7
	Dec. 22	+ 12.1
1981	Jan. 19	+ 13.5
	Jan. 26	+ 15.1
	Feb. 2	+ 16.4
	Feb. 9	+ 18.2
	March 2	+ 15.7
	March 9	+ 14.1
	March 23	+ 14.1

The above positive MCAs are paid by continental exporters to the UK market, to the Europe Commission just as negative MCAs under the last Government were paid to exporters by the Commission.

As far as UK exports to the continent are concerned, they receive MCA's in cash from the Commisssions to make up the differences in price levels between the UK and other member states. Prices in UK shops would not be specifically effected by the proposed cut in positive MCAs (therefore cutting the amount continental exporters pay to the Commission). The Exporters to the UK would naturally increase their profit margin rather than reduce their market price as suggested by some politicians.

To take the view that there should be a revaluation of the Green Pound is dangerous. The recent fall in the value of sterling showed how easy it would be for the disadvantage of negative MCAs as seen under Labour, to return thereby allowing continental producers their unfair advantage in our market again through EEC subsidies. A deliberate revaluation would also as mentioned above, cut farmers incomes in a year following one that saw a 24 per cent fall in incomes in real terms.

(d) Special proposals for beef producers in Ireland

These unnumbered proposals are specific to Ireland and are justified by the serious fall in agricultural incomes in that country, in particular its likely effect on that country's economy which is predominantly agriculturally based.

There are three proposals all of which could increase the UK's contributions to the European budget:-

- aid over two years to encourage beef production through measures to improve breeding and fodder production.
- aid for two years to reduce farmers costs in complying with Irish legislation on the movement of cattle in relation to tuberculin and brucellosis testing of cattle.
- an additional payment to the Community beef suckler cows premium already paid and proposed for all Community beef cows, for two years.

These proposals cannot be justified solely by the fall in incomes in the Irish farming community, however important to the Irish economy that sector is. Falls in income have occurred throughout the Community and these proposals will certainly give beef farmers in Southern Ireland a considerable advantage over their compatriots in Northern Ireland, let alone the rest of the UK. One small point is that the eradication programme in the UK of TB and Brucella is far ahead of that taking place in Ireland - the costs have already been incurred over here.

(e) Effect of the proposals on prices

As mentioned previously, the package taken in totō, will not increase farmers returnsat all as the revaluation proposals and the co-responsibility proposals will virtually eliminate the 7.8% average price increase.

However, the proposals as they stand now will have the following effect on prices.

Food Price Index	+ 1.2 per cent
Retail Price Index	+ 0.25 per cent.

It must be remembered that since the last Election in May 1979, food prices have on average gone up only half as fast as retail prices and farm gate prices by only about two thirds as much as food prices.

4. The European Parliament and the European Democratic Group

(a) The Agricultural Committee of the European Parliament agreed its view of the proposals last week as follows:

- an average increase in support prices of 12 per cent rather than the Commission 7.8 per cent.
- Benelux MCAs to be removed immediately and German and UK MCAs to be removed progressively, 50 per cent this year and 25 per cent in each of the next two years.
- rejected the proposals to extend co-responsibility to all production sectors.

.../(b)

(b) The European Parliament is to debate the Commission proposals and the Agricultural Committee's amendments as above, on Wednesday 25th March this week and vote on Thursday 26th March.

(c) The European Democratic Group

The EDG members have agreed to price increases averaging 9.8 per cent coupled with a 2 per cent revaluation of the Green Pound. It is hoped that the revaluation proposals above will be withdrawn by the time the Parliament meets later on this week.

5. The Policy and Politics of the proposals

(a) Policy. As mentioned in the introduction the situation in the Agricultural Industry in the UK is critical with farm income down by 24 per cent in real terms since 1979. The proposals taken together, i.e. price increases, green pound revaluation and more co-responsibility, will not improve incomes but hasten the decline of the industry. Therefore, as they stand, the proposals have no merit as a package, for the UK. However, taking each part of the proposals in turn, the following positions are suggested for Members to take during the Debate on Thursday.

(i) The proposed Price Increases. It is considered that there should be reasonable overall price increases, in particular for the depressed livestock sector. However, restraint should be shown in the increases for products in surplus including the cereal, wine and olive oil sectors.

It should be emphasised that the price increases should be linked to the present situation in the industry and should NOT be linked to the overall problems of the CAP i.e. financing.

.../ (ii)

(ii) Green Pound revaluation. There is no way in which the Government could accept or agree to the proposed 5 per cent revaluation of the Green Pound. As Peter Walker said during oral questions in the House:

> "I am saying categorically that, in the Commission's proposals for the coming price review and its suggested increases, there will be no revaluation of the Green Pound" (Hansard 19 March 1981, Col. 420)

It is likely that sterling will not maintain its high level against other EEC currencies (it has already fallen since its high of 18.2% on February 9th this year), particularly if interest rates continue to fall. To revalue with this in prospect, would quickly lead to negative MCAs which irreparably damage the UK market for our own producers and their competitiveness.

(iii) Coresponsibility. The principle of coresponsibility seems to be creeping into the management of the agricultural markets in Europe (the imposition of a 2% levy on 'A' sugar a month ago is, an example). This is a dangerous principle to establish and should be resisted, particularly if it is used as in this Price Review to stall the inevitable hitting of the Budget ceiling. The principle of giving price increases with one hand and then taking money in the form of a levy with the other hand will only result in all European farmers paying money into the Community to support further surplus production irrespective of whether they individually are contributing to those surpluses or not.

However, the proposed Super Levy for the dairy sector should be supported again as last year. It is a step in the right direction in that those who produce the surplus are asked to pay for producing that surplus. This is surely a fairer principle than the ordinary coresponsibility levy as mentioned above.

The proposed special milk levy of 6% on production above 15,000 kg per forage hectare is a discriminatory measure that should not be countenanced. It would make the more efficient dairy farmers who are mainly British, Danish or Dutch, pay an extra levy for being efficient.

(iv) Beef. The retention of the UK's variable beef premium is essential for the future well being of the beef sector which is in enough trouble as it is at the moment.

(v) Wine, Olive Oil, Mediterranean fruit etc. The proposed increases in the support prices of these commodities are seen to be excessive, particularly in Wine and Olive Oil which are in considerable structural surplus.

.../ (vi)

ANNEX A.

EXTRACT (COLUMNS 1, 2 & 6) FROM COMMISSION'S TABLE OF PRICE PROPOSALS FOR INDIVIDUAL PRODUCTS ON PAGES 20-20d OF COM(81)50

Product	Category of price or amount	1981/82 proposals % increase
Common wheat	Target price Common single intervention price Reference price for bread-wheat (average quality) (minimum quality)	8 6 6 4
Durum wheat	Target price Intervention price Aid	5.8 4.1 7.5
Barley	Target price Common single intervention price	9 6
Rye	Target price Intervention price	7.35 3.28
Maize	Target price Common single intervention price	9 6
Rice	Target price - husked rice Intervention price - paddy rice	- 10
Sugar	Minimum price for sugar beet Basic price for sugar beet Intervention price for white sugar	- 7.5 7.5(1)
Olive oil	Production target price Intervention price Production aid	10 6 7.5
Oilseeds	Target price - Colza and rape seed - Sunflower seed Basic intervention price - Colza and rape seed - Sunflower seed Guide price - Soya seed - Flax seed - Castor seed Minimum price soya seed Minimum price castor seed	 10 12 8 10 10 10 10 7.6 10
Dried fodder	Fixed rate aid Guide price	8 (2) 10
Peas and beans	Activating price Minimum price	11.3 8

Produce	Category of price or amount	1981/82 proposals % increase	
Flax and hemp	Fixed rate aid (per ha) - Fibre flax - Hemp	 12 12.	
Seeds	Aid (per 100 kg) - Monoecious hemp - Fibre flax - Linseeds - Grasses - Legumes - Rice	10 on average	
Table wine Type RI RII RIII AI AII AIII	Guide price (per degree/hl or per hl according to type)	 10 10 10. 7.5 10. 10.	
Raw tobacco	Guide price Intervention price	8 on average	
Fruit and vegetables	Basic price	8–10	
Milk	Target price for milk	6. 8.	1.4.81-15.9.81 16.9.81-31.3.82
	Intervention price - for butter	6. 7.8	1.4.81-15.9.81 16.9.81-31.3.82
	- for skimmed milk powder	6. 7.7	1.4.81-15.9.81 16.9.81-31.3.82
	- for cheese . grana padano 30-60 days	6. 7.6	1.4.81-15.9.81 16.9.81-31.3.82
	. grana padano 6 months	6. 7.4.	1.4.81-15.9.81 16.9.81-31.3.82
	. Parmigiano - Reggiano 6 months	6. 7.3.	1.4.81-15.9.81 16.9.81-31.3.82
Beef and veal	Guide price for adult bovines (live weight)	6 9	6.4.81-6.12.81 7.12.81-4.4.82
	Intervention price for adult bovines (live weight)	6. 9	6.4.81-6.12.81 7.12.81-4.4.82
	Aid for suckling cows	8.	
Sheepmeat	Basic price (slaughter weight)	6	
Pigmeat	Basic price (slaughter weight)	9	
Silkworms	Aid per box of silk seed Aid to recognized producer groups (per box)	10.	

(1) The actual increase would be 8.6% because of a proposed change in the basis of the storage levy/reimbursement scheme.

(2) The fixed aid for dried potatoes would increase by 8%.

010

SCOTTISH OFFICE

WHITEHALL, LONDON SW1A 2AU

Mr Alexander

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

25/3

24 March 1981

Dear Peter,

We have spoken recently about the very serious economic situation in Scottish farming. The Annual Review figures disguise very marked regional variations between England and Wales, where the position is far from satisfactory, and Scotland and Northern Ireland, where it is a little short of disastrous. Farming income in England and Wales has fallen by 8 per cent in current money terms (30 per cent in real terms) over the past two years whereas the drop in Scotland was 71 per cent (82 per cent in real terms) and the position in Northern Ireland may even be worse. Net farming income in Scotland in 1980 is estimated at £33 million - less than half the income in current money terms of any of the three years immediately prior to our accession to the European Community, and only about one-quarter of the level of 1975, which was not an exceptional year.

A comparison of the Scottish share of UK net forming income over the past years reveals a quite remarkable deterioriation. Whereas Scottish farmers accounted for about 13 per cent of UK farming income on average in the period up to 1977, their share has fallen steadily since then and in 1980 was estimated at only 3¼ per cent. In real terms, farming income in Scotland in 1980 was only 13 per cent of the 1975 level whereas, in the UK as a whole, it was over 50 per cent.

I am coming under increasing pressure from the Farmers' Union, from our own back-benchers, and from all the organisations connected with the farming industry in Scotland to take steps to provide immediate additional help. Without it the structure of Scottish farming and the economy of many rural areas (which we are pledged to support) are at risk.

The latest Commission proposal for special additional aid for beef producers in the Irish Republic compounds my problems. I am already under severe criticism for not securing a development programme for the Highlands on the lines of those for the Irish Republic and Northern Ireland. If the Irish Republic now gets yet more help, when all the reasons advanced by the Commission to justify the proposal apply at least equally to Scotland, the political embarrassment to me - and to the Government as a whole - will be extreme.

I presume that you will oppose the new Irish package in the first instance, but there must be s strong possibility that it will nevertheless be approved as part of the deal. In that case I should have no option but to press for its extension to Scotland as a condition of UK agreement. I have seen a report which suggests that you might wish to see it extended to Northern Ireland. I have no objections to that but the situation is nearly as bad in Scotland, and Northern Ireland beef producers - at least those in the less-favoured areas - will obtain considerable benefits from the development programme for that area if the mini package is approved; benefits that will not be available to Scottish farmers. So extension to Northern Ireland but not to Scotland would just make the situation that much more intolerable to me.

I am sure you appreciate my difficulty. UK negotiating tactics on the Irish package pose major problems, and I hope that they can be discussed by colleagues before we have to show our hand in Brussels.

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

Yours ever,

George

CONFIDENTIAL

Top Copy with briefing on Euro Cl: Pt 6 Maastricht EC Policy

CAP/L7

Prime Minister

[signature]

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

PRIME MINISTER

EC AGRICULTURAL PRICES AND FISHING POLICY

I have been reflecting further on our discussion in OD yesterday about the possible linkage between the negotiations on CAP prices and fishing policy, on which you are to talk to President Giscard at the European Council.

2. As we agreed yesterday, it is now important for us to get an early settlement on fisheries and some movement may be needed on agricultural prices in order to achieve this. We also need to avoid taking up a position where we may be accused of going back on the 30 May agreement either by obstructing an early settlement on fish or by manifestly holding up the negotiations on CAP prices.

3. There is, however, another aspect which you might bear in mind in talking to Giscard. There is a genuine risk that, if we agree to higher CAP prices without any worthwhile offsetting savings or commitment to contain CAP expenditure, our position for the subsequent restructuring negotiations will have been undermined. If and when it becomes clear that the CAP price decisions are inconsistent with restructuring the Community Budget or maintaining the 1 per cent VAT ceiling, we would be told that we had no grounds for complaint since we had acquiesced in the CAP decisions. We indeed agreed in OD last week that it was essential that the outcome of the CAP negotations should be consistent with our objectives for CAP reform and budget restructuring.

/Given this

4. Given this concern, I believe it is important that we should, with the Germans, continue to pursue our objective of ensuring that Community expenditure on agriculture grows markedly more slowly than the revenue from own resources. I suggest that it is desirable, and by no means inconsistent with our discussion yesterday, that we should continue to press for some form of commitment to a formula along these lines at the Agriculture Council at the end of March as well as supporting some of the Commission's proposals for specific economies.

5. I do not suggest that you should necessarily mention our expenditure formula to President Giscard next week in any bilateral discussion. It would, however, seem reasonable to make the point to him that we will need to find some way of presenting the agricultural price settlement as compatible with our longer-term objectives for budget restructuring. If in the European Council itself Chancellor Schmidt repeats the case for a limit on CAP expenditure then you should certainly support him.

6. I am copying this minute to the Foreign Secretary, the Minister of Agriculture, other members of OD, Sir Robert Armstrong and Mr. Franklin.

(G.H.)

20 March 1981

Top Copy: European Policy, European Budget Policy Pt 11.

Ref. A04494

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer might be invited to report on the outcome of the 16 March Finance Council. The Council gave a useful political push to further progress on the liberalisation of insurance services. But, although the Chancellor and his German colleague pressed for a markedly lower growth rate of agricultural expenditure (and Mr Walker did likewise in the Agriculture Council), no agreement was reached on a financial ceiling formula. The question will be taken up again at the April Finance Council.

2. The Minister of Agriculture might report on the 16 March Agriculture Council, which had a first reading of the Commission's CAP prices and economies proposals and resolved to meet again on 30/31 March with the aim of concluding the price fixing.

3. The Foreign and Commonwealth Secretary might be invited to report on the 16/17 March Foreign Affairs Council. At German insistence much of the Council was devoted to discussion of a marketing package designed to enable the United Kingdom reserve on the EC/Canada fisheries agreement to be lifted. The Commission were asked to put detailed proposals forward by the end of this week. Among other decisions, the Council agreed proposals for a common format passport, subject to clearance of technical points in COREPER, with a satisfactory let-out for the United Kingdom on the date of introduction; agreed a Presidency statement on Spanish accession, which later drew a reply from the Spaniards asking for the Community's political support to be translated into rapid progress in the accession negotiations; and asked the Commission to keep the pressure up on United States gas controls and textile exports.

4. OD will have met before Cabinet to discuss a possible linkage between the CAP price fixing negotiations and fish. You might wish to inform the Cabinet of any decisions taken, stressing the need for the strictest confidentiality.

5. Next week the European Council meets in Maastricht on 23/24 March; and the Steel and Transport Councils meet on 26 March.

ROBERT ARMSTRONG

ROBERT ARMSTRONG

18 March 1981

copied to Fishing Ind
Pt 4 Fishery Limits

European Policy

Ref: A04491

SECRET

PRIME MINISTER

Relationship between Fisheries Settlement and 1981 CAP Prices
(OD(81) 20)

BACKGROUND

In the course of settling last week United Kingdom objectives and tactics for the 1981 CAP price fixing negotiations, OD agreed (OD(81) 5th Meeting Item 1) that the Foreign and Commonwealth Secretary, in consultation with the Minister of Agriculture, should put a paper to the Committee assessing the scope for linking fisheries and other issues to the price fixing. OD(81) 20 is the result.

2. Last year we made a successful link between CAP prices and our budget demands. When Agriculture Ministers met in parallel with the European Council on 27th-28th April 1980, we maintained a reserve on a compromise package which was acceptable to all the other member states. Two Agriculture Councils during May continued the negotiations, filling out the more detailed elements of the compromise including important aspects of the sheepmeat regime. The United Kingdom reserve was finally lifted only when the 30th May Foreign Affairs Council reached agreement on the budget settlement.

3. This year the relevant dates over the period immediately ahead are:-

23rd-24th March	-	European Council
22nd-24th March	-	Commission and Presidency tour capitals for bilaterals to prepare for substantive CAP price negotiations
30th-31st March	-	Agriculture Council. Substantive CAP price negotiations with objective of reaching final conclusion
6th-7th April	-	Fisheries Council
13th-14th April	-	Foreign Affairs Council
13th-15th April	-	Agriculture Council
26th April and 10th May	-	French Presidential Election

11th-12th May	-	Anglo-German Summit
29th-30th June	-	European Council

4. The Foreign and Commonwealth Secretary's paper suggests that there are two broad options: to block CAP prices until we have a satisfactory CFP settlement; or to allow fisheries to cool off and resume discussion later this year. It does not come down on one side or the other, but argues that we should avoid making a choice if we can by keeping both sets of negotiations going in parallel. To this end we should make a further and early attempt to settle fisheries bilaterally with the French.

5. The purpose of the discussion is thus to decide whether the approach to the French should be made and, if it fails, whether and when we should be prepared to block the price negotiations to get what we want on fish. In the event that linkage is favoured, you may think it important to be clear in advance how far it should go and whether - as the Chancellor may urge - the link should extend to a financial ceiling on agricultural spending.

6. The arguments against both courses are fully set out in the paper. In brief, a fish/CAP prices link would hit our farmers along with others, worsen relations with our partners (including the Germans, if we continued to block the Canadian agreement which is so important to them), prejudice our own CAP price objectives, make the restructuring negotiations more difficult, and cloud the approach to our Presidency. Any such link might also have to be maintained until June. Putting the fisheries negotiations off until later in the year, on the other hand, would hit our fishermen, risk weakening our fisheries hand as we got closer to the expiry of the access derogations in December 1982, annoy the Germans considerably unless we lifted our veto on the Canadian agreement, queer the pitch for the budget restructuring discussions and complicate our Presidency. There is little on the positive side except the implied political necessity to use the only weapon now at hand (i.e. the CAP price fixing negotiations) to resolve the fisheries question. Against this, postponement might give us greater control from the Presidency chair of the resumed CFP negotiations, and would enable the restructuring negotiations to start in a better atmosphere.

7. The disadvantages identified in the paper would be lessened if we refrained from making any overt link until as late as possible, pursuing our CAP objectives meanwhile but withholding agreement to the final package on ostensibly agricultural grounds until a CFP settlement was in sight. But the crunch could not be put off for ever.

8. As to other issues, it seems likely that the New Zealand butter problem will be resolved separately and need not therefore be taken into account. The Committee has already agreed that we should work for a financial ceiling on agricultural expenditure, and the Chancellor and the Minister of Agriculture have accordingly pressed for it in this week's Finance and Agriculture Councils. They have had little support, however, apart from the Germans, and it must be questionable whether it is realistic to make this issue - as well as fish - a breakpoint in the CAP price fixing discussions.

HANDLING

9. You might first ask the Foreign and Commonwealth Secretary to introduce his paper, followed by the Minister of Agriculture.

10. You might then seek agreement that as a first step a new and urgent attempt should anyway be made to resolve the fisheries question bilaterally with the French. Any such approach should desirably take place before the major CAP price fixing Council on 30th-31st March.

11. The Committee might next be invited to discuss the two broad options set out in OD(81) 20, on the assumption that the approach to the French has failed. What are the prospects of success on fish in each case? How do they weigh in the balance against the costs in other fields? If an early linkage is favoured, how far are we prepared to take it? Where would the crunch point come? Is it agreed that any link should be confined to fish, and not be extended to the financial ceiling formula? Do we need to retain our veto on the Canadian agreement as a bargaining counter in the fisheries negotiations, or should we remove it (subject to satisfactory arrangements on marketing) in order not further to damage relations with the Germans?

CONCLUSIONS

12. Depending on the discussion you might conclude that:-

(i) a satisfactory fisheries settlement is unlikely to be achievable in isolation either now or after a cooling-off period;

(ii) linkage with the 1981 CAP prices provides the most suitable and timely lever, albeit at the probable cost of provoking a crisis and prejudicng some of our objectives for the CAP;

(iii) linkage is unlikely to be possible again until the 1982 CAP price fixing when we shall have other priorities (restructuring, 30th May refunds);

(iv) as a first step we should therefore seek a bilateral with the French on the CFP before the next Agriculture Council in order to test their willingness to make progress and to hint at our intentions;

(v) if that bilateral fails, we should make a link between fish and 1981 CAP prices, keeping it covert for as long as possible and reviewing the position as necessary in the light of developments in the forthcoming Agriculture and Fisheries Councils.

(iv) we should meanwhile settle for the best marketing arrangements we can get in exchange for lifting our reserve on the EC/ Canada (and possibly the EC/Faroes) fisheries agreement.

RtA

(Robert Armstrong)

18th March 1981

Copied to Fishing Ind Pt 4 Fishery Limits

European Policy

Germans linked agreement to Germany/Canada. Then wanted it separately.

Ref: A04500

PRIME MINISTER

OD 19 March

EC/CANADA AGREEMENT

1. Now that the Foreign and Commonwealth Secretary has written (attached) to the Minister of Agriculture asking him, in effect, to set out in OD tomorrow his minimum conditions for lifting the United Kingdom reserve on the EC/Canada fisheries agreement, you might like this supplementary note on the points already touched on in paragraphs 6, 11 and 12(vi) of the main brief.

2. The EC/Canada fisheries agreement would give the Canadians access to the Community market for their fish exports under a preferential tariff quota in exchange for fishing opportunities for Community boats off the Canadian coast. Apart from our longstanding insistence that the external aspects of fisheries cannot be settled in isolation from a satisfactory internal package, our problem arises essentially from the fear that the high sterling exchange rate would attract more than our fair share of Canadian cod imports into the United Kingdom, thus depressing prices on our home market to the detriment of our fishermen. The Germans, on the other hand, need access to Canadian fishing grounds before the season ends for their deep water fleet, which is based in Hamburg and Bremen, where Chancellor Schmidt and the SPD are already in serious political trouble. The Germans have therefore suggested that the Council should adopt market measures designed to protect the United Kingdom fishing industry and thus make it possible for us to lift our reserve. The Danes are also pressing for the EC/Faroes agreement to go ahead.

3. We have so far sought in particular a strengthening of reference prices, the elimination of preferential arrangements for some third countries when markets were weak, an arrangement under which the United Kingdom would not be required to take more than 1500 tonnes of Canadian cod per year, an increase in withdrawal prices of 20-25 per cent for cod, haddock, whiting and plaice, and facilities for taking 5000 tonnes of fish off the United Kingdom market at Community expense.

4. After a lengthy discussion in this week's Foreign Affairs Council, the Commission were invited to produce detailed proposals for consideration in COREPER on 20 March. On present form, those proposals may fall short of some of our foregoing requirements. They may not give us what we want on reference prices; it seems unlikely that withdrawal prices will be increased as much as we wished; and any intervention in the United Kingdom white fish market may be generalised to the whole Community thereby diminishing its impact at home.

5. Given the bitterness this dispute has engendered on the German side, the Committee may nevertheless wish to consider - in the context of any wider link between fish and CAP prices - whether our minimum needs can be modified to allow the United Kingdom reserve to be lifted. If so, there might be little case for retaining our reserve on the EC/Faroes agreement.

D J Wright

Robert Armstrong

(signed on behalf of Sir R. Armstrong).

18 March 1981

copied to Fishing Ind
Pt 4. Fishery Limits

FCS/81/38

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

EC/Canada Fisheries Agreement

1. We have already discussed the question of the UK reserve on the EC/Canada agreement. As you know, I am concerned about the effect not only on our relations with the Germans but on our position in the Community more generally and, consequently, on our ability to secure our objectives in other areas if we do not solve this problem.

2. The Germans have continued to press us to lift our reserve; as I mentioned to you, both Genscher and Dohnanyi told me that Schmidt's attitude to us was embittered and, whatever the true facts about the seasonal nature of the Canadian fishery, there can be no doubt of the importance he attaches to this problem. Nor can there be any real doubt that, if we refuse to lift our reserve until a CFP package is agreed (possibly, but far from certainly, at the April Council and perhaps not until much later) the damage to Anglo-German relations and to our general standing in the Community will be great. Conversely, if we can settle the matter now, separately, we will improve our chances generally. I do not believe that by holding up the EC/Canada agreement, we shall be able to exert any effective leverage on the Germans to put pressure on the French.

3. I believe there is now a strong case for going quickly for a deal on marketing in return for lifting our reserve on EC/Canada, if we can. In the few remaining days before the European Council we probably have the best conditions we will get to achieve a deal.

4. I have now seen UKREP telegrams number 989 and 990 reporting the outline of the Commission's proposals which they put to the Foreign Affairs Council on 17 March. Although

/they

they are incomplete, time is pressing, with a discussion in COREPER scheduled for 20 March. I hope that at OD tomorrow you will be in a position to give us your views on what are our essential needs, and how we might best negotiate with a view to reaching a position where we could lift our reserve on the EC/Canada agreement.

5. I am copying this minute to other members of OD and to Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office
18 March 1981

CONFIDENTIAL

File Euro Pol

10 DOWNING STREET

From the Private Secretary

MR. WRIGHT
CABINET OFFICE

ANGLO-GERMAN CONTACTS

The Prime Minister has seen Sir Robert Armstrong's minute to me of 10 March on this subject. She agrees with the line proposed in paragraph 3 of that minute and in particular that Mr. Franklin should seek to maintain direct contact with his opposite number in the Federal Chancellery.

M. O'D. B. ALEXANDER

13 March 1981

CONFIDENTIAL

Europe
Pt

Ref. A04443

PRIME MINISTER

CAP Prices 1981

(OD(81) 16 and (81) 18)

PURPOSE OF DISCUSSION

In November last OD(80) 22nd meeting agreed that in bilateral contacts leading up to the 1981 CAP price fixing the United Kingdom should argue for severe price restraint especially for commodities in surplus and that we should seek to reach agreement with the Germans on an approach to a financial ceiling on CAP expenditure. It was agreed that we should keep open the possibility of a revaluation of the green pound at the time of the price settlement but should avoid commitment to it. Ministers subsequently agreed that we should urge the Commission to propose price increases of about 4-5 per cent and supplementary measures to reduce surpluses.

2. The Commission has proposed price increases mainly in the range 6-9 per cent with a cut of 5 percentage points in the United Kingdom's positive mca's. The proposals will be substantively discussed at the Agriculture Council on 16 March, and there will be pressure to try to reach agreement by the end of March. The purpose of this OD meeting is therefore to agree on our objectives and tactics for these negotiations, including prices, economy measures, the green pound and a ceiling on agricultural expenditure. The possibility of linkages with other issues may also need consideration.

BACKGROUND

3. There are two papers before the Committee. The memorandum by the Minister of Agriculture (OD(81) 16) argues that the reductions in United Kingdom farm incomes and net margins for particular commodities which have become sharper in 1980 point to an urgent need for improvement in profitability if we are to avoid long term damage to the industry. Mr Walker proposes that he should argue against any price increase higher than the Commission's proposals and press for lower increases for cereals, oilseeds and Mediterranean products

and that he should resist any revaluation of the green pound which, if applied as the Commission propose, would leave United Kingdom farmers with a net increase of only 1.4 per cent. On the proposed economy measures, he would support the super levy for milk but sees difficulties in full support of the co-responsibility measures proposed for cereals and beef. He also wishes to maintain and improve the United Kingdom beef premium scheme.

4. The note by the Chancellor of the Exchequer (OD(81) 18) suggests that the financial squeeze on United Kingdom agriculture may be less severe than the Minister of Agriculture suggests and, in particular less than the recent squeeze on manufacturing profits. The Chancellor proposes a more stringent line on agricultural prices: an average increase of no more than 5 per cent, with cereals (but not milk) held close to a standstill; support for the economy measures, especially the super levy on milk, as a first step to CAP reform; eventual agreement to a green pound change if the Community go up by more than 5 per cent, so as to keep prices in the United Kingdom at 5 per cent; and pressure in both the Ecofin Council and Agriculture Council for a commitment that in future CAP expenditure would not absorb more than half of the increase in own resources.

5. In negotiating terms we shall be in a minority even if we take the line proposed by the Minister of Agriculture. The French and Germans have agreed to settle at around 10 per cent (the Italians and the Irish want even more) and everyone will want us to make some reductions in our mca's. Given the imminence of the French elections, there will be strong pressure to go for a quick settlement on prices and put off the difficult decisions on the economy measures until the budget restructuring exercise. Unless we intend to block decisions until after the French elections, we shall have to concede higher price increases, and to agree to some revaluation of the green pound. But in return for that, it would be reasonable to insist on some real economy measures. A 10 per cent price rise with 2-3 per cent revaluation (ie 7-8 per cent for the United Kingdom) might be a presentable outcome, provided that the Community had agreed some first steps like the super levy on milk and the new arrangements for cereals. But if New Zealand butter and fisheries are still blocked they may need to be brought into the package too.

6. Now that the Fisheries Council has failed to agree, and will resume on 6-7 April, the question arises whether we should use our position on agricultural prices in order to push the French for a satisfactory settlement on fisheries; and if so how this could best be done.

HANDLING

7. You will wish to invite the Minister of Agriculture to introduce his paper and then let the Chancellor of the Exchequer speak to his. It will probably be better to discuss the two papers together. You might remind the Committee that it has already agreed (OD(80) 20th meeting) that cutting the cost of the CAP is an essential part of our budget restructuring exercise; that we should use price restraint as a weapon; that we should try to get financial responsibility for surpluses shifted to those who produce them; and that we should go for a ceiling on financial expenditure on the CAP. While the two papers are addressed to the immediate question of the line to take at the next Council, you will want to get the mind of the Committee on what we could ultimately settle for. That will affect tactics.

8. You might next invite the Foreign and Commonwealth Secretary to give his general comments before focussing discussion on:

(i) the state of United Kingdom agriculture;

(ii) what our starting point in prices should be;

(iii) what price rise we might finally agree to and on what terms;

(iv) tactics on the green pound;

(v) our attitude to the milk super levy and other economy measures;

(vi) the beef premium scheme;

(vii) financial guidelines;

(viii) linkage.

(i) State of United Kingdom Agriculture

The dispute between Treasury and MAFF is less over figures than over what constitutes a valid comparison. The Minister of Agriculture has presented the position in a way which possibly overstates the problem, and it is debatable whether agriculture is suffering more than manufacturing industry. But there is no dispute that farm incomes have been squeezed; or that the position in Scotland and Northern Ireland is worse than the rest of the United Kingdom. There is, however, no need for the Committee to make a precise judgement. You may wish to give the Secretary of State for Scotland and the Secretary of State for Northern Ireland the opportunity to state their views at this point.

(ii) Price Increase

You might seek to establish how far the Committee agrees that arguing for an average increase of 5 per cent is a realistic tactic. The Chancellor of the Exchequer may argue that it is needed in order to counter the inflated requests of other member states. But the Agriculture Ministers may argue that it is unrealistic in the existing negotiating environment and that eventual agreement to a significantly higher figure would damage our credibility.

(iii) Final Agreement on Price Level

Could we go to 10 per cent in the context of a satisfactory package?

(iv) Green Pound

There will probably be agreement that we should initially resist a green pound revaluation, but that we will have to make some adjustment in the end. The dispute will be over how much. If the Chancellor's net figure for the United Kingdom of 5 per cent is thought to be too severe, given that the United Kingdom industry has experienced a higher rate of inflation of input costs than in most other Community countries, what figure would be acceptable? It is not essential to resolve this point at this meeting.

(v) Milk Super Levy and Economy Measures

There may be disappointment with the Minister of Agriculture's critical approach to the proposed economy measures, which is likely to leave our partners with the impression that we are not really serious about CAP reform or cutting the cost of surpluses. If we are going to move on prices, we should at least press for the super levy which is designed to penalise surplus milk production. But should we make it a sticking point? And, subject to detailed discussion, should we not support the Commission's proposals for controlling cereals and reducing beef intervention?

(vi) Beef Premium Scheme (Annex VIII paragraph 6)

This scheme operates in the United Kingdom and is 25 per cent Community financed. The Commission propose that it should lapse. The Minister of Agriculture regards it as important that it should be continued and even improved. But the Chancellor is likely to oppose it on cost grounds. The Chancellor and the Minister of Agriculture might discuss bilaterally, but we ought not to expend too much negotiating capital on its retention.

(vii) Financial Guidelines

The Chancellor of the Exchequer (Annex B to his paper) wants to restrict the growth in CAP expenditure for future years to one half of the growth in own resources. This was the formula which the Federal Chancellor mentioned to you last year but, in the Ecofin Council, the Germans are already showing signs of yielding to French pressure. The Minister of Agriculture says it would not be realistic to go for anything more restrictive than that the growth in CAP expenditure should be lower than the growth of own resources. We should at least try for the Chancellor's formula. He would like it to be part of the price package, but it will only be possible to negotiate on this point in the Ecofin Council.

(viii) Possible Linkage with Fisheries

You will want to have the advice of the Foreign and Commonwealth Secretary and the Minister of Agriculture. The French have not yet responded to the approach we made in February. Should we renew the approach but in a more threatening way? The Germans may in any case raise fisheries at Maastricht.

CONCLUSIONS

9. Depending on the discussion, you might conclude that:

(a) we should argue that the Commission price proposals should not be exceeded and that for commodities in surplus, the increases should be lower than proposed;

(b) we might finally be prepared to accept an average price increase of not more than 10 per cent but only if other satisfactory elements are included: the Minister of Agriculture will need to report back before a final settlement;

(c) we should avoid commitment to revalue the green pound, but be prepared to do so as part of an acceptable package;

(d) we should press hard for economy proposals, especially the super levy for milk, as elements in the reform of the CAP and as a necessary part of an acceptable package;

(e) we could argue for continuation of the beef premium (subject to agreement with Treasury of how the public expenditure is met) but not at the expense of other objectives;

(f) the financial guidelines proposed by the Chancellor of the Exchequer to be pursued in the Ecofin Council;

(g) the Foreign and Commonwealth Secretary should warn the French that although time is running out, we are still ready to talk bilaterally on fish.

RtA

ROBERT ARMSTRONG

11 March 1981

CONFIDENTIAL

(1)

Ref. A04433

MR. ALEXANDER

Yes MP

Prime Minister
Agree A? (I am sure that it is useful for Mr Franklin to maintain an informal line. He will give nothing away & may come up with something helpful.)
[illegible]

Anglo-German Contacts

As you know, Dr. Dieter Hiss had to pull out from his contacts with Mr. Franklin on the CAP and the Community budget because of the political problems in Berlin. The Federal Chancellor's office have now told us that they do not wish to continue this particular channel of contact and suggest that discussions about CAP reform should be pursued between the respective Finance and Agriculture Ministries at the level of State Secretaries.

2. It is not entirely clear why the Federal Chancellor should have lost interest in the direct contact which he himself suggested to the Prime Minister last summer. We do, however, know that he and his staff have expressed some dissatisfaction with the failure of the United Kingdom to come up with ideas for improving the CAP. This is not altogether fair: we have for example been working closely with the Germans in trying to get the ECOFIN Council to lay down financial guidelines within which the Agriculture Council must operate. Moreover, without neglecting the CAP, we have given a good deal more thought than the Germans to the Community budget as such. Nevertheless, we need to be careful not to give the Germans any excuse for thinking that we are not really interested in CAP reform but only want a budget corrective mechanism.

3. Bearing in mind the Prime Minister's forthcoming meeting with the Chancellor planned for 11th-12th May, I suggest that, if the Prime Minister agrees, we should reply to the Chancellor's office that we will of course fall in with their wish for contacts about the CAP to be pursued through the normal Departmental channels but that, in preparation for the Anglo-German summit meeting, we would
A like to maintain direct contact between Mr. Franklin and his opposite number in the Federal Chancellery, Herr Heick. In this way, we could signal our continued interest in the CAP and be able to explore the possibility of reaching common strategy with the Germans. It would be highly satisfactory if the Chancellor and the Prime Minister had the same approach when the June European Council comes to discuss the Commission's report on budget restructuring.

RA

10th March, 1981

ROBERT ARMSTRONG

CONFIDENTIAL

Qz 01998

bc Mr Alexander ✓
O/R.

CONFIDENTIAL

SIR ROBERT ARMSTRONG

ANGLO-GERMAN CONTACTS

Having heard nothing since Dr. Hiss signed off on 5th February (my minute of 9th February), I took the opportunity of my visit to Bonn on Tuesday to ask Herr Heick whether or not the Germans wish to pursue contact, and if so in what form.

Herr Heick telephoned me this morning (the other part of his message was about the Canadian fisheries agreement) to say that he had now consulted Herr Lahnstein who felt that the "unofficial gmup on CAP reform" - as he described it - should not be continued; and that it should now be done on the official network at the level of State Secretaries viz Schulmann and Rohr. I said I would consult and let him know our reaction.

One can speculate about the reasons for Lahnstein's attitude: that the Chancellor has lost interest; that there is noone suitable in the Chancellery to take over from Hiss; or that the position within the coalition makes it no longer necessary or possible to keep out the FDP in general and Herr Ertl in particular. Whatever the reason, we cannot insist on keeping up a contact which Chancellor Schmidt initiated. On the other hand, we have to be very careful not to give the impression that we are uninterested in CAP reform. One of the things Chancellor Schmidt said to Oliver Wright during his farewell call was that he had hoped we would take the lead in bringing about reform of the CAP "but we seemed to be totally without ideas". When I was in Bonn, the people in the Chancellery were obviously worried that, in our enthusiasm for budget adjustment mechanisms, we were neglecting the need to reform the CAP. We must not allow this idea to germinate: we want both CAP reform and a restructured budget. And we want to try by the time of the Anglo-German summit in May to reach a common strategy with the Germans so that, if possible, the Chancellor and the Prime Minister are saying approximately the same things when it comes to the June European Council at which the Commission will present its report on the 30th May Mandate.

CONFIDENTIAL

As to the reply to Heick, we could either say that we are content and that we will leave the follow up to their opposite numbers ie Ken Couzens with Schulmann and Brian Hayes with Rohr; or we could suggest that I should continue to be involved from our side and, at least in the period up to the next Anglo-German summit, talk to Schulmann and Rohr (both of whom of course I know quite well). You may wish to consult the Prime Minister as to how she would like the matter handled.

Either way, I think we need to prepare a paper of our own on CAP reform in answer to the one which Hiss sent me before he backed out. I am working on this.

M D M FRANKLIN
5th March 1981

Euro Pol

Ref: A04378

Original filed on:-

CONFIDENTIAL

Euro Pol: Budget: Pt 10

PRIME MINISTER

Community Affairs

You might wish the Minister of Agriculture to comment on the surprising but welcome outcome of the 23rd-24th February Agriculture Council, which reached agreement - subject to an Italian reserve - on New Zealand butter, in a package covering also sugar, beef and structural aids. The Italians have until 10th March to lift their reserve.

2. The Minister of Agriculture might report on his talks on fisheries with Commissioner Kontogeorgis on 2nd March and with Herr Rohr, the German State Secretary, on 3rd March; and the prospects for the Fisheries Council on 9th-10th March.

3. The Secretary of State for Industry might report on the 3rd March Steel Council, which worked out a satisfactory resolution laying down guidelines for further restructuring of the Community steel industry. The guidelines, which will need to be filled out for detailed decisions at a further Council on 26th March provide for the existing production controls to be replaced by voluntary arrangements, for more energetic use of the Commission's powers to restore competitiveness, and for all State aid to the industry to be phased out by July 1983.

4. The Secretary of State for Energy might be invited to report on the 3rd March Energy Council, at which Mr. Lamont emphasised the need for economic energy pricing and pressed the Commission to investigate electricity pricing practices in France and Germany. He also urged the need for more investment in coal production. The Council agreed that the Commission should continue their study of a possible mutual aid measure in a sub-crisis.

5. OD will consider CAP prices on 12th March.

ROBERT ARMSTRONG

(Robert Armstrong)

4th March 1981

CONFIDENTIAL

CAP

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T33/81

Subject copy:
Anglo-French Relations

OO 251Ø45Z
PARIS FROM LONDON
CONFIDENTIAL GOVERNMENTAL ØØ28
BT
C O N F I D E N T I A L
MESSAGE FROM THE PRIME MINISTER TO PRESIDENT GISCARD

MY DEAR PRESIDENT,

AS YOU KNOW, I AM LEAVING LONDON TODAY FOR A THREE-DAY VISIT TO THE UNITED STATES DURING WHICH I SHALL BE SEEING PRESIDENT REAGAN AND THE LEADING MEMBERS OF HIS ADMINISTRATION, AS WELL AS DR. WALDHEIM IN NEW YORK. I THINK THAT YOU, CHANCELLOR SCHMIDT AND I HAVE A VERY GOOD UNDERSTANDING ON THE SUBJECTS WHICH ARE LIKELY TO ARISE. MY IMPRESSION IS THAT MR. REAGAN AND HIS TEAM ARE SOME WAY FROM HAVING MADE UP THEIR MIND ABOUT MANY OF THE IMPORTANT QUESTIONS. I BELIEVE ALSO THAT THEY ARE SINCERE IN SEEKING CLOSER CONSULTATION AND HARMONISATION OF POLICY WITH THEIR EUROPEAN ALLIES. THIS GIVES US IN EUROPE AN OPPORTUNITY OF WHICH I SHALL TRY TO MAKE THE BEST USE, AS I HAVE NO DOUBT JEAN FRANCOIS-PONCET IS DOING DURING HIS OWN VISIT THIS WEEK. IT MIGHT BE USEFUL FOR HIM TO EXCHANGE IMPRESSIONS LATER WITH PETER CARRINGTON, WHO WILL IN ANY CASE BE BRIEFING THE COMMUNITY AMBASSADORS IN WASHINGTON ON FRIDAY.

I WOULD ALSO LIKE TO TAKE THIS OPPORTUNITY TO CONFIRM TO YOU WHAT I SAID IN MY MESSAGE OF 18 FEBRUARY ABOUT THE FISHERIES QUESTION, THAT WE HOPE IT WILL BE POSSIBLE TO REACH AN AGREEMENT ON THIS AT THE NEXT MEETING OF THE COUNCIL ON 9-1Ø MARCH. WE, FOR OUR PART, WILL DO ALL WE CAN TO BRING THIS ABOUT.

I AM GLAD THAT A COMPROMISE HAS NOW BEEN REACHED ON ACCESS FOR NEW ZEALAND BUTTER. I ATTACH GREAT IMPORTANCE TO MAKING DECISIVE PROGRESS IN THE NEXT FEW WEEKS ON THE OTHER MAIN OUTSTANDING ISSUES OF COMMUNITY BUSINESS, AGRICULTURAL PRICES FOR 1981 AND FISHERIES. MY REPRESENTATIVE MR. MICHAEL FRANKLIN HAS EXPLAINED THESE VIEWS TO THE SECRETARY-GENERAL OF THE SGGI, M. PIERRE ACHARD. I AM NOT SUGGESTING THESE ISSUES BE LINKED. EACH MUST BE RESOLVED ON ITS MERITS. BUT I DO SEE REAL ADVANTAGE TO US ALL, AND TO THE COMMUNITY AS A WHOLE, IF THESE MATTERS CAN BE RESOLVED SPEEDILY AND WITHOUT UNDUE PUBLIC DISPUTE. SUCH DISPUTE WOULD BENEFIT NEITHER OF US IN THE LONG TERM.

YOURS SINCERELY

MARGARET THATCHER.

25 FEBRUARY 1981
BT

Sent at 1052z Rm.

Euro Pol

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

From the Minister's
Private Office

~~NXS~~ I have cleared this.

[signature]

N Sanders Esq
Prime Minister's Office
10 Downing Street
London
SW1A

25 February 1981

PA

Dear ~~Nick~~,

MS 25/2

COUNCIL OF AGRICULTURE MINISTERS: 23-24 FEBRUARY 1981

... 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 Mr Ingham; Mr Heyhoe (Leader of the House's Office); Mr Maclean (Whip's Office, Commons) Mr Pownall (Whip's Office, Lords); Mr Wright (Cabinet Office) and to private secretaries of the other Agricultural Ministers and members of the OD(E).

Yours sincerely
Kate

Miss V K Timms
Principal Private
Secretary

STATEMENT ON THE COUNCIL OF AGRICULTURE MINISTERS: 23 & 24 FEBRUARY

With permission, Mr Speaker, I wish to make a statement about the Council of Agriculture Ministers in Brussels on 23 and 24 February which I attended, accompanied by my Hon Friend the Minister of State in my Department. With the exception of the Italian Minister, who will report the position of his Government by 10 March, the Council agreed to a package consisting of arrangements for New Zealand butter, for imports of beef from third countries, a new sugar règime and a major development of structural policy.

We obtained a three-year agreement for New Zealand butter which will allow imports of 94,000 tonnes in 1981 and 92,000 tonnes for 1982. The Council will decide the amount for 1983 before 1 October 1982. I consulted with the New Zealand Government, who approved of the agreement and have expressed their appreciation of our successful endeavours on their behalf.

The arrangements for the import of beef were agreed in accordance with the Commission's proposal, including the figure of 60,000 tonnes for manufacturing beef which is the figure sought by Australia.

The sugar règime, which is subject to the views of the European Parliament, will include a total A and B quota for the United

Kingdom of just under 1.15 million tonnes - a reduction of 182,000 tonnes. There will be a general reduction in total Community quotas and export refunds will be financed by levies on sugar production.

The structure package, as finally agreed, is generally satisfactory and includes an integrated development programme for Northern Ireland enjoying contribution of 50% from Community funds, a scheme for marketing and processing of animal feed in Northern Ireland and an integrated development programme for the Western Isles of Scotland to which Community funds will contribute 40% of the cost. The scheme for Northern Ireland will amount to £40 million and for the Western Isles £20 million.

The Council agreed after pressure from the UK to increase the sluicegate prices for certain types of poultry which will be a particular help in the UK turkey sector.

The Commissioner announced that France had formally notified a package of state aids to the Commission on 14 February. The

Commission had opened proceedings against France for a contravention of the relevant Article of the Treaty of Rome.

The Commissioner also announced that proposals for a Regulation to remove the distortions of competition caused by different poultrymeat hygiene inspection practices would be ready in the near future.

The Commission presented its price proposals and they were commented on briefly by Ministers. A more detailed discussion will be held on 16 March.

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Gro Pl

Ref. A04312

PRIME MINISTER

Cabinet: Community Affairs

You might wish to inform the Cabinet of the main points arising in your talks with Mr. Tugendhat on 19th February and Monsieur Thorn on 20th February.

2. In the absence of the Minister of Agriculture, Fisheries and Food at the Agriculture Council, you might wish the Lord Privy Seal to report on contacts with the New Zealanders on butter imports (the Lord President's minute to you of 19th February refers).

3. Next week the Agriculture Council meets again on 2nd-3rd March; and there will be separate Steel and Energy Councils on 3rd March.

RTA

ROBERT ARMSTRONG

23rd February, 1981

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Lg. Prod

Prime Minister

The issue has, in effect, been postponed for a week or two.

Prod

PRIME MINISTER

NEW ZEALAND BUTTER

OD(E) discussed yesterday whether we should be prepared to take unilateral action if, because of French opposition, no acceptable long or short term arrangements can be agreed at next week's Agriculture Council for the continued import of New Zealand butter into the Community (the Minister of Agriculture's paper OD(E)(81)5 and the Chancellor of the Exchequer's letter to me of 17 February).

We agreed that if the Council cannot act because of a French veto, we should first encourage the Commission to make their own roll forward regulation. But because it is doubtful whether the Commission would be willing to take this course, for which the legal basis is anyway flimsy, we also reviewed the three options for unilateral UK action set out in the Official Note accompanying OD(E)(81)5. They are:-

(i) To continue to admit New Zealand butter at a reduced rate of levy,

(ii) To collect the full rate of levy, make the usual payment to Brussels but pay back to New Zealand the difference between the full and reduced levy, at a cost to the Exchequer of about £6.5 million a month,

(iii) To collect the full levy, pay the difference to New Zealand but withhold an equivalent amount from our contribution to the Community Budget.

All involve a breach of Community law but option (i) is the most likely to lead to an early challenge in the UK courts. Equally all three would involve either an immediate or a contingent increase in public expenditure (though not in all cases the PSBR), and some might require domestic legislation to provide cover for our action. Option (ii) has the disadvantage that we would in effect be taking over what should be a Community obligation. Option (iii), recommended by the Minister of Agriculture, probably involves less legal objection than option (i) but even that, involving withholding part of our contribution to the Community Budget would be recognised to be a major step that should not be lightly taken.

For these reasons the Sub-Committee explored the scope for unilateral action that would not bring us into immediate conflict with our Community obligations but would at the same time satisfy the overriding need to ensure that New Zealand's interests were safeguarded. We noted that sufficient stocks of New Zealand butter on which the reduced levy had already been paid were in the UK to cover a further 19 weeks supply. Since the levy is collected at the time of de-bonding, not at the time of arrival of the shipment, any refusal on our part to pay the full amount of the levy over to Brussels would not take practical effect until de-bonding took place. Provided the New Zealanders did not insist on de-bonding new shipments before present supplies were exhausted, the flow of butter to the UK market could therefore be maintained for several months without any of the options having to be invoked. Moreover, since levies are not due to be handed over for some weeks, we could anyway pursue option (iii) without acting illegally for some time. This in turn would postpone the initiation of any legal action by the Commission, giving us a breathing space to pursue a substantive agreement in the context of the price fixing negotiations.

We therefore decided to explain the situation immediately to the New Zealanders, making clear our determination to protect their interests and seeking their co-operation on the de-bonding issue.

If the New Zealanders are willing to go along with this line, the way will be open for us to follow the intermediate course I have described. If they are not, we shall need to decide quickly which of the options to adopt. The Minister of Agriculture will anyway need to make a clear statement in the House on his return from Brussels. We therefore instructed officials to look again into the relative merits of the three options for unilateral action, with particular reference to the possible need for domestic legislation, which we all realised would pose serious problems for the present Session.

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

S

SOAMES

19 February 1981

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

From the Minister's
Private Office

Michael Alexander Esq
Private Secretary
10 Downing Street
London SW1

18 February 1981

Dear Michael,

Thank you for copying to me your record of the discussion which the Prime Minister had with the Foreign Secretary, the Chancellor of the Exchequer and my Minister on Tuesday 17 February.

Your record suggests that the Prime Minister's summing up on the level of agricultural price increases and on the revaluation of the green pound was an agreed conclusion. My Minister has asked me to say that both issues will shortly have to be discussed with other Cabinet colleagues when the Commission's price proposals are published. He would therefore wish to regard the position as open until then.

I am copying this letter to Francis Richards (FCO), John Wiggins (HM Treasury) and David Wright (Cabinet Office).

Yours sincerely,
Kate

KATE TIMMS
Principal Private
Secretary

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

17 February 1981

The Rt. Hon. Lord Soames, GCMG, GCVO, CH, CBE
Lord President of the Council

Dear Christopher

IMPORTS OF NEW ZEALAND BUTTER : POST 1980 ARRANGEMENTS

I understand that you are to chair the meeting of OD(E) on Wednesday this week at which we are to discuss Peter Walker's paper. I am therefore writing to you on this occasion.

In his paper, Peter Walker argues that, if it is not possible either to reach an agreement on New Zealand butter at the forthcoming Agricultural Council or to get a further roll forward of the present arrangements, we should take unilateral action involving:

(a) The collection of the full rate of levy on New Zealand butter imports;

(b) the payment to New Zealand of the difference between this and the reduced rate of levy;

(c) the withholding of a corresponding amount from our contribution to the Community budget.

The purpose of this letter is to let you know that I am far from persuaded that now is the right time to go down the road of unilateral action of this kind.

Part of my concern stems from the public expenditure and legislative consequences of taking unilateral action.
..... I am attaching with this letter a note by my officials which sets out the consequences for public expenditure of the three different forms of unilateral action in greater detail than is done in the note by MAFF officials. Briefly, the course recommended by Peter Walker would involve an immediate increase in gross public expenditure of about £6.5 million a month. In the absence of offsetting savings, which I recognise it may be difficult to find from MAFF programmes, this money could only be met

/by calling

by calling on the contingency reserve. It is true that in the short-term t his would not affect the PSBR, since the payment to New Zealand would be offset by the inflow of additional levy revenue which we would withhold from the Community. But there would be a contingent liability to pay over the levey revenue to the Community in due course together with interest on the accumulated amount, unless we were able to ensure that any new arrangement negotiated was fully backdated to the point at which withholding commenced. Leaving this complication aside, however, I suggest we need to consider seriously whether we can really defend introducing a new piece of legislation in favour of New Zealand farmers at about the same time as we shall be publishing the Public Expenditure White Paper with the full details of the 1981-82 cuts and at a time when there are considerable pressures from our own farmers for national aids, which we shall be having to resist.

Quite apart from the public expenditure difficulties I suggest we need to consider whether immediate unilateral action on our part is sensible in relation to our longer-term negotiating strategy with the Community on other and wider issues. The form of action suggested by Peter Walker involves withholding own resources from the Community, albeit on a relatively small scale. We did not have recourse to withholding, despite considerable provocation from our Community partners, during the long drawn-out negotiations on the budget in 1979 and 1980. My view is that we should regard withholding as a major weapon which should only be used in circumstances of a complete breakdown in negotiations with our partners, when all other alternatives have been clearly exhausted. We may well need to have recourse to withholding or the threat of it during our negotiations later this year and next year on budget restructuring or on the prolongation of the 30 May agreement into 1982. But I believe it would be premature to have recourse to it in the present negotiating situation when we still have the support of the Commission and when the serious obstruction to a roll-over is coming only from the French. It is not clear that it would bring a negotiated settlement any nearer; on the contrary the French could well refuse to negotiate as long as we were acting unilaterally. Nor have we yet considered how we wish to play the negotiations on New Zealand butter in relation to this year's agricultural price fixing or to other immediate issues such as the Common Fisheries Policy. This again is a factor which points against any precipitate action.

/Given the

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Given the considerations above, my view is that for the time being we should defer taking any immediate unilateral action. Instead we should make a renewed and intensive effort to work for a substantive agreement through the normal processes of negotiations. In the meantime we would temporarily have to suspend the release of New Zealand butter from bond in order to avoid having to pay a higher rate of levy on it. Given the large quantities of de-bonded New Zealand butter already in the UK it is clear that this should create no serious difficulty either to UK consumers or to New Zealand producers. In taking this course we would have to make it clear to our Community partners that the refusal by the French to allow a further roll-over represented a breach of a major political commitment entered into by the heads of Government in 1975 and that failure to reach a rapid and satisfactory settlement for New Zealand would result in a serious Community crisis. If it seemed appropriate, we could make it clear that in the absence of such an agreement we might well be driven to take unilateral action. Provided we made it clear that we meant business in this way, there is no reason why the adoption of this approach should seriously weaken our negotiating hand. It will still be open to us to insist on a discussion at successive Agriculture and Foreign Affairs Councils. And we would have a breathing space in which to consider in a more deliberate fashion how we wished to play the hand in relation to other issues.

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

GEOFFREY HOWE

NEW ZEALAND BUTTER:
PUBLIC EXPENDITURE IMPLICATIONS OF POSSIBLE UNILATERAL ACTION BY THE UK

Note by the Treasury

Introduction

The note by MAFF officials on possible UK unilateral action (OD(E)(81)5) examines three different forms of possible UK unilateral action which might be taken if the 1980 arrangements for importing New Zealand butter at a reduced rate of levy cannot be rolled forward after 24 February:

(i) Continue to admit New Zealand butter at a reduced rate of levy;

(ii) Collect the full rate of levy, pay the whole over to Brussels but pay back to the New Zealand Government the difference between the full and reduced levy; or

(iii) Collect the full levy, pay the difference to New Zealand but withhold an equivalent amount from our contribution to the Community budget, probably in a special account.

This note sets out the implications for UK public expenditure, the PSBR and for domestic legislation.

Option (i)

2. Continuing to admit New Zealand butter at the existing reduced rate of levy would involve no immediate charge to public

expenditure or to the PSBR. There would, however, be a contingent public expenditure liability if at the end of the day the full levy had to be paid for any period in the past during which under Community law it was due but had not been collected. In such circumstances as these, when the butter had already been admitted, it would for all practical purposes be impossible to recover the amounts due from New Zealand. The potential cost would be some £6.5m per month. Interest would also be due to the Community on the sums paid in arrears at the highest rate of discount applied in any member state, this rate to be increased by a further ¼ per centage point each month. However, some part of this cost might be recoverable under the risk-sharing arrangements in the 30 May agreement.

Option (ii)

3. Under this option the full levy is collected and paid over to Brussels. But £6.5m a month would be repaid to New Zealand representing the difference between the full and reduced rate of levy. In addition public expenditure would need to score the additional payment above current provision made to Brussels ie £6.5m. Thus recorded public expenditure would rise by £13m in all and receipts under the levy by £6.5m leading to a PSBR increase of £6.5m. But as with option (i) part of the increase in payment to Brussels might be offset under the 30 May agreement. No provision is made for the payments to New Zealand in existing public expenditure programmes, and, in the absence of offsetting savings, they would represent a claim on the contingency reserve. Legislative power to make these payments would be needed, presumably by MAFF.

Option (iii)

4. As in (ii) there would be an immediate increase in public expenditure of £6.5m a month to provide for the payments to

New Zealand, which in the absence of offsetting savings, would have to be a charge on the contingency reserve. Legislation would be needed to cover the repayments. But since the levy would match the repayment to New Zealand plus the residual passed to Brussels this option has no immediate PSBR consequences. The difference between option (i) and this option is that the full levy is collected and the difference, £6.5m a month, would be held in a special account pending final agreement. As with option (i), therefore, it carries a contingency liability as well as the risk that the UK would be liable for interest to the Community on sums withheld. Compared with option (i) it also involves accounting and legislative complications - as explained in the following paragraph.

5. In this option legislative provision would be needed for the payments to New Zealand as in option (ii) and in addition legislative cover might be needed for withholding the sums due to the Community and for making payment of them into a special suspense account. (When the question of withholding own resources payments to the Community was discussed last year in the context of the negotiations on our budget contributions, it was agreed that legislative cover would be required) Paragraph 16 of the note by MAFF officials argues in relation to option (iii) that "it might help our position that the 1981 budget already allowed for the levy abatement on New Zealand butter". But this would in no way provide legal justification for withholding the full rate of levy from the Community. Under the own resources legislation the UK is liable to pay over the amounts due to be collected by way of agricultural levies <u>whatever these amounts turn out to be</u>. The fact that the figure written into the Community budget may be higher or lower makes no difference to this legal requirement. The provision in the 1981 budget for the levy abatement on New Zealand butter, is therefore of political and presentational significance only. As such, it is an argument which could be advanced with equal force in relation to option (i) above; it is not specific to option (iii).

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Master

File
Subject filed on
Euro Pol Pt 10

10 DOWNING STREET

From the Private Secretary

17 February 1981

Dear Francis,

The European Community: Outstanding Issues

The Prime Minister held a meeting this morning with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture to discuss our policy on a number of outstanding European issues. Sir Robert Armstrong and Mr. Franklin were also present.

The Foreign and Commonwealth Secretary said that he was concerned about the situation which seemed likely to arise in our relations with other members of the Community in the next six months or so. It seemed probable that we would be unable to reach agreement with the French on a Common Fisheries Policy before the French Election. It might well not be possible after the Election. The French had a tenable case both in law and in terms of their own self-interest. Nor did the French have any reason to settle on the question of New Zealand butter imports. As regards agricultural prices, they might well be prepared to adopt a rigid policy until the Election was out of the way and confront us thereafter. If none of these issues were settled before June, they would spill over into the UK Presidency and would have a very negative effect on the discussions about the restructuring of the Budget. We should almost certainly have incurred the hostility of the other nine members. A further effect would be to intensify anti-European feeling in this country with a consequent advantage to the Opposition.

There was therefore a good case for trying to find a solution to the whole complex of problems. There was not much prospect of success. But by making the effort we should at least have put ourselves in a position vis-a-vis the other members of the Community where we could be seen to have tried. A possible approach was summarised in the Foreign and Commonwealth Secretary's own minute to the Prime Minister of 16 February.

/ In his view

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his view there was no prospect of settling the price fixing at a figure of less than 10 per cent. The only attraction to the French of a package involving settlement of the fish issue, New Zealand butter, and agricultural prices at this sort of level might be that of timing. We should try to discover whether they would be interested.

In the subsequent discussion the following points were made:-

a) A rise in agricultural prices of 10 per cent would have a very damaging psychological impact in this country. At a time when the Government were trying to get workers to accept wage increases in single figures, it would appear that an increase in double figures was being given to the farmers. It would also be seen as a retreat from the Government's declared policy of refusing price increases for products in surplus. Moreover, once a figure was mentioned to the French, it would inevitably become a floor from which we would be driven upwards in the course of negotiation;

b) The Commission were likely to propose a price increase of 8 or 9 per cent. On no past occasion had the final price fixing been lower than the Commission figure. All the precedents suggested that the final figure would be at least 10 per cent. If we were driven to this as the result of a prolonged argument, it would be seen as a British defeat. Moreover, refusal to agree to an increase of this order would have a most damaging effect on farm production in this country and would endanger the Government's rural support;

c) Great pressure was building up for a revaluation of the green pound. It was clear that sooner or later this would have to be conceded. Any price increase above 5 per cent would have to be accompanied by a measure of revaluation in order to diminish the consequences for prices here. To put the point differently, the possibility of revaluing the pound enabled the Government to accept a price fixing at a higher level than would otherwise have been the case. Revaluation of the green pound would have the additional benefit of reducing the level of our contribution to the Community Budget through levies. (It was also pointed out, in this connection, that revaluation would have serious consequences for the farming industry);

d) There was a tendency to over-estimate the negotiating abilities of the French. They were worried and bruised by the defeats with which they had met last year and had lost some of their previous self-confidence. There was just a chance that they would settle rather than risk a long, drawn out engagement. In any case, if our approach was properly handled, it would have the effect of making them put their cards on the table. If their demands were outrageous, we should know where we stood;

e) The negative effects on public opinion in this country of an impasse would be considerably greater than those of a 10 per cent increase in agricultural prices. We should be prepared to take some risks in order to avoid this.

/ Summing up,

Summing up, the Prime Minister said that it was agreed that the rises in agricultural prices would not be less than the figure proposed by the Commission. A figure of, say, 8 per cent accompanied by a revaluation of the green pound would be tolerable. However in making an approach to the French, which it was agreed should be done at a meeting between Mr. Franklin and M. Achard, no figures were to be mentioned. The objective would be to establish, without commitment, whether the French were interested in looking at the problems of the Common Fisheries Policy, of New Zealand butter, and of the agricultural price fixing together and to see what kind of assurances might be obtained on fish and New Zealand butter. Having heard what M. Achard had to say, Mr. Franklin should report back.

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

Yours ever

Richard Alexander

cc Scottish Office
20/2

Francis Richards, Esq.,
Foreign and Commonwealth Office

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Euro Pol
Pt 7

DEPARTMENT OF TRADE
1 VICTORIA STREET
LONDON SW1H OET

TELEPHONE DIRECT LINE 01 215 5662
SWITCHBOARD 01 215 7877

From the
Minister of State
for Consumer Affairs

The Rt Hon Sally Oppenheim MP

NBPM
- 11/2

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

11 February 1981

CAP: 1981 PRICE FIXING AND GREEN RATE

John Biffen has seen Geoffrey Howe's letter to you of 20 January and has asked me to write to you on his behalf.

We recognise, of course, the pressures which the farming community is under and that this year's price fixing is but a preliminary skirmish in a difficult campaign. Nor are we unmindful of the delicate problems of timing any relative changes in fixed prices and the Green Rate.

Nonetheless we strongly endorse Geoffrey Howe's concern that the point will soon be reached when we must be seen to acknowledge that in a managed market in which farmers are also being sheltered from the effects of the strong Pound, the cost to the consumer and the rest of the economy is unbalanced.

The lowest possible price increase, as the first step towards the major objectives of cutting the cost of CAP and restructuring the Budget, must plainly remain the prime target. And if the increase can be held to 4 - 5 per cent, like Geoffrey Howe we should be content not to press for revaluation of the Green Pound this year. But if that cannot be achieved, we should certainly look for compensation by appropriate and early revaluation. Comparisons cannot be confined to farmers elsewhere in the Community: we must look at the non-farm sector and the impact on consumers.

contd/.....

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In his further letter to you of 5 February Geoffrey Howe suggested that before Ministers take your intended paper on the Commission's proposals officials should examine the material. We very much hope this can be arranged. As you suggest the Green Pound can be looked at in the same context. Naturally we should want our officials to join in that examination.

I am copying to the Prime Minister, Geoffrey Howe, other members of OD(E), the Secretaries of State for Wales, Scotland and Northern Ireland and Sir Robert Armstrong.

Yours Ever

Sally

SALLY OPPENHEIM

11 FEB 1981

LS. (2)

QZ 01850

CONFIDENTIAL Prime Minister

SIR ROBERT ARMSTRONG

c Mr Alexander

ANGLO-GERMAN CONSULTATIONS

I was due to go to Berlin tomorrow to continue the discussions with Dr Dieter Hiss on the basis of his non-paper about CAP reform and mine about Community Budget restructuring. However, he telephoned me on Friday to say that he was having to bow out of this exercise. A member of the Landeszentralbank in Berlin had been involved in the credit scandal and he, Dr Hiss, had unwisely appeared at a Press conference just before Christmas with the Senators who had subsequently resigned. He was now under fire from the Opposition and, given the present political situation, was too "exposed" to continue these confidential exchanges. He had spoken to Herr Lahnstein in the Chancellor's office (just before the latter's departure for the Franco-German summit) who would now be considering who the Chancellor might designate to continue this contact. It might be Dr Schulman, but someone would let me know.

2. This is unfortunate, but if his replacement is closer to day-to-day German thinking this could be an advantage. Apart from a meeting between the Treasury and their opposite numbers in Bonn later this week, we have not had the recent contacts which would give us an insight into German thinking on the current Community issues of major importance.

M D M FRANKLIN

9 February 1981

CONFIDENTIAL

Euro Pol

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

5 February 1981

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

Prime Minister
I fear that Messrs Howe + Walker are unlikely ever to agree on the degree of harm being experienced by farmers.
5/2

Dear Peter

CAP: 1981 PRICE FIXING

Thank you for your letter of 28 January. I accept that we should leave the question of the green pound revaluation as a matter to be decided in the light of progress on the CAP price review.

I would, however, like to make one comment on the argument in paragraph 3 of your letter. It was certainly not my intention to suggest that the British farmer was not contributing to the elimination of inflation in our economy. Farmers, as with manufacturing industry, have indeed suffered a reduction in the profitability of their business. High interest rates, rising costs of inputs, high energy costs and so on have affected most sectors of our economy. But in addition to these pressures manufacturing industry has also had to face the competitive loss caused by the strength of sterling, whereas the farmer has been protected by the green pound arrangements. On top of this most producers in the non-farm sector have to face prices determined on competitive world markets whereas the farmer enjoys the benefits of a managed market.

Moreover, I do not accept that the increase in the food price index and the rise in the non-food components of the RPI as a whole provide a relevant comparison. Apart from oil and oil-derived products the non-food element in the RPI includes a number of items such as housing and goods and services produced by the nationalised industries which are not part of private manufacturing industry. The three components in the RPI which most closely approximate to manufacturing output, and which therefore can reasonably be compared with food prices, are durable household goods, clothing and footwear and miscellaneous groups. If these three categories are taken together the weighted price increase during 1980 is 9.2 per cent, i.e. somewhat less than that of food prices.

I note that you will be putting some papers round on the CAP price fixing. It would be helpful to our discussion I think if officials could get together to examine these papers before they come to Ministers.

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

Yours
Geoffrey

GEOFFREY HOWE

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

From the Minister

Prime Minister
Mr Walker is sticking to his guns

The Rt Hon Sir Geoffrey Howe QC MP
Treasury
Parliament Street
London SW1P 3HE

29 January 1981

Dear Geoffrey,

CAP: 1981 PRICE-FIXING

Thank you for your letter of 20 January. I am glad to note that, if CAP prices for 1981-82 increase by no more than 4 to 5% - the figure for which, in my minute of 30 December to the Prime Minister, I agreed we should argue - you would not press for a revaluation of the green pound.

Whether there should be a revaluation if the price increase is greater than 4 to 5% is not, I suggest, something we can settle here and now in correspondence. We shall need to give proper consideration to the state of the UK farming industry and to analyse the effects of the Commission's proposals for prices and other measures, which should be available soon. I aim to put one or more papers to colleagues shortly on all this, and we can look at the green pound issue in that context.

I hope the last sentence of your letter does not imply that you feel farmers have not yet made a contribution to reducing inflation. During 1980, UK farm support prices rose by only about 6% on average (comprising the common price increase plus the delayed devaluation of the green pound in the cereals sector), which is well below last year's rate of inflation. And the food price index rose only 9.5% during the year compared with 16.6% for the non-food components of the RPI. I fail to see how other providers of goods and services can claim that farmers are being sheltered when, despite the strengthening of sterling, they raised their prices by so much more than farmers did. We have just published a White Paper which clearly illustrates the disastrous drop in farmers' incomes and increases in bank borrowing that have taken place since we came into office; a decline which must be stopped.

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

Peter

PETER WALKER

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SIR MICHAEL PALLISER'S
FILE COPY

cc. France: Anglo-French relations: Oct 79

~~Mr Alexander~~
No 10.

Private Secretary

ANGLO-FRENCH RELATIONS AND THE EUROPEAN COMMUNITY

1. During the course of my visit to Paris yesterday for a day of talks with the Secretary General at the Quai d'Orsay (Monsieur de Leusse) the French Foreign Minister saw me for about 35 minutes. M. de Leusse and Sir Reginald Hibbert were also present. It rapidly became clear that M. François-Poncet was seeing me for a specific purpose. After M. de Leusse had outlined the subjects he and I had been discussing (Africa, East-West relations, Middle East etc) M. François-Poncet commented a shade tartly that we seemed to have been discussing everything except the one subject which might really affect Franco-British relations, namely Europe and the matters at issue between us in the European Community.

2. He was in favour of our concerting views as effectively as possible, both bilaterally and in political cooperation, on the big foreign policy issues. But we should be under no illusion that this would effectively bring France and Britain closer together unless there was also greater agreement between us on matters such as the Common Agricultural Policy (CAP) and fisheries. The agreement reached last May and the way in which it had been achieved had been deeply resented in France: and the French Government was considered by French opinion to have conceded far too much. They were still under vigorous criticism for this, as he himself had just witnessed at a meeting of the Foreign Affairs Committee of the National Assembly, at which M. Couve de Murveille had been bitingly trenchant in his criticism (I am afraid I permitted myself a broad grin at this news, which only encouraged the Minister to more vigorous exposition of his case). It was now essential that there should be an early satisfactory settlement on fish in the run up to the agricultural price fixing which must also take satisfactory account of the needs of Europe's farming community; and thereafter reason and good sense must be shown in the debate about the CAP itself. In the agricultural price settlement it would be wholly unacceptable for prices to be held down

/unreasonably

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unreasonably low while at the same time Britain's farmers got a better price than anyone else because of our refusal to do anything about our MCAs(the Minister admitted in parenthesis that Mr Peter Walker seemed disposed to take a ''reasonable view'' in these matters). There was a lot more in the same vein, including a repetition of much of what M. François-Poncet had said to the Secretary of State at Chevening. He was clearly under instructions to convey a message to all and sundry: and I was yesterday's recipient.

3. I heard him out. But then replied that there was an element of mirror image to all this. Whatever view might be taken in France of last year's budgetary settlement, the fact was that British opinion at all levels had been outraged prior to the settlement by what was seen as the inequity to Britain built into the budgetary system; and the fact that on current policy, the CAP looked like absorbing something between 70 and 80% of the total budget. Had there not been last year's settlement, British indignation with the Community would have become unmanageable. Now, critical though the British were of the Community and its working, there was a good chance that they could be brought to realise the value of the Community to all its members. So far as fisheries were concerned, I could not believe that an early solution was impossible. It was certainly desirable that there should be no linkage between it and the agricultural price settlement (M. François-Poncet assented warmly; no linkage, perish the thought!), but I did not see how the price settlement could, as he had implied, be totally disassociated from the subsequent debate about the future of the CAP, not least because of the implications of excessively high agricultural prices for the 1% VAT ceiling on the budget. The Secretary of State had asked me to underline the importance of an early settlement on fish. I wished to ask M. François-Poncet a direct, if indiscreet, question. Would the French Government prefer to get an agricultural price settlement before or after the Presidential election? He replied without hesitation, that it would be politically unacceptable for the settlement to be deferred until after the election. French opinion would assume that the Government was trimming and prepared to make excessive compromises once the election was out of the way. The prices had to be agreed before the election.

/4.

4. The discussion continued in this way for quite a while. But the message was very clear: and part of it was that agreement on these two or three key subjects within the Community was what really mattered so far as Anglo-French relations were concerned.

Michael Palliser

23 January 1981 Michael Palliser

cc: PS/LPS
Lord Bridges
Mr Bullard
Mr Hannay
Mr Fergusson
ECD(I)
WED
Sir R Hibbert KCMG,
PARIS

THIS COPY FOR

CONFIDENTIAL

Euro Pol

f.g. Prnd.

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

20 January 1981

(2)

Prime Minister
The main point is in the penultimate paragraph, overleaf.
Prnd 20/1

The Rt Hon Peter Walker MBE MP
Minister for Agriculture
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON SW1A 2HH

Dear Peter

CAP: 1981 PRICE FIXING

I welcome the proposal in your letter of 12 January to put a detailed paper to the Commission on their reflections on the CAP, and agree with your proposed text. I believe it very important that we should take every opportunity to emphasise our view that a rigorous price policy is the key to CAP reform. Hence, while producer co-responsibility as a principle is acceptable it should be implemented through price measures rather than through general levies. This emphasises the importance of our sticking firmly to the 4-5 per cent figure for price increases in the coming round which I note from your letter of 30 December to the Prime Minister you are prepared to accept.

I note, too, that you qualified your position on prices with the condition that in arguing for an average increase of not higher than 4-5 per cent you were assuming there would be no revaluation of the green pound. As I have made clear in earlier correspondence I attach great importance in principle to bringing the rate for the green pound back to the market rate as soon as possible. The fact that we are maintaining a green rate well below the market rate is criticised rightly as denying the benefits of the strong exchange rate to the British consumer, and is tending to produce resentment in industries who have to face up to the problems caused by the current strength of sterling. I would have thought too that maintaining the current green pound rate will tend to undermine our negotiating position in the Community on the importance of price restraint.

/At the same time

CONFIDENTIAL

At the same time I do recognise that to hold the increase in CAP prices to 4-5 per cent and at the same time to revalue the green pound could impose unacceptable pressures on the agriculture industry. To the extent, therefore, that our agreed price objective can be secured I would not press for a green pound revaluation this year. The collorary is, of course, that if there is a higher increase in common prices we should use the scope provided by the rate of the green pound to achieve domestic price increases of no more than 4-5 per cent for the benefit of consumers in this country and as a contribution to our policies on the reduction of inflation.

I am sending copies of this letter to the Prime Minister, Members of OD(E), and to the Secretaries of State for Scotland, Wales and Northern Ireland and Sir Robert Armstrong.

GEOFFREY HOWE

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

From the Minister

NBPM yet

CONFIDENTIAL

The Rt Hon Lord Carrington KCMG MC
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

12 January 1981

Dear Peter

CAP: 1981 PRICE FIXING AND COMMISSION PAPER ON REFORM

I am enclosing a statement of our comments on the Commission's recent paper of "Reflections on the Common Agricultural Policy" (COM(80)800 Final). This text has been seen by officials and, subject to any points you or other colleagues may have, I should like it to go to Mr Gundelach under cover of the enclosed letter from me. I hope that it can be delivered on Tuesday before this week's Commission discussions. I am enclosing additional copies for UKREP to pass on to Christopher Tugendhat and Ivor Richard. I should be content too for copies to be given to the German and Dutch Commissioners as, I understand, has been suggested.

I would see some difficulties if the contents of this rather frank statement of our views were to leak out. I suggest, therefore, that when the paper is handed over, our representative should emphasise that it has been classified 'confidential' because it is intended for use internally within the Commission.

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

Yours

PETER WALKER

CONFIDENTIAL

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

From the Minister

Mr F O Gundelach
Vice-President of the Commission
of the European Communities
Rue de la Loi 200
1049 Brussels

12 January 1981

CAP PRICE FIXING

I am now enclosing a paper setting out our comments on the issues raised in the Commission's paper of "Reflections on the Common Agricultural Policy". This statement supplements the points made in the oral communication which our Ambassador conveyed to you last week. It is directed primarily at the issues touched on in your Reflections document and is not intended to be a comprehensive account of our position.

I realise that there are points in the paper with which you will not agree. Nevertheless, we thought it right to set out our thinking in this way so that you would be able to take it into account in the discussions on the preparation of the proposals. I hope that you will find it helpful.

PETER WALKER

CONFIDENTIAL

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COMMENTS BY THE UNITED KINGDOM GOVERNMENT ON THE COMMISSION'S PAPER ON "REFLECTIONS ON THE COMMON AGRICULTURAL POLICY". (COM(80)800).

1. The United Kingdom Government offers the following comments on the Commission's paper of 5 December in the hope that they will assist the new Commission in formulating its detailed proposals.

General approach

2. The United Kingdom Government considers that the Commission should have the following considerations particularly in mind in preparing its proposals on agricultural prices and related measures:-

a) In presenting their proposals in recent years, the Commission have argued that a rigorous price policy is essential so long as major market imbalances persist. A continuation of severe price restraint is necessary in 1981 if the progress made, particularly in bringing the budgetary cost under better control, is not to be dissipated. The regular production of surpluses which can only be sold at a loss is a misuse of resources. Moreover, the export of these surpluses at heavily subsidised prices damages the Community's relations with third countries who see their traditional markets being threatened. It also brings the CAP into disrepute with the general public who cannot accept that they should have to pay relatively high prices for foodstuffs which the Community is prepared to sell at far lower prices to other countries, including the Soviet Union.

b) The Budget for 1981 already comes close to utilising the whole of the Community's own resources. It is important that the Commission should take this fully into account in preparing their proposals, and that the Ministers of Agriculture should have clear guidance on the financial framework within which their decisions are to be taken. It is for this reason that we have suggested discussion of this at the next meeting of ECOFIN.

c) The Community has agreed on the need to find a solution to the problem of "unacceptable situations" by a restructuring of the budget. Permanent arrangements to replace the temporary agreement reached last May and to cover the interests of other Member States are clearly essential to the future development of the Community. The UK is glad to note that the Commission recognises that the proposals which it is to make on the CAP and its response to the mandate of 30 May must be consistent one with the other. In this regard, it is important that the Commission's CAP proposals should avoid exacerbating the underlying problem of the UK net contribution and should thus pave the way for the subsequent restructuring discussions.

The problems of the CAP

3. The Commission's paper identifies four main problem areas:-

a) the open-ended nature of the guarantees;

b) the benefits of large producers as compared with small producers;

c) regional disparities;

d) financial and budgetary criticisms.

4. Even a policy of severe price restraint will not allow the drastic adjustment of prices which would be needed to achieve a significant improvement in the problem of surpluses in the short term. The UK agrees that the price policy needs to be reinforced by changes in the CAP designed to limit the guarantee for those who continue to add to the surplus production.

5. On the points listed at (b) and (c) in paragraph 3 above, the UK accepts the need for special measures to assist producers who face geographical or structural problems. But we do not consider that it should or can be an aim of the CAP to remove "social inequalities" between larger and smaller producers or producers in different regions of the Community as a result of the operation of the common price

system. Article 39 of the Treaty sets out the principle that adequate agricultural incomes should be ensured through increased productivity, the rational development of production and the most efficient use of resources: and we note that the Commission's paper accepts that it is natural that agriculture should "follow industry in the trend towards larger and more rational economic units with better allocation of resources and economies of scale". Arrangements which would penalise only larger producers by directly or indirectly reducing their returns per unit of output would be inconsistent with these principles. Such arrangements involve arbitrary distinctions (as under the existing co-responsibility levy on milk) and conflict with the principles of common prices and non-discrimination set out in Article 40, paragraph 3 of the Treaty.

6. As to the discussion of the financial and budgetary problems, the UK is not convinced by the Commission's argument that the budgetary cost of the CAP is modest. This overlooks the fact that much the greater part of expenditure is devoted to the disposal of surplus production and is therefore wasteful. It is impossible to defend a situation in which consumers in the Community pay twice: first for the food which they require for consumption and second, as taxpayers, for the food which they do not require.

<u>The solutions</u>

7. In the discussion of solutions which should be rejected, we agree with the Commission's arguments against the "price cocktail" approach. The payment of unregulated national aids, as well as distorting competition, adds the surplus in the particular Member State and to the financial burden on the Community as a whole. Recent actions by one Member State to supplement the returns of its producers out of national funds underlinesthe dangers to the whole structure of the CAP. The UK considers that the Commission must give serious consideration to how the national aids provisions in the Treaty can be more effectively implemented. We note that the Commission do not exclude the possibility of direct income support in special cases. If such measures were to be introduced, they should not be related to levels of production and it would be essential to control them through regulations adopted at Community level.

8. The "two-tier financing" solution, in the form described in the paper, is in a different category because the Council would continue to determine the overall level of support under the CAP. The Commission express the view that two-tier financing would make it impossible to fix common prices. We do not, however, see why a properly constructed scheme should have this effect. The Commission's arguments are presented solely from the point of view of those Member States which make a net budgetary gain from the CAP.

9. We are not, however, advocating this approach. Instead we believe the Commission are right to seek solutions based on a development of the existing market mechanisms. But if the funds available for financing the CAP within the own resources system should prove to be insufficient to meet the cost of the policy, it would then be necessary to consider other possible solutions which could include one temporarily based on an element of national financing of the guarantee expenditure under agreed procedures.

Adjustments to market organisations

10. The Commission argue for the adoption of the principle of "producer co-responsibility" to be adopted as a permanent feature of the CAP. This is defined as requiring that "production above a certain volume to be fixed" ...." must be charged fully or partially to the producers". The important question is how this principle should be applied to particular commodities. We are opposed to the further development of the existing linear co-responsibility levy on milk and the proposed levy on 'A' sugar for the following reasons:-

a) The alternative to a linear levy is to set the support price lower by the amount of the levy. From the point of view of the producer, the two systems are identical; and the level of production will therefore be the same in each case. But the system based on the levy results in higher prices for consumers; depresses consumption, thus increasing the surplus; and raises the unit cost of surplus disposal. We estimate that, in the case of milk, nearly half the receipts from the levy are required to finance the higher cost of surplus disposal and the addition to the surplus arising from lower consumption.

b) A linear co-responsibility levy is essentially a device for raising additional revenue outside the system of own resources: the UK attaches great importance to maintaining the discipline imposed by the existing limit on own resources.

c) Any proposal for linear levy leads, as with milk, to demands for exemptions or lower rates for small and other special categories of producer. For the reasons given above, we do not consider that the price system should be differentiated in this way to advantage or disadvantage particular categories of producer.

11. We shall therefore wish to examine the proposals for implementing producer co-responsibility commodity by commodity when the Commission produce their detailed proposals. The following are preliminary reactions to the broad indications of the Commission's thinking given in the paper.

12. On sugar, we have explained our position on the co-responsibility proposals in discussion in the Agriculture Council. Our objections to linear co-responsibility levies apply to the proposed levy on 'A' sugar. We do not in principle oppose a regime which would be self-financing through co-responsibility levies. But we consider that the charge should properly fall on 'B' sugar.

13. On milk, we note the Commission's determination to implement a supplementary levy in accordance with the decision taken at the last price fixing. We support the need for a supplementary levy. We could not, however, accept a supplementary levy which simply took the form of an addition to the existing co-responsibility levy, or which sought to "take account of the advantages afforded by the use of cheap

imported feedingstuffs". This type of levy would discriminate between particular groups of producers in a way which would conflict with the common price system and with the principle, emphasised in the Commission's paper, that "the burden of co-responsibility should be borne by farmers without any distinction for one category with respect to another".

14. The supplementary levy should, in our view, be charged as directly as possible on the actual increases in production over the base level. The levy would thus act as a direct disincentive to further increases in production. This leads to the conclusion that the levy should take the form already proposed by the Commission last year. There would be problems over the possible diversion of milk supplies between dairies and producers in order to avoid the levy, and the administrative procedures will need to be worked out so as to limit this as far as possible.

15. It would, however, also be possible to implement the principle of co-responsibility for milk by adjusting the intervention prices in relation to the level of production, as the Commission propose for cereals. While ensuring that producers shared in the cost of disposing of the surplus, this would at the same time benefit consumers and, by stimulating consumption, reduce the surplus itself. It would also avoid the administrative difficulties of operating the supplementary levy.

16. On <u>cereals</u>, the Commission's paper refers to the possibility of either a levy or a price reduction relative to other products. There is an imbalance at present between the returns to cereal growers and to livestock producers. A reduction in cereal prices relative to those in the livestock sector would reduce the pressure for price increases for livestock producers and tend to encourage the feeding of Community cereals. We would not, therefore, favour a co-responsibility levy on cereals which would give rise to demands for an offsetting price increase. Moreover, the structure of the market would make it very difficult to collect a levy in most Member States. But we would favour an arrangement under which intervention prices were varied to

reflect the level of Community production, or the use made of intervention or the quantity of subsidised exports.

17. For processed fruit and vegetables, we would support the Commission's suggestion of setting a ceiling on the quantities eligible for aid. The base for establishing the ceiling figures would need to be chosen so as to avoid undue account being taken of recent large increases in production. We would be in favour of using production in 1978 as the base, as was done when fixing limits to the quantities of pears and cherries attracting aid.

18. The problem of the olive oil sector in relation specifically to the further enlargement of the Community has been fully explored in the ad hoc High Level Group. We agree with the suggestion of the Commission that there should be a ceiling on the quantities eligible for aid. In addition, however, we believe that consideration should be given to defining areas of olive production where no alternative crop possibilities exist. The production aid might then be concentrated on producers in these areas and paid in a way that would not encourage increased production. The intervention arrangements should be re-examined with a view to reducing the attraction of selling into intervention.

19. For beef, there is again a need to re-examine the present intervention system so as to ensure that the commercial markets operate effectively in the interests of consumers.

20. On tobacco, we support the Commission suggestion for restricting the amount of premiums paid on varieties in structural surplus. Consideration might also be given to the possibility of reducing intervention prices or even abolishing intervention altogether for varieties for which there is no consumer demand.

21. On wine, we are surprised at the implication in the document that the existing restraints on production are a sufficient reflection of the principle of producer co-responsibility. The Commission have

recently estimated that the underlying structural surplus is 15m hl, increasing at the rate of 2m hl per year: the structural programme, on the other hand, is expected to reduce output by only 5m hl over 7 years. Further measures are clearly needed. In addition, there is a need to rationalise the existing storage and distillation arrangements so as to make use of distillation early in the season at lower prices.

External policy

22. The Commission's paper argues for a new approach towards agricultural exports. The main means of surplus disposal is by export and export restitutions account at present for almost half of the budgetary cost of the CAP. The UK does not accept the view that the rapid increase in agricultural exports, achieved only at a heavy cost, is a "success" which should be further pursued as an aim of policy. Although the other objectives referred to in the first paragraph of the conclusions to the paper are contained in the Treaty, the achievement of a "fair share of agriculture in world trade and contribution of the agricultural sector to the Community trade balance" is not an objective to be found in the Treaty.

23. We consider that the existing mechanisms available at the Community level are in general adequate and have operated satisfactorily. We would see difficulty in supporting arrangements designed to enable the Community to enter into long term export contracts at subsidised prices. The primary aim of policy should be to maintain supplies at reasonable prices to meet the needs of Community consumers who should not be expected to share their claim to security of supply with third country consumers purchasing at subsidised prices.

24. The Community has been successful in finding increased outlets for its agricultural exports in the milk sector, while at the same time reducing substantially the unit costs of the export refunds. This has been achieved, however, only with the active co-operation of New Zealand,

the
/other main supplier of milk products to the world market. This demonstrates the practical importance of working with other third country exporters in world markets.

25. We welcome the emphasis placed by the Commission on the importance of honouring obligations to third country trading partners. This is essential to the Community's reputation as a responsible trading partner. We must recognise the contribution that third country suppliers make to growth of world trade. Their prosperity will affect the growth of world markets for non-agricultural goods and the export earnings of the Community from manufactured products.

26. In considering new import restrictions, it is also important to respect the Community's obligations to third countries which would be affected (including entitlement to GATT compensation) and to consider and weigh the balance of advantage including the wider trade effects. Although the case for negotiating restrictions on imports of manioc was accepted, the arguments for similar action on other substitutes would need to be examined case by case.

Structural policy

27. While the UK Government accepts the need for policies to deal with special regional difficulties resulting from structural and natural disparities, we do not agree that the CAP mechanism is an appropriate instrument for seeking to deal with particular problems of an essentially social character. These would seem best handled through social measures of a national character which can be attuned to local needs consistent with Community rules.

28. We consider that the main aim behind the various structural measures should be to enable producers who benefit to increase their productivity so as to enable them to compete effectively at relatively lower levels of support prices. The structural proposals now under discussion and any further proposals should be examined primarily from this point of view. A final judgement on the success of the new

regional development programme approach will not be possible for some years. It is, however, important that arrangements for monitoring progress in the interim should be made so that an assessment can be made of the effectiveness of the programmes as they are implemented. This information will be necessary to support the case for the new proposals which the Commission have in mind for submission to the Council.

Ministry of Agriculture, Fisheries and Food
January 1981

CONFIDENTIAL

VB

European Policy

MR. WRIGHT
CABINET OFFICE

1981 CAP Price Review

The Prime Minister has seen your minute of 6 January to me on this subject. She agrees that matters should proceed on the basis described in your minute and in its attachment.

MODBA

9 January 1981

TPL

CONFIDENTIAL

Copy

Subject filed on Euro Pol Com Budget Part 10 Sept 80

Ref: A03927

CONFIDENTIAL

PRIME MINISTER

Community Affairs

In the absence of both the Foreign and Commonwealth Secretary and the LordPrivy Seal, you may wish to mention that you have sent a message of congratulation to the Greeks on their accession to the Community. You may then like to invite Mr. Hurd (who will be attending Cabinet for this item as well as Foreign Affairs, in the absence of Lord Carrington and Sir Ian Gilmour) to report on the allocation of portfolios to Mr. Tugendhat (who is likely to retain the budget portfolio) and to Mr. Richard (who may get Social Affairs or part of the industrial portfolio).

2. The Chancellor of the Exchequer might be invited to report on the latest position with regard to the allegations of procedural irregularities in the adoption of the 1980 Supplementary Budget and the 1981 Budget. France, Germany and Belgium have limited their January contributions in respect of the Supplementary 1980 Budget to the amount accepted by the Council and are thus withholding payments towards the extra sum added by the Parliament. The French seem also to be disputing the validity of the 1981 Budget, but no payments under this head are due until February. The Commission have confirmed that they intend to implement the two Budgets as adopted by the Parliament, including the payment to the United Kingdom in the next few weeks of the amount due to us under the Financial Mechanism.

3. The Minister of Agriculture might be invited to report on the action taken, following your agreement in correspondence, to make clear to the new Commission our view that this year's CAP price fixing should not result in an average price increase of more than 4 to 5 per cent.

RA

(Robert Armstrong)

7th January 1981

CONFIDENTIAL

Ref: A03923

(1)

Prime Minister

CONFIDENTIAL

Agree to let things go forward on this basis for the moment?

MR. ALEXANDER

Yes [illegible]

[illegible] 7/1

1981 CAP Price Review

In my minute to you of 23rd December I suggested that it might be necessary for Ministers to consider collectively the question of influencing the Commission to ensure that they made a modest proposal for the agricultural price fixing in 1981.

2. In the event the Prime Minister and Mr. Walker have agreed in correspondence to the Chancellor's proposal that we should tell the Commission that we consider that the average price increase should be no more than 4 to 5 per cent. In view of the possibility that the new Commission will begin their discussions this week, officials have proposed and Mr. Walker has agreed upon instructions to Sir Michael Butler to convey our views urgently to Commissioner Gundelach, to the United Kingdom Commissioners and to the Cabinet of the President of the Commission. A copy of the instructions is attached.

3. As indicated in the last paragraph of the instructions, it is intended that a fuller statement of United Kingdom views including comments on the recent Commission paper on the CAP should be sent shortly in writing to Mr. Gundelach. This should ensure that United Kingdom views on all the likely major elements of any price proposals are clearly understood by the key Commissioners before decisions are taken on what the proposals should include. The Minister of Agriculture will circulate the text to his colleagues but it seems unlikely to require collective Ministerial discussion.

4. In the light of these arrangements it seems unlikely that a meeting to consider the CAP price fixing will be necessary until the Commission's formal proposals emerge, probably in February.

D.J. Wright

(D. J. Wright)

6th January 1981

Confidential

CAP: 1981 PRICE FIXING AND COMMISSION PAPER ON REFORM

1. Ministers have now agreed that we should take an early opportunity to try to influence the new Commission in its approach to the 1981 price fixing and its handling of the previous Commission's paper "Reflections on the CAP". We understand that there is to be a special meeting of the Commission on 7 to 9 January to consider the major issues facing them. You should put the following summary of HMG's views personally to Gundelach and the two British Commissioners and to Thorn's cabinet in advance of the Commission meeting:-

(a) It is essential to continue the policy of severe restraint on common price increases in 1981. This is necessary not only to avoid giving encouragement to surplus production but also to keep Community expenditure within the ceiling on own resources. We have made it clear that the solutions to the present budgetary problems, on which the Commission are due to produce their thoughts by June, must be found within the 1 per cent VAT ceiling. A costly price settlement would make it much more difficult for the Community to achieve a satisfactory outcome to the restructuring negotiations.

(b) For these reasons we think it would be wrong for the Commission to propose price increases averaging more than 4 to 5 per cent. Particularly stringent restraint will be necessary for the main surplus commodities.

(c) But price restraint alone will not solve the problem of increasing surplus production.

In some countries national aids are being given to push up surplus production, which then has to be disposed of at Community expense; and yields are also increasing fast. The disposal of surpluses accounts for ~~44~~ 75 per cent of the cost of the CAP, and milk alone accounts for 40 per cent. It is essential to penalise increases in milk production severely enough to deter them. We therefore consider that the supplementary levy, which the Council has already agreed should be introduced, must be based on the same principle as that proposed by the Commission last year; that is, it should take the form of a levy on increases in production compared with a base date. We recognise that there will be problems about implementing a scheme of this sort to which solutions must be found.

(d) We are opposed to the further development of linear co-responsibility levies. We see such levies as essentially a device for raising additional revenue outside the "own resources" system. They inevitably generate pressure for offsetting price increases. In so far as this occurs, they have no effect in reducing production but do depress consumption: consequently they add to, rather than diminish, the problem of surpluses. We should therefore oppose any proposed increase in the existing co-responsibility levy on milk and shall continue to resist the levy on 'A' sugar in the form at present proposed.

(e) We shall also resist any proposals which are designed directly or indirectly to reduce the market returns of larger producers only.

We would not consider this as consistent with a common price system; or an appropriate and efficient way of developing the CAP. The policy of price restraint will be difficult to justify to our own producers who have stronger claims for price increases than those in most other areas of the Community. We shall therefore need to resist any proposals which would discriminate against more efficient producers.

(f) The decisions at the price fixing must contribute to, and not conflict with, the restructuring of the budget with the aim of avoiding "unacceptable situations". We trust that the Commission will not put forward proposals which would have the effect of reducing the already low level of the UK's budgetary receipts from the CAP.

(g) We are also seriously concerned about the treatment of the Community's external policy in COM(80)800. For example, the proposals for long-term export contracts would seem to deprive Community consumers of the first call on Community production and the proposals on imports would raise considerable problems vis-à-vis the Community's trading relationships with third countries.

2. You should inform the Commission that the Minister of Agriculture will shortly be writing to Mr Gundelach setting out the Government's views on the Commission paper in more detail.

jfh

5 January 1981

Thank you for your letter of 31 December enclosing the original of a letter to the Prime Minister from Mr. Muldoon.

Best wishes for the New Year.

MODBA

Mr. B.J. Lynch,

1

PRIME MINISTER

Before Christmas, the Chancellor suggested that we should try to get the Commission to bring forward proposals for only a 4-5 per cent increase in agricultural prices in 1981 (Flag A). Peter Walker (minute below) has now agreed to this approach, despite the difficulties which it may cause domestically.

Mr. Walker suggests that he will have to be prepared to make it clear that he is assuming no Green Pound revaluation. He intends to circulate a paper to colleagues next week, dealing with more general proposals on CAP reform, but also touching on the handling of this specific proposal.

Mr. Walker also offers to circulate a paper for discussion in the third week in January on essential objectives and tactics for the price negotiations. This would be in advance of the emergence of the Commission's price proposals.

Content to await Mr. Walker's paper next week before deciding whether collective discussion is necessary on the handling of the 4-5 per cent figure - this appears unlikely?

Do you wish to take up Mr. Walker's offer of a preliminary discussion about the tactics for the price fixing in the third week in January?

Yes - if the price increase turns out to be higher, we shall have to consider revaluation of the green £.

MT.

2 January 1981

New Zealand High Commission

New Zealand House
Haymarket
London SW1Y4TQ
Telephone: 01-930 8422 Ext:
Telex: 24368

Reference

31 December 1980

MODBA to see O/R.

Mr M.O.B. Alexander,
Private Secretary,
Prime Minister's Office,
No 10 Downing Street,
London.

Note
Original filed with
Letter dated 12/12.

Dear Michael,

We conveyed to your office on 12th December the text of a message to the Prime Minister from Mr Muldoon, on the question of access for our butter after the end of this year. The original of Mr Muldoon's letter has now arrived and is enclosed.

Kind regards,

Brian

(B. J. Lynch)
Deputy High Commissioner

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

From the Minister

30 December 1980

PRIME MINISTER

1981 CAP PRICE FIXING

1. The Chancellor sent me a copy of his minute to you of 19 December on this subject.

2. The new Commission will undoubtedly be under pressure not only from the farmers' lobby but also from certain Governments to come forward with proposals for price increases much higher than we shall find acceptable. I agree, therefore, that it is important that we should seek to influence the new Commission's thinking before it finally takes decisions on its proposals early in the New Year.

3. We are unlikely to have much impact on the price increase proposed unless we are ready to take up a clear position as the Chancellor suggests. But an average increase of 4 to 5 per cent - with the clear implication that the increases for the main surplus commodities including milk and beef should be less - will be difficult to reconcile with the outcome of the Annual Review of the state of our own industry which will be revealed in the White Paper due to be published in January. Whatever we say to the Commission on prices must be expected to leak out. We have therefore to be prepared to answer questions about the line taken. In addition we face the political difficulty of justifying the final settlement if the price increase is significantly above what we have advocated.

4. Having said this, I agree with the Chancellor's view that we must advocate a low price increase and I accept his proposal that we argue for an average increase not higher than 4 to 5 per cent. If the point is raised, I should have to make it clear that we were not assuming any revaluation of the green pound. It will be necessary to decide how precisely this figure is presented to the Commission. I propose to deal with this in the paper that I shall be circulating to colleagues next week on the line we should take more generally with the Commission on its ideas for CAP reform.

Continued/

5. Before the negotiations begin, we shall of course need to take a view on what our detailed aims should be on prices and related issues. This must depend in part upon the content of the proposals that eventually emerge from the Commission. I plan to circulate a paper to colleagues discussing the issues with which we shall be confronted as a basis for deciding our essential objectives and the tactics to be followed. If colleagues would wish to have a preliminary discussion of this before the price proposals emerge, I shall be ready to circulate a paper along these lines for discussion in the third week in January.

6. I am copying this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Secretary to the Cabinet.

PETER WALKER

B/F 2/1/81

B/F with Mr Walker's comment if & when received.

A03890

MR ALEXANDER

1981 CAP PRICE REVIEW

The Chancellor of the Exchequer minuted the Prime Minister on 19 December to suggest that we should try to influence the Commission to bring forward proposals for only a 4-5 per cent increase in agricultural prices in 1981. This would be broadly consistent with the financial ceiling on the CAP expenditure in 1981 which we are trying to get agreed in the Ecofin Council and which implies a price increase of about $5\frac{1}{2}$ per cent. We cannot rely on a financial limit alone, however, since there is no precise link between price increases and their effect on the budget.

2. The Minister of Agriculture may contest the Chancellor's figure or suggest that we should not tie ourselves so specifically. But if unsatisfactory Commission proposals (and figures around 10 per cent have been widely canvassed) are on the table, it will be extremely difficult to bargain them down. Whatever outcome we may finally be prepared to settle for, there cannot be any doubt that we must initially press for only small increases so as to maximise the bargaining leverage we will then have.

3. In the early days of January the new Commission will be preoccupied with sorting out the allocation of portfolios etc. but there will be pressure for them to consider their agricultural price proposals immediately thereafter and to issue them before the end of January. We must therefore make our views known as early as possible. It seems likely that collective Ministerial discussion will be necessary. Given the absences of the Foreign and Commonwealth Secretary and the Lord Privy Seal, this cannot be before the week beginning 12 January. I should be glad to know whether the Prime Minister would wish this to be taken in OD or whether it should be dealt with at a meeting of OD(E) planned for 15 January.

4. Meanwhile officials are preparing a note to form the basis for our intervention with the Commission which would set whatever price objective for 1981 Ministers agree upon in the wider context of CAP reform, the budgetary constraints, the need to control surpluses and the market situation. It will also deal with the need for extra measures to control surpluses and the form which, in our view, these should take.

5. The Prime Minister may therefore wish to endorse the Chancellor's suggestion that officials should advise; and indicate whether, if Mr Walker wishes to contest the Chancellor's proposal, the matter should be discussed in OD or OD(E).

DJ Wright

D J WRIGHT

(seen in draft and approved by Sir. Robert Armstrong)

23 December 1980

CONFIDENTIAL

R H

Euro Pol

23 December, 1980

1981 CAP Price Review

The Prime Minister has read the Chancellor's minute of 19 December and she agrees that it would be highly desirable if we could hold the 1981 CAP price increase to 4 - 5%. She agrees that officials should now consider the matter on the basis proposed by the Chancellor.

I am sending copies of this letter to Paul Lever (Foreign and Commonwealth Office), Kate Timms (MAFF) and David Wright (Cabinet Office).

T. P. LANKESTER

A J Wiggins, Esq
HM Treasury

GB

CONFIDENTIAL

Euro Pol.

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary 22 December 1980

<u>Message to Mr. Muldoon</u>

The Prime Minister has seen and approved the message enclosed in your letter to me of 19 December. The message has already been despatched to Wellington.

I am sending copies of this letter to Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Paul Lever Esq
Foreign and Commonwealth Office

CONFIDENTIAL

SUBJECT

WELLINGTON DESKBY 212100Z

OPS 150

cc/Master OPS

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 244B/80

CONFIDENTIAL
DESKBY 212100Z
FM FCO 201600Z DEC 80
TO IMMEDIATE WELLINGTON
TELEGRAM NUMBER 228 OF 20 DECEMBER
NEW ZEALAND BUTTER:POST 1980 ACCESS.

1. GREATFUL YOU ARRANGE TO PASS THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO MR. MULDOON ASAP:-

THANK YOU FOR YOUR MESSAGE OF 12 DECEMBER AND FOR ARRANGING THROUGH YOUR HIGH COMMISSION FOR ME TO SEE A COPY OF YOUR LETTER OF THE SAME DATE TO PRESIDENT GISCARD.

YOU WILL ALREADY KNOW THE RESULT OF THE SPECIAL MEETING OF THE AGRICULTURE COUNCIL ON 18TH DECEMBER.IT IS EXTREEMLY FRUSTRATING THAT DESPITE ALL OUR EFFORTS,AND YOURS,IT HAS STILL NOT PROVED POSSIBLE TO REACH AGREEMENT ON A LONG TERM ARRANGEMENT.

HOWEVER,GIVEN FRENCH INTRANSIGENCE,ROLLING THE PRESENT ARRANGEMENTS FORWARD INTO JANUARY IS CLEARLY THE BEST WAY OF AVOIDING ANY PREJUDICE TO NEW ZEALAND'S POSITION PENDING THE FUTHER ATTEMPT TO REACH SETTLEMENT WHICH IS NOW NECESSARY.IT IS SATISFACTORY MEANWHILE THAT WE SECURED AGREEMENT THAT THE ROLL FORWARD SHOULD BE ON PRECISELY THE SAME BASIS AS THE EXISTING 1980 ARRANGEMENT PARTICLARLY ON QUANTITIES,TO WHICH I KNOW THAT YOU ATTACHED GREAT IMPORTANCE.

I FULLY APPRECIATE THE IMPLICATIONS FOR YOUR PRODUCERS OF THIS SITUATION,AND THE UNCERTAINTY IT WILL CAUSE.WE SHALL OF COURSE CONTINUE TO KEEP UP THE PRESSURE FOR EARLY AGREEMENT ON ACCEPTABLE ARRANGEMENTS FOR THE LONGER TERM.

IT IS AS IMPORTANT FOR US AS IT IS FOR YOU TO ENSURE THAT THE BUTTER ISSUE IS SETTLED ON REASONABLE TERMS.OUR PARTNERS,AND THE FRENCH IN PARTICULAR,KNOW THIS.

CARRINGTON.

CONFIDENTIAL

1.

Foreign and Commonwealth Office

London SW1A 2AH

Agreed MO

19 December 1980

Dear Michael,

Message to the Prime Minister from the Prime Minister of New Zealand

I enclose a draft reply to Mr Muldoon's message of 12 December. This takes account of the outcome of the 18 December Agriculture Council. But you will wish to check with Kate Timms that her Minister is content before submitting the text to the Prime Minister for her approval.

As you know, the time difference with New Zealand means that the message will have to be despatched during the weekend if it is to reach Mr Muldoon on Monday. The FCO Resident Clerk is aware of this and will be ready to take action if the text is approved.

I am sending copies of this letter and its enclosure to Kate Timms (MAFF) and to David Wright (Cabinet Office).

Yours ever

Roderic Lyne

pp (P Lever)
Private Secretary

M O'D B Alexander Esq
10 Downing Street
LONDON

Prime Minister.

MAFF are content.

If you are too, the Duty Clerk will send this off over the week-end.

MA
19.xii

CONFIDENTIAL

DSR 11 (Revised)

DRAFT: minute/letter/teleletter/despatch/note

TYPE: Draft/Final 1+

FROM:
THE PRIME MINISTER

Reference

DEPARTMENT: TEL. NO:

SECURITY CLASSIFICATION

Top Secret
Secret
Confidential
Restricted
Unclassified

PRIVACY MARKING

..................In Confidence

CAVEAT......................

Enclosures—flag(s)...........

TO: The Rt Hon R D Muldoon
Prime Minister of New Zealand

Your Reference

Copies to:

SUBJECT:

Thank you for your message of 12 December and for arranging through your High Commission for me to see a copy of your letter of the same date to President Giscard.

You will already know the result of the special meeting of the Agriculture Council on 18 December. It is extremely frustrating that despite all our efforts, and yours, it has still not proved possible to reach agreement on a long term arrangement.

However, given French intransigence, rolling the present arrangements forward into January is clearly the best way of avoiding any prejudice to New Zealand's position pending the further attempt to reach a settlement which is now necessary. It is satisfactory meanwhile that we secured agreement that the roll forward should be on precisely the same basis as the existing 1980 arrangements, particularly on quantities, to which I know that you attached great importance.

I fully appreciate the implications for your producers of this situation, and the uncertainty it will cause. We shall of course continue to keep up the pressure for early agreement on acceptable arrangements for the longer term.

It is ~~a national interest~~ important for us as it is for you to ensure that the butter issue is settled on reasonable terms. Our partners, and the French in particular, know this.

1A

Prime Minister

This is the expected minute on CAP. Content that officials should consider on the basis proposed at x? TL 22/12

Yes - If we can hold it to 5% - it will be a great help. MT

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

PRIME MINISTER

1981 CAP PRICE REVIEW

The new Commission takes office on 5 January and its first important task will be to make proposals for the 1981 Farm Price Review. We are committed to a policy of severe price restraint and it is vital to our interests that the Commission do not recommend a high increase. There are no precedents for bargaining down the Commission's proposal.

2. They will be subject to pressures from agricultural interests for a settlement in double figures. The onus is very much on HMG to offset those pressures by effective advocacy of severe price restraint. To stand any chance of an outcome satisfactory to HMG, we shall need, in my view, to make it clear to the new Commission that our position will be that the price increase should not be higher than an average of 4 - 5 per cent.

x 3. I suggest that it would be helpful if officials could now consider this matter and advise on how best to make such representations to the new Commission.

4. I am sending copies of this minute to the Foreign and Commonwealth Secretary, the Minister of Agriculture and the Secretary to the Cabinet.

G.H.

(G.H.)

19 December 1980

ADVANCE COPIES   FRAME EXTERNAL   4.5...XEROX COPIES
FRAME AGRICULTURE

DESKBY 190830Z.   Euro Pol

FCO

P.S.
PS/LORD PRIVY SEAL
PS/PUS
MR BULLARD
MR HANNAY
LORD BRIDGES

RESIDENT CLERK
HD/ECD(E)(4)
HD/NEWS
HD/ERD
~~HD/SED~~
HD/.ECD(1)
HD/.SPD.

PLUS FCO
Mr Fanckrace(ECD(I))
Mr Kinchen(ECD(E))

DAFS (1)   WOAD (1) - 1
DANI (1)   WOAD (ABER) - 1
~~PLUS CODS~~

MR GRAHAM HARRISON
ODA

No 10 - Mr Alexander

CABINET OFFICE

MR M D M FRANKLIN
MR D M ELLIOTT
MR A M GOODENOUGH
Mr S. Wentworth
Mr J. Rhodes

D.O.T.
PS/MIN + 8
MR R GRAY
Mr Vinall ~~MR S ABRAMSON~~
~~MS E DRACE~~

H.M. TREASURY

SIR K COUZENS
MR ASHFORD
Mr Roberts

M.A.F.F.

SIR B HAYES
Mr D.H. Andrews

CONFIDENTIAL
FRAME AGRICULTURE
FRAME EXTERNAL
DESKBY 190830Z
FM UKREP BRUSSELS 181915Z DEC 80
TO IMMEDIATE F C O
TELEGRAM NUMBER 5664 OF 18 DECEMBER 1980
AND TO PRIORITY WELLINGTON
INFO SAVING COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN ATHENS

COUNCIL OF MINISTERS (AGRICULTURE): 18 DECEMBER 1980

NEW ZEALAND BUTTER

SUMMARY

1. AGREEMENT REACHED TO ROLL FORWARD THE EXISTING ARRANGEMENTS (PRICE AND QUANTITY) FOR ONE MONTH, TO 31 JANUARY 1981. DISCUSSION ON ARRANGEMENTS TO APPLY AFTER THAT TO BE TAKEN UP IN THE JANUARY AGRICULTURE COUNCIL. THERE WAS NO ATTEMPT TO MAKE THE ROLL FORWARD PART OF A PACKAGE.

DETAIL

DETAIL

2. THE CHAIR (NEY) ASKED DELEGATIONS TO SPECIFY THE TERMS UNDER WHICH THEY WOULD BE PREPARED TO NEGOTIATE ON THE THREE ELEMENTS OF WHAT HAD BEEN SEEN AS A POSSIBLE PACKAGE - NEW ZEALAND BUTTER, SUGAR AND BEEF. IN THE EVENT, NO LINKS WERE MADE AND MINISTERS PREFERRED TO TAKE THE SUBJECTS SINGLY. THIS TELEGRAM REPORTS ONLY NEW ZEALAND BUTTER. SUGAR AND BEEF ARE COVERED IN MY TELNO 5665.

3. FRANCE (MEHAIGNERIE) SUGGESTED, WITHOUT PREAMBLE, A ROLL-OVER OF THE EXISTING ARRANGEMENTS, FOR JANUARY 1981 ONLY, WITH A TONNAGE FOR THAT MONTH OF 7,500, I.E. THE EQUIVALENT OF 90,000 TONNES ON AN ANNUAL BASIS. THEY MIGHT MOVE A BIT ON THAT FIGURE BUT INSISTED ON SOME DEGRESSIVITY FROM THE MONTHLY EQUIVALENT OF THE CURRENT 1980 FIGURE OF 95,000 TONNES, I.E. 7,920 TONNES. IN A SERIES OF EXCHANGES WITH GUNDELACH, MEHAIGNERIE ARGUED THAT THE COUNCIL'S COMMITMENT NOT TO REGARD THE SPECIAL DEAL DONE FOR THE LAST FEW MONTHS OF 1980 AS A PRECENDENT MUST BE RESPECTED. EVEN 7,500 TONNES AT THE CURRENT PRICE FOR JANUARY WOULD GIVE NEW ZEALAND AN INCREASED RETURN IN ECU COMPARED WITH THE ARRANGEMENTS REIGNING FOR THE EARLIER PART OF 1980. GUNDELACH WAS EXTREMELY ROBUST IN INSISTING THAT A PROLONGATION MEANT JUST THAT. BOTH THE CURRENT PRICE AND THE CURRENT QUANTITY MUST APPLY FOR THE MONTH OF JANUARY. ANYTHING ELSE WOULD BE QUOTE DISHONEST UNQUOTE. HE QUOTE DEEPLY REGRETTED UNQUOTE THE COUNCIL'S FAILURE TO SETTLE THE LONG TERM ARRANGEMENTS. GERMANY (ROHR) AND MR WALKER BACKED UP FIRMLY.

4. HAVING ASCERTAINED DURING THE LUNCHBREAK FROM THE NEW ZEALAND AMBASSADOR (ANSELL) THAT, IN THE PRESENT CIRCUMSTANCES, THE NEW ZEALAND GOVERNMENT COULD ACCEPT A ONE MONTH ROLL FORWARD, BUT ATTACHED GREAT IMPORTANCE TO THE QUANTITY, MR WALKER APPLIED PRESSURE TO THE FRENCH. THE COMMISSION WERE WORKING ON THE SAME LINES, AND AN APPROPRIATE MIX OF THREAT AND BLANDISHMENT BROUGHT ABOUT MEHAIGNERIE'S ACQUIESCENCE. THE OUTCOME WAS A REGULATION (COPY BY HAND OF DIXON, (MAFF) EMBODYING THE 7920 TONNES FIGURE: INCLUDING IN THE QUOTE WHEREASES UNQUOTE USEFUL REFERENCES TO PROTOCOL 18 AND TO THE COMMISSION'S ORIGINAL PROPOSAL, WHICH REMAINS ON THE TABLE, AND OTHERWISE HAVING THE EFFECT OF REPLICATING FOR THE COUNCIL ON 19/20 JANUARY THE POSITION OBTAINING THIS DAY. FRANCE PUT A UNILATERAL DECLARATION IN THE MINUTES RECORDING THAT THEIR AGREEMENT WAS WITHOUT PREJUDICE TO THE ARRANGEMENTS TO APPLY FROM 31 JANUARY.

FCO ADVANCE TO:-

FCO - PS/S OF S, PS/PUS, PS/LPS, HANNAY, SPRECKLEY, FITZHERBERT, FAULKNER, KINCHEN

CONFIDENTIAL

Original filed on: -
Euro PM : Budget : Pt 10.

Ref. A03834

PRIME MINISTER

Cabinet: Community Affairs

The Chancellor of the Exchequer might be invited to report on the outcome of the Finance Council on 15th December, at which he put up a marker for discussion of CAP expenditure at the Council's next meeting. He will also mention that we expect very shortly to receive the first advance payment under our budget refund. He may also be able to report on discussions between the Council and the European Parliament aimed at getting the 1981 budget adopted.

2. The Lord Privy Seal (who attended) might report on the 15th-16th December Foreign Affairs Council. The Council adopted a useful declaration calling for a fresh Community initiative on United States textiles and the energy price differential; agreed a 13 per cent share of the Regional Fund for Greece, with a satisfactory though reduced share for the United Kingdom; reached agreement on food aid for Poland; and formally nominated the members of the new Commission, though without settling the allocation of Vice-Presidencies.

3. You will want the Minister of Agriculture to report on the 15th-16th December Fisheries Council, which sat through Tuesday night but broke up without agreement mainly because of French intransigence on access. As a result the earlier compromise proposal on quotas was withdrawn, though there remains clear scope for agreement on a 36 per cent share for the United Kingdom if the access problem can be resolved. No date was fixed for the next Fisheries Council, it being left to the Presidency to decide how to take matters forward.

4. The Agriculture Council meets on 18th December to tackle New Zealand butter again: and the Fiscal Council on 22nd December.

ROBERT ARMSTRONG

17th December, 1980

CONFIDENTIAL

cc. Euro Pol: Budget: Pt 10

Mr Alexander. Mr ...

The PM agreed (on (i)) that the Chancellor should meet her and Mr Walker.

[illegible] 17/12

PRIME MINISTER

Meeting with the Chancellor: 1500, 17 December

I understand the Chancellor will raise the following:-

(i) CAP. The Chancellor has heard on the European grapevine that Mr. Walker has been going around the capitals saying that the UK would be content with farm price increases next year of up to 12%. The Chancellor is, rightly, most concerned about this - if true. It has been made quite clear to Mr. Walker that we should be going for something in single figures; and the so-called "intermediate" approach which the Chancellor recently put forward, and which you endorsed, would involve an increase of 5 to 5½%. (Michael's contacts in the Foreign Office confirm that Mr. Walker has been reported to be canvassing a figure of 12%, though they don't have any evidence in writing.)

(ii) Enterprise Zone for the Shotton area. You have asked that this should be considered urgently. The Chancellor's initial reaction is to oppose it strongly on the grounds that it would dilute the EZ concept.

The Chancellor is meeting the nationalised industries chairmen on Thursday. It would be helpful if you could stiffen the Chancellor up for this meeting: in particular, he needs to emphasise that the Government expects their industries to achieve settlements in line with the pay assumptions in their EFLS, and that we do not want higher settlements financed by higher charges this year.

I have arranged for Brian Griffiths to come in with Peter Middleton next Monday to discuss monetary policy. I don't know whether you would like the Chancellor to come too. He might find it educative.

/ You

You have the latest unemployment figures - in the hot box. I suspect they will continue getting worse for some months. But as the Financial Times Editorial today argued, there are some signs that we are nearing the bottom of the recession. One interesting point which is emerging is that the recession has been largely caused by industry's massive de-stocking: final demand in terms of consumer expenditure and exports has held up pretty well, and investment (a relatively small component of GDP) is not down all that much. This could be taken to suggest that the recession has been caused to a considerable extent by industry taking an excessively pessimistic view of what was going to happen to final expenditure - which has not been borne out by the facts. You might like to have a word with the Chancellor about all this, and the prospects for the upturn.

Another question to be discussed, if there is time , is what we say publicly between now and the Budget on the monetary strategy. Fortunately, the Opposition have not really got onto this; but there is at present rather a big hiatus between what is happening on the monetary front, and what the strategy says ought to be happening. It may be that we simply have to blur our response until decisions have been taken on the new monetary target, etc.

16 December, 1980.

CONFIDENTIAL

Prime Minister
To note line in para 2 - but I fear our chances of success are not v. high.
MAP 16/XII

FCS/80/177

SECRETARY OF STATE FOR AGRICULTURE, FISHERIES AND FOOD

Agriculture Council: 18 December

1. Thank you for your letter of 11 December setting out the line which you propose to take at the Agriculture Council on 18 December on a possible package involving access for New Zealand butter, sugar and other elements. I understand that there has been discussion between officials of the Departments most directly concerned.

2. I am sure none of us would dissent from your view that we cannot agree to a plan such as you describe in your letter which leaves the quantities of New Zealand butter which may be imported in 1982 and 1983 to be settled later. There are various formulations of a three year agreement which could be acceptable. However the essential elements must be:-

(a) a quantity specified for 1981;
(b) an arrangement for 1982 and 1983 which will ensure that nothing can be done to prevent at least 90,000 tonnes being admitted in each of those years;
(c) a firm review provision for access after 1983.

I assume that such an outcome would be acceptable to New Zealand. In the event of agreement on such an arrangement, I agree that we could accept the arrangements for sugar which you describe, pressing hard to obtain agreement that to the extent that we have to concede a levy on A quota, it is used only to top up any shortfall on the B quota levy.

/We

CONFIDENTIAL

We also need to ensure that we do not have to make further concessions in the sugar package to obtain a higher UK B quota. If the link with New Zealand butter fails, then you will need to maintain our opening position, including opposition to any A quota levy.

3. I understand that it is likely that the structures proposal may not form part of the package. But if it does we should want, as you say, to ensure a satisfactory outcome on the scheme for Northern Ireland and the Western Isles while following the line already agreed on investment aids.

4. On manufacturing beef it is clearly important not to weaken our support for the Commission's proposal and create further difficulties in relations with Australia. If manufacturing beef is settled on its own you should only agree a figure less than 60,000 tonnes if the Commission has led the way down. But if it emerges as a necessary element of a satisfactory New Zealand package, then I do not think we could stand out for a figure higher than 50,000 tonnes.

5. In the event of no agreement on butter there will be considerable advantage in keeping up the pressure in the Council for an early decision for a long term agreement and not, in effect, to give the French the one year agreement they are seeking and face us with linkage at the end of 1981. We should therefore go for roll over arrangements leaving it open to us to maintain pressure in the Council and to choose how and whether to link it with eg next year's price fixing or some other issue. It will also be important that the quantity provided for does not prejudice the final agreement.

/Given

6. Given the practical difficulty of arranging a discussion in OD(E) before the Council meeting I hope that you and other members of OD(E) will agree that this provides an acceptable basis on which to proceed.

7. I am sending copies of this minute to UK members of OD(E), the Secretary of State for Industry and Sir Robert Armstrong.

C

(CARRINGTON)

Foreign and Commonwealth Office

16 December 1980

CONFIDENTIAL

BK.

Euro Pol
Cap

File

Euro Pol

10 DOWNING STREET

From the Private Secretary

MR FRANKLIN
CABINET OFFICE

Anglo-German Summit:
Meeting with Dr. Dieter Hiss

The Prime Minister has seen and taken note of your minute of 10 December to Sir Robert Armstrong about your meeting with Dr. Hiss.

I am sending a copy of this minute to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

15 December 1980

KRB

CONFIDENTIAL

CAP
NBPA
16/12

2 BB3

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

15 December 1980

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

NBPM
Rush

Dear Peter

CONTROL OF COMMUNITY EXPENDITURE ON THE CAP

Thank you for your letter of 11 December. I fully take your point that establishing a financial guideline only takes us part of the way and that the choice of means of implementing it is as important as the guideline itself. I do not think that it would be realistic to expect that the Finance Council will be able to agree in detail on implementing measures. This would be to take over the role of the Agricultural Council itself. But I certainly have it in mind in presenting the case for a limit to make clear our views that it should be observed by genuine economies not by increases in general producer levies passed on to consumers through price increases.

I also share your concern about the recent French measures. I cannot expect that the French Finance Minister will endorse a Resolution which explicity or implicity criticises his Government's policies. But in explaining what I would regard as a genuine means of observing a financial limit I shall refer back to the agreement reached last year on a prudent price policy. I shall make the point that the effectiveness of such a policy will be reduced if individual member states take national measures which stimulate production and distort competition.

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

Geoffrey

GEOFFREY HOWE

HS

15 December 1980

Thank you for your letter of 15 December enclosing a copy of a letter from yomm Prime Minister to President Giscard. Mr. Muldoon's letter will be read with close attention here.

MICHAEL ALEXANDER

B.J. Lynch, Esq.

H8

Euro Pol

CAP

CC MAFF
CO

10 DOWNING STREET

From the Private Secretary

15 December 1980

Further to my letter to you of 12 December I now enclose a copy of a letter which Mr. Muldoon has sent to President Giscard. You will no doubt wish to take this into account in considering the Prime Minister's reply to Mr. Muldoon's letter to her.

I am sending copies of this letter and enclosure to Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Paul Lever, Esq.,
Foreign and Commonwealth Office.

H8

New Zealand High Commission

New Zealand House
Haymarket
London SW1Y 4TQ
Telephone: 01-930 8422 Ext:
Telex: 24368

Reference
B86/4/9/4

15 December 1980

Mr M.O.B. Alexander,
Private Secretary to the Prime Minister,
10 Downing Street,
LONDON.

Dear Michael,

We forwarded on Friday a letter to the Prime Minister from Mr Muldoon, on our butter question. I have now enclosed a copy of the text of a letter from our Prime Minister to President Giscard d'Estaing on the same subject.

Kind Regards,

Brian

(B.J. Lynch)
Deputy High Commissioner

Enclosure

TEXT OF LETTER FROM NEW ZEALAND PRIME MINISTER, RT HON. R.D. MULDOON, CH, TO PRESIDENT GISCARD D'ESTAING OF FRANCE, 12 DECEMBER 1980

Mr President,

As I am sure you are aware, the Community has still not reached a decision on the Commission's proposals for continued access for New Zealand butter after the end of this year. Since I raised this matter with you in my message of 4 November, two meetings of the Council of Agriculture Ministers and one meeting of the Foreign Ministers' Council have discussed the matter without resolving it. France has continued to decline to agree to an arrangement of more than one year's duration.

The reason offered is that no long-term arrangement can be contemplated until the future of the Common Agricultural Policy is clarified in the re-examination which is scheduled for next year. I cannot forbear from noting that not so long ago it was New Zealand which was being requested by the Community to enter into a long-term arrangement to allow the establishment of a common market for sheepmeat. New Zealand agreed to do so and that arrangement has already had an adverse effect on the price received for New Zealand lamb. Now, however, when we seek continuing access over a reasonable further term for a product of great importance to our export earnings, France prevents agreement.

In my earlier message I set out the reasons why New Zealand considers the question of a continuing and secure arrangement to be so important. I shall not reiterate them here. I wish simply to request that on a matter of such significance to New Zealand, France reconsider its position with a view to reaching agreement before the end of the year on a solution which provides the security and certainty of access we need.

With great respect,

Sincerely,

(Signed) R.D. Muldoon

BF 19.12.80

10 DOWNING STREET

From the Private Secretary

12 December, 1980.

New Zealand Butter

I enclose a copy of a further message which the Prime Minister has received from Mr. Muldoon about post-1980 access for New Zealand butter. I should be grateful to receive in due course a draft reply which the Prime Minister might send to Mr. Muldoon.

I am sending copies of this letter and its enclosure to Kate Timms (Ministry of Agriculture, Fisheries and Food) and David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

Paul Lever, Esq.,
Foreign and Commonwealth Office.

12 December, 1980.

I am replying on the Prime Minister's behalf to your letter of 12 December.

The letter from the Prime Minister of New Zealand enclosed with your letter has been brought to the Prime Minister's immediate attention.

M. O'D. B. ALEXANDER

His Excellency The Hon. L.W. Gandar

NEW ZEALAND HIGH COMMISSION

NEW ZEALAND HOUSE · HAYMARKET · LONDON SW1Y 4TQ
Telephone: 01-930 8422 Telex: 24368

From the High Commissioner
H.E. The Hon L.W. Gandar

12 December 1980

The Rt. Hon. Margaret Thatcher,
10 Downing Street,
London.

Dear Prime Minister

I am attaching the text of a letter from the Prime Minister, the Rt. Hon. R. D. Muldoon, which was cabled to us today. The original letter will be forwarded to you as soon as it is received.

Yours sincerely

Leslie Gandar

SUBJECT

PRIME MINISTER'S PERSONAL MESSAGE SERIAL No. T242/80

CONFIDENTIAL

TEXT OF A LETTER TO THE RT. HON. MARGARET THATCHER
FROM THE RT. HON. R. D. MULDOON - 12 DECEMBER 1980

"Dear Margaret,

Thank you for your message of 17 November, and for the continuing efforts you, Peter Carrington and Peter Walker have made to secure a satisfactory result on the matter of post-1980 access for New Zealand butter. I can assure you that they are greatly appreciated here.

It is disappointing, to say the least, that despite Peter Walker's sterling efforts, the Agriculture Council failed to resolve the question this week on the basis of the Commission's proposals and the matter will now be carried over to the Special Council on 18 December. France's public explanation of its position, that the Community should not enter into an arrangement of more than one year's duration, in view of the restructuring of the agricultural and financial sectors which the Community has to tackle next year, exhibits a selective approach. Not so long ago it was New Zealand which was being requested by the Community to enter into a long-term arrangement to allow the introduction of a Common Market for sheepmeat, many features of which were incorporated especially with a view to protecting France's concerns.

The French public explanation for their position is, therefore, logically faulty. It is increasingly clear, however, that France seeks advantage in other areas from adopting such an intransigent position on New Zealand butter and I understand that there have been indications that France might be prepared to move in the direction of the Commission's proposals in return for concessions by Britain in other fields.

Naturally New Zealand is far from being disinterested in whether such an arrangement is possible, but we are not in a position to assess whether French objectives would require the sacrifice of significant British interests. Nor would it be our business to make such an assessment. I can only say that if acceptable ways can be found to move the French towards agreement to a solution which provides the security and certainty of access which we need, then New Zealand would be grateful indeed.

In the interval before the Special Council we will continue to make every effort to persuade the French to move and I intend to make a further approach to the President to try again to secure a recognition of the importance of the question to New Zealand.

With kindest regards,

Sincerely,

Rob Muldoon."

Prime Minister
Wellington
New Zealand

T242/80

12 December 1980

Dear Margaret,

Thank you for your message of 17 November, and for the continuing efforts you, Peter Carrington and Peter Walker have made to secure a satisfactory result on the matter of post-1980 access for New Zealand butter. I can assure you that they are greatly appreciated here.

It is disappointing, to say the least, that despite Peter Walker's sterling efforts, the Agriculture Council failed to resolve the question this week on the basis of the Commission's proposals and the matter will now be carried over to the special Council on 18 December. France's public explanation of its position, that the Community should not enter into an arrangement of more than one year's duration, in view of the restructuring of the agricultural and financial sectors which the Community has to tackle next year, exhibits a selective approach. Not so long ago it was New Zealand which was being requested by the Community to enter into a long-term arrangement to allow the introduction of a common market for sheepmeat, many features of which were incorporated especially with a view to protecting France's concerns.

The French public explanation for their position is, therefore, logically faulty. It is increasingly clear, however, that France seeks advantage in other areas from adopting such an intransigent position on New Zealand butter and I understand that there have been indications that France might be prepared to move in the direction of the Commission's proposals in return for concessions by Britain in other fields.

Naturally New Zealand is far from being disinterested in whether such an arrangement is possible, but we are

/not

Right Honourable Margaret Thatcher, M.P.,
Prime Minister,
10 Downing Street,
London,
UNITED KINGDOM.

not in a position to assess whether French objectives would require the sacrifice of significant British interests. Nor would it be our business to make such an assessment. I can only say that if acceptable ways can be found to move the French towards agreement to a solution which provides the security and certainty of access which we need, then New Zealand would be grateful indeed.

In the interval before the special Council we will continue to make every effort to persuade the French to move and I intend to make a further approach to the President to try again to secure a recognition of the importance of the question to New Zealand.

With kindest regards,

Sincerely,

Rob Muldoon

Euro Pol.

Ref: A03802

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NBPM yes

Mr — 13/xii

MR. ALEXANDER

Agriculture Council: 18th December: New Zealand Butter

The Agriculture Council on 8th - 9th December failed to agree arrangements for importing New Zealand butter post 1980 but there remains the possibility of an agreement being reached on 18th December embracing sugar and possibly other elements. I attach for information copies of:-

(a) Mr. Walker's letter of 11th December setting out the line which he proposed taking; and

(b) the draft reply which is being put to the Foreign Secretary following inter-departmental discussions by officials.

D J Wright

(D.J. Wright)

12th December 1980

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DRAFT LETTER TO THE MINISTER OF AGRICULTURE BY THE FOREIGN AND COMMONWEALTH SECRETARY

Thank you for your letter of 11 December setting out the line which you propose to take at the Agriculture Council on 18 December on a possible package involving access for New Zealand butter, sugar and other elements. I understand that there has been discussion between officials of the Departments most directly concerned.

I am sure none of us would dissent from your view that we cannot agree to a plan such as you describe in your letter which leaves the quantities of New Zealand butter which may be imported in 1982 and 1983 to be settled later. There are various formulations of a three year agreement which could be acceptable. However the essential elements must be:-

(a) a quantity specified for 1981;

(b) an arrangement for 1982 and 1983 which will ensure that nothing can be done to prevent at least 90,000 tonnes being admitted in each of those years;

(c) a firm review provision for access after 1983.

I assume that such an outcome would be acceptable to New Zealand. In the event of agreement on such an arrangement, I agree that we could accept the arrangements for sugar which you describe, pressing hard to obtain agreement that to the extent that we have to concede a levy on A quota, it is used only to top up any shortfall on the B quota levy. We also need

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to ensure that we do not have to make further concessions in the sugar package to obtain a higher UK B quota. If the link with New Zealand butter fails, then you will need to maintain our opening position, including opposition to any A quota levy. // I understand that it is likely that the structures proposal may not form part of the package. But if it does we should want, as you say, to ensure a satisfactory outcome on the scheme for Northern Ireland and the Western Isles while following the line already agreed on investment aids.

On manufacturing beef it is clearly important not to weaken our support for the Commission's proposal and create further difficulties in relations with Australia. If manufacturing beef is settled on its own you should only agree a figure less than 60,000 tonnes if the Commission has led the way down. But if it emerges as a necessary element of a satisfactory New Zealand package, then I do not think we could stand out for a figure higher than 50,000 tonnes.

In the event of no agreement on butter there will be considerable advantage in keeping up the pressure in the Council for an early decision for a long term agreement and not, in effect, to give the French the one year agreement they are seeking and face us with linkage at the end of 1981. We should therefore go for roll over arrangements leaving it open to us to maintain pressure in the Council and to chose how and whether to link it with e.g. next year's price fixing or some other issue. It will also be important that the quantity provided for does not prejudice the final agreement.

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Given the preactical difficulty of arranging a discussion in OD(E) before the Council meeting I hope that you and other members of OD(E) will agree that this provides an acceptable basis on which to proceed.

I am sending copies of this letter to members of OD(E), Keith Joseph and Sir Robert Armstrong.

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

(2)

From the Minister

Prime Minister

To note point at X below.

Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
HM Treasury
Parliament Street
LONDON
SW1

11 December 1980

CONTROL OF COMMUNITY EXPENDITURE ON THE CAP

I am of course content that, following the Prime Minister's decision recorded in her Private Secretary's letter of 4 December, you should raise at next Monday's ECOFIN Council the possibility of setting financial guidelines for the level of CAP expenditure in 1981; and that when this is discussed in substance at the January Council you should go for a limit whereby the cost of the CAP should not increase over 1980 at a rate greater than the rate of increase of own resources. I am still rather apprehensive that a limit of this kind will intensify the pressures from other member countries in favour of new co-responsibility levies to raise the money to pay for the price increases they want, and strengthen their demands for savings we would not like, for example on the UK butter subsidy. But the same is in principle true of any firm financial limit, and I accept that our general stance on re-structuring makes it difficult for us to refrain from seeking one

I am however very concerned about another aspect of this. We sometimes fall into the trap of regarding Community expenditure on agricultural support as the only support that matters. But national aids can have enormous effects, both in distorting the terms of competition between member countries and in promoting ever bigger surpluses for the Community somehow or other to finance. We have just had a dramatic example of this. The French already spend £2.5 billion on agriculture, including nearly £600 million on subsidised credit alone (more than my Department's entire budget of £555m.!). This week they have announced new aids to agriculture worth nearly £400 million, mainly in the form of direct income aids paid as a percentage on turnover and of additional interest subsidies. This kind of thing makes nonsense of a common agricultural policy, frustrates any coherent attempt to get surplus production under control and puts our own industry at an immense and growing competitive disadvantage.

I hope therefore that when you raise the possibility of a financial limit on CAP expenditure in ECOFIN, you will say also that it is important to tackle surplus production at its source, that huge national aids to farmers are adding greatly to

/the problem, and that it is ..

the problem, and that it is essential to have disciplines designed to ensure fair terms of competition and prevent national aids from undermining sensible common policies.

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

PETER WALKER

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

From the Minister

CONFIDENTIAL

The Rt Hon The Lord Carrington PC KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Whitehall
London SW1

11 December 1980

Dear Peter,

I wrote to you on 1 December about a possible deal with the French at this week's Agriculture Council to cover both New Zealand butter and sugar. Ian Gilmour replied on 3 December agreeing to the line I had proposed.

This week's Council got bogged down on discussions with the Greeks about their accession and there was no time to complete discussion of the other items. It was therefore agreed that the Council would meet on 18 December. I agreed with Mehaignerie, the French Minister, that we should try to put together a package on New Zealand butter and sugar with possibly structures and manufacturing beef. I am therefore writing to seek agreement on the line I should take.

no/ On New Zealand butter, the French continued to insist in the Council on a duration of more than one year. All the other member states were prepared to agree to three years. There was no serious discussion of quantities, though the Irish still said they wanted the amounts reduced. However, the President concluded that there was no possibility of progress and asked the Commission to produce a text allowing a roll-over. This text was not discussed.

In my bilateral discussion with Mehaignerie he started by saying that it was impossible for him to move from one year. However, after talking to Villain, the Commission Director-General who was with Mehaignerie when I talked to him, he said he would be ready to consider a three year agreement with the 1981 quantity and arrangements the same as for 1980 (95,000 tonnes). The quantities and arrangements for 1982 and 1983 would be settled later - after the Presidential Election and no doubt in the context of budget restructuring.

No plan of this sort could possibly be acceptable to us. We must either have the figures for the three years agreed or the first year quantity repeated for the following two years in default of agreement or a system of rolling over the 1980 quantity month by month until agreement is reached or one that lays down the quantity for the first year and, in default of figures for the two succeeding years, includes an unbreakable and unamendable formula to determine them. Any settlement would, of course, also need a suitable review provision to carry on New Zealand access beyond the end of the three years.

On sugar, the Commission would clearly be ready to increase our B quota from 5 to 10 per cent if we are ready to move on levies. This quantity is desirable and satisfactory for our industry. The main issues outstanding are the levies, the Italian demand to continue national aids and the French demand to have the Metropolitan French quota and that for the DOMs amalgamated. These last two issues will undoubtedly be sorted out if the levy issue is satisfactorily settled. We have agreed that I could accept an A quota levy as a topping up to B quota levy. My understanding is that we could probably persuade the Commission to modify their proposal to a 1½ per cent levy (instead of 2½ per cent). I think this would be perfectly justified in the context of a satisfactory deal on New Zealand butter of the sort set out above. I should continue to press the Commission to provide for the 1½ per cent A levy (or as a fall back a proportion of it) to be a topping up of the B levy rather than, as in the Commission's proposal, the initial charge. There is resistance to the 37½ per cent B quota levy and I should be ready to see this reduced to 30 per cent in a generally reasonable settlement. I am attaching a table showing the financial consequences of various combinations of A and B levies.

I would expect others (particularly the Italians and possibly the French) to want to try to include the structures package in any deal on 18 December. Our aim must be to secure the two proposed schemes for Northern Ireland and the Western Isles of Scotland. There are still a number of points of difficulty on the Northern Ireland proposals. If structures does in fact become part of a wider package, I should want to insist that all these were satisfactorily resolved.

The French Minister is also concerned to settle the manufacturing beef balance sheet without conceding the 10,000 tonnes (the difference between 50,000 tonnes and 60,000 tonnes) on which the Australians were given a commitment by the Community in the MTNs. Without the 10,000 tonnes, there will be a row with Australia and the possibility of retaliation. I shall not want to oppose the Commission on the total quantity because of our relations with the Commission and Australia and because another result would be a breach of the Community's obligations. It is also in our interest to get a high proportion of the total allocated to so-called A system beef, which is what our own processing industry mainly needs.

I am not over-optimistic that it will be possible to reach a satisfactory package along these lines at the meeting on 18 December. Much will depend on whether the French will be ready to move on New Zealand. Tactically, it will be very important to ensure that the New Zealand issue continues to be seen as a Community, not a United Kingdom issue on which the responsibility to find a solution rests with the Commission. But I am sure that we should make a serious effort to reach a deal with the French. It cannot be in our interest to have the New Zealand issue still in play at the time of the price fixing and during the budget restructuring exercise when we shall be in the Presidency. We have no obvious leverage on the French other than their strong desire to get sugar (and the structures package) settled.

I should add that, if New Zealand butter is not settled on 18 December, the need for a roll-over of the present arrangement would arise. The Council accepted that this would be necessary though the French made it very clear that they would be difficult about the precise terms on which this was done. The Commission have produced a draft proposal which has not been discussed. The New Zealand Government have told us that, in the event of a roll-over, their concern would be that the 95,000 tonnes was maintained intact. The Commission's text is satisfactory from this point of view, but I would fully expect the French to veto it.

Both the New Zealanders and ourselves have been told by Gundelach that he does not feel that he has the power to produce a Commission regulation that would enable us to continue to import New Zealand butter without paying the full third country levy in the absence of a Council resolution. Whatever method we used to continue to let in New Zealand butter either by not collecting the levy or refunding it to New Zealand would lead us rapidly into a financial collision with the Commission and leave us vulnerable to challenge in the English Courts by an aggrieved trader. An early settlement of the issue is therefore very important.

I am sending copies of this letter to members of OD(E), Keith Joseph and Sir Robert Armstrong.

Peter

PETER WALKER

MAXIMUM INCOME FROM PRODUCTION LEVIES (£m)

A levy \ B levy	20%	25%	30%	32½%	35%	40%
0%	113·89	142·48	170·87	185·04	199·33	227·91
½%	126·21	154·79	183·18	197·40	211·64	240·22
1%	137·96	166·54	194·94	209·31	223·40	251·98
1½%	150·21	178·79	207·14	221·35	235·65	264·23
2%	162·52	191·10	219·50	233·46	247·96	276·54
2½%	174·28	202·86	231·25	245·48	259·71	288·29

UK SHARE

	20%	25%	30%	32½%	35%	40%
0%	5·32	6·62	7·98	8·65	9·28	10·58
½%	6·74	8·04	9·40	10·07	10·70	12·00
1%	8·10	9·40	10·76	11·43	12·06	13·36
1½%	9·53	10·83	12·19	12·86	13·49	14·79
2%	10·89	12·19	13·55	14·22	14·85	16·15
2½%	12·25	13·55	14·91	15·58	16·21	17·51

NOTES

--- COVERS REFUNDS AVERAGING 100 ECU PER TONNE (TOTAL COST = 166·4 M. ECU. £102·94)

═ COVERS REFUNDS AVERAGING 200 ECU PER TONNE (TOTAL COST = 332·8 ECU. £205·89)

B quotas UK at 10%
Ir 10%
Rest no change

Euro Pol.

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PRIME MINISTER

Community Affairs

1. You might wish to inform the Cabinet of any Community points that arose in the Anglo-Irish Summit on 8 December.

2. The Minister of Transport might report on the 4 December Transport Council, which formally adopted a directive providing for the reciprocal recognition of driving licences but failed to agree on an increase in international road haulage permits sought by the United Kingdom among others.

3. The Foreign and Commonwealth Secretary might wish to report on his talks in The Hague on 5 December with Mr van de Klaauw, the incoming Dutch President of the Council.

4. You will wish the Minister of Agriculture to report on the 8/9 December Agriculture Council, which established that 8 member states could accept the Commission's revised proposal on New Zealand butter - three years starting at 95, 000 tons - but foundered on French insistence on a one-year deal linked to the timetable for budget restructuring. A special Council will be convened on 18 December when an attempt will be made to put together a package deal covering New Zealand butter, sugar quotas, beef imports and structural measures. The French might accept a three-year arrangement for New Zealand, with 1981 quantities fixed at the 1980 level (95, 000 tons) and 1982-3 quantities to be settled in 1981. This would give the French a link with budget restructuring. There may be need for an OD(E) discussion before the special Council on 18 December.

5. Next week the following Councils meet: 12 December Environment, 15 December Finance, 15/16 December Foreign Affairs, 15/16 December Fisheries. Since the Fisheries Council may reach some agreement on quotas and access, you may wish Mr Walker to give Cabinet colleagues some indication of the line he will be taking, as discussed with you.

M D M FRANKLIN

10 December 1980

Weekend Box. (2)

Prime Minister

QZ 01874

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SIR ROBERT ARMSTRONG

c Mr Alexander

ANGLO-GERMAN SUMMIT: MEETING WITH DR DIETER HISS

1. I had a further meeting with Dr Hiss yesterday. We agreed that our main purpose should be to follow up the recent discussions between the Federal Chancellor and the Prime Minister on the CAP and budget restructuring. He confirmed that, on the German side, this contact was not known to any German Minister other than the Chancellor.

2. On the CAP he asked for confirmation of what the Prime Minister had said about co-responsibility levies on milk. I confirmed that the Government was firmly in favour of a super levy applied to additional production but was strongly opposed to a further linear increase in the co-responsibility levy itself. We had two fundamental objections. The first was that higher levies on producers inevitably led to pressure for higher prices: thus the practical effect was to increase the price to consumers, to raise the cost of disposing of surpluses and to have no disincentive effect on production. Secondly, collecting additional levies merely provided the Community with more money to spend on surpluses. He said the Germans fully endorsed the second point and he agreed that past experience justified our doubts on the first. But he could not be sure that the German Government would be willing to resist any linear increase. On the other hand, the Germans entirely agreed with us on the need to introduce the super levy as an effective means to curb additional production. Provided the levy was set at a penal rate, it would not bring in much money. How would it operate in practice? I said we assumed that each dairy would be required to collect the super levy on all milk deliveries which exceeded those during an earlier representative period. He thought it would be essential that the super levy should be applied to each individual producer and that even co-operative dairies should not be allowed to go in for pooling. An individual milk producer who delivered less than his quantum might be free to "sell" the difference to another producer but the same right should not extend from one dairy to another.

3. I in turn asked what Chancellor Schmidt had meant in suggesting that there should be a "limit on the amount of money the Commission could spend" on price guarantees. He said that once estimated expenditure on a given product had been allocated in the Budget that would be a cash limit and it would be up to the Commission to find ways and means of living within that figure even if production increased or world market prices fell. He was not entirely excluding supplementary estimates or transfers between one commodity and another, but these would be a last resort.

4. This led on to a discussion of financial control within the Commission. He explained that, in the German Government, the Finance Minister had a suspensive veto on all expenditure proposals which could only be overruled by the Chancellor himself (which in practice scarcely ever happened). Could not the same power be given to the Commissioner responsible for the Budget and the President of the Commission? I said this was an attractive idea but it would involve a substantial shift in the power structure of the Commission and probably require a Council decision. We agreed to reflect on the idea further. We also discussed again the case for synchronising the agricultural price fixing with the Community budget so that the Council and the European Parliament would take its main agricultural and financial decisions at the same time. At present, the European Parliament tends to vote in favour of financial stringency at the time of the budget discussion and in favour of the farming community at the time of the agricultural price fixing. We agreed that in the present European Parliament there was a reasonable chance that the desire to control agricultural expenditure and make room for other policies would prevail over the farming lobby.

5. We then reviewed what the Chancellor had told the Prime Minister about the principles governing the future development of the CAP as agreed between SPD and FDP. I said we fully agreed with the need for the policies to reflect more clearly the principles of the market economy;

we entirely agreed on the need for a more cautious price policy aimed at restoring a balance between supply and demand; and we agreed that for certain products like beef there was room for less rigid intervention mechanisms. As regards producers bearing more responsibility for financing surpluses, I said this was open to different interpretations. If it meant, as with sugar, that the Community would only guarantee support for a limited quantity and producers would have to sell any excess at world market prices we would have no difficulty. But if it meant more linear co-responsibility levies we would have difficulty for the reasons I had explained. As regards cereals, I thought that the Community could fix the quantity which should enjoy the full intervention price. If that quantity were exceeded, the price paid for intervention could be correspondingly lowered. For administrative reasons, it would not be possible to apply this to individual producers. There could be an advance payment e.g. of 80 per cent of the price with a balancing payment at the end of the year when production figures were finally known. However, I stressed that these changes were no substitute for a rigorous price policy and there was no point in insisting on them if the result was to lead to higher prices.

6. As regards third country trade, Dr Hiss said that the German Government's view was that there should be no further restrictions placed on agricultural imports into the Community (although they did not object to voluntary restraint for manioc). I said we shared this view, and had been disturbed to see how much the Commission's latest paper on the CAP appeared to be biassed in favour of French views e.g. on the need for a Community export policy. I doubted whether the French seriously believed that the Community would e.g. unbind the duty-free entry on soya beans. But they would use our unwillingness to agree to such a move to justify both the need to maintain export subsidies and the need to discriminate against e.g. milk producers who used imported feeding stuffs.

7. Lastly, we of course agreed with the Federal Government on the 1 per cent ceiling and the need to limit the growth in agricultural expenditure to less than the rate of growth of own resources. Dr Hiss said the Chancellor had been

somewhat disappointed at the failure of the recent European Council to endorse the 1 per cent ceiling. I said that we on the other hand had welcomed President Giscard's firm insistence on its retention. It was hardly surprising that the smaller countries were unwilling to prejudge the budget restructuring negotiations but we thought there was a greater degree of realism e.g. in Italy and the Netherlands that the 1 per cent ceiling would not be raised. The important thing was to ensure that the Commission, when it reported, made restructuring proposals which stayed within the 1 per cent limit.

8. We then talked about the possibility of a ceiling on agricultural expenditure in 1981. I said we were thinking of raising this at the next Ecofin Council with a view to getting discussion in January under the Dutch Presidency. Given the tight budgetary position, 1981 was a good moment to get the idea accepted. I explained the kind of limit we had in mind and gave him the figuring which showed that, excluding Greece, a proposal to limit the rise in agricultural expenditure to no more than the percentage rise in own resources would produce approximately 280 meua. He agreed that, to be effective, there would need to be not just a general expression of the need for financial caution but a quantitative guideline laid down in advance which the Agriculture Council would have to respect. He thought Herr Matthoeffer would be sympathetic to this approach and might well be willing to support the Chancellor of the Exchequer. We agreed that Sir Kenneth Couzens might explore further with Herr Schulman (this has been followed up). However, Dr Hiss wondered whether it would be enough to leave it to Finance Ministers alone. There was after all only one Council. I said it would be splendid if such a limitation could be laid down by the European Council but it was inconceivable that President Giscard would be willing to take up a position in March which appeared to be against the interests of French farmers. He agreed. We thought that one possibility would be for the matter to be discussed by the Finance Ministers and then endorsed by the General Affairs Council thus ensuring that the decision was binding on national Cabinets.

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9. Finally Dr Hiss asked whether I had any questions about the Chancellor's statement that, in the restructuring exercise, the Germans would be arguing for a ceiling on both net contributions and net receipts. He did not know how much thinking had been done on this idea in the Chancellery but promised to let me know. He thought there would be difficulty if a member state did not know at the beginning of the year how a given policy decision would effect it and, once the limit had been reached, no longer had any financial interest in Community policies. The Prime Minister had not responded to what Chancellor Schmidt had said on this subject. Did that mean we were not interested? I said that we certainly were interested but realised that the approach would create major difficulties for the smaller countries and did not wish to be seen as an advocate when many of our partners were suspicious that the United Kingdom was calling into question some of the fundamentals of the Community. However, the fact of the matter was that Community policies did transfer budgetary resources and in the case of the Irish for example they were of major economic significance. Our argument on the UK budget contribution had always been that, as a country with below average GNP, it was absurd for us to be a major net contributor. The same problem might arise for other member states. It might not have the financial resources to achieve a fully satisfactory redistributive budget but at least the Community could not ignore the consequences. The objection to an absolute ceiling could perhaps be met by some device to damp down the effects rather than to eliminate them altogether. The present UK budget arrangements contained an element of "risk sharing".

9. At the end of our discussions we considered how best to proceed. We agreed that we should not get involved in short-term operational issues and that we might concentrate on the two questions of CAP reform and the scope for a better redistributive budget. He suggested that, in order to focus our next discussion, we might produce "non papers" on a purely personal basis. He volunteered to produce such a paper on the CAP if I would elaborate some ideas on the budget. We agreed to exchange such notes during January and to meet again at the end of January or early February.

M D M FRANKLIN
10 December 1980

FCO	RESIDENT CLERK	PLUS FCO
PS PS/LORD PRIVY SEAL PS/PUS MR BULLARD MR HANNAY LORD BRIDGES	HD/ECD ( ) (4) HD/NEWS D HD/.... HD/.... HD/....	Mr Faulkner ECD(I)
CABINET OFFICE MR M D M FRANKLIN MR D M ELLIOTT MR A M GOODENOUGH MR S WENTWORTH MR J RHODES	**D O T** Mr VINALL.	**PLUS OGDS** DAFS Mr CRAMOND. DANI Mr JACK. WOAD(I) J. I. DAVIES (WOAD ABER) A. L. RICHARDS
H M TREASURY SIR K COUZENS MR D R ROBERTS	**M A F F** SIR B HAYES MR D H ANDREWS +9 Copies See list Below.	~~No~~ TO Downing Street

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FRAME AGRICULTURE

DESKBY 100830Z

FM UKREP BRUSSELS 100530Z DEC 80

TO IMMEDIATE F C O

TELEGRAM NUMBER 5467 OF 10 DECEMBER

AND TO PARIS,

INFO COPENHAGEN, THE HAGUE, ROME, DUBLIN, BONN, WELLINGTON,

INFO SAVING ATHENS.

A Deal may be in the making: but it will be for N.Z. to make its views clear.

Mul

COUNCIL OF MINISTERS (AGRICULTURE) 8/9 DECEMBER 1980

ORGANISATION OF BUSINESS : N.Z. Butter.

1. IN THE MARGINS, MR WALKER PUT IT TO MEHAIGNERIE THAT THE ALTERNATIVE BEFORE FRANCE AND THE UK WAS A CONTINUING SLANGING MATCH ON NEW ZEALAND BUTTER AND ON SUGAR IN THE RUN-UP TO THE PRESIDENTIAL ELECTION, OR SETTLEMENT ON BUTTER, SUGAR AND STRUCTURES TAKEN TOGETHER. BOTH COUNTRIES AND ITALY HAD GAINS TO MAKE FROM THE STRUCTURES PACKAGE (INCLUDING BUDGETARY GAINS IF THE GERMAN PROPOSAL COULD BE DETACHED). ITALY COULD BE SQUEEZED TO GIVE WAY ON SUGAR TO GAIN STRUCTURES, UK COULD GIVE A LITTLE ON A QUOTA LEVIES TO GAIN NEW ZEALAND BUTTER AND (IN PARTICULAR FROM THE STRUCTURES PACKAGE) NORTHERN IRELAND AID MEASURES, AND FRANCE WOULD GAIN ON STRUCTURES (INCLUDING DOMS) AS WELL AS SUGAR FOR A

NORTHERN IRELAND AID MEASURES, AND FRANCE WOULD GAIN ON STRUCTURES (INCLUDING DOMS) AS WELL AS SUGAR FOR A CONCESSION ON NEW ZEALAND BUTTER WHICH WOULD NEVER TOUCH THE FRENCH MARKET.

2. MEHAIGNERIE WAS RESISTANT, SAYING HE HAD NO POLITICAL MARGIN FOR MANOEUVRE BEYOND ONE YEAR ON NEW ZEALAND BUTTER, HAD FIRM INSTRUCTIONS ON LIVESTOCK PREMIUMS FOR NORTHERN IRELAND, COULD NOT AGREE MORE THAN 50,000 TONNES ON MANUFACTURING BEEF, AND GENERALLY COULD NOT BE SEEN TO BE MAKING CONCESSIONS IN ADVANCE OF THE ELECTION. MR WALKER BEGGED HIM TO CONSIDER THE ADVANTAGES TO FRANCE OF SUCH A PACKAGE BOTH IN ITSELF, AND FOR THE AVOIDANCE OF CONTINUING DAMAGING STRIFE: AND ABOVE ALL TO ENGAGE IN FRANK BILATERAL DISCUSSION. LATER VILLAIN, WHO HAD BEEN PRESENT, TOLD MR WALKER THAT HE HAD PERSUADED MEHAIGNERIE TO CONSIDER A MOVE TO THE FOLLOWING POSITION ON BUTTER: AGREEMENT ON 3 YEAR DURATION, FIRST YEAR QUANTITIES AND MODALITIES TO BE SAME AS FOR 1980, 1982-3 QUANTITIES AND MODALITIES TO BE SETTLED IN 1981. MR WALKER GAVE NO RESPONSE OTHER THAN THAT HE WOULD CONSULT COLLEAGUES AND NEW ZEALAND. HE INFORMED NEW ZEALAND MISSION OF THE MEHAIGNERIE PROPOSAL. WE EMPHASISED TO THEM THAT THIS WAS OF COURSE CONDITIONAL ON SATISFACTION FROM FRANCE ON A NUMBER OF POINTS, NOTABLY SUGAR BUT ALSO POSSIBLY INCLUDING BEEF.

3. IN THE COUNCIL IMMEDIATELY AFTERWARDS, MEHAIGNERIE SAID HE HOPED THE EXTRA COUNCIL ON 18 DECEMBER WOULD CONSIDER A PACKAGE MADE UP OF BUTTER, SUGAR AND BEEF (REPEAT BEEF). AFTER COUNCIL, MEHAIGNERIE SENT MURRET-LABARTHE TO SEE POOLEY WITH A PROPOSAL FOR A ''HIGH-LEVEL'' OFFICIAL BILATERAL. POOLEY SAID BRUSSELS, IN THE MARGIN OF THE FISHERIES COUNCIL ON 15/16 DECEMBER, MIGHT BE CONVENIENT FOR SIR BRIAN HAYES. THIS SEEMED PRIMA FACIE ACCEPTABLE. LEFT THAT MAFF WILL CONSIDER AND CONTACT FRENCH DIRECT.

FCO ADVANCE TO:-

FCO - PS/S OF S, PS/LPS, PS/PUS, HANNAY, FITZHERBERT, SPRECKLEY, FAULKNER
CAB - FRANKLIN, WENTWORTH
NO 10 - ALEXANDER
DOT - VINALL
MAFF - PS/MIN, PS/PS, DAVIES, ANDREWS, DIXON, MRS ARCHER, RING, MRS PICKERING, MISS BROWN
TSY - ROBERTS

Euro Pol

(D)

10 DOWNING STREET

Prime Minister.

The question of a ceiling on agricultural prices next year is still hanging fire. You will recall the inconclusive discussion in O.D. on 3 November. Would you, in the light of your discussion with Chancellor Schmidt, be prepared for me to ~~[illegible]~~ write as in the attached draft?

Yes m

[illegible]

4/xii

CONFIDENTIAL

10 DOWNING STREET

From the Private Secretary

4 December, 1980.

Control of Community Expenditure on the CAP

At its meeting on 3 November, OD agreed that we should seek to secure a ceiling on agriculture expenditure, starting in 1981. The subject was not discussed at the European Council earlier this week. The Prime Minister therefore assumes that the Chancellor will now pursue the matter in the Ecofin Council, if possible with German support.

As to the nature of the financial limit for 1981 which would be acceptable to us, she has of course seen the Chancellor's minute of 12 November and the Minister of Agriculture's minute of 13 November. She is inclined to feel that the course recommended by the Chancellor would have little chance of success even with the Germans. On the other hand, the formula suggested by Mr. Walker would appear to leave too much latitude for price increases next year and not give sufficient weight to our general objective of reducing the proportion of the budget going to agriculture. She therefore considers that, without prejudice to a more stringent approach for future years in line with the ideas put to her by Chancellor Schmidt at the recent discussions in Bonn, the intermediate approach discussed in the Chancellor's minute under (ii) is the one we should go for in 1981.

I am copying this letter to Paul Lever (Foreign and Commonwealth Office), Kate Timms (Ministry of Agriculture, Fisheries and Food) and to David Wright (Cabinet Office).

M. O'D. B. ALEXANDER

A.J. Wiggins, Esq.,
HM Treasury.

CONFIDENTIAL

CS

CONFIDENTIAL

Mr Alexander
as discussed
[initials] 4/12

DRAFT LETTER FROM MR ALEXANDER TO MR WIGGIN

Please type for my signature & submit with refs. [initials]

Control of Community expenditure on the CAP

At its meeting on 3 November, OD agreed that we should seek to secure a ceiling on agriculture expenditure, starting in 1981. The subject was not discussed at the European Council earlier this week. The Prime Minister therefore assumes that the Chancellor will now pursue the matter in the Ecofin Council, if possible with German support.

2. As to the nature of the financial limit for 1981 which would be acceptable to us, she has of course seen the Chancellor's minute of 12 November and the Minister of Agriculture's minute of 13 November. She is inclined to feel that the course recommended by the Chancellor would have little chance of success even with the Germans. On the other hand, the formula suggested by Mr Walker would appear to leave too much latitude for price increases next year and not give sufficient weight to our general objective of reducing the proportion of the budget going to agriculture. She therefore considers that the intermediate approach discussed in the Chancellor's minute under ~~(b)~~ (ii) is the one we should go for in 1981, ~~but~~ without prejudic~~ing~~ et a more stringent approach ~~to~~ for future years in line with the ideas put to ~~the Prime Minister~~ her by Chancellor Schmidt at the recent discussions in Bonn,

3. I am copying this letter to Paul Lever (FCO), Kate Timms (MAFF) and to David Wright.

cc J. Vereker

Prime Minister

See also Mr Walker's letter, attached.

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

2 December 1980

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

Dear Peter

Part 6

Thank you for your letter of 24 November. I was glad to have this clear expression of your support for our general strategy and to have your assurance that you intended no departure from our practice of consulting each other before making public statements on this subject. If we follow this practice we should be able to avoid giving people in general (and other member states in particular) the impression that we speak with more than one voice.

I note your comments about the difficulty of pursuing our strategy on prices against the background of the latest statistics on farm incomes. As you know from my letter of 21 November I have some doubts about the basis of these statistics and more generally do not believe that they can be allowed to deflect us from our course but this is a point we can consider further as we develop our approach towards the 1981 CAP price fixing.

I am sending copies of this letter to the Prime Minister and Peter Carrington.

Geoffrey

GEOFFREY HOWE

PART 6 ends:-

C(80) 42nd Concs: Item 3 27.11.80

PART 7 begins:-

Ch Ex to M/S MAFF 2.12.80