

PREM 19/1747

Confidential

Common Agricultural Policy (CAP)

EUROPEAN
POLICY

Part 1: May 1979

Part 14: April 1986

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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PART 14 ends:-

MAFF TO CDP 28.11.86

PART 15 begins:-

CST to MS/MAFF 2-12.86,

Published Papers

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

House of Commons: First Special Report from the Agriculture Committee, Session 1986-87

The Disposal and Storage of Cereal Surpluses

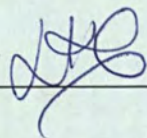
Response by the Minister of Agriculture, Fisheries and Food to the First Report from the Agriculture Committee 1985-86 [HC (1985-86) 23]

Together with Minutes of Evidence of 16 July 1986

Ordered by The House of Commons to be printed 24 November 1986

Published by HMSO ISBN 0 10 204187 3

Signed



Date

23/09/2014

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

From the Minister's
Private Office

Overtaken

CDP
2/12

Charles Powell Esq
No. 10 Downing Street
LONDON SW1

28 November 1986

Dear Charles,

Ivor Llewelyn spoke to you earlier today about the possibility of the Prime Minister following up her conversation with M. Chirac, on the proposed devaluation for beef and sheep, with a message to Chancellor Kohl. As agreed I am attaching a draft message to the Chancellor for the Prime Minister's consideration.

I am copying this to David Williamson at the Cabinet Office.

Yours sincerely,

Elizabeth Morris

MRS E M MORRIS
Private Secretary



DRAFT MESSAGE FROM THE PRIME MINISTER TO CHANCELLOR KOHL

Can I ask you to help us and France over a relatively small but politically awkward issue now before the Agriculture Council?

The Commission have made proposals for green rate devaluations for the United Kingdom and France on beef and sheepmeat. This follows a decision which was taken in September to allow Ireland certain green rate devaluations. At the time, we counselled against the Irish devaluations because of the problems which this was bound to cause for us, especially on beef. Producer incomes in the UK for this commodity are poor. To illustrate the point, the UK reference price - a measure of the prices which producers receive for cattle - has recently been around 2.6 DM per kg. The comparable German producer reference price at the same time was 3.25 DM per kg. There are also particular difficulties in this sector because of the incentive to smuggle cattle from Northern Ireland into Ireland, so depriving meat plants in the North of cattle for slaughter.

The devaluations for sheepmeat are needed to help France handle the problem with their sheep producers who are facing particularly low market return. M. Chirac spoke to me about these difficulties when I met him recently in Paris.

R I know that Mr Kiechle sees difficulties about agreeing to these green rate devaluations. But they are economically and politically important both to us and to France. I do, therefore, ask you to consider whether Germany can withdraw its opposition to the proposals which the Commission have made. There is no way in which the package of measures can be split up without causing great problems either for the UK or for France.

I have decided to put this issue to you because it is important to get this problem out of the way, preferably during the official level discussions in Brussels this week. This



will allow the Agriculture Council when it meets next week to concentrate on the very serious problems facing us all on the Common Agricultural Policy.



D. K.

MR POWELL

em 27th

27 November 1986

AGRICULTURE: SURPLUS STOCKS

I would be grateful for a copy of the information you requested from MAFF on community stocks when you receive it.

NBS

NORMAN BLACKWELL



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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

24 November 1986

AGRICULTURE: SURPLUS STOCKS

The Prime Minister would like, please, a table showing the stocks held by each Community country of each major agricultural commodity, together with an indication of the length of time for which various proportions of the stocks have been held in store.

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

(C. D. POWELL)

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

1085

From: J B UNWIN CB, Deputy Secretary



Personal: Mr Norgrove

CABINET OFFICE

P 02371

70 Whitehall London SW1A 2AS Telephone 01-233

E J G Smith Esq CB
Deputy Secretary
Ministry of Agriculture, Fisheries & Food
Whitehall Place
LONDON SW1A 2HH

24 November 1986

John Ted,
ALURE

NBN

We had a brief talk on Friday about how best to carry forward against a very tight timetable the work commissioned in David Norgrove's letter of 18 November.

2. I explained that I proposed to put the three separate papers forward to the Prime Minister under a single Cabinet Office note that would serve inter alia as an annotated agenda for the next meeting to be held by the Prime Minister on 16 December. In order to achieve this, I propose also to hold a meeting here of the main Departments concerned on 3 or 4 December to consider drafts of the three papers. These will therefore need to be circulated early in that week. This should give time for any further work or consideration prior to formal circulation to the Prime Minister and the other Ministers concerned by Wednesday, 10 December as requested.

3. We shall be in touch again separately with you and the other departments concerned about the arrangements for the meeting. In the meantime I am very grateful to you for the help you have offered in the preparation by the Cabinet Office of the paper on Diversification of Economic Activities in Rural Areas.

4. I am sending copies of this letter to those listed below.

John
Unwin
J B UNWIN

copies: M W Holdgate - DOE
L Hamilton - Scottish Office
J W Preston - Welsh Office
P Twyman - D/Employment
T U Burgner - H M Treasury
H H Liesner - DTI
Professor Brian Griffiths - No 10
J H Holroyd)
Dr D P Walker) Cabinet Office

file DA



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 November 1986

Dear Ivor,

ALURE

I am writing to confirm that the ALURE meeting is now on Tuesday 16 December at 1030 and will last for 1½ hours.

The Foreign Secretary, the Secretary of State for Northern Ireland and Secretary of State for Trade are unable to attend and will be sending Ministers from their respective Departments.

I am copying this letter to Joan MacNaughton (Lord President's Office), Tony Galsworthy (Foreign and Commonwealth Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), David Watkins (Northern Ireland Office), Robin Young (Department of the Environment), Jill Rutter (Chief Secretary's Office), Robert Gordon (Scottish Office), Tim Walker (Department of Trade and Industry), John Turner (Department of Employment), Chris Capella (Paymaster General's Office), Helen Ghosh (Department of the Environment), Colin Williams (Welsh Office), Trevor Woolley (Cabinet Office) and Brian Unwin (Cabinet Office).

Yours sincerely
Caroline Ryder

(Caroline Ryder)

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

SL



10 DOWNING STREET

Min of Agr. ✓

and Pres. ✓

Fet. ✓

Industry & Commerce ✓

N. I. ✓

DIEM. ✓

Chytee ✓

Prosted ✓

Trade ✓

Emp ✓

Pay Gen ✓

RFA ✓

Waldemar D. ✓

Wales. ✓

B. Vanni

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QCBG



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

NBP at this stage.

From the Minister's Private Office

CONFIDENTIAL

David Norgrove Esq
10 Downing Street
London
SW1A 2AA

21 November 1986

Dear Mr Norgrove,

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL
EMPLOYMENT

Following the Prime Minister's meeting last week to discuss the above subject, my Minister thought it might be helpful for the Prime Minister and colleagues to see a copy (attached) of a letter he recently received from Sir Stephen Roberts, Chairman of the Milk Marketing Board (MMB).

As you can see, the letter gives the MMB's response to the latest EC Commission proposals for the milk sector. My Minister thinks that this usefully demonstrates the potential impact on rural communities of cut-backs in agricultural production and the need for measures for developing alternative uses of land and alternative economic activities in rural areas.

I am sending copies to Joan MacNaughton (Lord President's Office), Colin Budd (Foreign and Commonwealth Office), Colin Williams (Welsh Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Neil Ward (Northern Ireland Office), Robin Young (Department of the Environment), Jill Rutter (Chief Secretary's Office), Robert Gordon (Scottish Office), Michael Gilbertson (Department of Trade and Industry), John Turner (Department of Employment) Helen Ghosh (Minister of State's Office, Department of the Environment), and Mr Williamson (Cabinet Office).

Yours sincerely,

E. M. Morris

MRS E M MORRIS
Private Secretary

MILK MARKETING BOARD

TBL 01-398 4101
TBLEX 8956671

THAMES DITTON
SURREY
KT7 OEL

From: Sir Stephen Roberts
Chairman

13 November 1986

The Right Hon. Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Whitehall Place
London SW1A 2HH

Dear Michael

LATEST EEC COMMISSION PROPOSALS - MMB REACTION

The EEC Commission proposals for a 9.5% cut in Community milk supplies in a two year period would be devastating. The impact on milk producers, butter creameries and the rural community would be immeasurably greater than that of the 7.2% cut-back stemming from the initial imposition of quotas.

The worst effects of the initial cut-back were ameliorated by producers cutting input costs in general and concentrate feed in particular. The "fat" has now been shed; there is no similar way out.

Impact on Producers

A 9.5% cut in supplies would almost certainly result in 5,000 milk producers going out of business in a very short space of time. Whilst some 2,000 of those are already in severe financial difficulties, others would be trading profitably were it not for inadequate quota. The casualties will, therefore, be loaded towards those who are still awaiting the make-up of their development quota and those who obtained rough justice from the Quota Tribunals (e.g. those who were only awarded a nominal development quota because they had "prudently" postponed acquisition of additional cows until they knew where they stood).

In such an environment, it is almost inconceivable that the Commission should also be proposing intervention ~~weakening~~ measures which would inevitably lead to reductions in price. It is one thing for the price mechanism to operate in a free market, but it is verging on the unethical to operate in a similar manner in an industry operating under quota control.

Why?

Impact on Creameries

In 1985/86, 3,580 million litres of milk was used for butter production. A 9.5% cut in supplies would reduce butter production by 1,200 ml, or one third of current production. This implies closure of some 9-10 butter making plants, the majority from July of next year.

Impact on Rural Communities

The closure of 9-10 butter creameries implies more than 2,000 redundancies, all in rural areas with relatively few opportunities for alternative employment. This will be aggravated by the response at farm level to eliminate all items of non-essential expenditure. This indicates bankruptcy for many supply industries.

SUGGESTED ACTION

We have consistently argued that any effective cut in supplies in a quota-controlled environment must be through fully-funded outgoers schemes. The current proposals fall far short of this, attempting to drive supplies down below the quota level. This is inequitable.

We have also demonstrated that, of all the bases that could have been chosen for initial imposition of quotas, 1981 was the worst conceivable for the UK. These proposals do nothing to rectify this, indeed the proposed abolition of the "Formula B" basis of levy collection is, of itself, likely to depress England and Wales' supplies by around 4%, considerably worsening our relative position.

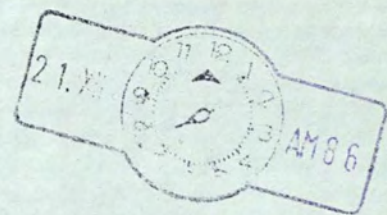
The agricultural policies of all developed western countries embrace social and strategic issues. For the UK to support any agreement that would effectively guarantee countries such as Denmark, Ireland and Holland a permanent share of our butter market is indefensible. In particular it will perpetuate the dumping of marginal production on our market, with all the implications that has for our industry returns and viability.

We therefore implore you to:-

- (1) Resist back-door cuts in quota, i.e. those that prevent us from filling our national quota.
- (2) Ensure that all cuts in quota are fully funded via an outgoers scheme.
- (3) Ensure that any package ameliorates rather than aggravates the UK share of EEC quota and production.
- (4) Reject any weakening of intervention arrangements.

Yours sincerely

Steve





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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

19 November, 1986.

Bf ||

There will be a further meeting to discuss ALURE after Cabinet (at approximately 12 noon) on Thursday, 18 December.

I am sending copies of this letter to Joan MacNaughton (Office of the Lord President), Colin Budd (Foreign and Commonwealth Office), Colin Williams (Welsh Office), Andrew Lansley (Office of the Chancellor of the Duchy of Lancaster), Neil Ward (Northern Ireland Office), Robin Young (Department of the Environment), Helen Ghosh (Office of the Minister of State, Department of the Environment), Jill Rutter (Office of the Chief Secretary, HM Treasury), Ken Robbie (Scottish Office), Michael Gilbertson (Department of Trade and Industry), John Turner (Department of Employment), Susan Chappell (Office of the Paymaster General), and Mr. Williamson (Cabinet Office).

(Mrs. Caroline Ryder)

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

6



10 DOWNING STREET

Cosine

Could you arrange
another AZURE meeting
for the week beginning
15 December?!

With

LPC

FCS

Wales

Tebbit

N. Ireland

DoE (Ridley)

DoE (Waldegrave)

Chief Secretary

Sutland

Channon

K. Clarke, & YOUNG

D Williamson.

David.

red.
3035

W. L. COOPER



10 DOWNING STREET
LONDON SW1A 2AA

18 November, 1986.

From the Private Secretary

Dear Ivor,

ALURE

My letter to you of 13 November recorded that the Prime Minister had commissioned three further papers on ALURE. I should be grateful if the Department of the Environment could take the lead on planning controls, the first paper, Cabinet Office on diversification of economic activity in rural areas, the second paper, and the Ministry of Agriculture on forestry, the third paper. Other interested departments will need to be closely involved in the preparation of these papers, as necessary.

The Prime Minister aims to hold a meeting to discuss these papers in the week beginning 15 December. I should accordingly be grateful if the papers could be circulated by Wednesday, 10 December.

I am sending copies of this letter to Joan MacNaughton (Lord President's Office), Colin Budd (Foreign and Commonwealth Office), Colin Williams (Welsh Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Neil Ward (Northern Ireland Office), Robin Young (Department of the Environment), Jill Rutter (Chief Secretary's Office), Robert Gordon (Scottish Office), Michael Gilbertson (Department of Trade and Industry), John Turner (Department of Employment), Helen Ghosh (Minister of State's Office, Department of the Environment), and Mr. Williamson (Cabinet Office).

Yours,

David

David Norgrove

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

cc: Mr. Williamson
Cabinet Office

MR. BLACKWELL

CAP REFORM PAPER

The Prime Minister has read your paper. She has commented: "the proposed reforms aren't worked out enough".

She is also not convinced that the notion of an initiative with the French and Germans to launch drastic reform reflects the realities of the way in which the European Community works. Reform is a continuous process, and pressure for it tends to reach regular peaks at the time of the annual price fixing.

The best course might be for you to remain in close touch with MAFF to ensure that proposals for reform are given full weight and that we do not miss any opportunities.

C. D. POWELL

17 November 1986

CAJAJP

PERSONAL AND CONFIDENTIAL

PRIME MINISTER

CAP REFORM

David Williamson and I both have considerable reservations whether the Policy Unit paper on the CAP offers a feasible way forward. We think that there is an element of rediscovering the wheel; and that the notion of a grand diplomatic initiative with the French and Germans to embark on drastic reform does not reflect the realities of the way in which the European Community works. Reform is a continuous process, closely bound up with the cycle of annual price-fixings. In the end, it will be the cash limits approach which is most likely to reform the CAP; and there are some signs that it is beginning to bite in the dairy and beef sector.

David and I do not think, therefore, that you should agree to the Policy Unit's proposed approach as such. But you might suggest that they continue to monitor MAFF policies closely to make sure that they are consistent with the goal of cutting the cost of the CAP.

C.D.P.

The proposed reforms
arent worked out enough
nt

(C. D. POWELL)

14 November 1986

PERSONAL AND CONFIDENTIAL

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PRIME MINISTER

14 November 1986

CAP REFORM PAPER

The reaction to the current proposals for cuts in milk quotas, and the discussion yesterday on ALURE, have raised yet again the importance of untangling the CAP mess.

Following the work done this spring, you may feel that the ground here has been fairly well tilled. The conclusion then was that there was little alternative but to carry on a gradual process of attrition, using the budget constraints to force change. However, after discussions with a number of officials close to the scene, the Policy Unit believe that the current pressures on CAP and the emerging EEC budgetary storm now offer an opportunity to get agreement to a far more comprehensive restructuring of CAP than has previously been contemplated.

The note sets out the framework on which an acceptable restructuring might be based and suggests the possible tactics for getting it on the agenda. The ideas are not new, but their linkage together into a complete package could provide a fresh approach that might get around traditional German objections.

Because a restructuring on the scale required would imply overturning some community sacred cows, there would be little chance of making progress through public discussion in

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meetings of agricultural ministers. The only realistic route is to introduce the ideas privately in informal, bilateral discussions between yourself, Kohl and Chirac. We believe the best timing for this would be early next Spring after the German elections in January and in the context of the ex-Novo review - although Mr Jopling (with whom this has also been aired) would prefer any initiative to be delayed until after a UK election.

The purpose of the attached note is therefore to give you an opportunity to consider these ideas now and to recommend that you put in hand the necessary staff work to develop these ideas to the point where you could decide whether or not to engage in preliminary discussions. If you agree, we would suggest setting up a team outside of MAFF, perhaps chaired by the Cabinet Office.

Norman Blackwell

NORMAN BLACKWELL

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14 November 1986

CAP REFORM - AGAIN

Despite continuing efforts to get CAP under control, the prospects still look horrific. Expenditure is increasing at a rate that outstrips budget resources and stockpiles are continuing to rise. Current negotiations are likely to agree no more than a temporary sticking plaster. While previous attempts at major reform have always been resisted by our partners, the seriousness of the emerging budgetary problems may open a window early next year to get agreement to a far more comprehensive restructuring of CAP than has previously been contemplated.

The issues on CAP were extensively debated by Ministers this Spring, but the changed situation makes it worthwhile considering a new and more radical approach. This note suggests a framework for such reforms which could be developed for use in informal, bilateral discussions with other Heads of Government early in the New Year.

The Pressures for Reform

A number of factors are bringing to a head the basic budgetary problems of CAP as currently operated. The officials involved believe that these pressures are helping to create a greater recognition amongst our partners that

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continuation along current lines is untenable. In this environment, there may therefore be a greater openness to consider more fundamental reforms that provide a viable long-term structure.

- Overspending on CAP means that EEC finances could be almost 3 billion ecu short in 1987 unless savings are achieved - leading to immediate demands for additional finance above the 1.4% ceiling and pushing still higher the likely revenue proposals for subsequent years.
- Proposals to achieve additional savings on milk, beef and cereals through non-price measures are proving difficult to agree. Existing milk quotas have failed to reduce production as much as planned and the proposals for further cuts have brought home the message that quotas cannot provide a painless solution. *It never was painless*
- The extension of the community has exacerbated these strains and increased the prospective cost of the policy to existing members.
- Failure to control CAP expenditure is meanwhile limiting the scope for expenditure on other community programmes that many states would wish to develop.
- The discussions in GATT have highlighted that agricultural overproduction is now a worldwide problem - not just a temporary local anomaly. As a result, the

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costs of disposing of surplus stock on world markets will continue to increase.

With technology developments promising further improvements in productivity, there appears to be increasing recognition that major reforms are unavoidable if complete collapse is to be avoided. The commission have warned that they will be bringing forward "drastic" new proposals for the next price fixing, and ECOFIN approved a bracing statement of principles in October, asserting that prices should more closely reflect market conditions. The European Parliament this week has also underlined its determination to press for CAP reform.

In this situation, there could be a window of opportunity early next year to sound out other Heads of Government on the possibility of more radical reforms.

No discussion of these issues is likely to be useful until after the German elections in January, but preliminary contacts could then take place in the context of the 1987 budget measures, the discussions on the Ex-Novo review and the publication of the Commission's own promised proposals. However, the window might close again if these discussions patch together temporary compromises without tackling the fundamental issues.

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A Framework for Reform

It has long been recognised that the fundamental plank of any permanent reform must be a return - over some transition period - to market clearing price levels within the community. However, commitment to continued price reduction on the scale required is inhibited by the political difficulties in every country of agreeing policies that would drive many marginal farmers out of business.

Nevertheless, the current system of maintaining price support on all output to protect the marginal farmers is an extremely costly and wasteful way of tackling the problem. The wastage is not just the cost of storing and disposing of unwanted surpluses - although that is bad enough. It is also the poor focus of the support that does get through to farmers.

Although exact figures are difficult to obtain, it appears that across Europe a small number (20%) of large farmers are producing the bulk (over 60%) of the output. These farmers therefore get the majority of the subsidies - even though these efficient operators are the ones who could continue to operate profitably under a lower price régime if they had time to adjust their crops, employment and cost structure, and adopt less intensive farming practices. Only a small proportion of the total subsidy actually goes to the marginal farmers whom the policy is designed to protect.

It is therefore possible to construct a much lower cost system that withdraws subsidies from the bulk of the market supplied by competitive, efficient producers and focuses support much more effectively on the small share of production supplied by the numerous and politically sensitive marginal farmers. The proposed framework would thus have three elements:

1. A public commitment to phase out intervention buying as a mechanism for price support over a defined period with prices allowed to drop to market clearing levels within Europe (although still within tariffs).
2. A complementary decision to set up a separate support scheme to cushion the impact on small farmers, which would primarily be financed as a national commitment - although probably co-ordinated and topped up by a common European fund. It would also be desirable to limit the level of subsidy in each country.
3. A temporary rôle for quotas and set-aside to control excess production until the required adjustment takes place and current stocks are disposed of.

In essence this reform, though radical in its impact, would do no more than return CAP intervention to its original rôle as a market-smoothing mechanism instead of using it as an inefficient mechanism for income support. The social costs of

changing farm structures would then be dealt with direct at much lower cost and with much less market distortion.

It is, of course, essential that such a reform should be implemented in a way that does not damage UK interests. If special measures for the support of small farms were introduced within the current CAP funding structure - and on a common definition of what a 'small' farm entailed - they would severely disadvantage the UK because of our larger than average farm size. The UK has opposed them for this reason. Yet continuing support for each country's marginal farmers is likely to be an essential condition for gaining the commitment of other members to across the board price reductions. For this reason, it would be a crucial part of the package that a large part of the income support costs were financed directly by each country to avoid a major transfer of resources.

The nature and level of the safety net could then be set separately by each country to match its own circumstances and priorities - so long as there was some limit on the total level of subsidy in each country to avoid the "subsidised" sector growing at the expense of the unprotected producers. We would thus avoid the conflict inherent in trying to provide the level of income expected by wealthy German farmers in a community that also includes the agricultural structure and peasant society of Italy and Portugal.

This possibility of separating and nationally financing the social subsidy element of CAP has in fact already been

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hinted at by the Commission in recent discussions. We believe that the main objections it raises could be overcome within unfettered negotiations.

- Small farmers would object to being paid to be park keepers. There are many alternative ways of providing support other than as a direct social security cheque - for example, by granting premium payments on top of market values up to a specified level of output. However, such schemes would need to be carefully scrutinised to ensure they did not lead to too great a distortion of the market against efficient producers. At the end of the day, sensibilities may have to be overridden - uneconomic farmers cannot have their cake and eat it.

- The less developed states would not accept the loss of contribution to CAP they currently receive from the UK and Germany. But under the current CAP structure, most of the money that countries get out is the money that they themselves pay in. The net flow from North to South could still be maintained, if desired, by richer countries agreeing to contribute a similar amount to a fund that reimbursed some part of the social costs. And, given the huge potential savings, it ought to be possible to have an "all gain" negotiation between member states that enables every country to achieve its objectives at lower costs.

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- We would risk conceding a commitment to income support without succeeding in gaining subsequent price reductions. The risk is clear, but an open discussion about the long-term structure of CAP provides the best opportunity to link income support to a public commitment to continued price adjustment, underlined by a steadily reducing budget allowance for CAP intervention.

- The cost of support would shift from the consumer to the taxpayer. If significant, this could be overcome by raising the revenue from consumers through a small levy on agricultural output (as with co-responsibility levies). But the total cost to consumers and taxpayers together would reduce so much that prices could still be much lower than they would have been.

While it would require some sacred cows to be abandoned, reform along these lines - staged over a suitable time period - could be in the interests of all EEC Governments by allowing the objective of support to marginal farmers to be met at much lower costs than through intervention buying, while also bringing the benefit of lower consumer prices. The adjustment to lower prices in the majority of the market would be painful, but - as quotas have shown - there is no way of avoiding it in the long run.

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Domestic Considerations

For the UK, the financial benefits of such a reform are clear cut and the political impact - while needing serious consideration - need not be wholly unfavourable.

The Autumn Statement shows domestic CAP expenditure rising from £1.5 billion in 1986/87 to £1.96 billion in 1988/89. On top of this, our net contribution to the community is running at £700m-800m a year - although depressed in 1988 by late receipts on prior abatements. However, this rate of contribution assumes that the 1.4% VAT ceiling is held. The Treasury estimate that a 0.2% rise in the VAT rate could raise our net contributions to Europe by £120m a year.

In addition, gaining agreement to a major reform of CAP that reduces consumer prices would be a major political triumph for the majority of the electorate. Most see food mountains as a European absurdity and regard CAP as a policy for subsidising foreign farmers.

In the farming sector, we have already incurred the political downside of bearing the bad news on price reductions. Many UK farmers would now welcome a clearer statement of future policy which gave them time to adjust their employment, crops and fixed costs to the new situation. This view was emphasised in a recent discussion with the Director of the NFU. The worst situation is continued uncertainty, with sudden shocks - such as the severe cuts in

milk quotas - forced by banging against the budgetary ceilings. Marginal farmers could also be reassured by a CAP reform that provided the funds to allow a continued level of special support. Finally, our current bank of negative MCAs means that price adjustments in the UK could be buffered initially to avoid rapid falls in income.

While domestic considerations need to be carefully considered, we do not believe they need inhibit the UK from pursuing these needed reforms.

Tactics

There is a clear tactical question as to whether the UK is more likely to get results by continuing a process of gradual attrition - using the annual budgetary pressure to force incremental changes and using quotas and other measures to limit the immediate surpluses - or by going full bloodedly for a radical reform. However, in our view, these approaches are not mutually exclusive - we should continue to press for sensible changes in public forums (such as the agricultural council) while sounding out the more radical solutions in private at Head of Government level.

The problem with the incremental approach alone is that, without radical plans for restructuring the CAP, the UK cannot afford to put the proposal for special support for small farmers on the table; yet without it, the prospect for our partners to agree to a commitment to continued price

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adjustment on the scale needed is minimal. Unless we simply wait for CAP to disintegrate, it must be worthwhile to try to gain concensus around a fuller blueprint for reform.

The Way Forward

Given the political sensitivities of any retreat on CAP, discussions on a commitment to a complete restructuring could only be initiated at Head of Government level. The German attitude is obviously key, but if they perceive that current CAP policies are untenable they may welcome a viable long-run solution that gives them the freedom to continue their own domestic support programmes. The French are also known to be concerned about the prospect of becoming significant net contributors to CAP. To take advantage of the window next Spring, we suggest that these proposals should be developed to the level where they could be used to sound out Chancellor Kohl and Prime Minister Chirac soon after the German election in January.

N.B.

NORMAN BLACKWELL

CONFIDENTIAL

Oct 86

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Nov 86

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FARMERSWEEKLY

WANTED: PARTY POLICIES THAT WILL EARN FARMING'S VOTE

While it may be premature, there is the scent of an early general election in the air.

Perhaps the first agricultural hustings were the Farmers' Union of Wales's conference on the day after the Chancellor announced increased public spending.

If this is the case, farmers face a confusing choice because the policies expounded by the main party representatives at Aberystwyth were long on problems but extremely short on solutions.

There was some pretty straight talking about the deepening common agricultural policy crisis and the need to separate food production from social policies. Gloom was spread thickly, like the 1.5m tonnes of surplus butter in store, cuts in milk quota, the end of beef variable premiums and tougher intervention rules.

Seldom has any malaise been better diagnosed than that which affects Europe's farm policy. Even if a suitable treatment is prescribed by Britain, a cure that guarantees the long-term survival of our industry requires parallel action throughout the Community, which, on past experience, is a forlorn hope.

If an election is on the cards, those who seek farmers' votes must come clean on the question of how they would cure the ills of the CAP without killing the patient. There can be no place for placebos or piecemeal treatments.

Farming is a long-term business, but how can investment be planned when the market is in chaos and increasingly vulnerable to the effects of political tinkering? Candidates and parties must be forced to spell out how they would sort out the current shambles, with or without the co-operation of their EEC partners.

A day may be a long time in politics, but a five-year government term is a lot longer for farmers. The agricultural vote could be crucial and it should not be handed over for what might be a pig in a poke.

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A day may be a long time in politics, but a five-year government term is a lot longer for farmers. The agricultural vote could be crucial and it should not be handed over for what might be a pig in a poke.

MR NORGROVE

14 November 1986

Herewith a paper on CAP reform for the weekend box. I discussed this with Mr Powell this morning.

You may like to know that I have sent a copy of the paper (though not the covering note) to Mr Jopling's office.

N.B.

NORMAN BLACKWELL

SUBJECT
cc MASTER.

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b.c. B.G. JAZAGB



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

13 November 1986

Dear Sir,

**ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES
OF RURAL EMPLOYMENT**

The Prime Minister held a meeting of Ministers today to discuss the report of an inter-departmental working group of officials submitted by the Minister of Agriculture, Fisheries and Food to the Prime Minister on 26 September 1986. There were present the Lord President of the Council, the Foreign and Commonwealth Secretary, the Secretary of State for Wales, the Chancellor of the Duchy of Lancaster, the Secretary of State for Northern Ireland, the Minister of Agriculture, Fisheries and Food, the Secretary of State for the Environment, the Chief Secretary to the Treasury, the Secretary of State for Scotland, the Secretary of State for Trade and Industry, and Mr. Waldegrave (Minister of State, Department of the Environment and Mr. Lee (Under Secretary of State, Department of Employment). Mr Williamson and Mr. Holroyd (Cabinet Office) were also present.

The Secretary of State for Agriculture said that over the next few years the agricultural industry would face great difficulties arising from reform of the CAP. A reduction in the profitability of agriculture would have a damaging effect on the whole rural economy. Farmers were realistic about the need for change but they had no confidence that the government had a policy for offsetting some of its damaging effects. Up to 1m hectares of agricultural land could go out of production over the next 10 years and it could not be allowed to become derelict. The report he had presented made proposals for developing alternative uses of land and alternative economic activity in rural areas and ways in which this could be brought about. Nearly all the measures suggested were of a pump-priming nature and though there would be an initial cost there was every prospect that, with the development of savings in the cost of the CAP, there could be a clear net financial benefit within 10 years. The government should encourage forestry, diversification of enterprises and the relaxation of planning provisions relating to agricultural land, while continuing to protect the rural environment. It was also most important that the government should make its policy clear. He sought agreement of his colleagues both to the measures in the report and to the publication of a policy document early in 1987.

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The Chief Secretary, making it clear that he fully understood the problems highlighted by Mr. Jopling said there was a real risk that the savings predicated in the inter-departmental report would not be achieved. The additional expenditure recommended would then be a net addition to government expenditure on the support of agriculture. Savings from the CAP had to parallel the additional expenditure and only a small proportion of those should be used for the measures proposed. In particular, since industries other than agriculture did not get incentives for diversification in rural areas, any additional expenditure for this proposed by the Agriculture Departments should be found from within their existing PES provision. While he recognised the desirability of presenting a government policy document he was concerned about timing especially if, as the Secretary of State for Environment had proposed and he supported, a fundamental review was to be carried out of government assistance to forestry.

In discussion the following points were made.

- i. The fact that £60m would be spent in 1989/90 on the Forestry Commission, including the state forestry enterprise and grants to private woodland owners, and the existence of concessional tax arrangements which encouraged private planting for non-agricultural reasons suggested that a thorough review would be justified. On the other hand, government policy on forestry had been reviewed in 1980 and the Commission were now pursuing a programme which would substantially reduce the net cost of their operations. It was not clear that a comprehensive review could be carried out quickly enough for its results to appear in a policy document in early 1987. Nonetheless it was important that the government should ensure that it was getting value for money both from the direct support to forestry in the United Kingdom and through tax concessions to private woodland owners and that it was not simply perpetuating arrangements which had outlived their usefulness.
- ii. There was a need to establish more clearly which land was likely to go out of production and which would be appropriate for afforestation. The measures proposed by the Secretary of State for Agriculture were targetted towards the marginal areas and costed on that basis.
- iii. Any action should not be too narrowly focussed on alternative forms of agricultural production. Non-agricultural enterprises could also play a useful role in the countryside. The benefits of the help the government had already given to small enterprises, including forestry, should not be underestimated. The number of jobs in some rural areas, for example mid-Wales, had increased over the past decade.
- iv. It would be important to avoid conflict or overlap between the agencies concerned in promoting rural economy

for instance the Development Commission, the Agriculture Development and Advisory Service and the Manpower Services Commission.

- v. If tourism and other non-agricultural enterprises in rural areas were to be encouraged it would be worth reviewing the relevant tax arrangements, for example those which apply to the provision of accommodation on farms.
- vi. The proposals relied too heavily on government action. Private enterprise and private capital should play the major role wherever possible.
- vii. There was a general welcome for changes in the planning arrangements for agricultural land on the lines suggested in the Report. The emphasis on giving additional protection to agricultural land in the interests of food production and the dominant role of the Ministry of Agriculture, Fisheries and Food in operating this were now less and less appropriate. Changes could be made while still giving firm protection to the rural environment. It would in particular be right and necessary to keep full protection of agricultural land within the green belt. Even within the more sensitive areas it would be important to ensure that local authorities were less obstructive in agreeing to alternative uses for derelict agricultural buildings. Whether particular help should be given for the development of more golf courses would need to be studied further.

The Prime Minister, summing up, said that, while she recognised the reality of the concerns that lay behind the Report, there were still major areas where further work was needed. In particular it would be important to establish -

- a. what degree of relaxation of planning controls over the use of agricultural land would be desirable within a general aim of protecting the rural environment and how the changes could be best adapted to the needs of different parts of the country;
- b. which programmes for diversification of economic activity in rural areas should be pursued, which bodies would be involved in doing so and how their efforts could be coordinated or their tasks rearranged to avoid waste and duplication.
- c. what scope there was for deploying the resources devoted to the support of forestry in the United Kingdom to give better value for money, including the possibility of promoting acceptable forms of afforestation on farms.

Officials should urgently prepare papers on these three main aspects and submit them for further discussion by Ministers within a timetable which would allow the government to decide whether it wished to publish a policy document

before the end of January 1987. It must be quite clear that no action proposed by the government should encourage a faster pace of change in the United Kingdom than in the rest of the Community or reduce the competitiveness of British agriculture vis a vis the rest of the Community. Extra expenditure on support for rural areas would need to run in parallel with savings in expenditure on the CAP.

I am sending copies of this letter to Joan MacNaughton (Lord President's Office), Colin Budd (Foreign and Commonwealth Office), Colin Williams (Welsh Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Neil Ward (Northern Ireland Office), Robin Young (Department of the Environment), Jill Rutter (Chief Secretary's Office), Robert Gordon (Scottish Office), Michael Gilbertson (Department of Trade and Industry), John Turner (Department of Employment), Helen Ghosh (Minister of State's Office, Department of the Environment), Alison Lys (Department of Employment), Mr. Williamson and Mr Holroyd (Cabinet Office).

J
David

David

(DAVID NORRGROVE)

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

MR POWELL

13 November 1986

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I attach a draft of a note on CAP reform that I propose to submit tomorrow for the Prime Minister's weekend reading while ALURE is fresh on her mind. I am also sending a personal copy to David Williamson, with whom I have reviewed earlier drafts.

I have also discussed the suggested approach with Mr Renwick (FCO), Treasury officials (Mr Edwards and Mr Bonnie) and with Mr Jopling as well as other MAFF officials. As you might expect, Mr Jopling has some reservations about this approach, although he is interested in pursuing it further.

The key proposal is for officials to work up more detailed proposals around a suggested blueprint for radical restructuring of CAP that the Prime Minister could discuss informally with Kohl and Chirac next Spring. The first step is to get the Prime Minister's agreement to commission a working party outside of MAFF, which would best be chaired by David Williamson.

Perhaps we can discuss this when you have had a chance to read through the memo. I would also be happy if you wished to ask David Williamson to attach a short comment.

NORMAN BLACKWELL

PRIME MINISTER

13 November 1986

CAP REFORM PAPER

Attached is a weighty note on the weighty subject of CAP reform. Following the work done this spring, you may feel that the ground here has been fairly well tilled. However, after discussions with David Williamson and other officials close to the scene, the Policy Unit believe that the current pressures on CAP and the emerging EEC budgetary storm offers a new window of opportunity to get the agreement of our partners to a far more radical restructuring of CAP than has previously been contemplated.

The note sets out the framework on which a politically acceptable reform might be based and suggests the possible tactics for getting it on the agenda. The ideas are not new, but their linkage together into a complete package could provide a fresh approach that might get around traditional German objections.

Because a restructuring on the scale required would imply overturning some community sacred cows, there would be little chance of making progress through public discussion in meetings of agricultural ministers. The only realistic route is to introduce the ideas privately in informal, bilateral discussions between yourself, Kohl and Chirac. We believe the best timing for this would be early next Spring after the German elections in January and in the context of the ex-Novo

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review - although Mr Jopling (with whom this has also been aired) would prefer any initiative to be delayed until after a UK election.

The purpose of this note is therefore to give you an opportunity to consider these ideas now and to recommend that you put in hand the necessary staff work to develop these ideas to the point where you could decide whether or not to engage in preliminary discussions. If you agree, we would suggest asking David Williamson to lead a team outside of MAFF.

NORMAN BLACKWELL

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PRIME MINISTER

13 November 1986

CAP REFORM - AGAIN

Despite continuing efforts to devise corrective schemes, the CAP is still out of control. Expenditure is increasing at a rate that outstrips budget resources and stockpiles are continuing to rise. Current negotiations are likely to agree no more than a temporary sticking plaster. While previous attempts at major reform have always been resisted by our partners, the seriousness of the emerging budgetary problems may open a window early next year when radical proposals for a major restructuring of CAP could get a more favourable reception.

The issues on CAP were extensively debated by Ministers this Spring, but the changed situation makes it worthwhile considering a new approach. This note suggests a framework for radical reform which could fit the bill. We recommend that this framework should be developed for use in informal, bilateral discussions with other Heads of Government early in the New Year.

The Pressures for Reform

A number of factors are bringing to a head the basic budgetary problems of CAP as currently operated. The officials involved believe that these pressures are helping to create a greater recognition amongst our partners that

continuation along current lines is untenable. In this environment, there may therefore be a greater openness to consider more fundamental reforms that provide a viable long-term structure.

- Overspending on CAP means that EEC finances could be almost 3 billion ecu short in 1987 unless savings are achieved - leading to immediate demands for additional finance above the 1.4% ceiling and pushing still higher the likely revenue proposals for subsequent years.
- Proposals to achieve additional savings on milk, beef and cereals through non-price measures are proving difficult to agree. Existing milk quotas have failed to reduce production as much as planned and the proposals for further cuts have brought home the message that quotas cannot provide a painless solution.
- The extension of the community has exacerbated these strains and increased the prospective cost of the policy to existing members.
- Failure to control CAP expenditure is meanwhile limiting the scope for expenditure on other community programmes that many states would wish to develop.
- The discussions in GATT have highlighted that agricultural overproduction is now a worldwide problem - not just a temporary local anomaly. As a result, the

costs of dispersing of surplus stock on world markets will continue to increase.

With technology developments promising further improvements in productivity, there appears to be increasing recognition that major reforms are unavoidable if complete collapse is to be avoided. The commission have warned that they will be bringing forward "drastic" new proposals for the next price fixing, and ECOFIN approved a bracing statement of principles in October, asserting that prices should more closely reflect market conditions. The European Parliament this week has also underlined its determination to press for CAP reform.

In this situation, there could be a window of opportunity early next year to sound out other Heads of Government on the possibility of more radical reforms.

No discussion of these issues is likely to be useful until after the German elections in January, but preliminary contacts could then take place in the context of the 1987 budget measures, the discussions on the Ex-Novo review and the publication of the Commission's own promised proposals. However, the window might close again if these discussions patch together temporary compromises without tackling the fundamental issues.

A Framework for Reform

It has long been recognised that the fundamental plank of any permanent reform must be a return - over some transition period - to market clearing price levels within the community.

However, commitment to continued price reduction on the scale required is inhibited by the political difficulties in every country of agreeing policies that would drive many marginal farmers out of business.

Nevertheless, maintaining price support on all output to protect the marginal farmers is an extremely costly and wasteful way of tackling the problem.

Although exact figures are difficult to obtain, it appears likely that across Europe a small number (20%) of large farmers are producing the bulk (80%) of the output. These farmers therefore get the majority of the subsidies - even though these efficient operators are the ones who could continue to operate profitably under a lower price régime if they had time to adjust their crops, employment and cost structure, and adopt less intensive farming practices. Only a small proportion of the total subsidy actually goes to the marginal farmers who the policy is designed to protect.

It is therefore possible to construct a much lower cost system that withdraws subsidies from the majority of output supplied by efficient producers and focuses support much more effectively on the politically sensitive marginal farmers.

The key elements of this framework would be:

1. A commitment to phase out intervention buying as a mechanism for price support over a defined period, while also disposing of current surpluses.
2. Prices allowed to drop to market clearing levels within Europe (although still within tariffs).
3. The introduction of a separate scheme for the support of small farmers which would primarily be a national commitment - although probably co-ordinated and topped up by a common European fund. It would also be desirable to limit the level of subsidy in each country.
4. A continued role for quotas and set-aside as a temporary mechanism to control excess production while the adjustment required takes place.

It is, of course, essential that such a reform should be implemented in a way that does not damage UK interests. If special measures for the support of small farms were introduced within the current CAP funding structure, they would severely disadvantage the UK because of our larger than average farm size. Yet continuing support for marginal

farmers is likely to be an essential condition for gaining the commitment of other members to continued price reductions. For this reason, it would be a crucial part of the package that a large part of the income support costs were financed directly by each country to avoid a major transfer of resources. The level of the safety net could then be set separately by each country to match its own circumstances and priorities so long as there was some limit on the total level of subsidy in each country to avoid the "subsidised" sector growing at the expense of the unprotected producers. We would thus avoid the conflict inherent in trying to provide the level of income support demanded by wealthy German farmers in a community that also includes the agricultural structure of Italy and Portugal. The possibility of separating and nationally financing the social subsidy element of CAP has in fact already been hinted at by the Commission in recent discussions.

We believe that the main objections raised to this approach could be overcome within unfettered negotiations.

- Small farmers would object to being paid to be park keepers. There are many alternative ways of providing support other than as a direct social security cheque. One possibility is to deliver the support through deficiency payment schemes on output with ceilings on individual farm receipts so that only small farms would gain significant benefit. Fairly simple schemes could be adopted that avoid the need for elaborate bureaucracies.

- The less developed states would not accept the loss of contribution to CAP they currently receive from the UK and Germany. The subsidy from North to South inherent in the current CAP structure could still be continued, if desired, by richer countries agreeing to contribute a similar amount to a fund that reimbursed some part of the social costs. Given the potential savings, it ought to be possible to have an "all gain" negotiation between member states that enables every country to achieve its objectives at lower costs.

- We would risk conceding a commitment to income support without succeeding in gaining subsequent price reductions. The risk is clear, but within an open discussion about the long-term structure of CAP it might be possible to link income support to a public commitment to continued price adjustment guaranteed by a steadily reducing budget for CAP intervention.

- The cost of support would shift from the consumer to the taxpayer. If the Government chose to shift more of the cost back to consumers, this could be achieved by raising the revenue through a small levy on agricultural output. But the total cost to consumers and taxpayers together would significantly reduce, so prices could still be much lower than they would have been.

A reform along these lines - staged over a suitable time period - could be in the interests of all EEC Governments by allowing income support to marginal farmers to continue at acceptable costs while also bringing the benefit of lower consumer prices.

Domestic Considerations

For the UK, the financial benefits of such a reform are clear cut and the political impact - while potentially serious for rural constituencies - need not be wholly unfavourable.

The Autumn Statement shows domestic CAP expenditure rising from £1.5 billion in 1986/87 to £1.96 billion in 1988/89. On top of this, our net contribution to the community is running at £700m-800m a year - although depressed in 1988 by late receipts on prior abatements. However, this rate of contribution assumes that the 1.4% VAT ceiling is held. The Treasury estimate that a 0.2% rise in the VAT rate could raise our net contributions to Europe by £120m a year.

In addition, gaining agreement to a major reform of CAP that reduces consumer prices would be a major political triumph for the majority of the electorate. Most see food mountains as a European absurdity and regard CAP as a policy for subsidising foreign farmers.

Furthermore, many UK farmers - who have already built in an expectation of falling prices - would welcome a clearer

statement of future policy which reduced uncertainty and gave them time to adjust. This view was confirmed by the Director of the NFU in a recent discussion. Marginal farmers would also be reassured by a CAP reform that provided the funds to allow a continued level of social support. Finally, our current bank of negative MCAs means that price adjustments in the UK could be buffered initially to avoid rapid falls in income.

While domestic considerations need to be carefully considered, we do not believe they need inhibit the UK from pursuing these needed reforms.

Tactics

There is a valid tactical question as to whether the UK is more likely to get results by continuing a process of gradual attrition - using the annual budgetary pressure to force incremental changes and using quotas and other measures to limit the immediate surpluses - or by going full bloodedly for a radical reform. However, in our view, these approaches are not mutually exclusive - we should continue to press for sensible changes in public forums (such as the agricultural council) while sounding out the more radical solutions in private at Head of Government level.

The problem with the incremental approach alone is that, without radical plans for restructuring the CAP, the UK cannot afford to put the proposal for income support for small

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farmers on the table; yet without it, the prospect for our partners to agree to a commitment to continued price adjustment on the scale needed is severely limited. Unless we simply wait for CAP to disintegrate, it must be worthwhile to try to gain concensus around a fuller blueprint for reform.

The Way Forward

Given the political sensitivities of any retreat on CAP, discussions on a commitment to radical reforms could only be initiated at Head of Government level. The German attitude is obviously key, but if they perceive that current CAP policies are untenable they may welcome a viable long-run solution that gives them the freedom to continue their own domestic support programmes. The French are also known to be concerned about the prospect of becoming significant net contributors to CAP. To take advantage of the window next Spring, you may wish to have these proposals developed to the level where you could sound out Chancellor Kohl and Prime Minister Chirac soon after the German election in January.

NORMAN BLACKWELL

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Qz.05450

MR NORGROVE (10 DOWNING STREET)

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES
OF RURAL EMPLOYMENT

--- I attach a note of the meeting which the Prime Minister chaired this morning. This is in a form in which you could send it round, if you are content, as a letter to the Private Secretary to the Minister of Agriculture, Fisheries and Food with copies to the Private Secretaries of the other Ministers present.

DF Williamson

D F WILLIAMSON

13 November 1986

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The Minister of Agriculture, Fisheries and Food said that over the next few years the agricultural industry would be facing a very difficult situation as the effect of steps taken to reduce the costs of the common agricultural policy (CAP) intensified. A reduction in the profitability of agriculture would have a wide impact on the countryside as a whole. Farmers were realistic about the need for

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change but they lacked confidence that the government had a policy for offsetting some of the damaging effects of economic change. Any feeling that the government were neglecting agriculture would also influence adversely the opinion of others living in rural areas. Up to 1m hectares of agricultural land could go out of production over the next 10 years and it was important that it should not become derelict. The report he had presented made proposals for developing alternative uses of land and alternative economic activity in rural areas and ways in which this could be brought about: Nearly all the measures suggested were of a pump-priming nature and though there would be an initial cost there was every prospect that, with the development of savings in the cost of the CAP, there could be a clear net financial benefit within 10 years. It was important that the government should not only be ready to take steps in the area of forestry, diversification of enterprises and the relaxation of planning provisions relating to agricultural land, while continuing to protect the rural environment, but also that it should make its policy clear. He sought his colleagues agreement both to the measures in the report and to the publication of a policy document early in 1987.

The Chief Secretary, making it clear that he fully understood the problems highlighted by the Minister

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of Agriculture, Fisheries and Food, said that there was a real risk that the savings predicated in the inter-departmental report would not arise and that the additional expenditure recommended would be a net addition to government expenditure on the support of agriculture. It was important to ensure that savings from the CAP should be secured and that only a small proportion of those was used on the measures proposed. In particular, since industries other than agriculture did not get incentives for diversification in rural areas, any additional expenditure for this proposed by the Agriculture Departments should be found within their existing PES lines. While he recognised the desirability of presenting a government policy document he was concerned about timing especially if, as the Secretary of State for Environment had proposed and he supported, a fundamental review was to be carried out on government assistance to forestry. It could be that any changes in the basis of the system would require legislation and the 1987 Finance Bill would not appear to be an appropriate vehicle.

In general discussion the following points were made -

- i. the fact that £60m would be spent in 1989/90 on the Forestry Commission, including the state forestry enterprise and grants to private woodland

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owners, and the existence of concessional tax arrangements which encouraged private planting for non-agricultural reasons did suggest that a thorough-going review could be justified. On the other hand, government policy on forestry had been reviewed in 1980 and the Commission were now pursuing a programme which would substantially reduce the net cost of their operations. It was not clear that a comprehensive review could be carried out sufficiently swiftly for its results to appear in a policy document in early 1987. Nonetheless it was important that the government should ensure that it was getting value for money both from the direct subventions to forestry in the United Kingdom and through tax concessions to private woodland owners and that it was not perpetuating out-of-date arrangements. There was a good deal to be said for making changes which would encourage an increase in the area of farm woodlands as a way of taking land out of production.

ii. It was important to be clear as to which land was likely to go out of production in adverse economic circumstances and which would be appropriate for afforestation. The measures proposed by the Minister of Agriculture, Fisheries and Food were targetted towards the marginal

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areas and costed on that basis.

iii. It was also important to ensure that the emphasis of any action was not too narrowly focussed on alternative forms of agricultural production as distinct from alternative non-agricultural enterprises to be fostered in the countryside. It was noted that there are rural areas, eg in mid-Wales, where the total impact of government assistance to small enterprises and including forestry, has increased the number of jobs available over the last decade.

iv. It was important that in working to stimulate economic diversification in rural areas there should be no conflict or overlap between the agencies concerned, for instance the Development Commission, the Agriculture Development and Advisory Service and the Manpower Services Commission.

v. If tourism in rural areas was to be stimulated it could be worth looking at present tax arrangements that apply to the provision of accommodation on farms.

vi. It should be a prime aim of government action to protect the rural environment, while allowing sensitive development within it: preferably this should be the result of the removal of restrictions and the injection of private enterprise

and capital.

vii. There was a great deal to be said for considering changes in the planning arrangements related to agricultural land on the lines suggested in the Report. The emphasis on giving additional protection to agricultural land in the interests of food production and the predominant position of the Ministry of Agriculture, Fisheries and Food in operating this appeared to be less and less appropriate in present circumstances. To make any more radical change, however, would be politically dangerous. It would be necessary to retain full protection of agricultural land within the green belt. Even within the more sensitive areas it was important to ensure that local authorities were less obstructive in agreeing to alternative uses for derelict agricultural buildings. Whether a particular stimulus should be given to the development of more golf courses was something that would need to be studied further.

The Prime Minister, summing up, said that, while she recognised the reality of the concerns that lay behind the Report there were still major areas where clarification was required. In particular it was important to establish -

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- a. what degree of relaxation of planning controls over the use of agricultural land would be desirable within a general aim of protecting the rural environment and how the changes could be best adapted to the needs of different parts of the country;
- b. which programmes for diversification of economic activity in rural areas we would wish to push, which bodies would be involved in doing so and how could their different efforts be coordinated to avoid waste and duplication;
- c. what scope was there for deploying the resources devoted to the support of forestry in the United Kingdom to give better value for money and in particular to promote acceptable forms of afforestation on farms.

Officials should urgently prepare papers on these three main aspects and submit them to further discussion by Ministers within a timetable which would allow the government to decide whether it should publish a policy document before the end of January 1987. It must be quite clear that no action proposed by the government should be designed to encourage a faster pace of change in the United Kingdom than in the rest of the Community or to reduce the competitiveness

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of British agriculture vis a vis the rest of the Community. It was also vital to bear in mind that so much depended on a real prospect of making savings in expenditure on the CAP.



PRIME MINISTER

ALURE

The arguments on the so-called CAP savings in Mr. Jopling's paper seem to me to be very poorly based.

- (i) If, eg, the beef regime is reformed the response from farmers would be to farm beef less intensively (David Williamson's best guess of the outcome) and to switch into other crops, which might themselves attract CAP subsidies. So the savings we can assume should be less than the theoretical maximum.
- (ii) In any case, even if the savings do accrue why should we assume that the right thing to do is to return them to rural areas? Any bid to help rural areas should be treated like any other bid and assessed against other bids and the claims of the taxpayer, who is at present being milked by the CAP.

DN

Now work on forestry
Proposals.
(inc. loan reliefs)

(DAVID NORGROVE)
13 November 1986

M.S.C.

Development
Commission & CASIRA

PRIME MINISTER

AGRICULTURE AND RURAL EMPLOYMENT

You have read my minute of yesterday and the brief from the Policy Unit. I suggest you now read David Williamson's brief (Flag B) and Mr. Jopling's minute (Flag C). The Ministers going to your meeting will no doubt speak to their minutes, which are most of the remaining papers in your folder.

On top within the folder is a brief from David Williamson about milk products and beef, which the Foreign Secretary and possibly other Ministers may also mention.

On the points mentioned by Mr. Jopling at your meeting with him this afternoon, David Williamson is sceptical about the estimate that 1600 jobs would be created by the proposed package. However, this is the figure which has been agreed inter-departmentally.

The problem with Mr. Jopling's proposal that the measures should be paid for by selling off Forestry Commission land is of course that the extra expenditure would be announced before the savings from sales were in the bag.

Dev

David Norgrove

12 November 1986

DG2BNG



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Qz.05441

MR NORGROVE

Agriculture: meeting of Ministers after Cabinet
on 13 November

This meeting has been called to discuss alternative uses of agricultural land and prospects for rural employment (ALURE) but we understand that the Foreign and Commonwealth Secretary and possibly other Ministers may refer at the end of the discussion to the need for decisions within the Community on milk products and beef. I attach a note for the Prime Minister.

D F Williamson

D F WILLIAMSON

12 November 1986

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Prime Minister
CDP



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MEETING OF MINISTERS ON AGRICULTURE: 13 NOVEMBER 1986

COMMON AGRICULTURAL POLICY: BEEF AND DAIRY PRODUCTS

NOTE FOR THE PRIME MINISTER

At the end of the meeting of Ministers after Cabinet on 13 November the Foreign and Commonwealth Secretary is likely to ask the Minister of Agriculture, Fisheries and Food for a progress report on Community discussions on the reform of the beef regime and major modifications to the dairy regime. Both are due to be discussed substantially at the Agriculture Council on 17/18 November. Dairy products present the biggest current CAP problem because of the very high cost of this sector and the rate at which intervention stocks are rising; the Commission has proposed a substantial weakening of intervention and is expected shortly to propose a further cut in quotas from the beginning of the next milk year. In addition, because the Agriculture Council failed to tackle the problems of beef at the 1986 price fixing, it set a deadline of the end of 1986 for reform of the beef regime; the Commission has made a proposal for changing intervention to a safety net only and partly compensating by premia for beef farmers. The Foreign and Commonwealth Secretary is rightly concerned that the Agriculture Council should take substantive decisions on milk and/or beef under our Presidency.

Beef

The main issue here is how to reduce the level of intervention. Earlier this year the Commission proposed an end to permanent (automatic) intervention: buying in programmes would be introduced only in circumstances

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of serious market disturbance. This would be to revert to the original Community beef regime. Purchases into intervention have been running at about 16,000 tonnes per week since the summer and Community stocks now stand at 511,000 tonnes. Discussions on the Commission's proposals have shown a wide-spread recognition of the problem of excessive stocks but, as has been the case before in the Agriculture Council, division over what action should be taken to tackle it. One group of member states, led by France, has argued for reducing (but not sufficiently) the prices at which beef may be brought into intervention. Germany, being opposed to any reduction of prices in a pre-election period, has argued for the imposition of quotas on the amount which might be brought into intervention, but with no reduction in support prices. Our preference is for the Commission's approach of ending permanent intervention: that is by no means a lost cause.

It is clear that if the measures are to have any real effect - and we, like the Commission, have in mind a reduction in intervention purchases of at least 100,000 tonnes per annum - then there will be a reduction in producers' returns. To offset this the Commission proposed the replacement of the Community calf premium and our Beef Variable Premium, by a new premium for specialist beef animals with a continuation also of the premium for suckler cows. Because - deliberately - the premium would not be set at a high level it has not been seen by a number of member states as an adequate substitute for intervention. It was not meant to be and should not be if the costs of the beef regime are to be significantly lowered.

Mr Jopling is putting together a possible Presidency package for tabling if it seems advantageous at the November Council. He will be able to report on this and on the discussions on 12 November held in the High



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Level Group of senior officials, which is preparing the next stage of the negotiations on beef (and on dairy products). We believe that the correction of the imbalance in the beef market can be made. Some factors are favourable (world markets quite good) and, if intervention were weakened, the market would begin to correct itself. Our order of priority should be:

- (1) weakening of intervention and greater play of the market;
- (2) reduction in intervention prices;
- (3) a satisfactory and, of course, non-discriminatory premium system.

Dairy Products

Despite the introduction of milk quotas, there is still a structural surplus of milk products. With the market heavily over-supplied and demand static or falling, intervention stocks of butter and skimmed milk powder are at absurd and indefensible levels. In the first half of this year a further 570,000 tonnes were added to the Community butter mountain at a cost of nearly £2,000 per tonne. Total stocks are now just under 1.5 million tonnes. Skimmed milk powder stocks stand at 1m tonnes. In September the Commission put forward emergency proposals designed:

- (a) to tighten-up the operation of the quota scheme; and
- (b) to suspend permanently purchases of skimmed milk powder into intervention during the winter, with the power to suspend intervention of butter at any time and with similar action for skimmed milk powder if necessary during the summer months.



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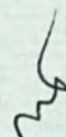
In discussions so far a clear majority of member states has supported the Commission's analysis and has been prepared to consider changes to the intervention regime. At one point it looked as if agreement could have been sealed on the permanent suspension of purchases of skimmed milk powder, but this has not been achieved. It now seems likely that the Commission will have put forward at the High Level Group supplementary proposals designed to tighten up the impact of the quota scheme; to reduce production by a further 6½m tonnes (a 6 per cent reduction in production to add to the 3 per cent cut made at the 1986 price fixing); and possibly to promote disposal of the stocks that over-hang the market. We should be pressing for action in the Agriculture Council. Our immediate order of priority should be:

- (1) a further cut in quotas;
- (2) weakening of intervention;
- (3) other measures, eg a higher levy on over-production.

After decisions affecting production have been taken, it is imperative for the Commission to start to get rid of some stocks. They have clearly lost control of the market.

Conclusion

You may like to invite Mr Jopling to report to you after the November Agriculture Council and before the European Council on the state of the negotiations on milk products and on beef, on the understanding that we remain determined to achieve under our Presidency decisions which will contribute to some correction of the imbalance in the milk product and beef markets.

PRIME MINISTERAGRICULTURE AND RURAL EMPLOYMENT (ALURE) 

The positions taken so far are:

- E Chief Secretary: premature to announce measures now and why is agriculture different from any other industry
- F Mr Ridley: very sceptical
- G Mr Channon: also sceptical; but relax planning restrictions
- H Lord Young: relax planning restrictions

The main papers you need read are the Policy Unit note and David Williamson's brief (flags A and B) and Mr Jopling's minute at flag C. His minute at flag D has attached a letter from Emma Nicholson.

David Williamson's brief is admirable. His discussion of the proposed strategy document (paragraph 13), is carefully phrased. He is not yet convinced about the wisdom of publishing a document. It would identify the areas likely to be worst affected, leading to extra pressures from them. Also, farmers are never satisfied. The document could simply stir them up more than ever.

May I offer a personal comment?

One of the proposals is to double the rate of planting of private forestry. 70% of the trees, and probably more, would be conifers. The land to be used for planting is at present mostly pasture.

I view this prospect with horror and I believe many other people would share that view. Beauty is in the eye of the beholder, but few would regard massed ranks of conifers as an attractive sight from a distance. They are also dreary to be

in. They provide a poor environment for wildlife. And they are believed to contribute substantially to water acidification in the longer run.

Conifers are having a dreadful effect on the landscape in Wales and Scotland. I understand that as much as a fifth of the magnificent flow country of Caithness and Sutherland has now been ploughed for planting. The proposal relates generally to lowlands: conifer planting could be more, not less, sensitive there.

It is no answer to say that the present landscape is anyway manmade. So it is. But that does not in itself justify any degradation we care to inflict on it.

DN

DAVID NORGROVE

11 November 1986

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CC BG
B/UP

Qz.05439

MR NORGROVE (10 Downing Street)

Inter-Departmental Working Party on Alternative Uses
of Agricultural Land and Sources of Rural Employment
(ALURE)

I attach a brief for the Prime Minister for the informal meeting of Ministers arranged to follow Cabinet on Thursday 13 November.

I am sending a copy to Sir Robert Armstrong.

D F WILLIAMSON

11 November 1986

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1 B Savings

Qz.05438

BRIEF FOR THE PRIME MINISTER

INFORMAL MEETING OF MINISTERS: THURSDAY 13 NOVEMBER 1986

Inter-Departmental Working Party on Alternative Uses
of Agricultural Land and Sources of Rural Employment
(ALURE)

Handling and Conclusions

1. You may wish to invite the Minister of Agriculture, Fisheries and Food to introduce his ideas: in his minute of 10 November and the annexed draft synopsis of a policy document he has simplified the proposals in his earlier minute of 22 September. The Chief Secretary, Treasury will want to comment, in view of his minute of 10 November. The Secretary of State for the Environment and the Secretary of State for Trade and Industry have minuted their views and the Paymaster General will wish to comment on behalf of Lord Young. The other Agriculture Ministers will wish to support Mr Jopling and, as the Minister with lead responsibility for forestry, the Secretary of State for Scotland will want to comment particularly on it.

Welsh see

2. There may be disagreement among Ministers on whether the time is right to publish a strategy document covering all of Mr Jopling's points early in 1987.

3. You may be able to conclude that:

(i) officials should now work rapidly on the elements which might be included in such a strategy document, with a view to a decision when the content (and financial effects) are clear;

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(ii) the document should refer to all areas in which follow-up action is to be taken, including:

(a) building up the basis of a scheme for increased afforestation, with the main emphasis on the development of farm woodlands;

(b) reviewing the planning conditions related to agricultural land; and

(c) bringing together into a coherent scenario all the work at present being done by the various authorities on the possibilities for diversification of use and employment in rural areas with the aim of making sure that the rural community may better know about and take advantage of these facilities;

(iii) it should be made quite clear that the framework for government action in the area is the continuing commitment to effective reform of the CAP and to a major reduction in the cost of agricultural support across the Community as a whole.

Background

4. The report which is to be discussed by Ministers arises out of the commission which you gave to the Minister of Agriculture, Fisheries and Food at a meeting of Ministers on 19 March 1986 "to consolidate proposals on alternative uses for some agricultural land and for the encouragement of alternative employment in the countryside". That meeting had been called to discuss the government's longer term strategy for reforming the operation of the Common Agricultural Policy. There was broad



agreement that price restraint was an essential element of our strategy, but that it would not be sufficient in itself to achieve the necessary objectives; other steps would have to be taken to assist the process of change. Since the meeting Mr Jopling has developed and presented to his colleagues in the Council of Agriculture Ministers his scheme for the conversion of some land from cereal growing ("set-aside"). But there are also the wider issues of the impact of marked reductions in agricultural support on the countryside and the rural economy. These are the issues - for the United Kingdom - that are addressed in the report of the inter-departmental working party.

The report

5. The working party's starting point is the estimate that if the adjustments necessary to bring agricultural production back into balance in the Community are made over the next decade the impact in the United Kingdom will be that some 700,000 hectares less is likely to be needed for cereals and some 500,000 hectares less for dairying. On current trends 200,000 hectares will be lost from agriculture to other developments, so leaving 1m hectares of "spare" land (compared with the total United Kingdom area of crops and grass in 1985 of 18.7 million hectares). The report points out that the immediate impact is likely to be on the marginal cereals and milk areas in the south west, central and north east England, eastern and south west Scotland and parts of Wales; and that farmers at the end of the line - ie those on the poorer land in remoter and less favoured areas (LFAs) - will feel the impact most.

6. Employment in both the agriculture industry and the ancillary industries would be directly affected. Employment in agriculture is predicted to fall by some 50,000 to 100,000 jobs (out of a current 615,000) over



the decade; and the loss in ancillary industries is likely to be at least half as much as that in agriculture.

7. The report acknowledges that the timing of such changes is difficult to predict, since it is so dependent on the pace at which the CAP will be reformed. Moreover, as long as Community incentives to crop and dairy production stay high national incentives for alternative courses will be expensive. If we want to manage change, eg through land conversion schemes ("set-aside") and an extension of afforestation, then that will have to be within the context of Community policies which favour such changes. But the report suggests that there are steps which should and can be taken now when the pressure on farm incomes is already evident but before the signs of real agricultural difficulties appear.

8. The report recommends a mixture of measures. Some will deliberately stimulate change, eg incentives for the expansion of forestry on better land and of farm woodland generally; a doubling of the number of environmentally sensitive areas (ESAs) in which the claims of conservation are given particular encouragement; and the stimulation of alternative rural employment via additional money for the Development Commission and the Tourist Boards. Others will primarily facilitate the process of change, eg some relaxation of the planning requirements which currently give extra protection to agricultural land; the provision of technical know-how on the production of novel crops and livestock production; and a greater awareness of the facilities already available via a range of organisations to help with diversification and development in rural areas.

Mr Jopling's proposals

6. In his minutes to you of 22 September and 10 November Mr Jopling recommends:



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(i) that a positive programme, based on the recommendations in the report, should be developed to sustain the rural economy and environment and to mitigate the problems associated with tackling CAP surpluses;

(ii) that particular attention should be paid to the encouragement of greater planting of trees; diversification both on and off farms; and some relaxation in planning policies in relation to recreation and the development of agricultural land;

(iii) that the government's intention to maintain support for agriculture in the less favoured areas should be assured - this is of considerable importance to the Secretary of State for Scotland.

7. In addition Mr Jopling believes that it is highly desirable to present such a programme in a strategy document which would set out the government's general approach to the CAP and to the role of the agriculture and food industries in the national economy. He is concerned that there is a real risk of the government appearing to be without a policy in this important area, particularly as he believes that various other bodies, eg the agricultural NEDO and the Countryside Commission, are about to produce policy statements which will cover very much the same ground. He also takes the view that publication of a strategy document at the beginning of 1987 would allow it to be better received than if publication were delayed into a pre-electoral period. With his minute of 10 November he has circulated a synopsis of the sort of document he has in mind.

Discussion

11. There are major long-term issues here. Even if one is doubtful about the speed at which the Community

will make adequate radical changes to get the CAP under control it is still true that it is the government's policy objective that this should happen. If it does there will be reductions in profitability for both cereal and livestock sector; the number of farmers and agricultural workers leaving farming is likely to increase; there will be a sideways affect on the industries ancillary to and serving farming, and there will be some risk of rural dereliction. Though the farming lobby is not numerically large (providing only 2.6 per cent of total civilian employment) its economic health has particular effect on areas where farming is the main industry and the quality of life in and beauty of the countryside is something in which a great number of people take an interest. But there are two crucial points:

- a. how far should the United Kingdom get ahead of the game by making way for the adjustments unilaterally when to do so would reduce the competitiveness of our own farming sector and yet have no impact on the much more significant levels of production in the rest of the Community. The United Kingdom has about 12.7 per cent of the agricultural production from about 18.5 per cent of the agricultural land in a Community of Ten (these shares are, of course, lower since Spanish and Portuguese accession);
- b. how far the government should actively manage change (eg through the stimulation of forestry and positive conservation measures), how far it should facilitate change, eg through help with diversification and relaxation of planning requirements, or how far it should leave the market to sort out the major consequences of change.

12. On point a. Mr Jopling would claim that his approach involves no more than being in a position to "take sufficient care of the farming industry and the rural areas"

as the major policy adjustments begin to bite and that this justifies a mixed package of measures. Other Ministers' views vary. The Secretary of State for the Environment is sceptical. In his minute of 7 November he doubts the value of putting more money into agriculture; he wants a clearer analysis of the sensitivity of trends here to adjustments in the CAP; and he raises doubts about Mr Jopling's forestry option, asking for a radical review of the current fiscal arrangements. The Secretary of State for Employment believes that it is right for the government to act and to be seen to be acting decisively in this area but wants to minimize subsidy or intervention and sees the main move as being to remove the special protection under our planning arrangements afforded to agricultural land and to rely primarily on green belt policy to restrain undesirable development. The Secretary of State for Trade and Industry's views are similar. The Chief Secretary's doubts are similar to those of Mr Ridley. Moreover, he is against premature announcement of government action and wants to ensure that any measures are cost-effective in national terms. The Secretary of State for Scotland, while welcoming the possibility of an expansion of farm forestry, is concerned about possible conflict in the hills between large-scale forestry and agricultural interests and about the general need to protect the economies of the less favoured areas.

Expenditure

13. Taking steps to promote change inevitably raises issues of expenditure. Mr Jopling has in mind that the rate of new tree planting could be doubled and amount to 400,000 hectares over the decade. A detailed paper by officials attached to his minute of 10 November shows how this target might be achieved and what the costs would be. He also has it particularly in mind that woodlands on farms could be encouraged, accounting for 15,000 hectares a year. Finance to encourage this and to maintain

income during the time the tree crop is growing is estimated at £45m over a five year period. A doubling of the number of environmentally sensitive areas would require additional funds (about £30m over five years) and there is also the suggestion in the report that extra money could usefully be made available for diversification (about £21m over five years) in addition to that provided by the Development Commission and the Tourist Boards. Overall the additional expenditure could develop to something like £155m over 5 years - against which Mr Jopling will make the point that the sort of changes we want to see in the CAP would provide savings to the UK Exchequer of at least this amount and that those savings would be cumulative. The figures in the official paper on woodland are quite impressive; for traditional forestry savings would appreciably exceed costs by the 10th year and for farm woodlands cumulative savings would equal cumulative costs by the 5th year. These schemes do look good. Clearly decisions on expenditure must be made in the context of future PES rounds; but Mr Jopling will press strongly for general clearance both to develop positive measures of afforestation and to announce that this is his intention.

Planning

11. The application of planning controls to agricultural land is a particularly difficult problem. Annex F of the ALURE report sets out a perspective of future policy agreed amongst officials, which the Agriculture Ministers and the Secretary of State for the Environment have generally endorsed. This approach envisages a move from the present position where agricultural land, particularly land of higher quality, receives strong protection on the grounds of its food production potential to a position where this potential should be weighed alongside other desirable and relevant policy objectives, particularly job creation and alternative types of employment in rural areas, in deciding individual planning applications and in allocating land for development. Agricultural

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land would still receive the protection of the planning system but the additional protection would not be given to the current extent. This is a politically sensitive issue. There could be considerable public disquiet if the change were interpreted as a move to give up green areas, particularly around cities. It would be essential, if a policy document such as Mr Jopling has in mind were produced, to make explicit the nature of the change suggested and to undertake first to consult interests concerned.

Other measures

12. There are other less expensive and less contentious measures suggested. The enquiries launched by the Working Party have shown a range of possibilities for alternative forms of production, both crops and livestock, and a range of organisations and schemes which can offer possibilities for diversification in rural areas, particularly to promote recreational uses and to diversify employment. It would be of great value to all concerned with the rural economy if

- a. knowledge of these existing schemes and organisations were pulled together and made generally available;
- b. all the specific organisations were to commit themselves to playing a full part in the process of change; and
- c. in rural areas there were to be a focal point, possibly the Agriculture Development and Advisory Service, to which members of the agriculture and ancillary industries could turn for advice and help. This is a process that could readily be launched without major cost or political implications, with clear benefit to members of rural communities and with some possibility of eliminating duplication and even rivalry.

A strategy document

13. Mr Jopling presents, in his minute of 10 November, his arguments for government publication of a strategy document in a popular form. The judgement whether this will have a favourable impact is essentially political but, in making such a judgement, Ministers may wish to consider -

(a) whether they wish to be committed to an estimate of 1 million hectares of "spare" land over the next decade and to the indication of the regions of the country in which the problems are likely to arise;

(b) whether the action proposed in a strategy document will look sufficiently positive. It looks as if Mr Jopling's discussion with the Chief Secretary on afforestation has advanced well enough for the outline of a package to be visible and publishable. But further work will have to be done by the Department of the Environment and others in order to get some clearer estimate in relation both to land and buildings of the sort of impact that relaxation of planning conditions might have.

Cabinet Office

11 November 1986



From the Minister

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

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW 1

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COO
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11 November 1986

Geoffrey Howe
COMMON AGRICULTURAL POLICY - MILK AND BEEF

You might find it helpful to know how I see the prospects for making progress on milk and beef at the High Level Group meeting this week and the Agriculture Council next week.

First on milk, we now have the outline of the further proposals which the Commission are likely to bring forward. In addition to insisting on their original emergency package, it now seems that the Commission will propose that the cut in quotas agreed at the last price fixing should be doubled to achieve a 4% reduction in 1987/88 and a 2% reduction in the following year. They also intend to propose a single rate of supplementary levy of 100%, thus removing the 75% rate which applies at the moment to Formula A countries. At the same time, they will make proposals to end Formula B (the system which allows under-production of quota by some producers to reduce the levy paid by those who over produce within the same area) and to end the arrangements for inter-change between direct sale and wholesale quota. They estimate that the overall effect of their proposals would be to reduce milk production by some 6½ million tonnes which would mean, taking account of the 3% cut back already proposed, a 9½ million tonne reduction over the two years.

At the same time, they are apparently envisaging an increase in the milk coresponsibility levy in 1987/88 to finance any proportion of this cut back which will not be achieved next year. Broadly speaking, each one percentage point increase in the coresponsibility levy would produce finance equivalent to the cost of handling about one million tonnes of surplus.

We would have preferred to see bigger direct cuts in quota than the Commission are proposing together with a higher, more dissuasive rate of supplementary levy. Instead, the Commission's approach is to impose a rigid system of on-farm quotas by removing not only the Article 4(A) provision (which allows inter-regional transfers of unused quota) but also Formula B. There will be very strong resistance to each of these changes to the

system. The further proposal to discontinue the arrangement under which direct sellers are able to vary their quota between direct sale quota and wholesale quota would particularly penalise those sections of the industry which have shown themselves to be most progressive in seeking out new markets for fresh products and selling directly to consumers. The latter provision would have a particularly harsh effect on a section of the UK industry and would give rise to a great deal of political flack. There would also be strong resistance from our industry generally to a substantial increase in the coresponsibility levy unless some of the money was clearly earmarked for promotional activities.

In the negotiations we must clearly support the Commission's overall aim of achieving a substantial cut back in production over the next two years. We should deploy the case for bigger quota cuts and a larger increase in the supplementary levy. This would enable them to accept the continuation of Formula B (the removal of which would cause great difficulties for a number of Member States including ourselves). We must also oppose the proposal on direct sale/wholesale quota inter-change which, as I have said, would have a bad effect on a section of our industry without making very much difference to the overall problem. Nor should we go along with the idea of a large increase in the coresponsibility levy since this could simply amount to an excuse for failing to face up to the surplus problem. A package along these lines would avoid the inefficiencies which would result from a rigid quota regime, and would be more satisfactory from our own point of view.

As to beef, we are not expecting any new proposals, though the Commission may be ready to show some flexibility over the methods of achieving their aims. The negotiations at official level have proved to be as difficult as expected. The Commission has stood firmly by its proposals, emphasising that the package had to be seen as a whole: without large savings on intervention, there can be no prospect of introducing any new premium scheme. Only the Netherlands has been prepared to support the Commission package as it stands. Most Member States can agree in principle that intervention intake needs to be reduced but there remains wide disagreement as to how this might be achieved. The French have argued for price cuts. But in practice they may be looking for only small reductions and they are keen to retain the concept of permanently available intervention. A Germany proposal for quotas on intervention purchases has met with very little support. On the premium side, those Member States who are most anxious to preserve high levels of intervention have argued against the introduction of any new premium arrangements, preferring instead to rely on extensive intervention, including the purchase of sides and not just quarters of beef.

... In the light of the official level discussions, we have prepared the attached Presidency document which would form the basis for discussion at the High Level Group. It proposes a Community intervention ceiling of 250,000 tonnes per annum, a cut of 200-250,000 tonnes from the level otherwise likely to be reached in 1987. Such a cutback would produce bigger savings than those estimated in Table B to OD(E)(86)16 where a cut of only 100,000 tonnes was estimated with no change in buying prices.

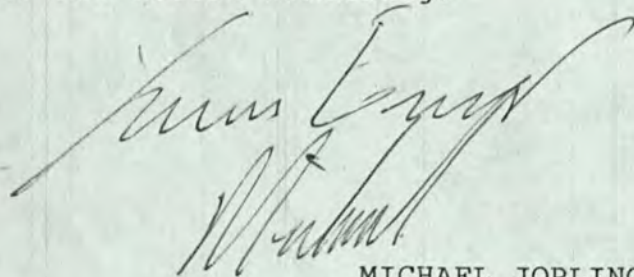
A cut of 200,000 tonnes in Community intake in each of the years 1987 and 1988 would lead to intervention costing some 760 mecu and 540 mecu in 1987 and 1988 (instead of 995 mecu and 840 mecu on unchanged policies) thus providing savings of some 235 mecu and 300 mecu respectively. If buying-in prices were cut, there would be additional savings. Thus this compromise would result in additional savings in 1987 and 1988 of some 100 to 150 mecu per year beyond the savings already costed in the OD(E) paper. On the premium side, we are anxious to ensure that, within the reduced level of support, aid is concentrated on producers.

We have made progress on the question of a possible provision for payment at slaughter. But the coverage of the premium scheme is proving very difficult. There is little sympathy on the part of other Member States for the inclusion of heifers (to which the UK industry attaches considerable importance) even on some restricted bases and the level of the premium has still to be tackled. Since the coverage and the rate will have to be restricted, the suckler cow premium scheme could play a very important part in any final compromise. This scheme, with an increase in the rate, would be welcome to the specialist sector and would, to some extent, offset the loss of basic premium support on heifers. The costs at the Community level could be relatively modest given that only 5.5 million animals qualify under the scheme each year.

The overall cost of these ideas depends on what levels of premia and what depth of intervention price cuts are negotiable. It is tougher than the option which was put to OD(E); and I should emphasise that it would be hard for our industry to swallow. As we noted in the earlier OD(E) discussion, some element of national top-up of premia could be needed to make it defensible in the UK. This is not an option we have yet raised but it is one which we shall need to keep open as the negotiation proceeds.

There are a lot of difficulties to be overcome before we have the basis of agreement on either milk or beef. It will be necessary to decide on our handling of our discussions at the Agriculture Council next week when we see the outcome of this week's meeting of the High Level Group. The prospects are not good for reaching firm decisions at next week's Council, though we must make every effort to do so on one or other of the dossiers. But, in any case, I shall do my best to pave the way for conclusions at the December Council.

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



MICHAEL JOPLING

DRAFT PRESIDENCY NOTE

REFORM OF THE BEEF REGIME

POSSIBLE BASIS FOR DISCUSSION IN THE HIGH LEVEL GROUP ON 12/13
NOVEMBER 1986

1. The level of intervention buying for beef is too high. It should be reduced substantially to 250,000 tonnes per year at the most.

2. The reduction in the level of intervention should be achieved by a combination of measures:-

(a) The intervention price will continue to be established as at present. However, by derogation the buying prices for the qualities specified for intervention are reduced by [x] per cent.

(b) The reduction described at (a) above could be varied monthly to reflect movements in the Community average market price.

(c) The stop-go arrangements for intervention buying will continue but be calculated on the basis of the reduced buying prices as specified at (a) above and on the basis of a longer reference period before intervention is introduced.

(d) The Commission, during periods when intervention is suspended throughout the Community may decide to arrange programmes of purchasing, setting prices, qualities and quantities (if necessary set for specific regions) and operating within the limit at paragraph 1.

3. In order to sustain the incomes of producers a premium shall be payable on the following criteria:

(a) The premium is to be paid on all male animals, at a flat rate per head, once only either on farm or at slaughter.

- (b) The rate of premium is set annually by the Council, taking into account the need to sustain the incomes of producers. In the first year it is set at [Y] ecu per head.
- (c) Member states may make payments on heifers as well as male animals provided they are able to ensure that they are not subsequently used for breeding. If this option is used the rate of payment on all animals in that member state is correspondingly adjusted.
- (d) Member states making payments on live animals will mark them or introduce other measures to ensure that the payment is made once only in respect of each animal.
- (e) Member states making payments on animals at slaughter will apply checks to ensure that they have not benefited from payment while live. If necessary administrative measures may be applied to ensure that the benefit of the payment reaches the producer.
- (f) Payments will be made on animals at a minimum age of 12 months if paid on the farm or at appropriate weights if paid at slaughter. Member states may take account of differences in quality.

4. The suckler cow premium scheme will be continued and improved in particular by an increase in the rate of payment per cow.

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CONFIDENTIAL

PRIME MINISTER

11 November 1985

ALTERNATIVE LAND USE AND RURAL ECONOMICS

Mr Jopling is right to argue for more positive presentation of Government policies to offset current concerns in the agricultural communities. However, we disagree with many of his specific proposals for new measures.

The basic thrust of the ALURE report is that a range of additional Government programmes (and expenditure) is urgently needed to encourage alternative use of agricultural land in response to growing food surpluses. This approach is unconvincing. As our earlier note on ALURE pointed out, the scale and gradual pace of the expected adjustment should allow market forces - in particular, the falling price of land - to reallocate land use without the need for further subsidies or state planning. The notion that one could be left with 1 million hectares of 'spare' land in a market economy is absurd.

However, as other Ministers have pointed out in their comments, the recommendations also embrace some wider aspects of Government policy for rural areas - including reform of planning controls, support for enterprise and encouragement of recreational activities. Some new initiatives in these areas could be very helpful in providing a positive message on economic development to depressed agricultural areas.

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Thus, while we would recommend that you reject Mr Jopling's request for a public document based on the whole ALURE approach, you could usefully use the occasion to agree a number of specific changes in planning policy that could and should be implemented now. In addition, you could encourage Mr Jopling to pursue those policy initiatives which are within the remit and budget of MAFF (for example, on new crop developments) while ensuring that the existing range of wider Government programmes are presented in the most favourable light.

For next year there is also a question as to whether it would be helpful (as Mr Ridley suggests) to work towards a White Paper setting out the Government's approach on the broader environmental issues in the development of the countryside, which would aim at the conservation interests as well as farmers. This is worth considering.

ALURE Proposals

Mr Jopling's memorandum draws attention to three major recommendations.

1. Encouragement for a major increase in the planting of trees

The report envisages doubling the rate of tree planting to cover 400,000 hectares over the next decade - through increased grants for commercial forestry and by providing

continued income support for farmers who plant woodlands on their farms. We do not believe these proposals are attractive either economically or environmentally.

The report argues that the savings to CAP from taking farmland out of production would pay for the increased subsidies. We doubt it.

- The calculated "savings" assume only a slow reduction in the current levels of CAP support for storage and disposal of surplus production that would otherwise be incurred. Surely, we should be aiming at a much faster reform of CAP that avoids the need for permanent, subsidised set-aside? This is an attempt to apply a long-term solution to a short-term adjustment problem.

- The savings of agricultural production assume planting on medium grade grazing and arable land. You might ask Mr Jopling how he expects this to be achieved? In our view, most commercial forestry would take the grants to expand planting on current uneconomic low grade upland sites rather than buying out more expensive farmland. And few farmers would be willing to take one or two fields out of production to plant trees. The economics of such small plantations are very poor. In addition, farmers are likely to be reluctant to lose the economies of scale they obtain from spreading fixed costs (labour and equipment)

while they maintain the fields as part of their arable or livestock activity.

- A more likely result is that higher subsidies would simply encourage more large scale forestry on marginal land - with little offsetting CAP savings. Furthermore, unless there were strict controls to ensure a proportion of broadleaved planting - which would raise the subsidy required to make it attractive - the result could be a further extension of conifer plantations which would create major environmental objections.

Mr Ridley's note suggests that, rather than increasing subsidies, there is a good case for reviewing existing grants and tax relief on forestry. These can now result in the taxpayer subsidising up to 70% of the investor's initial planting costs. We would suggest you encourage Mr Ridley and Mr Rifkind to review the environmental impact and economic efficiency of this whole set of policies.

The Chancellor would wish to be in the lead on tax aspects.

2. Increased effort to assist diversification into both agricultural and non-agricultural enterprises

While we agree with the objective of greater economic diversity in rural communities, the report suggests little new apart from more subsidies. The recommendations cover:

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- Providing farmers with more advice on business development through an expanded rôle for ADAS. (But do ADAS have the right skills? We doubt it.)
- Extending Agricultural Capital Grants to cover non-agricultural investment. (More subsidies. Why should farm-based businesses get an advantage over other new enterprises? And how could we prevent most of the money going to the already wealthy farmers who would be the first to take advantage of a new hand^{out}?)
- Establishing regional marketing advisory groups (new quangos).
- Expanded budget for the Development Commission and COSIRA (more intervention).
- Expanded budgets for Tourist Boards (more money).
- Expanded budgets for Local Enterprise Agencies (more money).

We believe the Chief Secretary was right to resist this additional expenditure. The report does little to examine the effectiveness of existing expenditure or to justify why rural areas should have a higher priority than - for example - inner city development. Mr Jopling should have room within his existing budget to shift priorities onto worthwhile new programmes.

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3. Some relaxation in current planning policies

Although the report makes few specific recommendations here, we believe that the relaxation of planning restrictions is one area where the Government can take some important practical initiatives to facilitate sensible economic development.

These issues are, of course, at the heart of the green debate. The Government will need to find the right balance between providing a positive message to agricultural communities while reassuring its natural allies in the conservation movement. However, we would recommend rapid action on two key areas:

- Conversion of redundant farm buildings to accommodate new business activities should be made easier (with refusal only where there is significant loss of amenities).

- Existing restrictions on the conversion of high grade agricultural land to non-agricultural uses should be withdrawn. Any new development would need to satisfy local planning requirements, but the current presumption that high grade agricultural land should be given special protection is outdated in an era of surpluses. Recreational uses, in particular, could be expanded.

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It is ridiculous to prevent farmland from being used to keep horses as part of a riding school or livery stable. With less restrictions, horse riding could expand rapidly around major conurbations. Similarly, many areas have a large pent-up demand for golf courses which could displace agricultural production while maintaining a pleasant, recreational environment.

You might ask Mr Ridley to examine the possibility of immediate action on these areas, while also reviewing whether it would be helpful to develop and publish a more comprehensive review of planning policies in rural areas. Such a document could help present the Government as having a positive approach to the countryside at a time when other parties are putting forward their own proposals, but it could also act as a focus for attack by the extremists in the conservation lobby. The alternative would be to wait for the Manifesto.

Recommendations

1. Put an end to ALURE as an exercise in MAFF planning and emphasise the importance of allowing long run market adjustments to work through.
2. Reject schemes to create new subsidies for forestry and suggest ^{the Chancellor,} Mr Ridley and Mr Rifkind review the impact of existing measures.

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3. Ask Mr Ridley to consider immediate action to ease the least sensible planning restrictions.
4. Ask Mr Jopling to tackle the problem of policy presentation to the farming community without calling for new funds.
5. Keep open the option of a major policy document on environmental and recreational policies for the countryside next year.

Norman Blackwell

NORMAN BLACKWELL

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FROM: CHIEF SECRETARY
DATE: 10 November 1986

Keep for meeting!
JH

PRIME MINISTER

**ALTERNATIVE USES OF AGRICULTURE LAND AND SOURCES OF RURAL
EMPLOYMENT**

at HCU
I have been following with interest the correspondence on this subject starting with Michael Jopling's minute to you of 22 September. I understand that Michael will be circulating a further note on the financial implications and objectives of his proposals for your meeting on 13 November. But you may find it helpful to have a note of my views before we meet.

2 My view is that, whilst it is entirely appropriate for us to consider the consequences for the rural economy of a substantial reduction in the current levels of CAP support, it would be premature to rush into announcing a new programme of support measures until we have a better idea of the scale and the direction of the sort of CAP reforms which can be achieved and the PES savings which can thereby be realised (and this means in particular seeing the savings being achieved in practice before committing ourselves to the introduction of any items in the programme). I understand that the Commission have promised to bring forward far reaching proposals in next year's Price Fixing and their "ex novo" review of the Community's finances. Drastic action is certainly required in view of the budgetary situation and the current level of intervention stocks. But it remains to be seen exactly what measures the Commission will propose and, more important, what proposals the Council of Ministers can be persuaded to adopt. The effects on land use, farm income and employment in the UK could differ substantially depending on the means adopted to reduce CAP budgetary costs.

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3 As I indicated above, I believe that we must avoid introducing new schemes with additional expenditure before the CAP savings have been achieved. Moreover, given the problems which IBAP expenditure has caused the PES planning total in recent years, we clearly cannot proceed on the basis that all savings on the IBAP programme can be hypothecated in favour of the agriculture programme, although I would be prepared to concede that a small proportion of the potential savings might be used to assist the necessary process of adjustment.

4 In considering the scale and type of any measures we must bear in mind that in other sectors of the economy we have been prepared to allow as great and sometimes even greater structural changes to take place without Government intervention. I therefore fully agree with David Young and Paul Channon that the emphasis in any adjustment programme should be on creating the right environment for private enterprise to flourish. Relaxing the current planning restrictions on the development of agriculture land is clearly a candidate in this context.

5 I would not seek to rule out of consideration altogether some new interventionist measures of a pump priming nature, if they can be justified in terms of the accepted rationale for Government intervention in industry, i.e. if it can be demonstrated that they will produce a net benefit for the economy as a whole (not just for farmers) or that there are significant environmental factors where some funding would produce new benefits; that they will be time limited and that they can be financed within the existing PES totals. I hope that we can agree that any further work at official level on Michael's proposals, which is clearly needed before any decisions in principle can be taken, should be aimed at satisfying us that they will be cost-effective in these terms.

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terms.

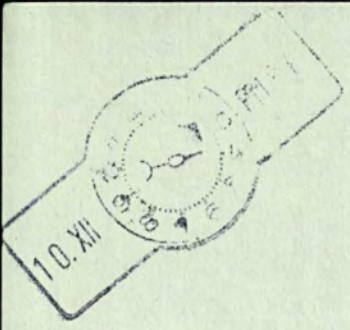
6 I am sending copies of this minute to Michael Jopling, Willie Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Malcolm Rifkind, Nicholas Ridley, David Young, Paul Channon, Norman Tebbit and Sir Robert Armstrong.

of Mr. Ed Stench

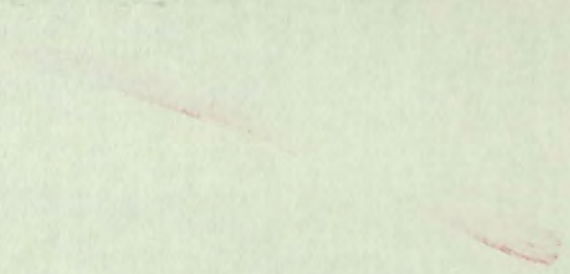
JOHN MacGREGOR

(Approved by the Chief Secretary and signed in his absence.)

EURO POL CAP PT14



[Faint, illegible handwriting in the center of the page]





From the Minister

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

CCBG
CCB/140

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PRIME MINISTER

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

We are meeting on 13 November to discuss my minute of 22^{at 11.45} September and the report of the interdepartmental group of officials.

In preparation for the meeting, my officials here have been working with the Treasury on the financial implications of my proposals and I attach at Annex A an agreed note. This explains the different proposals and analyses their impact on land, agricultural surpluses, farm income, employment, the environment and on Government expenditure. Table 2 at the end shows the balance between direct savings in agriculture, support costs under the CAP and the costs of the package in the first 5 years. There will be some lag in the savings, and we have therefore included figures for the tenth year which show how savings will build up over time. The savings would be in addition to the benefits that would derive from general reform of the CAP.

It is of course of the essence of my approach that, in vigorously pursuing our objective of reducing the cost of the CAP, we should not at the same time lose the confidence and support of the rural sector. We are committed to urgent reform in the CAP systems which support surpluses in key commodities like milk and beef. We are pursuing our land diversion initiative for cereals which could make a major contribution to solving the problems in that sector and bring about net gains in expenditure terms. All this will be hard work. Price proposals from the Commission will have emerged by the turn of the year and I am sure we shall want to endorse these if, as I expect, they are aimed at reducing CAP support significantly. Faced with these strong adjustment signals, we do not want our efforts undermined by criticism that we are failing to safeguard the interests of our own producers. This was the message I got from the Party Conference this year.

The measures I now propose are modest. They could not fully cushion the industry from the effects of a tougher CAP. But they will give farmers some alternatives so that they can direct their efforts and skills into something other than producing surpluses. To retain their confidence we need to provide these options now at the same time as we are pressing for significant CAP changes.

I should like to stress that our problems in agriculture, whether in Brussels or at home, are not going to be solved with a single master stroke. The policy I am suggesting draws on ideas for alternative non-surplus production opportunities, especially trees, for safeguarding the environment, for encouraging alternative enterprises among farmers and small rural businesses, for providing assistance to those in the less favoured areas, and for loosening our land use policy. It offers farmers choice. It is voluntary. But it represents a package which should be seen as a whole. If we provide farmers with these opportunities,

they would not be able to lay the claim that our stance on CAP reform completely ignores the farming sector.

The same goes for presentation. The impact of the new proposals will be lost unless we present them as a whole. And the domestic measures need to be seen in the context of our policy on the CAP and our support for international efforts to put world agriculture on to a more sensible basis. We need to explain that as a Government we have a coherent view as to how all these inter-connected problems should be tackled. Hence my proposal for a policy document. I am also attaching at Annex B to this minute a synopsis of a policy document on which my officials are working with the other agricultural Departments. It does of course crucially depend on being able to announce the new policy directions which I have proposed. The full text will need to be discussed at official level with all Departments concerned and cleared with colleagues in the usual way. I would hope to publish early in the New Year. I believe the full package, announced in this way, would bring long term financial benefits and an immediate political advantage.

I am copying this minute to the Lord President, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretaries of State for Wales, Northern Ireland, Scotland, Environment, Employment and Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Secretary and Sir Robert Armstrong.



M J
10 November 1986

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT
(ALURE)

(Note by officials in HM Treasury, the Agricultural Departments and the Forestry Commission)

1. This note considers the objectives and financial implications of the specific proposals made by the Minister of Agriculture in the context of his minute of 22 September to the Prime Minister.

General Objectives

2. Agriculture Ministers consider that there is a need for an integrated package of policy measures which taken together would serve to reduce expenditure on CAP support, to provide opportunities for farmers to maintain farm income, to sustain rural employment and have a positive impact on the environment. In their view the proposals comprise a modest, but nevertheless essential, response to the structural change facing the agricultural sector over the next 10 years which the ALURE Working Party projected as the consequence of a reduction in the level of CAP support. **Table 1** summarises in schematic form the expected effect of the individual proposals on land use, farm income, rural employment and the environment and also the relationship with surpluses and any proposed action at EC level.

3. It is necessary to consider the direct costs of the measures proposed, consequent savings in agricultural support expenditure and the relative effectiveness of each measure as a means of achieving the overall objectives. Details of the Agriculture Departments' estimated costs and savings over the first 5 years together with an indication of the position in year 10 are set out in **Table 2**.

4. In the 1986 PES discussions Agriculture Ministers have agreed not to pursue a bid for additional funds, pending collective discussion. This is on the understanding that if agreement is reached on the merits of the proposals the Chief Secretary will be prepared to consider a claim on the 1987/88 Reserve, if necessary, and that savings in IBAP expenditure could be regarded as a legitimate offset to any bid where

There is a fair guarantee that land is being taken out of surplus production. The Chief Secretary nonetheless considers that any new expenditure arising out of the ALURE recommendations should be financed within the current planned total PES provisions for domestic agriculture, forestry, fisheries and food of some £950m, if necessary by the re-allocation of priorities within existing programmes.

5. The following paragraphs discuss the proposals and relevant assessments in more detail. If the proposals are accepted in principle, more work will have to be done on the detailed implementation of the schemes, including the scope for targetting them on specific objectives. The costs and savings will need to be reviewed in the light of progress on CAP reform in view of their sensitivity to market circumstances for key products viz beef, sheep and cereals.

Traditional Forestry

	£m					
	1987- 88	1988- 89	1989- 90	1990- 91	1991- 92	1996- 97
PES baseline (Forestry Commission total grant in aid)	53.8	54.2	55.1	-	-	-
additional bid	+4.9	+5.0	+5.2	+5.3	+5.4	+ 7.7
CAP savings	-	-7.0	-11.1	-18.2	-7.5	-36.2

Note: No baseline provision has been agreed beyond 1989-90. The bids assume a 2½% pa increase in future years.

6. The proposal is to encourage extra private sector planting of woodlands of some 20,000 ha a year, ie a doubling of the present planting rate. The objectives would be to divert a substantial area of land from agriculture to forestry, thereby achieving a consequent reduction in surplus agricultural production; to increase timber production and to provide a source of rural income and employment. The Forestry Commission estimate that there would be a gross gain of some 1,600 jobs, some in local towns. The net gain would depend on the extent of any reduction in agricultural employment. The environmental effects would depend on the areas planted, the species involved, previous land

se, landscaping etc. Close attention would be given to these aspects under the Forestry Commission's consultation procedures. Achievement of these objectives would be evaluated by monitoring the additional area planted by type of land use and surveying the net effect on employment and income.

7. The costs of the proposals are based on the assumption that the area envisaged would be taken up at existing grant rates. The Forestry Commission take the view that to secure this take-up on better land than at present, a further fall in land prices - perhaps of as much as 15-20% - and some relaxation of clearance criteria by the agricultural departments would be required. The level of grants is periodically reviewed and could in principle be raised or lowered if necessary. Grant expenditure on planting is demand-led, but has in practice been contained within the cash limited grant-in-aid to the Forestry Commission.

8. The savings allow for a year's lag after planting before savings in CAP support are realised. In anticipation of some success in reforming the CAP they assume a 2% per annum cut in CAP support costs from 1988/89 onwards. Although it is not at present the practice to direct planting to any particular grade of land, it is assumed that 50% of the additional planting would take place on poorer quality lowland and 50% in the disadvantaged areas (LFA Area B in the attached map), as opposed to the severely disadvantaged areas (LFA Area A) where afforestation is more likely to come into conflict with environmental interests. The majority of land would be diverted from beef production which is the most marginal enterprise in many of the areas in question. In addition some sheep and barley production would be affected. It is also assumed that farmers would divert their less good land. Details of the assumptions are provided in the notes attached to **Table 2**. It will be noted that the savings in the 5th year are shown to decline. This is intended to reflect a reduction in the support costs of the EC beef regime at that time. Over the longer term however savings would cumulate and by the 10th year exceed costs appreciably.

Farm woodlands

	£m					
	1987- 88	1988- 89	1989- 90	1990- 91	1991- 92	1996- 97
PES baseline	0	0	0	-	-	-
additional bid	+ 3.0	+ 7.0	+9.3	+11.6	+14.1	+30.0
CAP savings	-	- 3.4	-11.1	-18.2	-7.6	-36.5

9. The proposal is to introduce a new farm woodland scheme which would offer farmers an annual payment (as well as planting grants) to reflect the agricultural income they would forgo and recognise the lack of income from timber until thinning starts (years 15 to 20). The objectives would be diversion of land from agriculture (assessed to be about 7,500 hectares in year 1 and 15,000 hectares thereafter) and a consequent reduction in surplus agricultural production; provision of an opportunity for farmers to maintain income and employment; and the enhancement of wildlife and the landscape, which would be aided by the scattered nature of farm woodland planting. Monitoring and evaluation would be on the same lines as for traditional forestry. The aim would be to introduce effective expenditure control systems, but further consideration of this aspect is required.

10. The payments would be made to farmers, but not forestry companies. They would vary by quality of land to avoid making unduly generous provision on poorer land and would be subject to review. There would be a minimum plot size and a condition that land planted should have been in agricultural production. It would have to be decided whether the new scheme would be administered by the Forestry Commission or the Agricultural Departments, but it would be designed to encourage responsible management of the timber crop, effective marketing (including encouragement of on-farm processing) and environmentally sensitive planting. It might be introduced under powers in the Forestry Acts or the necessary legal vires might be contained in the forthcoming EC proposals on forestry.

11. The costs assume that a scheme would generate a positive response, particularly from marginal farmers. Annual payments of about £150 per hectare in the lowlands, £50 per hectare in the disadvantaged areas and £30 per hectare in severely disadvantaged areas, in addition to existing forestry grants, are judged to provide a sufficient incentive. The calculations assume nearly 30% of broadleaves and the grant costs would rise if the proportion were higher.

12. The savings are on the same basis as those for traditional forestry, but assume 80% planting on poorer quality lowland, 10% in the disadvantaged areas and 10% in the severely disadvantaged areas. Again the majority of land would be diverted from beef production. By the 5th year of the scheme cumulative savings would almost equal cumulative costs, but over the longer term, as shown above, would exceed costs.

3. Consideration might also be given to a premium to encourage the use of better cereals land if farmers were only showing interest in devoting grassland to forestry, but this would depend on EC decisions on a cereals diversion scheme. Such an approach would increase costs, but the savings would also be greater.

Environmentally Sensitive Areas (ESAs)

	£m					
	1987-	1988-	1989-	1990-	1991-	1996-
	88	89	90	91	92	97
PES baseline	5.0	6.0	6.0	-	-	-
additional bid	+4.0	+6.3	+6.5	+6.7	+6.9	7.8
CAP savings	-	Around £1.5m year.				

14. The proposal is to approximately double the present provision for ESAs in which grants may be paid to farmers who agree to maintain traditional farming practices. The objectives would be primarily environmental, but there would be some effect on CAP support since one of the objectives of the ESAs is to restrain and in some cases reduce agricultural production on participating farms. The original set of ESAs have not yet been implemented and information about their cost effectiveness is not yet available. However, the additional bid would enable Agricultural Departments to designate all the remaining short listed areas for which a strong and pressing case has been made out. Agriculture Ministers would have to decide on the additional areas that might be designated and on the territorial allocation of the additional funding. The new ESAs would be evaluated in the same way as the ESAs about to be designated, as required by legislation.

15. This proposal would involve a long term commitment to public expenditure. Expenditure would be borne on the Agricultural Departments non-cash limited Votes, but subject to the expenditure controls recently agreed for the capital grants programme. Partial EC reimbursement of ESA expenditure could become available if a current Commission proposal is adopted.

16. The savings can only be assessed in the broadest terms. The order of magnitude given above is based on the likely difference between the volume of production within the existing ESAs with and without designation.

Diversification

	£m					
	1987- 88	1988- 89	1989- 90	1990- 91	1991- 92	1996- 97
PES baseline						
(i) diversification* grants	2.0	2.0	2.0	-	-	-
(ii) marketing support bids	11.4	11.1	11.1	-	-	-
(i) diversification	3.1	3.2	3.2	3.3	3.4	3.8
(ii) Marketing support	1.0	1.1	1.1	1.1	1.1	1.2
CAP savings						
				marginal		

* relates to capital grants on tourism and crafts in the LFAs, the only existing agricultural aid for diversification. The overall provision for all agricultural capital grants is about £134m (1987-88).

17. The first proposal is to introduce a scheme for grants to ancillary farm-based industries under Section 22 of the Agriculture Act 1986. The objectives would be to enhance and maintain farm incomes by assisting farming families to look to alternative forms of activity other than increased surplus production; to widen rural employment opportunities; and to extend to the non-LFA the incentives to farm diversification already offered under the capital grants scheme. The scheme would cover 15% (30% in LFAs) of the capital cost of providing facilities for value-added processing of produce from the farm eg fresh dairy products, meat products, bread and bakery products and ready prepared meals; preparation of fruit and vegetables; timber, wool and skin treatment; and the provision of recreational facilities. The grants would be aimed directly at the needs of farmers, unlike assistance from other rural aid agencies, such as COSIRA, which they would be designed to complement. Further work on how this would be achieved is already in hand.

18. The second proposal is to encourage co-operatives to extend their activities into value added processing and to help them market their products. The objective would be to improve farm income and awareness of new marketing opportunities. This proposal could involve new primary legislation.

19. The success of these two schemes would be evaluated by surveying the durability of the projects in question and the impact on income and employment, using case studies where appropriate.

20. The costs are derived from estimates of existing craft and tourism grants in the LFAs and existing marketing activities. Expenditure would be controlled in the same way as under existing programmes.

Research and Development

21. The proposal is to fund new R & D into novel crop and livestock possibilities and to conduct further woodland experiments. The cost would be met from the existing PES provision. The objective would be to develop new ways for farmers to diversify away from the production of surplus commodities. The private sector would be unlikely to undertake this research by itself in view of the long term nature of the potential benefits. The success of this work would be evaluated in the same way as the rest of the R & D programme.

Land use planning and recreation

22. The proposal is to review the policy on the protection of agricultural land with a view to facilitating the release of land for recreation, horses and certain other developments. The objectives would be the encouragement of enterprise and employment in rural areas and some savings in CAP support costs. There could be problems with countryside interests unless the changes were handled in a sensitive way. The success of this new approach would be evaluated by analysis of land use statistics.

23. It is not possible to estimate what effect changes to the policy on the protection of agricultural land would have. The extent to which the policy was relaxed, and the impact this would have, would depend on decisions following public consultations. At present, transfer of land to uses other than forestry is running at 14,600 hectares a year in England and Wales, 1,000 hectares in Scotland and 500 hectares in Northern Ireland. However, a total of about 5,500 extra hectares a year might be used for sport (notably golf courses), horses and other recreational uses. If this was wheat and barley land yielding on average 6 tonnes per hectare the savings would be as follows:

	£m					
	1987-	1988-	1989-	1990-	1991-	1996-
	88	89	90	91	92	97
CAP savings	-	-3.0	-6.0	-9.0	-12.0	-30.0

In view of the uncertain effect of the proposed changes in policy, such savings cannot be guaranteed and it would not be prudent to adjust the IBAP baseline on this count.

Administrative costs

	1987-	1988-	1989-	1990-	1991-	1996-
	88	89	90	91	92	97
PES baseline						
(i) MAFF	213.5	222.1	226.1	-	-	-
(ii) Forestry Commission (Forestry Authority)	8.5	8.8	9.0	9.3	9.5	-
Total additional bid	+5.1	+7.6	+7.7	+8.0	+8.2	+9.3
Savings on planning		-0.2	-0.2	-0.2	-0.2	-0.2

24. The additional (costs set out in detail in Table 3) primarily reflect the high administrative costs for forestry and farm woodlands because of the need for close supervision of forestry, mainly to ensure environmentally sensitive planting, the cost of the associated consultation procedures and farmers lack of experience in forestry.

7 November 1986

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POSSIBLE POLICY DOCUMENT: DRAFT SYNOPSIS

Note: the intention is to produce an illustrated booklet, using colour photographs and graphs (but no tables of figures) and an attractive layout.

FARMING TODAY: ACHIEVEMENT, CHALLENGE, PROSPECT

Introduction

- agriculture provides both food and core of rural economy;
- but challenge of changing consumer preferences and surpluses; Government commitment to CAP reform;
- need for balance (farming/rural economy/conservation/public enjoyment) in the countryside;
- hence emphasis shifting to enable farming to rise to new challenges.

The Achievements of Agriculture and Food Industries

- a) Brief account of UK farming industry and domestic and EC support arrangements; emergence of surpluses and its causes (CAP incentives and increases in technical efficiency of production) significance of related industries (notably food and drink); export performance.
- b) Recent achievements of the industries and major actions by Government.
- c) Farming is only part of wider rural economy; contributions made by Development Commission and employment programmes (and Scottish/Welsh/Northern Irish equivalents).

The Challenge of Surpluses and Changing Demand

- a) Surpluses are a world problem, not just an EC problem; food aid not a solution.
- b) Options for the CAP; price cuts must feature large in solution, disadvantages of quotas or other physical restrictions; "co-responsibility"; land diversion.
- c) Farmers face CAP changes. Government approach to negotiations based on three principles:
 - surplus problem must be recognised and tackled effectively by measures bringing supply and demand into better balance;
 - the measures must give greater weight to market conditions and include firm price restraint;
 - policies must be evenhanded and fair;
- d) Prime function of farmer is to feed consumer: changing demand (lifestyle, health, convenience). Need for farmers to present and market their produce; and to respond to public concerns (eg pollution, animal welfare)

Responses by Industry and Government

- a) Government commitment to competitive economy.
- b) Farming is an enterprising small business industry. Continuing need for efficient and competitive farm and food industries within EC and World context. Industries need to exploit opportunities and technology more effectively, but not to produce unwanted food. Some Government back-up appropriate (support for hills, R&D, advice). Alternative crops (ALURE).
- c) Better marketing: examples of successive initiatives; industries need to support Food from Britain.

d) Farming remains key element in wider rural economy. Need for balance (s17, Agriculture Act 1986). New AIS includes grants for tourism and crafts on farms in less favoured areas; intention to introduce scheme for supporting further alternative enterprises on farms (activating s22, Agriculture Act 1986) (ALURE).

e) Opportunities for rural enterprise off farms - eg Development Commission (DoE, DEm, DTI to supply as appropriate)

f) Most farmers sensitive to environment. Environmental protection already built into grants. ESAs a major new initiative; proposal to increase funding (ALURE).

g) Forestry and woodlands. UK still major timber importer. Policy of expanding private sector traditional forestry will continue, with more on better land (ALURE). Proposal to introduce farm woodland scheme aimed at encouraging planting as part of the normal farm enterprise on land no longer needed for food production (ALURE). Brief mention of rehabilitation of existing woodland and short-rotation coppicing (ALURE).

h) Land use: proposal for relaxation of agricultural land protection policy without threatening green belts or rural heritage (ALURE).

Conclusions to cover:

(a) efforts in concert with Community partners to secure a satisfactory outcome to the GATT negotiations on agricultural trade;

b) Improvements within the Common Agricultural Policy to be based on three principles set out above.

c) achievement of these objectives will bring major adjustments in the industry. Government intends to assist process through existing and new schemes, better directed R&D, changes in land use constraints, etc all aimed at offering opportunities for enterprise to flourish;

d) encouragement to British food and farm industries to be competitive and to seize opportunities to take a larger share of the available market in Europe and beyond.

ALURE PROPOSALS

TABLE 1

<u>Main options considered</u>	(i) land used over 5 yrs	(ii) ag. surpluses	(iii) farm income	(iv) net rural employment	(v) environment	(vi) exchequer cost over** 5 yrs	(vii) savings in* CAP support costs over 5 yrs	(viii) any relevant EC initiatives	(ix) particular regional implications
	('000 ha)								
1a. Forestry	100	positive	nil	neutral	positive if sensitively handled	£34m	£44m		Mainly in marginal agricultural areas in England
1b. Farm woodlands	67	positive	neutral	marginal	positive	£68m	£40m)EC forestry)proposals)expected, but)may not be in)UK interest	
2. ESAs	nil	marginal	neutral	neutral	positive	£36m	£6m	EC part funding of ESAs proposed	
3. On-farm diversification	nil	marginal	positive	positive	probably nil	£25m	-	no	Impact slight in regions remote from populations
4. R&D on alternative crops and livestock & forestry	eventually 2-300	positive in long term	positive in long term	positive in long term	neutral	-	-	EC input envisaged in socio-structural package	
5. Land use planning & recreation	28 (mostly relates to horses)	positive	positive	positive	needs careful handling	-£1m	£30m	no	Impact slight in regions remote from population

*Assumes 2% pa cut in CAP support costs starting in 1988/89.

**No account has been taken of tax benefits, which would tend to occur after the 20th year.

TABLE 2

ILLUSTRATIVE ESTIMATES OF ADDITIONAL EXPENDITURE AND POSSIBLE SAVINGS ARISING FROM THE IMPLEMENTATION OF ALURE RECOMMENDATIONS FOR EACH PES YEAR

	Additional Expenditure (£m)					1996/97 ⁽⁹⁾
	1987/88	1988/89	1989/90	1990/91	1991/92	
<u>EXPENDITURE</u> (including Forestry Commission)						
1. <u>Forestry and farm woodlands</u>						
(i) Traditional forestry (20,000 ha/year expansion) (2)	4.9	5.0	5.2	5.3	5.4	7.7
(ii) Farm woodlands (15,000 ha/year from mid 1987/88) (3)	3.0	7.0	9.3	11.6	14.1	30.0
2. <u>Conservation and recreation</u>						
Environmentally Sensitive Areas	4.0	6.3	6.5	6.7	6.9	7.8
3. <u>Diversification</u>						
(i) Action under Section 22, Agriculture Act 1986	3.1	3.2	3.2	3.3	3.4	3.8
(ii) Marketing support	1.0	1.1	1.1	1.1	1.1	1.2
4. <u>R & D</u>						
Novel crops and livestock and forestry	-	-	-	-	-	-
5. <u>Administrative Costs</u>						
	5.1	7.6	7.7	8.0	8.2	9.3
Total additional expenditure	21.1	30.2	33.0	36.0	39.0	59.8
<u>SAVINGS</u>						
Land occupied by forestry (4)	-	-7.0	-11.1	-18.2	-7.5 ⁽⁸⁾	-36.2
farm woodlands (4)	-	-3.4	-11.1	-18.2	-7.6 ⁽⁸⁾	-36.5
environmentally sensitive areas	-	-1.5	-1.5	-1.5	-1.5	-1.5
planning and recreation (5)	-	-3.0	-6.0	-9.0	-12.0	-30.0
Total savings (6) (7)	-	-14.9	-29.7	-46.9	-28.6	-104.2

Explanatory Notes

1. PES cash factors of 2½% are used.

2. The figures assume that removing existing limitations on the use of better land for private forestry plantation coupled with a fall in the price of such land to about £1000 per hectare would double the rate of planting. Thus the estimates are based on current Forestry Commission grant levels. If, in fact, the response were less and either grant rates were increased or more planting were done by the Commission itself, the cost would rise. It is assumed that 50% of the land used would be on poorer quality lowland and 50% in the disadvantaged areas.

3. The figures are based on a 80:10:10 per cent split of new farm woodland planted annually in lowland, disadvantaged area and severely disadvantaged area respectively. They assume, that as well as existing forestry grants, annual payments are made to farmers of £150 per hectare in the lowland, £50 per hectare in the disadvantage areas, £30 per hectare in the severely disadvantaged areas. It is assumed that 15,000 hectares will be planted annually except in the first year when 7,500 hectares will be planted. The annual payments are consistent with those used in developing the UK cereals land diversion proposals.
4. The figures assume that every hectare planted with trees would, directly or indirectly, substitute for a hectare of beef, sheep or cereals in appropriate proportions. The figures assume that in the lowlands 75% of the new area planted to trees would be switched from beef production; 15% from sheep and 10% from barley. In the disadvantaged areas the corresponding figures would be 75% beef and 25% sheep; and in the severely disadvantaged areas 80% sheep and 20% beef. It is assumed that the lowland and disadvantaged area planted to trees would be only 80% as productive as the average and that in the severely disadvantaged area would be 60% as productive as the average. These adjustments allow for the fact that farmers would tend to plant their less good land.
5. The figures for planning and recreation assume the release of cereals land yielding 6 tonnes per hectare.
6. To allow for the effect of CAP reform a 2% per annum cut in CAP support levels from 1988/89 to 1991-92 is assumed.
7. A lag of one year has been built into the savings in CAP support levels and it has been assumed that the annual payments under the farm woodlands scheme would operate with a similar lag.
8. The reduction in savings in your 5 reflects an assume no beef intervention after 1990-91. Savings thereafter relate to export refunds only rather than intervention, storage costs and refunds in earlier years.
9. The assessment for 1996/97 serve to demonstrate the cumulative nature of some of the CAP support cost savings if land diversion to trees etc were to continue in the medium term.

Table 3

BREAKDOWN OF ADMINISTRATIVE COSTS

	1987/88	1988/89	1989/90	1990/91	1991/92
Traditional Forestry	1.5	1.6	1.6	1.7	1.7
Farm Woodlands	2.5	5.0	5.1	5.2	5.4
ESAs	0.6	0.6	0.6	0.7	0.7
Diversification	0.5	0.4	0.4	0.4	0.4
Total	5.1	7.6	7.7	8.0	8.2

Notes

1. The costs associated with traditional forestry are based on current average rates of Forestry Commission expenditure of £30 per £100 of planting grant paid.

2. On the basis of existing expenditure in England, the farm woodland administrative costs are estimated by the Forestry Commission at £80 per £100 of planting grant paid.

3. The figures for the ESAs are based on the the expected cost of administering the current scheme (9% of grant expenditure) when it becomes fully operational in 1987/88.

4. The cost of administering the diversification grants is based on the estimated cost for running the Agricultural Improvement Scheme grants for 1987/88 (11.7% reducing to 9.1% for subsequent years as the new scheme settles in). The costs associated with running the marketing support element are estimated at 6% of grant expenditure which is the current level for the Agricultural and Horticultural Co-operative Scheme.



United Kingdom Less Favoured and Environmentally Sensitive Areas

- LFA Area A**
1975 designation
- LFA Area B**
1984 additional designation
- ESAs**

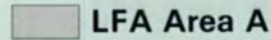
Map compiled from information supplied by
Ministry of Agriculture, Fisheries and Food
British Office Agriculture Department
Department of Agriculture & Fisheries for Scotland
Department of Agriculture for Northern Ireland

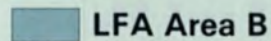
1. Breadalbane
2. Loch Lomond
3. Mourne
4. Pennine Dales
5. Cambrian Mountains
6. West Penwith
7. Somerset Levels & Moors
8. South Downs
9. The Broads

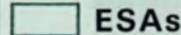
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United Kingdom Less Favoured and Environmentally Sensitive Areas

 LFA Area A
1975 designation

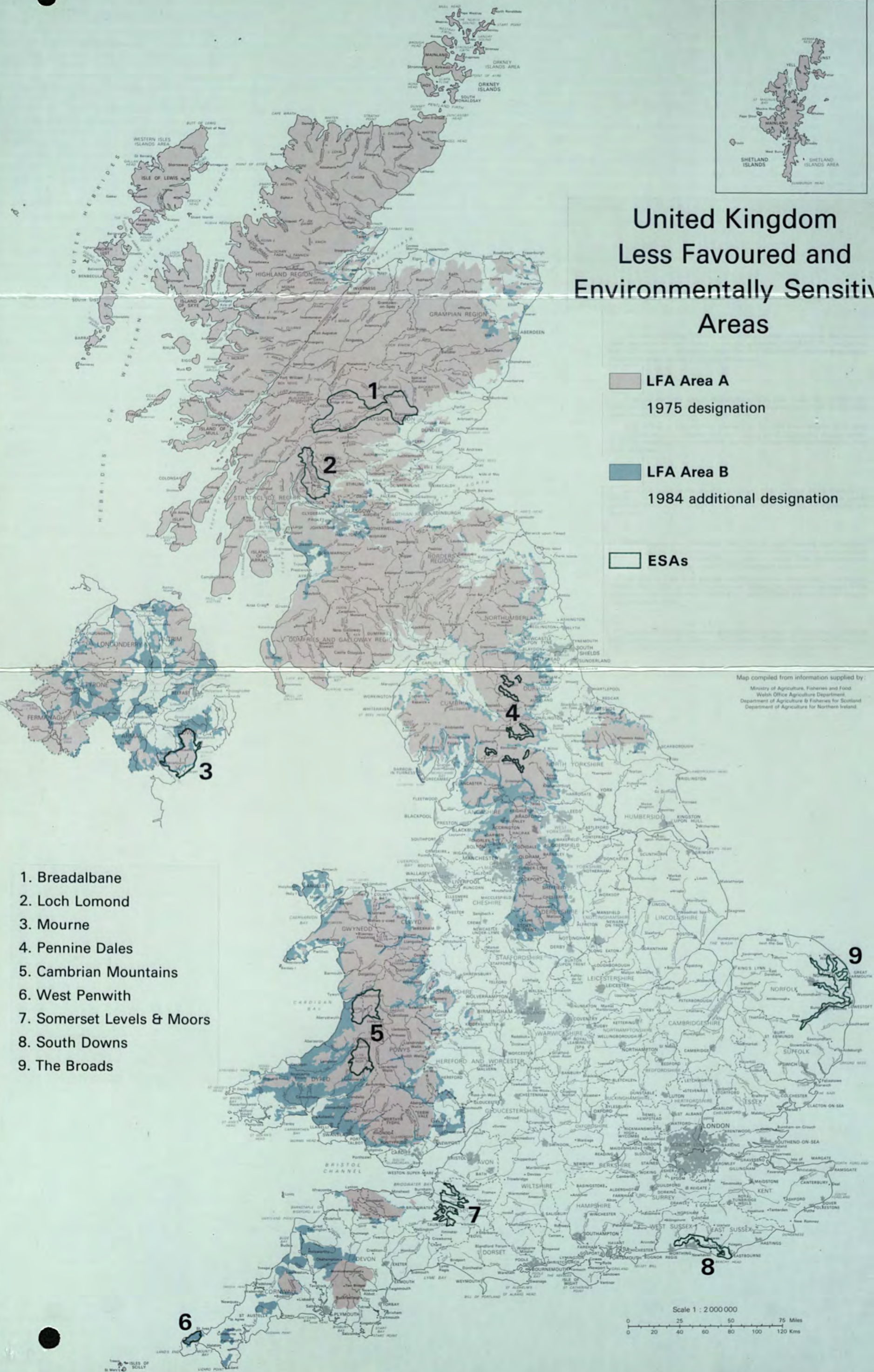
 LFA Area B
1984 additional designation

 ESAs

Map compiled from information supplied by:
Ministry of Agriculture, Fisheries and Food
Welsh Office Agriculture Department
Department of Agriculture & Fisheries for Scotland
Department of Agriculture for Northern Ireland

1. Breadalbane
2. Loch Lomond
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5. Cambrian Mountains
6. West Penwith
7. Somerset Levels & Moors
8. South Downs
9. The Broads

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CC BS
To hold for the meeting.

PRIME MINISTER

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

Your meeting on 13 November will be the opportunity to decide how we are to develop and present a convincing set of policies for rural areas before the next election. Michael Jopling rightly says the issues are not only agricultural; obviously, however, falls in farm income will produce problems in those areas where farming is already only marginally viable.

From my point of view, I would like us to focus on the following questions in particular:

- i. MAFF advise that Government expenditure on the CAP is running at over £1.6 billion and we will not get it down much in the immediate future. Can we under present EC law, switch more money towards our priority areas? Are there achievable EC legislative changes we should seek in order to do this more freely?
- ii. The Working Party's report paints a picture of production rising inexorably. What is the sensitivity of output trends to adjustments in the CAP? Can we not find ways of steering a freer market towards opportunities for less intensive farming? This would have other benefits such as reducing the use of nitrogenous fertilisers which in turn, would significantly improve water quality.
- iii. Some land is bound to be released from farming, although falling land prices will enable new entrants to start farming at less cost than in the past. In so far as we want to support agriculture as an industry, we should be thinking about ways of easing the farming community into alternative forms of activity - at minimum cost to the Exchequer - rather than paying them to do nothing.



iv. Forestry must be an important alternative land use. But should we really pay farmers to plant trees? In forestry, as in other sectors of the economy, we should surely be seeking less, not more, intervention. Moreover, current trends in afforestation are having effects on the environment which give cause for concern. Cutting both tax incentives for forestry and the agricultural support which has inflated land prices could well produce a more acceptable pattern of planting. I note Malcolm Rifkind's concern about the afforestation of the uplands: there are similar pressures in England. Some carefully targetted incentives may be necessary to direct forestry of particular sorts and to particular areas. For all these reasons, I think we need a radical review of the fiscal concessions for forestry, and the role of the Forestry Commission in future. I attach a short paper raising these issues in more detail.

v. We should investigate other land uses further. The expansion of sports such as shooting can generate both income and employment. Then there is scope for more recreation and tourism, as long as we maintain and enhance the wildlife and landscape interest of the countryside.

vi. We have in the past lost some attractive and interesting countryside - including heaths, wetlands and chalk grasslands; I believe there would be considerable public support if less intensive production allowed some such areas to revert to their former state. We therefore need to consider very carefully the type of set-aside scheme which would prove negotiable and also likely to prove environmentally beneficial. A permanent set-aside scheme as opposed to rotational fallow would be much the preferable option from the environmental point of view, and I believe from the farmers point of view, because it can provide alternative income.



vii. David Young regards the Working Party's key recommendation as the need for some relaxation of planning in relation to agricultural land. In fact it is not planning policy that is at issue here but agricultural land policy. In the past, the protection of agricultural land from development has been accorded priority and the planning system has been used as the means to enforce this. It is therefore not the planning system which needs some modification but the national priority given to the protection of farm land. We need now to take more account of other objectives, including the need to diversify the rural economy, but it would be quite wrong to abandon our policy of protecting the countryside from development which could go onto urban or previously used land.

These issues are all difficult, and very important politically. I think there is a case for a White Paper, but I do not believe we will be ready to produce it by Christmas.

/ I am copyng this to recipients of Michael Jopling's minute to you of 22 September.

NR

7 November 1986

CONFIDENTIAL

THE CASE FOR A REVIEW OF FORESTRY POLICY

1. There is increasing concern that current forestry policy is producing a pattern of afforestation in Britain which is environmentally damaging.

2. Since the end of the First World War the main objective of forestry policy has been to subsidise the expansion of domestic timber production. This has been pursued directly, through grant-in-aid to the Forestry Commission and indirectly by grants and tax incentives for private forestry. Total Government subsidy for forestry planting amounted to nearly £60m in 1984/85: £41m to the State Forestry Enterprise; £6m in grants to private foresters and at least £10m in tax incentives (providing a subsidy of up to 70% of planting costs in some cases).

3. In terms of this objective, the policy has been successful: there are now some 2.2 million hectares of woodland in Britain today, compared with 1.2 million in 1924. Nearly all the growth has been accounted for by coniferous forests, especially in the uplands. The last five years have seen a particularly rapid expansion of private coniferous forestry, where the tax incentives appear to have been a particularly potent force in stimulating large-scale, uniform coniferous afforestation with absentee ownership.

4. It is the rapid development of this kind of afforestation which is worrying from many points of view. There is concern that it has an adverse visual effect on the landscape; that it reduces wildlife habitat and breeding grounds; that it causes acidification of streams and water courses; and that it restricts public access to previously open land. Moreover, the growth in coniferous forests has been accompanied by a steady decline in the more environmentally desirable broadleaved woodland.

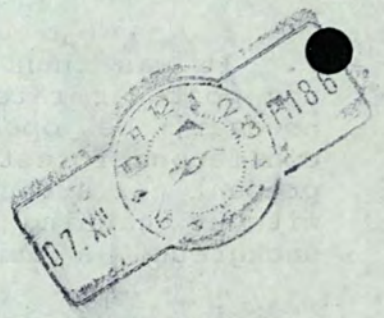
5. But concern about the environmental impact of current forestry policy and incentives raises wider doubts about the validity and value for money of that policy. It gives poor value for taxpayer's money, and employs relatively few people. And the rapid expansion of softwood plantations, in some areas at the expense of hardwood forests, may not provide the balance we seek in forestry policy terms alone.

6. The rationale for promoting timber production has, since the creation of the Forestry Commission in 1919, rested on a combination of strategic, economic and social objectives. Current forestry policy (set out by the then Secretary of State for Scotland in a Parliamentary statement in 1980) gave first priority to reducing our dependence on imported wood. A secondary objective was maintaining employment in forestry and associated industries.

. It was then envisaged that new planting should continue at the post-war rate of about 30,000 hectares per annum. It must, however, be open to question whether continued planting of coniferous forests on this scale - which is in practice what the present tax arrangements apparently encourage - can be maintained without causing further environmental damage. Against this background, a number of questions present themselves:

- i. What is the case for subsidising import substitution of timber as compared with any other product? In general the Government has not pursued a policy of subsidising uneconomic industries in order to keep out exports. Is any realistic expansion likely to make a significant impact on the 90% of timber demand currently met by imports?
- ii. Alternatively is there a case for building up yet further a strategic reserve of timber? Are we still at risk either from a major disruption of softwood supplies from overseas or do we envisage a future world shortage of hardwoods?
- iii. Does the relatively small number of jobs in the forestry and wood-processing industries provide adequate value for money?
- iv. In the past we have pursued a policy of encouraging planting on the poorer agricultural land and protecting the better land from forestry. There has recently been some relaxation of this policy in Scotland: but as more land comes out of agricultural use do the present arrangements provide sufficient encouragement to small-scale planting (particularly of broadleaved hardwoods) by individual farmers and landowners?

8. There may well be a valid case for subsidising forestry. We need to be clear what that case is. The current pattern of incentives encourages large scale softwood planting on environmentally valuable uplands. It appears to provide relatively little encouragement for individual farmers wishing to manage effectively existing hardwood forests. It may even have deterred those wishing to develop forestry to diversify their sources of income on land suitable for forestry but which has been used until now for agricultural production. All this suggests that we need to review the objectives of forestry policy as a whole and the mechanisms used to achieve them.



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CCB/UP CCBG
DN
MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

CONFIDENTIAL

The Rt Hon Margaret Thatcher MP
10 Downing Street
London SW1

Blf for meeting, 12/11

4 November 1986

M. J. Pling Prime Minister

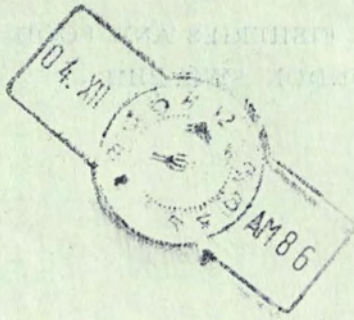
In advance of your meeting on agricultural land use and related issues scheduled for 20 November, you may be interested to see the enclosed letter from Emma Nicholson. I have replied to it in suitable terms.

In my view, it does emphasise the importance politically of our bringing forward positive policies to maintain political support in our rural heartlands. At a time when quite properly farmers are being asked to retrench in a world of agricultural surpluses, there is a need to show them that we are bent on moving forward, and that there is a measure of hope and encouragement for their future.

I am sending copies of this letter to the Lord President, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretaries of State for Wales, Northern Ireland, Scotland, Environment and Employment, the Chancellor of the Duchy of Lancaster, the Chief Secretary and Sir Robert Armstrong.

*James Evans
Michael*

MICHAEL JOPLING



COMPANION

1986



Conservative Central Office

32 Smith Square Westminster London SW1P 3HH
Tel. 01-222 9000 Telex 8814563 Fax. 01-222 1135

From
THE VICE CHAIRMAN OF THE PARTY
Miss Emma Nicholson

6 October 1986

The Rt Hon Michael Jopling MP
Minister for Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1

Dear Michael -

The reports which I received from a number of area branches of the Conservative Womens National Committee expressed a good deal of concern amongst farmers about the future of agriculture.

These reports indicate that farmers believe it is insufficiently realised that they have become the victims of their own success in increasing productivity more than has been achieved in most British industry. It is realised that there are food surpluses within the EEC and that the building up of these surpluses cannot continue indefinitely. But, farmers make the point that certainly over the last 2 years their incomes have been reduced in real terms - in some cases quite substantially - whereas profits and earnings in the rest of the British industry and commerce have on average increased in real terms. Farmers are worried that if this trend is allowed to continue many of them, particularly those farming on a small scale will be forced out of the business and this is thoroughly bad for jobs in rural areas. They believe that the farming industry is being left in a state of uncertainty and are badly in need of reassurance about the future.

I would be most grateful for your comments and it would be very helpful if I could have them by the end of this month.

Yours,
Emma

EMMA NICHOLSON

Euro Po: Cap PT14



GRS 1500

Restricted

*Prime Minister
Please see page 3
CDP*

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INFO ROUTINE COPENHAGEN, THE HAGUE, ROME, DUBLIN, BONN, LUXEMBOURG,
INFO ROUTINE ATHENS, LISBON, MADRID
INFO SAVING BRUSSELS

FRAME AGRICULTURE

MEETING BETWEEN VICE PRESIDENT ANDRIESSEN AND SIR MICHAEL FRANKLIN

29 OCTOBER 1986

SUMMARY

1. SIR MICHAEL FRANKLIN, ACCOMPANIED BY MINISTER (AGRICULTURE), MET ANDRIESSEN AND HIS CHEF DE CABINET (TROJAN) TO CONCERT TACTICS AND OBJECTIVES ON BEEF AND MILK. USEFUL PROGRESS WAS MADE, PARTICULARLY IN ADVANCING ANDRIESSEN'S THOUGHTS ON THE NEED TO BRING FORWARD PROPOSALS FOR MILK QUOTA CUTS. ON BEEF, ANDRIESSEN FITTED HIS PROPOSALS INTO A GENERAL THEME ON THE NEED TO REDUCE INTERVENTION THROUGHOUT THE CAP TO A SAFETY NET ROLE. HE ASKED FOR THE PRESIDENCY TO DO MORE TO ACHIEVE AN AGREEMENT ON SOCIAL BUTTER AND TO SEEK A DECISION, IF POSSIBLE AGREEMENT, ON THE SOCIO-STRUCTURAL PACKAGE.

2. ON SPECIFICALLY UK ISSUES, ANDRIESSEN REMAINED NEGATIVE ON THE GREEN POUND DEVALUATION. TROJAN REPORTED THAT THE COMMISSION SERVICES WOULD BE PUTTING PRESSURE ON THE FRENCH, VIA CHIRAC'S OFFICE, TO CEASE THEIR OBSTRUCTION OF IMPORTS OF LAMB FROM THE UK.

DETAIL

3. SIR MICHAEL FRANKLIN SAID THAT THE MAIN OBJECT OF HIS VISIT WAS TO BEGIN PREPARATION FOR THE HIGH LEVEL GROUP ON 12 NOVEMBER AND THE 17/18 AGRICULTURE COUNCIL. WE FELT STRONGLY THAT DECISIONS MUST BE REACHED ON MILK AND BEEF BEFORE THE END OF THE YEAR AND THAT THE ISSUE SHOULD NOT BE HELD OVER UNTIL THE PRICE FIXING. FOR THIS TO BE POSSIBLE WE NEEDED TO WORK CLOSELY WITH THE COMMISSION AND TO DEFINE COMMON OBJECTIVES AND TACTICS.

(A) MILK

4. SIR MICHAEL FRANKLIN SAID THAT HE FELT THAT IT WAS HIGHLY DESIRABLE, FOR PRACTICAL AND NEGOTIATING REASONS, FOR THE COMMISSION TO TABLE PROPOSALS FOR QUOTA CUTS IN 1987/88, FOR IMMEDIATE DECISION. SUCH A DECISION, COUPLED WITH AS MUCH AS COULD BE AGREED OF THE COMMISSION'S EMERGENCY PACKAGE AND AN INCREASE IN THE

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/SUPERLEVY

SUPERLEVY WOULD MAKE A SIGNIFICANT CONTRIBUTION TO CUTTING THE SURPLUS. OF QUOTA CUTS COULD NOT BE AGREED, THIS WOULD MAKE IT MORE DIFFICULT FOR THE COUNCIL TO REJECT THE COMMISSION'S EXISTING PACKAGE.

5. ANDRIESSEN SAID THAT HE HAD YET TO CONSULT HIS COLLEAGUES, BUT HIS OWN MIND WAS TURNING TO PRESENTING THE EXISTING PACKAGE IN A WIDER CONTEXT, INCLUDING AN INDICATION OF THE FUTURE LEVELS OF QUOTAS. HE WAS, HOWEVER, WORRIED ABOUT THE GERMAN IDEAS FOR PAYMENTS TO COMPENSATE FARMERS FOR PARTIAL UTILIZATION OF QUOTAS. THIS WOULD NOT PRODUCE A NET BUDGETARY SAVING IN THE SHORT TERM, AND PRODUCED THE WRONG STRUCTURAL RESULT. SIR MICHAEL FRANKLIN AGREED THAT THESE DRAWBACKS EXISTED. THE IMPORTANT POINT, HOWEVER, WAS NOT TO MISS THE OPPORTUNITY OF CAPITALISING ON THE COUNCIL'S APPARENT WILLINGNESS TO CONTEMPLATE SOME MEANS OF CUTTING QUOTAS. DEFINITE COMMISSION PROPOSALS WERE NEEDED TO FORCE THE COUNCIL TO REACH A DECISION. ANDRIESSEN AGREED TO REFLECT. HE REGRETTED THAT THE PRESIDENCY HAD NOT PUT SIMILAR ENERGY INTO PUSHING THROUGH HIS PROPOSALS ON SOCIAL BUTTER. ROBERTS SAID THAT WE DID NOT SHARE THE COMMISSION'S ASSESSMENT OF THE COST BENEFIT OF THAT SCHEME, BUT IN ANY CASE IT MADE MORE SENSE TO PASS ADDITIONAL MEANS OF SURPLUS DISPOSAL IN THE CONTEXT OF DECISIONS TO CUT SURPLUS PRODUCTION.

(B) BEEF

6. ANDRIESSEN SAID THAT THE COMMON THREAD IN THE BEEF AND MILK PROPOSALS WAS THE DETERMINATION TO CONVERT INTERVENTION FROM A NORMAL OUTLET TO A SAFETY NET. HE IMPLIED THAT THIS TOGETHER WITH A STRICT PRICE POLICY, WHICH WAS NOW ALREADY ACCEPTED, WOULD BE A GENERAL THEME IN HIS PROPOSALS FOR THE FUTURE ORIENTATION OF THE CAP. ONLY IF THIS MAJOR CHANGE IN THE INTERVENTION SYSTEM WAS ACCEPTED WOULD HE MAINTAIN PROPOSALS FOR PREMIA. SIR MICHAEL FRANKLIN SAID THAT WE AGREED WITH THE OBJECTIVES ON INTERVENTION. IT WOULD BE NECESSARY TO PUT TO THE COUNCIL THAT INTERVENTION MUST CHANGE RADICALLY AND THAT THE PREMIA WERE AN OFFSET. OTHERWISE SEVERAL DELEGATIONS WOULD STICK TO THE POSITION THAT THERE SHOULD BE MINOR TINKERING ON INTERVENTION AND NO PREMIA.

7. ON INTERVENTION MECHANISMS, ANDRIESSEN SAID THAT HE HAD BEEN PREPARED TO CONSIDER THE FRENCH ALTERNATIVE SUGGESTION OF CUTTING BUYING IN PRICES BUT HE GATHERED THAT THE EXPERT GROUP HAD CONCLUDED THAT IT WOULD ONLY MAKE A MINOR IMPACT ON INTERVENTION VOLUME. ROBERTS SAID THAT THIS WAS ALL THE FRENCH WANTED TO ACHIEVE. WITH A BIGGER AND LINEAR PRICE CUT AND TOUGHER STOP/GO PROVISIONS SUBSTANTIAL INTERVENTION CUTS COULD BE MADE.

(C) SOCIO-STRUCTURAL PACKAGE

8. ANDRIESSEN SAID THAT HE WAS VERY DISAPPOINTED THAT SO LITTLE PROGRESS HAD BEEN MADE ON THE SOCIO-STRUCTURAL PACKAGE. THE COUNCIL HAD AGREED TO DECIDE BY 1 AUGUST AND HAD THEN ACQUIESCED IN A UK PRESIDENCY PROGRAMME WHICH IMPLIED A DECISION BY DECEMBER. IT NOW SEEMED UNLIKELY THAT EVEN THIS DATE COULD BE MET. FARMERS HAD FACED A TOUGH PRICE PACKAGE IN 1986 AND THERE WOULD BE A TOUGHER ONE IN 1987. ALL THIS WAS IMPOSSIBLE WITHOUT STRUCTURAL MEASURES. IF THE

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COUNCIL COULD NOT AGREE THE EXISTING PROPOSALS, THEY SHOULD AT LEAST GIVE THE COMMISSION GUIDANCE ON WHAT KIND OF PACKAGE THEY DID WANT. SIR MICHAEL FRANKLIN ADMITTED THAT WE REGARDED THIS PACKAGE AS HAVING A LOWER PRIORITY THAN BEEF AND MILK, BUT WE COULD CERTAINLY SEEK TO ARRANGE A COUNCIL DISCUSSION OF THE KIND ANDRIESSEN HAD SUGGESTED. ROBERTS SAID THAT HE HOPED THE WORKING GROUP WOULD REPORT TO SCA IN TIME FOR IT TO PASS THE DOSSIER TO THE NOVEMBER COUNCIL, THOUGH CLEARLY IT COULD NOT BE THE MAJOR ITEM FOR THAT AGENDA.

(D) BILATERAL ISSUES.

9. SIR MICHAEL FRANKLIN ASKED WHAT ACTION THE COMMISSION WERE TAKING TO DEAL WITH THE LATEST FRENCH ACTION ON UK LAMB. TROJAN SAID THAT FOLLOWING RECEIPT OF A COPY OF MR GUMMER'S LETTER TO GUILLAUME, LEGRAS (DIRECTOR GENERAL OF DG VI) WOULD BE CONTACTING CHIRAC'S OFFICE TO MAKE CLEAR THAT THE FRENCH REQUEST FOR AN ADVANCE PAYMENT ON EWES, WHICH WAS ON THE VERGE OF ACCEPTANCE, WOULD BE FROZEN UNTIL THE LATEST INCIDENTS CEASED.

10. SIR MICHAEL FRANKLIN PRESSED FOR A COMMISSION PROPOSAL ON THE GREEN POUND. ANDRIESSEN SAID THAT THE COMMISSION AS A WHOLE WAS VERY NEGATIVE. IT DID NOT WANT ANY ACTION IN ADVANCE OF THE REPORT ON MCAS. HAD HE PRESSED FOR A DECISION, THE COMMISSION WOULD HAVE TURNED DOWN THE APPLICATION. AS IT WAS, IT WAS STILL BEING STUDIED BUT NOT URGENTLY. SIR MICHAEL FRANKLIN MADE CLEAR THAT THIS WAS VERY UNSATISFACTORY, ESPECIALLY GIVEN THE CURRENT LEVEL OF UK MCAS AND THE CARE WE HAD TAKEN TO CONFINE OUR REQUEST TO THE PRECEDENT THE COMMISSION THEMSELVES HAD SET IN THEIR DECISION ON THE IRISH GREEN POUND.

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SIR M FRANKLIN MAFF

HADLEY MAFF

MURPHY MAFF

MYERS MAFF

WENTWORTH MAFF

J. ANDERSON MAFF

CRUICKSHANK MAFF

HUNTER MAFF

NEVILLE-ROLFE MAFF

THOMAS MAFF

BURNE MAFF

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*This refers
to meticulous
customs checking of
all lamb imports.*

*CDP
MG*

FRAME AGRICULTURE

YOUR TELNOS 687 AND 688: LAMB IMPORTS: MESSAGE FROM MR GUMMER

1. LETTER FROM MR GUMMER TO GILLAUME ABOUT INCREASED LEVEL OF CUSTOMS CHECKING ON UK LAMB IMPORTS DELIVERED AS INSTRUCTED TODAY.

COUNSELLOR (AGRICULTURE) SPOKE TO GAUTIER-SAUVAGNAC ABOUT THIS DEMARCHE AND URGED A RAPID AND HELPFUL RESPONSE. GAUTIER-SAVAGNAC SAID THAT THE EXTRA CONTROLS WERE BEING CARRIED OUT STRICTLY WITHIN THE FRAMEWORK OF EC RULES: IN HIS VIEW NO BREACH OF THE TREATY COULD BE DEMONSTRATED IN THIS INSTANCE. HE ADDED THAT THE ACTIONS TAKEN BY THE FRENCH GOVERNMENT AT THE PORTS AND WHOLESALE MARKETS SHOULD HELP TO DEFUSE THE PRESSURE OF PRODUCER PROTEST. THIS AT LEAST HAD THE MERIT OF PUTTING THE DISPUTE ON THE NORMAL GOVERNMENT TO GOVERNMENT BASIS RATHER THAN IN THE FORM OF UNPREDICTABLE INCIDENTS ON THE ROADS OF FRANCE. GAUTIER-SAUVAGNAC PROMISED A SPEEDY REPLY TO MR GUMMER'S LETTER. THE LIKELIHOOD IS THAT GUILLAUME WILL REPLY EMPHASIZING THE LEGALITY OF THE FRENCH ACTION AND NO DOUBT PRESENTING IT AS A TEMPORARY MEASURE ONLY.

3. CONTACTS WITH IMPORTERS TODAY SUGGEST THAT THE SITUATION IS MUCH THE SAME AS YESTERDAY WITH EXTENSIVE CHECKING OF LAMB CONSIGNMENTS BY CUSTOMS AND CONSEQUENT DELAYS. AS YET THEY HAVE FOUND NO CASE OF INFRINGEMENT OF EC RULES WHICH WOULD GIVE A PRETEXT FOR SENDING A LOAD BACK. IT IS WIDELY UNDERSTOOD, THOUGH NO DOUBT NOT STATED IN TERMS, THAT THE TARGETS ARE BRITISH LAMB LORRIES AND NOT THOSE FROM THE IRISH REPUBLIC.

4. FCO PLEASE PASS IMMEDIATE TO PS MR GUMMER AND BURNE (MAFF)

FRETWELL

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10 DOWNING STREET
LONDON SW1A 2AA-

From the Private Secretary

16 October 1986

**ALTERNATIVE USES OF AGRICULTURAL LAND
AND SOURCES OF RURAL EMPLOYMENT**

BP/

The meeting scheduled to discuss the above subject at 1200 noon on Thursday, 6 November is now postponed until Thursday, 20 November after Cabinet at approximately 1200 noon.

I am copying this letter to the Private Secretaries to the Lord President, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretaries of State for Wales, Northern Ireland, Scotland, the Environment, Employment, and Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Secretary, Sir Robert Armstrong and David Williamson.

(CAROLINE RYDER)

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

CJ



10 DOWNING STREET

DRN,

D of E. rang to see
whether or not their junior minister
Mr. Waldergrave can attend
the 'ALURE' meeting on 6/11/86
at 1200.

Content?

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Yes ✓
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FRAME AGRICULTURE

FROM UKREP BRUSSELS

AGRICULTURE COUNCIL, 13/14 OCTOBER 1986.

SUMMARY

1. A LONG COUNCIL WAS DOMINATED BY REPEATED EFFORTS TO SEEK A CONCLUSION TO THE VEXED ISSUE OF POULTRY AND EGGS MCAS. AFTER THE PRESIDENCY COMPROMISE WAS BLOCKED BY FRANCE, GERMANY AND DENMARK A QUALIFIED MAJORITY WAS EVENTUALLY FOUND FOR A ROLL FORWARD OF EXISTING SUSPENSIONS UNTIL 1 APRIL 1987 AND A POWER FOR THE COMMISSION TO DEAL WITH ANY ABNORMAL TRADE FLOWS. BELGIUM AND DENMARK VOTED AGAINST. LUXEMBOURG ABSTAINED.

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2. NO DISCUSSION OF GREEN POUND OR GREEN FRANC.

3. QUALIFIED MAJORITY, WITH FRANCE AND GERMANY OPPOSED, FOR UPDATING OF LEVY AND SLUICEGATE PRICES FOR EGGS AND POULTRY.

4. OLIVE OIL CONSUMPTION AID AGREED UNANIMOUSLY WITH CHANGE IN THE ANNEX TO THE FINANCIAL STATEMENT TO MAKE CLEAR THAT THE COST WILL BE AFFECTED BY SAVINGS FORESEEN ELSEWHERE IN THE OLIVE OIL REGIME.

5. LONG DEBATE ON MILK CONFIRMS THAT THE COUNCIL IS NOT WILLING TO ACCEPT THE COMMISSION PROPOSALS AS TABLED AND THAT COMMISSION IS UNWILLING TO COMPROMISE. SOME SUPPORT FOR ALTERNATIVES INCLUDING EVENTUAL QUOTA CUTS.

6. SOCIAL BUTTER REMAINS BLOCKED BY SPAIN, U.K AND DUTCH INSISTENCE ON A FINANCIAL LIMIT WHICH COMMISSION AND OTHER DELEGATIONS REGARD AS INCOMPATIBLE WITH THE OBJECTIVE OF THE SCHEME. BLOCKS LIKELY TO HOLD UNTIL OTHER MILK MEASURES AGREED.

7. INTERIM REPORT ON BEEF PROVOKES PREDICTABLE REACTIONS. PRESIDENCY WARNS OF MAJOR EFFORT TO REACH DECISIONS IN NOVEMBER.

8. POULTRY AND EGGS IN MIFT. DAIRY IN MY SECOND IFT. ALL OTHER DETAIL BELOW.

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DETAIL.

GREEN RATE DEVALUATIONS.

9. IN THE ABSENCE OF A PROPOSAL ON THE GREEN POUND AND GREEN FRANC, MR JOPLING (PRESIDENCY) NOTED THAT THE U.K AND FRENCH DELEGATIONS HAD ALREADY EXPRESSED THEIR VIEWS VERY STRONGLY TO THE COMMISSION AND THERE WAS NO NEED FOR DISCUSSION IN COUNCIL.

OLIVE OIL CONSUMPTION AID.

10. ANDRIESSEN (COMMISSION) SAID THAT AN INCREASE IN CONSUMPTION AID WOULD ADD TO BUDGETARY EXPENDITURE ON THIS ITEM. IF, HOWEVER, CONSUMPTION AID WAS NOT INCREASED MORE OLIVE OIL WOULD GO INTO INTERVENTION AND THE TOTAL COST WOULD PROBABLY BE EVEN GREATER. LAST SEPTEMBER THE COMMISSION HAD DECIDED TO MAKE 100,000 ECUS AVAILABLE FOR A STUDY ON THE EFFECTIVENESS OF THE AID, AND AN ANNOUNCEMENT ABOUT THIS STUDY COULD BE EXPECTED IN THE NEXT TWO WEEKS.

11. FLORIAN (GERMANY) WAS CONCERNED ABOUT A DISCREPANCY BETWEEN THE MAIN PART OF THE FINANCIAL STATEMENT WHICH SAID THAT THE EXPENDITURE COULD BE FINANCED FROM CURRENT APPROPRIATIONS IN THE BUDGET, AND THE ANNEX WHICH ONLY SAID THAT IT COULD BE PARTLY COMPENSATED FOR BY AN EXPECTED POORER HARVEST. ANDRIESSEN EXPLAINED THAT HE EXPECTED THE ADDITIONAL EXPENDITURE TO BE CONTAINED WITHIN THE BUDGET THROUGH THE LOWER PAYMENTS TO PRODUCERS AND TO THE PROCESSING INDUSTRY WHICH WOULD RESULT FROM THE POORER HARVEST. FLORIAN ASKED THAT THE SECOND INDENT OF THE ANNEX SHOULD BE AMENDED TO REFLECT THIS ASSUMPTION AND IT WAS AGREED THAT HIS CONCERN SHOULD BE RECORDED IN THE MINUTES.

12. GAUTIER-SAUVAGNAC (FRANCE) LIFTED THE FRENCH RESERVE, SAYING THAT HE ATTACHED IMPORTANCE TO THE IMPENDING COMMISSION PROPOSALS ON THE OILS AND FATS REGIME. PANDOLFI (ITALY) DID LIKEWISE, REMARKING THAT CONSUMPTION AID SHOULD BE HIGHER. HE AGREED WITH GAUTIER-SAUVAGNAC'S COMMENT AND ADDED THAT THE COMMISSION SHOULD DRAW CONCLUSIONS FROM THE IMBALANCE THAT WOULD EXIST BETWEEN THE LEVELS OF PRODUCTION AND CONSUMPTION AID.

13. IN THE ABSENCE OF FURTHER COMMENTS, MR JOPLING CONCLUDED THAT THE PROPOSAL WAS ADOPTED.

REFORM OF THE BEEF REGIME.

14. ROBERTS (SCA CHAIRMAN) OUTLINED THE REMIT WHICH SCA HAD GIVEN TO THE WORKING GROUP (SEE UKREP TELNO.3209 OF 1 OCTOBER). ANDRIESSEN DISAGREED WITH THE FRENCH ANALYSIS THAT THE PROBLEMS IN THE BEEF SECTOR WERE ONLY SHORT-TERM. FUNDAMENTAL CHANGES WERE NEEDED AND INTERVENTION HAD TO BE SUBSTANTIALLY LIMITED. THE COMMISSION WOULD BE FLEXIBLE IN EXAMINING WAYS FOR DOING THIS, ALTHOUGH THESE HAD TO ACHIEVE THE SAME OVERALL EFFECT AS THE PROPOSALS. HE WAS SUPPORTED IN HIS PLEA FOR URGENT PROGRESS BY MR JOPLING, WHO WARNED DELEGATES TO BE READY FOR A LONG DISCUSSION AT THE NOVEMBER COUNCIL WITH THE AIM OF REACHING DECISIONS THEN.

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Secretary of State for Trade and Industry

14 October 1986

The Rt Hon Michael Jopling MP
Minister of Agriculture,
Fisheries and Food
Whitehall
LONDON
SW1

Dear Michael

NGM

ALTERNATIVE USE OF AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

at 11ap

Thank you for sending me a copy of your minute to the Prime Minister of 22 September.

I am doubtful whether we should be looking now at putting more financial support into the agricultural sector, on the lines sketched out in your minute. As I understand it, the marked changes in land use envisaged in the officials' report will happen only gradually over a period of years - and then only if we make good progress in our efforts to reform the CAP. While the official group looked at various options for alternative use of land likely to be released from traditional farming, the report itself recognises that a decisive case for Government financial support in these areas has yet to be made. Our objections to the CAP are, in part, based on the belief that European support levels for agriculture could not be justified by the stricter criteria we believe appropriate to Government intervention in the economy. We must therefore look equally critically at proposals for financial intervention designed to mitigate the effects of possible success on CAP.

That said, I naturally endorse the aim of encouraging alternative economic and wealth-creating development in these rural areas, especially where this can be done without additional expenditure. One such case is a relaxation of the planning restrictions on agricultural land, and I welcome your emphasis on the need for some change here. The policy set out in DOE Circular 75/76 is now more than ten years old and needs to be revised. We need to reduce the number of planning applications where business

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development is frustrated for agricultural reasons rather than on environmental or amenity grounds. Officials should be asked to prepare proposals for public consultation on such changes, whether or not there is to be a wider policy document.

I am sending copies of this minute to the Prime Minister, the Lord President, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretaries of State for Wales, Northern Ireland, Scotland, Environment and Employment, the Chancellor of the Duchy of Lancaster, the Chief Secretary and Sir Robert Armstrong.

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PAUL CHANNON

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FRAME AGRICULTURE

REQUEST FOR GREEN POUND DEVALUATION

1. ACTION TAKEN WITH ANDRIESSEN, COCKFIELD, CLINTON, DAVIS, DELORS AND CHRISTOPHERSEN CABINETS ON THE BASIS OF YOUR TELNO 430 AND WHERE APPROPRIATE THE SECRETARY OF STATE FOR NORTHERN IRELAND'S LETTER OF TODAY TO ANDRIESSEN.

2. WE SEPARATELY DELIVERED TO ANDRIESSEN'S CABINET THE DATA ON UK/FRENCH TRADE IN BEEF SUPPLIED BY MAFF, POINTING OUT THAT WE HAVE NO EVIDENCE OF ANY DISTORTION IN OUR BEEF TRADE WITH FRANCE. WE ALSO BRIEFED THE BRITISH CABINETS ON THIS PARTICULAR CONCERN OF ANDRIESSEN'S.

3. THIS EVENING WE LEARNED FROM THE FRENCH REPRESENTATION THAT THEY ARE ABOUT TO REQUEST A 3.3 PER CENT DEVALUATION FOR THEIR GREEN RATE ON BEEF AND SHEEPMEAT.

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FRAME ECONOMIC/FRAME AGRICULTURE

FROM UKREP BRUSSELS

ECOFIN COUNCIL, 13 OCTOBER 1986.
AGRICULTURAL SPENDING.

SUMMARY

1. DISCUSSION OVER LUNCH, WITH GENERAL AGREEMENT ON SERIOUSNESS AND URGENCY OF SITUATION. COMMISSION GIVE GLOOMY ESTIMATE OF 1987 SITUATION AND PROMISE DRASTIC REFORM PROPOSALS FOR 1987 PRICE-FIXING. PRESIDENCY CONCLUSIONS ISSUED INCLUDING REFERENCES TO NEED TO TAKE ACCOUNT OF MARKET CONDITIONS, TO MAKE INTERVENTION A SAFETY NET RATHER THAN A PRINCIPAL MARKET AND TO LIMIT RISKS TO PUBLIC FUNDS. GERMAN, DANISH AND DUTCH RESERVES.

DETAIL

3. OVER LUNCH, THE CHANCELLOR OF THE EXCHEQUER OPENED DISCUSSION BY STRESSING THAT AGRICULTURAL EXPENDITURE WAS NOT JUST A SHORT-TERM PROBLEM IN 1987, BUT A LONG-TERM ONE. HE DID NOT WISH TO PRE-EMPT THE AGRICULTURE COUNCIL, BUT ECOFIN WAS CONCERNED ABOUT THE PUBLIC EXPENDITURE AND BUDGET DISCIPLINE ASPECTS. HE HOPED MINISTERS COULD AGREE ON THE NEED FOR EARLY ACTION AND THREE GUIDING PRINCIPLES: THAT PRICES SHOULD MORE CLOSELY REFLECT MARKET CONDITIONS, THAT INTERVENTION SHOULD OPERATE AS A SAFETY NET NOT AS A PRINCIPAL MARKET; AND THAT PRICE POLICIES SHOULD BE MORE FLEXIBLY OPERATED SO PUBLIC FINANCE DID NOT BEAR THE WHOLE RISK. INTERNATIONAL DISCUSSIONS ON AGRICULTURAL TRADE PROBLEMS WERE ALREADY UNDER WAY, BUT COMMUNITY PROBLEMS NEEDED MORE URGENT ACTION.

4. DELORS (COMMISSION) SAID REAL AGRICULTURAL PRICES HAD FALLEN 12% SINCE AGRICULTURE MINISTERS STARTED TAKING 'COURAGEOUS DECISIONS' IN 1984. BUT THE SITUATION WAS STILL NOT TOLERABLE AND THEREFORE THE COMMISSION WOULD PUT FORWARD NEW PROPOSALS BEFORE THE END OF THE YEAR. THE CAP FACED FOUR PROBLEMS: THE BUDGETARY ONE, WHICH HAD TO INCLUDE THE PROBLEM OF STOCKS; THE ECONOMIC AND SOCIAL ASPECT, GIVEN THAT IT WAS NOT CONSISTENT WITH REGIONAL POLICY TO FORCE PEOPLE OFF THE LAND WHEN UNEMPLOYMENT IN THE COMMUNITY WAS ALREADY SO HIGH, THOUGH HE HIMSELF HAD ALWAYS BELIEVED IN CUTTING THE LINK BETWEEN COMMON PRICES AND SOCIAL SUPPORT; EXCESSIVE WORLD PRODUCTION, WHICH WAS NOT JUST A COMMUNITY PROBLEM; AND TRADE POLICY ISSUES. IT WAS NECESSARY TO AVOID ROWS WITH THE U.S, THOUGH THE COMMUNITY CURRENTLY IMPORTED HUGE QUANTITIES OF SOYA FOR FOODSTUFFS WHICH INCREASED MILK YIELDS.

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5. ANDRIESEN (COMMISSION) SAID THE COMMISSION HAD BEEN WARNING OF THE POTENTIAL PROBLEMS SINCE 1981. THE 1986 PRICE-FIXING HAD SAVED 457 MECU, BUT THERE WAS NOW A POTENTIAL OVERSPEND OF FAR MORE THAN THE 1.4 BECU IN 1987 EARLIER ENVISAGED, AS A RESULT OF THE RECENT FALL IN THE DOLLAR, AGRI-MONETARY CHANGES, AND A PROBABLE CARRY-OVER FROM 1986 TO 1987. WORLD MARKET PRICES WERE FALLING WHILE PRODUCTION RACED AHEAD. THE COMMISSION HAD DONE ALL IT COULD ON ITS OWN AUTHORITY, SO FURTHER ACTION WOULD DEPEND ON COUNCIL DECISIONS. THE COMMISSION HAD ALREADY MADE PROPOSALS ON BEEF AND MILK, BUT WOULD HAVE TO GO FURTHER. IT WAS WORKING ON SOME REALLY DRASTIC NEW PROPOSALS TO COME FORWARD FOR THE 1987/88 PRICE-FIXING. THE PROBLEM OF STOCKS REMAINED. CURRENT STOCKS, OFFICIALLY VALUED AT 12 BECU, HAD A MARKET VALUE ONLY HALF THAT. THEY WERE COSTLY TO KEEP AND OVERHUNG THE MARKET. A DISPOSAL PROGRAMME WAS ESSENTIAL, COMBINED WITH MEASURES TO ENSURE THEY WOULD NOT BE BUILT UP AGAIN (THOUGH SOME FARMERS WERE STILL AIMING FOR INCREASED PRODUCTION AND HIGHER PRODUCTIVITY.) ALL THIS NEEDED FINANCE.

6. CHRISTOPHERSEN (COMMISSION) WELCOMED THE PRESIDENCY'S INITIATIVE. THE AGRICULTURAL GUIDELINE DID NOT GUIDE ANYTHING. IF NOTHING WAS DONE THERE WOULD BE INSUFFICIENT FUNDS TO PAY MEMBER STATES' ADVANCES IN 1987, RESULTING IN A HUGE CARRY-OVER TO 1988. TO PROVIDE FOR THE CAP AND SQUEEZE DNO WOULD BE UNACCEPTABLE TO THE PARLIAMENT. THEY COULD RUN UP STOCKS IN THE SHORT-TERM, BUT THAT MERELY ADDED TO BUDGET PROBLEMS IN 1988. A 3-5 YEAR PROGRAMME OF STOCK DEPRECIATION AND DISPOSAL WAS NECESSARY, WITH A NEW ACCOUNTING SYSTEM BASED ON THE REAL MARKET VALUE OF STOCKS. THE PRICE FIXING WOULD AIM FOR SAVINGS, BUT THEY COULD NOT FIND 3 BECU AT ONE PRICE-FIXING. BUT CAP MONEY WENT LESS AND LESS TO FARMERS AND MORE AND MORE TO TRADERS, BANKERS AND THIRD COUNTRIES.

7. STOLTENBERG (GERMANY) EMPHASISED THE PROBLEM OF OVER-PRODUCTION AND STOCKS. DECISIONS ON A MEDIUM-TERM STRATEGY TO DISCOURAGE PRODUCTION WERE NECESSARY COVERING (NEXT WORD UNDERLINED) ALL SECTORS, BUT STOCK DISPOSAL MUST BE GRADUAL. SOMETHING SHOULD BE DONE ABOUT THE IMPORT OF SUBSTITUTES. THERE WAS MUCH EXAGGERATED TALK OF RE-NATIONALISATION, BUT PERHAPS SOME MEASURE OF IT WAS POSSIBLE WITHOUT DESTROYING THE CAP - E.G A NATIONAL MILK QUOTA FOR EACH MEMBER STATE. HE WAS SURPRISED THAT SOME AGRICULTURE MINISTERS SEEMED TO WANT STILL MORE SUBSIDIES ON SURPLUS PRODUCTS. THIS MUST BE STOPPED. HE COULD NOT, HOWEVER, AGREE COUNCIL CONCLUSIONS TODAY.

8. BALLADUR (FRANCE) SAID AGRICULTURE WAS FUNDAMENTAL TO SOCIETY AND THE FINANCIAL ANGLE WAS ONLY ONE ASPECT. THE REAL PROBLEM WAS THE WORLDWIDE STRUCTURAL SURPLUS.

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9. THE MINISTER OF STATE COMMENTED THAT ON THE 1987 BUDGET THE COUNCIL WAS TAKING A TOUGH LINE ON DNO AND THE E.P WOULD INSIST ON EQUAL PAIN FOR AGRICULTURE.

10. EYSKENS (BELGIUM) AGREED THE SITUATION WAS UNTENABLE, AND ELECTORAL PROBLEMS WERE NO JUSTIFICATION FOR IT, BUT RE-NATIONALISATION WOULD DESTROY THE COMMUNITY. PRICES MUST BE ALLOWED TO GET THROUGH TO PRODUCERS, BUT SOCIO-ECONOMIC PROBLEMS WOULD REQUIRE DIRECT SUBSIDIES NOT BASED ON MARKET PRICES. ESPER LARSEN OPPOSED RE-NATIONALISATION OR ECOFIN INTERFERENCE IN PROPOSALS THE COMMISSION WAS PREPARING.

11. BRUTON (IRELAND) OPPOSED ANY RE-NATIONALISATION AND WONDERED WHETHER IT WAS NOT POSSIBLE TO LIMIT FERTILISERS AND BAN FACTORY FARMING. CHRISTOPHERSEN COMMENTED THAT ALLOWING CARRY-OVERS TO BUILD UP WAS DE-FACTO RE-NATIONALISATION, AS FARMERS WOULD INSIST ON BEING PAID. PAPANTONIOU (GREECE) OPPOSED THE BUDGETARY APPROACH ALTOGETHER. ECOFIN SHOULD NOT BE INVOLVED IN RETHINKING THE CAP, THOUGH IT WAS CLOSELY LINKED TO THE NEW OWN RESOURCES PROBLEM.

12. THE CHANCELLOR SUMMED UP THAT EVERYONE AGREED ON THE SERIOUSNESS OF THE SITUATION AND THE NEED FOR URGENT ACTION FOR THE LONGER TERM AS WELL AS 1987. RE-NATIONALISATION WAS NOT A SOLUTION, THOUGH SET ASIDE MUST BE CONSIDERED. ALL MUST REFLECT WITH COLLEAGUES AT HOME, AND THE PRESIDENCY WOULD TRY TO PRODUCE SOME CONCLUSIONS ON THE GENERAL DIRECTION THE COMMUNITY SHOULD GO TO HELP THE COMMISSION WITH FUTURE WORK.

13. THE CHANCELLOR CIRCULATED DRAFT PRESIDENCY CONCLUSIONS DURING THE FORMAL COUNCIL SESSION. MINISTERS REPEATED MANY OF THE COMMENTS THEY HAD MADE OVER LUNCH. THERE WAS GENERAL SUPPORT FROM SCHEER, GORIA, SOLCHAGA AND THE PORTUGUESE REPRESENTATIVE, THOUGH THEY, LIKE OTHERS MADE CLEAR THAT THEY HAD NOTED THAT THESE WERE PRESIDENCY CONCLUSIONS WHICH DID NOT BIND THE COUNCIL. PAPANTONIOU (GREECE) DISOCCAIATED HIMSELF FROM THE TEXT. TIETMEYER (GERMANY) AND ESPER LARSEN (DENMARK) ASKED THAT THE MINUTES RECORD THAT THEY DISSOCIATED THEMSELVES FROM PARAGRAPH 3, TIETMEYER SPECIFYING THAT THE GERMAN OBJECTIONS STEMMED FROM THE POLITICAL DIFFICULTIES INHERENT IN THE PRINCIPLES SET OUT RATHER THAN FROM THEORETICAL OBJECTIONS.

14. TEXT OF PRESIDENCY CONCLUSIONS (WHICH WERE SLIGHTLY AMENDED IN DISCUSSION TO REFER TO STOCKS AND TO ARTICLE 39 OF THE TREATY) IN M I F T.

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RESTRICTED

/15

RESTRICTED

15. THE CLOSE WORKING RELATIONSHIP THE TREASURY HAVE DEVELOPED WITH THE FRENCH ON THESE CONCLUSIONS OVER THE LAST COUPLE OF WEEKS CONTINUED TODAY, WITH VILLAIN CONTRIBUTING HELPFULLY BEHIND THE SCENES.

MILES

YYYY

ADVANCE:

RENWICK FCO

WALL FCO

HARRISON FCO

RICHARDSON ECD(P) FCO

WILLIAMSON CAB

JAY CAB

MERCER CAB

MCADAMS TSY

HADLEY MAFF

PERRINS MAFF

PS/CHANCELLOR TSY

PS/MST TSY

LAVELLE TSY

EDWARDS TSY

CRABBIE TSY

BONNEY TSY

DONNELLY TSY

MAIN:

FRAME ECONOMIC

FRAME AGRICULTURE

UKREP DIST: 46/29/31/42/ROBERTS/AG/ECON

(ADVANCED AS REQUESTED)

LMLNAN

FRAME AGRICULTURE
FRAME ECONOMIC
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RESTRICTED



CONFIDENTIAL

Prime Minister

NBP7

**ALTERNATIVE USES OF AGRICULTURAL LAND
AND SOURCES OF RURAL EMPLOYMENT**

As Michael Jopling has indicated in his minute to you of 22 September, he has discussed and agreed with his agricultural colleagues his conclusions on the working party's report and his recommendations for follow up action. In particular I agree that we should demonstrate our concern to ensure that the rural economy will be sustained in the face of the range of measures which may be required to deal with the problem of agricultural surpluses.

Two issues stand out as being of particular importance from the Scottish point of view. Any move into beef and sheep by farmers in marginal areas who are forced out of cereals and milk production by measures to cut surpluses will inevitably have severe knock-on effects. These effects will be felt most keenly in the less-favoured areas where the rural economy is already precariously balanced. It is, therefore, of the utmost importance that there should be no doubt about our intention to continue to provide adequate support for agriculture in these areas.

The diversion of land from agricultural production into forestry is the other issue which has a particularly Scottish dimension. Already the proportion of the land area of Scotland devoted to forestry is greater than that of any other country of the UK and some 90% of new planting is currently being undertaken north of the border. There is clearly scope for an expansion of farm forestry and we must follow this up. At the same time increasing interest in trees as an alternative to crops in surplus may well encourage forestry interests to step up pressure for the planting of better quality hill land, agricultural employment on which is

HMP27511

D.R.

so important to the underpinning of the rural economy. Thus I expect that I shall, as lead Forestry Minister, have to make some difficult judgements in this area.

I would welcome the opportunity to take part with colleagues in any discussion of Michael Jopling's proposals which may be arranged. Likewise, my officials will be ready to participate in the preparation of proposals for taking the matter forward.

I am copying this minute to the Minister of Agriculture, the Lord President, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretaries of State for Wales, Northern Ireland, the Environment, Employment and Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Secretary and Sir Robert Armstrong.

MR

M R

2 October 1986

HMP27511

EURO POL:CAP, PT14



187



10 DOWNING STREET

From the Private Secretary

2 October, 1986.

Dear Ivor,

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

The Prime Minister was grateful for your Secretary of State's minute of 22 September which discussed an interdepartmental report on Alternative Uses of Agricultural Land and Sources of Rural Employment.

The Prime Minister wishes to hold a meeting to discuss this, and this office will be in touch to arrange a time. The report is very substantial, with wide-ranging recommendations, and it will need a thorough discussion. The Prime Minister has asked that the report and the ideas discussed in it should not be mentioned or hinted at in public, in order to avoid raising expectations.

I am copying this letter to the Private Secretaries to the Lord President, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretaries of State for Wales, Northern Ireland, Scotland, the Environment, Employment, and Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Secretary, and Sir Robert Armstrong.

Yours,

David

(David Norgrove)

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

CONFIDENTIAL

PRIME MINISTER

ALURE

(I assume the reason for this acronym is "Agricultural Land Use and Rural Employment"!) |

May I come back to you on this? There is a good deal of gall in the way Mr. Jopling has gone about his proposals. But I really do not think a meeting can be avoided. The Government ought to thrash out ideas on some of the domestic effects of price restraint and set-aside before they get too far in the Community, the report was commissioned at a meeting which you chaired, and (a slightly cack-handed argument, this) it would be hard to argue that Mr. Jopling's request for a green pound devaluation weakens his case for ALURE without increasing the case for ALURE if he does not get the devaluation.

We need not hurry to set up a meeting. But agree to hold one with the territorial Ministers (on which see my earlier minute)?

DN

Yes
not

David Norgrove

1 October 1986

ALTERNATIVE USES OF AGRICULTURAL LAND

Mr Jopling's report on agricultural land use makes a number of useful proposals on deregulation, but provides no adequate justification for increased expenditure on farm support as advocated. Our major concern with the report as it stands is that it totally under-estimates the opportunity to allow market adjustment mechanisms to operate. It therefore falls back on new forms of subsidy to perpetuate CAP type income support in a difference guise. Although farm support systems obviously cannot be removed overnight (even if we wanted to), over 10 years we ought at least to be finding a way to move closer to the market equilibrium to prevent support costs becoming astronomical. Given these concerns, we believe that the major recommendations will need to be individually argued and justified, and it would not be appropriate to give any blanket approval to the conclusions.

Scale of the Problem

Based on the assumption of little substantive change in the current CAP structure, the report projects the possibility of one million hectares of 'spare' land (ie not required for current output forecasts) by the mid-1990s. This represents just over 5% of the total agricultural land area. Under the 'worst' scenario of a full adjustment to world price levels, the original research report suggests the loss in agricultural employment over this period would be approximately 70,000 in England and Wales (18% of total agricultural employment). These figures, frankly, do not appear outside the scope of reasonable industry adjustment over a 10 year period - British Steel, British Leyland, British Rail and the NCB have each individually lost more workers than this since 1979. However, little credence is given to the possibility

of allowing the problem to resolve itself through gradual adjustment to market forces, encouraged by deregulation.

What is the worst case? Clearly a reduction in market prices will drive some existing farmers out of business. In most cases these will not be actual bankruptcies - debt ratios in the UK are generally still quite low (of the order of 20% nationwide). Farmers who are unable to maintain current income will therefore generally sell out with a significant remaining equity stake. As they do, land prices will fall (as they have done in real terms since 1979) and the land will be repurchased (or rented) at lower prices by other farmers who then have a lower production cost. Thus, although farm income per acre will fall, farmers will continue to be able to trade profitably. In particular, lower land prices will encourage less intensive farming - eg using more grazing and silage instead of high price feedstocks.

In addition to these price adjustments, there are clearly many opportunities for farmers (liberated from the tramlines created by subsidising a few key commodities) to broaden their farm mix and look for additional ways to find value. New products like venison, goats milk, farmhouse cheeses and yoghurts etc - acknowledged and dismissed by the report - could well have a huge impact if properly developed and marketed. There could also be a much larger impact of reduced prices on expanding demand than allowed for in the report - on beef, for example, a recent survey suggested a very high aspiration by most consumers to consume more if they could afford it. Recreational uses of land - such as golf courses, horseriding stables etc - could also expand rapidly if land prices fell and regulations were relaxed.

There are clearly many mechanisms by which market adjustment could take place. The basis of the MAFF discomfort is that they cannot forecast and therefore plan exactly how these adjustments will occur - and they therefore discount them.

It is a good job that we do not run the rest of the economy on that basis!

Specific Proposals

Given the report's misplaced alarm at the scale of adjustment, we cannot see the urgency of developing yet more subsidies for agriculture - particularly when there is no agreed strategy or timetable for dealing with CAP.

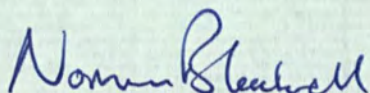
Nevertheless, certain proposals are useful:

1. Relaxation of planning restrictions on agricultural land would be useful to encourage alternative land uses. We would suggest going further than the report and removing all current restrictions on the conversion of agricultural land to other purposes - subject to other environmental and local planning regulations which provide adequate protection against inappropriate developments. With agricultural production in surplus, it is crazy to prevent landowners from switching from grazing cows to grazing horses. With greater freedom to develop, horseriding could become a major leisure activity around all the large conurbations.
2. Encouragement for diversification is obviously helpful. However, this is unlikely to be best achieved by increasing the ADAS budget. The most important factor is likely to be the development of diversified marketing channels.
3. Further subsidies for forestry are particularly doubtful. Current grant schemes already encourage totally uneconomic planting, with the taxpayer contributing up to 70% of the cost of tree planting through grants and tax relief. This is being exploited in ways which have little impact on agricultural output (see attached article). The report proposes extending

this to give a continuing annual allowance to farmers for areas of woodland to compensate for forgone income on other crops; this is effectively a permanent set-aside scheme which can only be justified financially on the assumption that the Exchequer would otherwise continue their support costs at current levels for absorbing surplus production. It is completely different from industrial aid schemes where the intent is to help a fledgling industry lift off the ground.

Conclusions

The Chief Secretary will oppose additional expenditure within the current PES round and you therefore do not need to intervene at present. Subsequently, however, you may wish to invite Mr Jopling to put his modified proposals to an appropriate meeting of Ministers (as suggested by Sir Robert Armstrong) where the more positive steps on deregulation could be agreed.



NORMAN BLACKWELL

Tree scheme bears profits and protests

by Toby Moore

A STRETCH of spectacular Lake District fell country with clear views over two national parks is the setting for a bitter row between environmentalists and tree-planting developers who are exploiting a tax loophole.

The developers — Chris Thornborrow, who owns the land, and Economic Forestry, which is advising him on how to manage it — intend to plant 400 acres of trees, mostly conifers, on Ashstead Fell, part of the Whinell ridge and a popular walking route near Kendal.

The land will then be sold for almost twice the price paid for it. Those buying it will gain a tax-deductible asset which is tax-free when sold after 10 years.

It will be the largest single tree planting development in Cumbria for 20 years, taking advantage of weaknesses in the planning and tax laws as well as the grant system.

Environmental groups, the local district council and county council planning officers oppose the scheme. Conservationists believe it "blatantly ignores" a planting convention in England that new plantations are only added to existing ones.

Nobody has the power to stop the scheme because farmland is not subject to planning regulations.

The mass planting of conifers, the majority not indigenous to Britain, is blamed by environmentalists for destroying moorland, displacing wildlife and sterilising landscapes for fauna.

Since the 1950s an average of 85,000 acres of land in the UK a year have been afforested, with 30% of the Scottish Highlands now covered with conifers. Conifers such as larch, pine and sitka spruce are planted because they grow faster than broad-leaved trees, such as oak.

The 700-acre Ashstead sheep farm, of which 400 acres are the fell area, was bought in June by Thornborrow, a forestry worker, for £155,000. After planting the trees on the 400 less useful acres, he can sell the plantation piecemeal for about £120,000.

That would still leave Thornborrow, who lives in a prefabricated council bungalow in Kendal, with 300 acres, a large farmhouse and adjoining bungalow, worth an estimated £150,000.

Economic Forestry is helping Thornborrow present the case for government planting grants. Once the Forestry

Commission agrees to pay those grants, Economic Forestry will plant the trees and manage the forest for the purchasers it finds for the 400 acres. It is expected these will be wealthy investors, anxious to take advantage of the tax loophole.

It costs £400 to plant an acre of trees but the Forestry Commission gives a grant of £100 for every acre planted. For the remaining £300, the purchaser gets 60% tax relief. In addition, he can sell the forest after 10 years completely exempt from capital gains tax although the asset could have doubled in value.

The commission is the only organisation with any control over afforestation and even that is only over the government grants, which it has the power to withhold.

The Council for the Protection of Rural England will this week send a detailed letter to the chancellor, Nigel Lawson, explaining how taxes are being avoided and calling for the loophole to be blocked.

The CPRE, the Council for National Parks and the Association of County Councils also wants tree planting to be brought within normal planning regulations.

David Conder of the CPRE said that the Ashstead Fell plan would not only have a "great and damaging" effect on the countryside, but also set a "blatant precedent" for any isolated land to be planted.

But it is not just environmentalists who are angry. Thomas Knowles, whose Hollowgate Farm overlooks the hill, said that the price for the farm was set so high at auction that no local farmers could afford to bid for what he said was one of the best sheep farms in the area.

"If we wanted to build a house, they wouldn't let us," he said. "Nobody has been near us to explain what was going on."

Chris Thornborrow, who intends to set up a deer farm on his remaining 300 acres, said it was "professional busybodies" who were stopping businesses such as his which offered new employment opportunities.

He said broad-leaved trees would be mixed with the conifers and predicted that in 30 years, when it was time to fell the timber, conservationists would oppose that. "As a native Lakelander, I have as much feeling for that fell as anyone, but I also feel for my fellow man from a work point of view," he said. "My only aim is to see these rural areas working for the people who live here."

PRIME MINISTER

A U A L S R E
ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

(Otherwise known as ALURE) ! ?

During an earlier discussion on the CAP you commissioned a report on alternative uses of agricultural land and alternative employment in the countryside. An interdepartmental report has now been produced.

This proposes a wide range of measures to help the rural economy, including encouragement for a major increase in the planting of trees, increased effort to assist diversification and some relaxation in current planning policies. The proposals have a price, and Mr. Jopling has bid for £10-20 million of new money for 1987/88.

No
Lord Young has minuted in favour of some of the proposals. Mr. Ridley is more doubtful. Others have yet to comment. Norman Blackwell's minute below raises fundamental questions about the whole approach.

This subject does not fit squarely either in E(A) or OD, and it may be better to hold an ad hoc meeting. I suggest:

- Lord Whitelaw
- Foreign Secretary
- Chancellor of the Exchequer
- Mr. Tebbit
- Mr. Jopling
- Mr. Ridley
- Lord Young
- Chief Secretary.

There is also a question whether to invite the Secretaries of State for Scotland, Wales and Northern Ireland. To do so would weight the meeting towards agriculture. But it would, I

think, be difficult to keep them out: Mr. Rifkind has primary responsibility for forestry, and once he is there, Wales and Northern Ireland cannot really be kept out.

Agree to a meeting as above, including the territorial Ministers?

Yes no

The meeting cannot possibly be held until after the Party Conference. Mr. Jopling shows signs in his minute of wanting to hint at action during his Party Conference speech. He also shows signs of hankering for some form of White Paper on agricultural policy of the kind he was prevented from promising this time last year. I suggest you should also say that the Report will need thorough discussion and there can be no question of indicating at this stage in public that the Government is considering proposals of the kind discussed in the interdepartmental report.

DK

No - Mr. Jopling

David Norgrove

has pre-empted the money -

30 September 1986

for dev't of the funds.

There isn't any more money.

No point in any meeting. We can't have more surplus (which he has planned) and more substituted into

DG2BKI

CYBB

DN
seen

PRIME MINISTER

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL
EMPLOYMENT

FILE WITH COP

I have read Michael Jopling's minute to you of 22 September with interest. As he says, this is a subject which concerns a number of Departments, including mine, and my officials have participated in his Working Group.

I entirely agree with Michael that this is a major, and complicated, issue: and, moreover, one where it is extremely important that we present our policies in the best light and at the right time.

Michael Jopling suggests that a positive programme should be based on the recommendations of the Working Party's Report. But I am not sure that the Report carries us to a point from which we can yet move forward with any confidence. The Working Party itself recommended future work on several key issues. I would like to see a much better assessment of costs and benefits, and a clearer analysis of the sensitivity of trends here to adjustments in CAP.

Given the importance of the issue I should welcome a discussion with colleagues in due course. I am obviously concerned with the implications of any change of direction on environmental and planning matters. And doubtless colleagues from other Departments will also have policy interests.

/ I am copying this to the recipients of Michael's minute.

Isobel R. Ogilvie (Private Secretary)

(Approved by the Secretary
of State and signed in
his absence)

NR

30 September 1986

CONFIDENTIAL



DN
I imagine we are waiting for further husband comments CAP

cy30

PRIME MINISTER

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

The Minister of Agriculture minuted you on 22 September suggesting action to promote economic activity in rural areas in the light of the continuing need to contain agricultural production.

I am quite sure that it is right for us to act, and to be seen to be acting, decisively in this area. And although the details are sure to depend to some extent on developments in Brussels, there is I think a need for urgent action on the domestic front, regardless of developments in relation to the CAP.

My officials were involved in the working party and I am grateful to the Minister of Agriculture for the way in which he has sought to reconcile the different views that were inevitably expressed. Can I offer the following comments on his recommendations, which I broadly welcome.

We must, I think, focus as much as possible on giving private enterprise the opportunity to flourish by removing unnecessary barriers, rather than looking to subsidy or direct intervention as an answer.

Personally, I see the key recommendation as being the commitment to some relaxation of planning policy in relation to agricultural land. The issue here is not one of whether to safeguard the environment, which the planning system would quite rightly continue to do. It is rather the way in which the current planning arrangements build in an additional

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protection for agricultural land (over and above the economic value of that land), distorting the market and preventing an efficient allocation of resources.

It is impossible to quantify the precise effect that changes might have on the rural economy, but I believe that the eventual employment effect could be quite substantial - with much of it being linked to recreational activity and the development of tourism (which of course itself depends to a great extent on effective conservation). As the Minister of Agriculture says, we need positive measures to help employment, not mere platitudes.

I would very much welcome the opportunity to participate in future discussion of these proposals. I shall be asking my officials to contribute to the action that is agreed as a matter of urgency. In particular, the suggested policy document could usefully seek views on a revision of the current circular on the protection of agricultural land.

Finally, as I have already mentioned to the Minister of Agriculture we will need to think very carefully indeed about the public presentation of any changes in policy. I am convinced, however, that with careful handling the benefits of an enterprise approach will be generally welcomed.

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I am copying this to the Minister of Agriculture, the Lord President, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretaries of State for Wales, Northern Ireland, Scotland, Environment and Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Secretary and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be "R. J. G." or similar, written in a cursive style.

DY

29th September 1986

CONFIDENTIAL



CCBG

Ref. A086/2721

DN
seen

PRIME MINISTER

Alternative Uses of Agricultural Land and Sources of Rural
Employment

FILE WITH CDP

The Minister of Agriculture, Fisheries and Food sent you a minute on 22 September with recommendations for colleagues on this wide-ranging subject. The work which has been undertaken in the interdepartmental working party stemmed from a discussion which you chaired with a limited number of Ministers (the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and the Minister of Agriculture, Fisheries and Food). The subject matter is not fully appropriate to E(A) or OD and I would suggest, therefore, that if there is to be a discussion with your colleagues about these points this should again be taken forward in an ad hoc group of Ministers under your chairmanship.

2. I would suggest that those who might be invited are the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food, the Secretary of State for the Environment and the Secretary of State for Employment. You will wish to consider whether also to include the "territorial" Secretaries of State, and in particular the Secretary of State for Scotland: to do so would enlarge the meeting considerably, but as Agriculture Ministers they have a direct interest.

RA

ROBERT ARMSTRONG

29 September 1986

Euro POL

CAF

PT14



CONDIMENTOR



CONFIDENTIAL

CCPC

②

PM/86/061

PRIME MINISTER

MS

Prime Minister

You asked to be kept informed about this. It would be a great achievement if we could get agreement on reform of the beef regime during our Presidency.

our Presidency.

EDP 29/9.

European Community Beef Regime

1. You have asked to be kept informed of the progress of discussions about the reform of the Community beef regime.

2. The Sub-Committee on European Questions of the Defence and Overseas Policy Committee discussed a paper from the Minister of Agriculture, Fisheries and Food at its last meeting. The Community is committed to reaching decisions on reform of the beef regime by the end of December. It is important both to our Presidency objectives and to the need to continue the process of CAP reform that we should make as much progress on beef as we possibly can. Beef is now the third most expensive sector of FEOGA guarantee expenditure: for 1986 the Community budget cost is forecast at 2.7 billion ecu (about 42% on intervention and 50% on export refunds). In August this year there was some 670,000 tonnes of beef in stock.

3. Although it is possible to argue that with the fall in the number of dairy cattle in the Community and the normal course of the beef cycle there will be a reduction both in intervention and in cost by the early 1990s, we remain convinced that some changes in the operation of the beef regime are essential. There is an urgent need to reduce expenditure on the beef regime and the level of stocks more quickly, to make the regime more market orientated and to bring production and consumption more

/into

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CONFIDENTIAL

into balance. We are all agreed that the Commission's proposals - which envisage an end to permanent intervention and the introduction of a new premium for specialist beef producers to offset the reduction in support through intervention - are on the right lines. But the Commission do not say by how much they expect to cut back intervention purchasing: we have agreed that we should urge on the Community the objective of a cut-back in intervention buying of at least 100,000 tonnes per annum. The importance of such an objective can be seen from the scale of purchases which are running at over 275,000 tonnes already in 1986.

4. The premium proposals present some difficulties. Such schemes do have attractions, if properly constructed, as a more sensible form of support than relying only on a rigid system of intervention and public purchasing, but most other member states have not had the same experience of operating premium schemes as we have had and will be somewhat sceptical of their value. There will, therefore, be differences of view in the negotiation. Furthermore, the Commission's proposal in its present form is for a new premium for specialist beef producers limited to 50 head per producer. We do not consider this form of limitation, which is unfavourable to larger herds, to be acceptable. We are agreed that we must resist the 50 headage limit or the limitation of a premium to male animals only. Producers and the meat trade in this country are very much attached to our existing form of variable slaughter premium, the Beef Variable Premium Scheme, and will expect us strongly to defend this type of premium in Community discussions. We shall do so and we are also

/agreed

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agreed that we would only move from this if we had made the maximum use of our position to negotiate a fully acceptable alternative. It is not possible to say now whether or when the premium discussions will lead to any agreement within the Community.

5. Michael Jopling believes that he has a clear basis on which to negotiate in the Agriculture Council and intends to pursue the beef proposals vigorously in the remaining three Agriculture Councils of our Presidency. He will report back to OD(E), probably in November, as the outline of a package may develop and we shall have to judge then whether, while protecting the interests of our farmers, it goes far enough in the way of reform.

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

GEOFFREY HOWE

Foreign & Commonwealth Office
29 September 1986

CONFIDENTIAL

290 (107) 97
P. O. V. 1186

MR NORGROVE

26 September 1986

ALTERNATIVE USES OF AGRICULTURAL LAND

Herewith, as promised, a few initial comments on the Alure Report. My primary concern with the report as it stands is that it totally under-estimates the opportunity to allow market adjustment mechanisms to operate and therefore falls back on new forms of subsidy to perpetuate CAP type income support in a difference guise. Although farm support systems obviously cannot be removed overnight (even if we wanted to), over 10 years we ought at least to be finding a way to move closer to the market equilibrium to prevent support costs becoming astronomical.

Scale of the Problem

Based on the assumption of little substantive change in the current CAP structure, the report projects the possibility of one million hectares of 'spare' land (ie not required for current output forecasts) by the mid-1990s. This represents just over 5% of the total agricultural land area. Under the 'worst' scenario of a full adjustment to world price levels, the original research report suggests the loss in agricultural employment over this period would be approximately 70,000 in England and Wales (18% of total agricultural employment). These figures, frankly, do not appear outside the scope of reasonable industry adjustment over a 10 year period - British Steel, British Leyland, British Rail and the NCB have each individually lost more workers than this since 1979. However, little credence is given to the possibility of allowing the problem to resolve itself through gradual adjustment to market forces, encouraged by deregulation.

What is the worst case? Clearly a reduction in market prices will drive some existing farmers out of business. In most cases these will not be actual bankruptcies - debt

ratios in the UK are generally still quite low (of the order of 20% nationwide). Farmers who are unable to maintain current income will therefore generally sell out with a significant remaining equity stake. As they do, land prices will fall (as they have done in real terms since 1979) and the land will be repurchased (or rented) at lower prices by other farmers who then have a lower production cost. Thus, although farm income/acre will fall, farmers will continue to be able to trade profitability. In particular, lower land prices will encourage less intensive farming - eg using more grazing and silage instead of high price feedstocks.

In addition to these price adjustments, there are clearly many opportunities for farmers (liberated from the tramlines created by subsidising a few key commodities) to broaden their farm mix and look for additional ways to find value. New products like venison, goats milk, farmhouse cheeses and yoghurts etc - acknowledged and dismissed by the report - could well have a huge impact if properly developed and marketed. There could also be a much larger impact of reduced prices on expanding demand than allowed for in the report - on beef, for example, a recent survey suggested a very high aspiration by most consumers to consume more if they could afford it. Recreational uses of land - such as golf courses, horseriding stables etc - could also expand rapidly if land prices fell and regulations were relaxed.

There are clearly many mechanisms by which market adjustment could take place. The basis of the MAFF discomfort is that they cannot forecast and therefore plan exactly how these adjustments will occur - and they therefore discount them. It is a good job that we do not run the rest of the economy on that basis.

Specific Proposals

Given the report's misplaced alarm at the scale of adjustment, I cannot see the urgency of developing yet more subsidies for agriculture - particularly when there is no clear strategy or timetable for dealing with CAP.

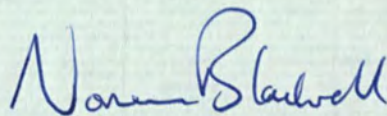
Nevertheless, certain proposals are useful:

1. Relaxation of planning restrictions on agricultural land would be useful to encourage alternative land uses. I would suggest going further than the report and removing all current restrictions on the conversion of agricultural land to other purposes - subject to other environmental and local planning regulations. With agricultural production in surplus, it is crazy to prevent landowners from switching from grazing cows to grazing horses. With greater freedom to develop, horseriding could become a major leisure activity around all the large conurbations.
2. Encouragement for diversification is obviously helpful. However, this is unlikely to be best achieved by increasing the ADAS budget. The most important factor is likely to be the development of diversified marketing channels.
3. Further subsidies for forestry we particularly doubtful. Current grant schemes already encourage totally uneconomic planting, with the taxpayer contributing up to 70% of the cost of tree planting through grants and tax relief. This is being exploited in ways which have little impact on agricultural output (see attached article). The report proposes extending this to give a continuing annual allowance to farmers for areas of woodland to compensate for forgone income on other crops;

this is effectively a permanent set-aside scheme which can only be justified financially on the assumption that the Exchequer would otherwise continue their support costs at current levels for absorbing surplus production. It is completely different from industrial aid schemes where the intent is to help a fledgling industry lift off the ground.

Conclusions

I agree that the Prime Minister does not need to comment at this stage, unless it becomes necessary to intervene in a PES dispute. I will be glad to provide more detailed briefing for the Prime Minister in due course, which will clearly reflect the reservations above.

A handwritten signature in blue ink that reads "Norman Blackwell". The signature is written in a cursive style with a large initial 'N'.

NORMAN BLACKWELL

Tree scheme bears profits and protests

by Toby Moore

A STRETCH of spectacular Lake District fell country with clear views over two national parks is the setting for a bitter row between environmentalists and tree-planting developers who are exploiting a tax loophole.

The developers — Chris Thornborrow, who owns the land, and Economic Forestry, which is advising him on how to manage it — intend to plant 400 acres of trees, mostly conifers, on Ashstead Fell, part of the Whinfell ridge and a popular walking route near Kendal.

The land will then be sold for almost twice the price paid for it. Those buying it will gain a tax-deductible asset which is tax-free when sold after 10 years.

It will be the largest single tree planting development in Cumbria for 20 years, taking advantage of weaknesses in the planning and tax laws as well as the grant system.

Environmental groups, the local district council and county council planning officers oppose the scheme. Conservationists believe it "blatantly ignores" a planting convention in England that new plantations are only added to existing ones.

Nobody has the power to stop the scheme because farmland is not subject to planning regulations.

The mass planting of conifers, the majority not indigenous to Britain, is blamed by environmentalists for destroying moorland, displacing wildlife and sterilising landscapes for fauna.

Since the 1950s an average of 85,000 acres of land in the UK a year have been afforested, with 30% of the Scottish Highlands now covered with conifers. Conifers such as larch, pine and sitka spruce are planted because they grow faster than broad-leaved trees, such as oak.

The 700-acre Ashstead sheep farm, of which 400 acres are the fell area, was bought in June by Thornborrow, a forestry worker, for £155,000. After planting the trees on the 400 less useful acres, he can sell the plantation piecemeal for about £120,000.

That would still leave Thornborrow, who lives in a prefabricated council bungalow in Kendal, with 300 acres, a large farmhouse and adjoining bungalow, worth an estimated £150,000.

Economic Forestry is helping Thornborrow present the case for government planting grants. Once the Forestry

Commission agrees to pay those grants, Economic Forestry will plant the trees and manage the forest for the purchasers. It finds for the 400 acres. It is expected these will be wealthy investors, anxious to take advantage of the tax loophole.

It costs £400 to plant an acre of trees but the Forestry Commission gives a grant of £100 for every acre planted. For the remaining £300, the purchaser gets 60% tax relief. In addition, he can sell the forest after 10 years completely exempt from capital gains tax although the asset could have doubled in value.

The commission is the only organisation with any control over afforestation and even that is only over the government grants, which it has the power to withhold.

The Council for the Protection of Rural England will this week send a detailed letter to the chancellor, Nigel Lawson, explaining how taxes are being avoided and calling for the loophole to be blocked.

The CPRE, the Council for National Parks and the Association of County Councils also wants tree planting to be brought within normal planning regulations.

David Conder of the CPRE said that the Ashstead Fell plan would not only have a "great and damaging" effect on the countryside, but also set a "blatant precedent" for any isolated land to be planted.

But it is not just environmentalists who are angry. Thomas Knowles, whose Hollowgate Farm overlooks the hill, said that the price for the farm was set so high at auction that no local farmers could afford to bid for what he said was one of the best sheep farms in the area.

"If we wanted to build a house, they wouldn't let us," he said. "Nobody has been near us to explain what was going on."

Chris Thornborrow, who intends to set up a deer farm on his remaining 300 acres, said it was "professional busybodies" who were stopping businesses such as his which offered new employment opportunities.

He said broad-leaved trees would be mixed with the conifers and predicted that in 30 years, when it was time to fell the timber, conservationists would oppose that. "As a native Lakelander, I have as much feeling for that fell as anyone, but I also feel for my fellow man from a work point of view," he said. "My only aim is to see these rural areas working for the people who live here."



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

From the Minister

CONFIDENTIAL

PRIME MINISTER

ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

At my meeting with you and other Ministers on 19 March to discuss a longer term strategy for reforming the Common Agricultural Policy, you summed up by saying that "there was broad agreement that price restraint was an essential element of our strategy for the CAP but that it would not be sufficient in itself to achieve the necessary objectives ... It was also now necessary to look at alternative uses of some agricultural land, in particular possible ideas on "set-aside" and the encouragement of alternative employment in the countryside". You invited me to consolidate proposals on these points into a paper for colleagues.

To do the preparatory work, I established an Interdepartmental Working Party of officials from the Departments most concerned. This has now produced a lengthy report and your officials can let you see this and the Chairman's covering note.

To try to identify the scale of the problem, the Group analysed the possible impact of reductions in surpluses on UK agriculture and the rural economy. The central estimate was a reduction in cereals of some 700,000 hectares (18%) and some 500,000 less (7%) for dairying. Given the normal loss from agriculture to other developments, this could leave some 1 million hectares of 'spare' land. The immediate impact of such a development would be likely to be in the marginal cereals and milk areas, ie the South-West, central and North Eastern England, East and South West Scotland and parts of Wales. Some farmers in these areas would turn to beef and sheep and this would have a knock-on effect, with implications for future levels of support, for farmers in the less favoured areas.

The speed and extent of these changes will of course depend on developments in Brussels which are notoriously difficult to predict. However, the steps which have already been taken by the Council of Ministers to cut surpluses - notably for milk and cereals, necessary as they were - have already caused problems, including cases of economic hardship, in both agriculture and the ancillary industries. Yet more needs to be done. We are tabling UK proposals for a form of 'set-aside' for cereals. We are working for improvements in the beef regime.

The harder we push and the more successful we are in these further discussions, the greater the extent to which we will be criticised for failing to take sufficient care not only of the farming industry, where incomes have been cut back, but also of the rural areas. To counter that we need to be able to demonstrate that we are taking positive action to promote alternative economic activity in the countryside and to safeguard the rural environment.

The key points to emerge from the report are as follows:-

- (a) We do not face an exclusively agricultural problem. The impact of the squeeze on agriculture will have an impact on the whole countryside. This will be particularly serious in the remoter areas which are already suffering from major problems of depopulation and economic decline. This will concern not only those who live and work in the countryside, but the increasing number of city dwellers who take an interest in the welfare of the countryside.
- (b) The Working Party has come up with a wide-ranging list of recommendations. Some of the policies are deliberately aimed at alternative uses of land currently producing surpluses - eg forestry. These would strengthen our hand in attracting support for any tough surplus-cutting policies. However, the basic purpose of the recommendations is the need to sustain the total rural economy and environment at a time of uncertainty and change.
- (c) From amongst the recommendations, I believe that there are three aspects that demand particular attention if we are to respond to current problems in a balanced way (naturally with some flexibility to reflect differing circumstances in different areas). These are:-
 - encouragement for a major increase in the planting of trees, particularly on better quality land than hitherto. This would have the maximum effect on surplus production. It can be achieved both by schemes directly to encourage tree production or by voluntary tree production as a result of "set-aside" measures such as we are advocating in Brussels;
 - an increased effort to assist diversification into both agricultural and non-agricultural enterprises so as to sustain employment in the countryside;
 - some relaxation in current planning policies, both specifically in relation to recreation and more generally in relation to industrial and urban development, subject to the general aim of protecting the best quality agricultural land.

Not all these proposals cost money. But it is clear that to make the maximum impact on public opinion, the Government must be seen to be making some additional effort. This will involve new resources rather than just reshuffling existing commitments in order to sustain the rural economy and the rural environment. Some action may be possible in the EC context, but this would take time to negotiate and might well not be what we want for the CAP. National action is necessary and could be cheaper.

Given the problem in defining the extent of the difficulties the UK industries face, the likely dilatoriness of Brussels over further action on surpluses and the range of policies we already have, it could be argued that there is no need for the Government now to intensify its efforts in this way - particularly if this involves increased expenditure. However, this would mean us standing by as farmers' financial problems multiply, as other rural industries get into increasing difficulties and as dereliction

creeps back into the countryside. I do not consider this course to be politically sustainable.

My conclusion is that the government must be seen to be taking a positive stand in support of the rural economy and the environment to mitigate the effects of the cutbacks we must make in agricultural production. Now is a timely moment to do so. I am convinced that we can win support in the rural areas without alienating the conservationist lobbies. Indeed, we can present our policies - in contrast to those of Labour - as reconciling the interests of good conservation with the need to support agriculture and the rural economy.

I have already discussed with you the possibility of issuing a policy document before the end of the year. Attractively presented and realistic about the situation and what needs to be done, I believe we can respond effectively to what the Party wants (as witness the resolution for the Conference). But not if it contains mere platitudes. We need to point to positive measures which we have taken or intend to take to show our concern for the rural economy.

Recommendation

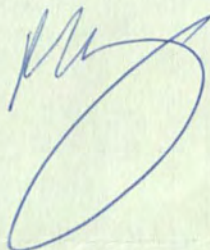
I accordingly recommend colleagues to agree:-

- (i) that there is a need for a positive programme to sustain the rural economy and environment to mitigate the problems associated with tackling CAP surpluses;
- (ii) that this programme should be based on the recommendations in Section IV of the Working Party's Report;
- (iii) that amongst these recommendations, particular attention should be paid to the encouragement of greater planting of trees; diversification both on and off farm; and some relaxation in the planning policies in relation to recreation and the development of agricultural land; and that in addition the Government's intention to maintain support for agriculture in the less-favoured areas should be assured.
- (iv) that such a programme should be announced in a suitable form along with our general approach to the CAP and to the role of the agricultural and food industries in the national economy.

If this is agreed, officials can be instructed to work up urgently the most cost efficient way of implementing these new ideas; and to prepare the draft of a strategy document.

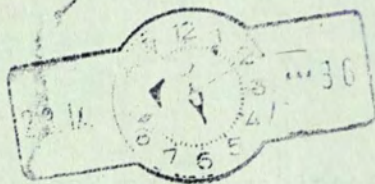
I have discussed this with my agricultural colleagues who agree with my conclusions and recommendations. I have also put some proposals to the Chief Secretary about the financial implications, in the context of this year's Public Expenditure Survey.

Copies of this minute go to the Lord President, the Secretary of State for Foreign and Commonwealth Affairs, the Chancellor of the Exchequer, the Secretaries of State for Wales, Northern Ireland, Scotland, Environment, Employment and Trade and Industry, the Chancellor of the Duchy of Lancaster, the Chief Secretary and Sir Robert Armstrong.

A handwritten signature in blue ink, consisting of a stylized, cursive 'M' followed by a large, sweeping loop that ends in a small dot.

M.J.
22 September 1986

EWD POL: CAP PT 14



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cc BG



DA no see
CDP
19/9.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Jopling MP
Minister for Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

19th September 1986

Dear Michael,

at flag

DEVALUATION OF THE GREEN POUND

Thank you for your letter of 18 September.

I confirm that I have now agreed that you should approach the Commission to see whether they would be prepared to propose a green pound devaluation on the lines that you suggest. As I made clear when we spoke there would be a substantial additional cost in public expenditure terms and more particularly to the EC Budget if the Commission were also to propose a devaluation of the green franc in response to what is likely to be French pressure for such a devaluation when our approach becomes known.

Your officials have calculated that the overall effect if both the green franc and the green pound were devalued would be:

	1986	1987	(mecu)
EC Budget	+ 40	+ 159	
	1986-87	1987-88	1988-89 (£m)
PES	+ 20	+ 54	+ 57

I must therefore strongly urge you to encourage Commissioner Andriessen to continue to resist any pressure for a French devaluation for the reasons he gave at the Agriculture Council, namely that there had been no further depreciation of the franc since the Price Fixing and therefore no case for a further devaluation.

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As I also made clear the consequential increase in public expenditure is most unwelcome in view of the other pressures both on the agriculture programme and elsewhere and I will be obliged to take it into account in our forthcoming PES discussions.

I am copying this letter to the Prime Minister, Willie Whitelaw, members of OD(E), Nick Edwards, Tom King, Malcolm Rifkind and Sir Robert Armstrong.

Yours ever,
JG

JOHN MacGREGOR



CONFIDENTIAL

Ewo POL. C.A.P

Part 14.

CCPE

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



From the Minister

EDP
18/9

The Rt Hon John MacGregor CBE MP
Chief Secretary to the Treasury
Parliament Street
London
SW1P 3AG

18 September 1986

DEVALUATION OF THE GREEN POUND

Following the OD(E) meeting on 8 September and taking account of the devaluation of the Irish punt (as reported in UKREP Tel No 3009), I have had a number of discussions with you and other colleagues. You are well aware of the importance I attach to maintaining the competitive position of our own farmers and avoiding the disruption in trade which would result if we did not follow the Irish now by devaluing our green rate. This is most acute in the case of beef but can clearly also arise with other products. It poses particular difficulties for Northern Ireland. On the other hand, we are all conscious of the constraints on public expenditure and the Community budget. What I therefore now propose is that we should go for a devaluation of the green pound limited only to livestock products and involving PES provision approximately equivalent to a 3% devaluation on all livestock products. In particular this would allow for a 6% devaluation on beef (as the Irish have got), provided the adjustment for other livestock products was limited to 2%. The detailed figures - which have been agreed with Treasury officials - are attached.

I hope you can speedily confirm your agreement to this package as I am anxious to begin talks with the Commission as soon as possible.

/ Copies of this ...

		<u>1986</u>	<u>1987</u>
1.	6% BEEF		
	Community		
	budget	9	35
	2% OTHER LIVESTOCK		
		<u>1986/7</u>	<u>1987/8</u>
	PES	13	46
	PSBR	6	37
		<u>1986</u>	<u>1987</u>
2.	3% ALL LIVESTOCK		
	Community		
	budget	4	18
		<u>1986/7</u>	<u>1987/8</u>
	PES	12	45
	PSBR	1	31

Notes:- Community Budget figures in mecu
PES and PSBR in £M.

PRIME MINISTER

GREEN POUND

You will want to see Mr. Williamson's note (attached). The choices seem to me:

i) If Mr. Jopling has calmed down sufficiently, you could get him to agree that there should be no change to the Green Pound now, but it would be understood that you would support a change at the annual price fixing next year (this would be normal).

ii) If he is still in a state, you might offer a 6% devaluation for beef - where there is actually a case - but 0% for other animal products and 0% for crops. The public expenditure cost would be £8 million this year and £23 million next.

The cost of 6% for beef, 3% for other animal products & 0% for crops would be £27 million this year & £61 million next].

C.D.P.

C.D. POWELL

17 September 1986

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MR WICKS

The Green Pound

You may find it helpful to have the following in summary form -

(i) the United Kingdom monetary compensatory amount (mca) (a charge on exports and a subsidy on imports) is now 17.3 per cent for animal products and 19 per cent for crops. It fluctuates up and down with the changing value of the pound. The mca was substantially less three months ago and could fall back again. The high mca makes our market less remunerative for our producers but their basic support prices in £ are not affected: they are just the same as was agreed at the last price fixing;

(ii) the Irish monetary compensatory amount has now been reduced by 6 percentage points (animal products) and 3 percentage points (crops) by a change in the green punt voted through the Agriculture Council (United Kingdom and France abstained);

(iii) the Minister of Agriculture, Fisheries and Food wanted to devalue the green pound to make the same change in the United Kingdom mca - 6 percentage points (animal products) and 3 percentage points (crops) - as has now been agreed for the Irish Republic. Estimated public expenditure cost: about £39 million in 1986/87 and about £102 million in 1987/88. The Chief Secretary, Treasury did not agree. There was therefore no United Kingdom request in the Agriculture Council;



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(iv) apparently the Chief Secretary might have been prepared to go to 3 per cent for livestock products only but Mr Jopling did not consider this sufficient;

(v) Mr Jopling may now have accepted that there should be no change for cereals. He still seeks a change of 6 percentage points on beef and 3 percentage points on other animal products. Estimated public expenditure cost: £19 million in 1986/87, £49 million in 1987/88 and £56 million in later years. The PSBR effect for these years is estimated at £8 million, £24 million and £30 million respectively.

The choice may be -

(1) should we change the green pound now, particularly as the reaction to no action on this in the Agriculture Council does not seem to be particularly strong? If we make such a request, there is some risk that we might get no proposal from the Commission or be held off for an embarrassingly long time. There is no absolute link with the Irish change, although there will be aggravated difficulties on the Republic of Ireland/Northern Ireland border. Might we do better to go for some acceptable change in the green pound in the Commission's price proposals at the end of the year when such a proposal is probable in any event? This would have been the normal course of events on a green currency issue;

(2) if we do ask for something now, should we go for 6 per cent on beef only? We estimate that this would cost (PES) about £8 million in 1986/87 and about £23 million in 1987/88 (Mr Jopling may not have these figures which are Cabinet Office estimates). It might well instigate a French demand for a change in their beef mca which would add to Community budgetary costs. Mr Jopling might find a devaluation for beef alone defensible. He could argue, correctly, ~~in~~ that the beef sector is the most affected by the newly decided change in



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the Irish mca and that margins, already low, would be likely to be under particular pressure. The more general question of a green pound devaluation on other commodities would fall to be considered, as is normal, in the Commission's price proposals at the end of the year unless there were any new factors arising before then.

I am sending a copy to Sir Robert Armstrong

D F Williamson

D F WILLIAMSON

17 September 1986

GREEN POUND

The Republic of Ireland devalued the punt by 8% in August. This created for them a monetary compensatory amount in agricultural trade. They then asked for a devaluation of the green punt and this week got in the Agriculture Council a change reducing the MCA by 6 percentage points (livestock) and 3 percentage points (crops).

The UK MCA (charge on exports and subsidy on imports) have been increasing as the pound has been floating down. They are now 17.3% for livestock products and 15% for crops.

Mr. Jopling argued to his colleagues that the UK should seek a devaluation equal to the Republic of Ireland's, at a public expenditure cost of some £100 million next year. The PSBR cost would be less (about £48 million). If the French also then successfully sought a devaluation of the green franc the cost might be £140 million. (Mr. Jopling believes the French would not seek a devaluation; the Treasury and Cabinet Office believe they probably would.)

Mr. Jopling argues that a net MCA of about 15½% between the UK and the Republic of Ireland if we do not devalue is too damaging to the livestock industry, particularly in Northern Ireland. He also refers back to commitments made during the 1979 election campaign and after (including at the NFU annual dinner this year by both him and the Prime Minister) that we wanted British farmers to be treated fairly.

The Treasury are firmly opposed to any devaluation now on grounds of cost. The Foreign Secretary proposed a compromise of a 4% devaluation for animal products and 2% for cereals at a public expenditure cost of £33 million this year and £80 million next. The Chief Secretary was apparently prepared to go to 3% for livestock products but Mr. Jopling refused.

Mr. Jopling has now accepted that there should be no devaluation for cereals, but continues to press for a 6%

devaluation for beef and 3% for other animal products, at a public expenditure cost of some £20 million this year and £50 million next year, assuming no French devaluation.

The key issues are

(1) Should we change the green pound now? Our MCA goes up and down (in June it was much lower and last year there was no negative MCA at all). There is no absolute link with the Irish change. Might we do better to set up a reasonable charge in the Commission's price proposals at the end of the year? There is some risk that we might get no proposal from the Commission now or be held off for an embarrassingly long time.

(2) If we do ask for something now, should we go for 6% on beef only (which should not cost the Treasury more than the 3% on animal products they offered earlier) because of the greater effect of the Irish change in this sector and low UK margins.

Personal



Treasury Chambers, Parliament Street, SW1P 3AG

Charles Powell Esq,
No. 10 Downing Street

15.9.86

Dear Charles,
(GREEN POUND)

I offered you a quote on costings (Treasury, out of MAFF officials)

Scenario A

% devaluation

	<u>animals</u>	<u>crops</u>	
UK	-6	0	
Ireland	-6	-3	
France	parity	-	
<u>Cost</u>	1986	1987	(mecu)
EC Budget	+97	+389	
	1986-7	1987-88	(£m)
PES: IBMP	+31	+86	
proj 2.7	+17	+24	
	<u>+48</u>	<u>+110</u>	
P88R (i.e. net of levies)	+26	+65	

Scenario B

	<u>crops</u> <u>animals</u>	<u>crops</u>
UK	-3	0
Ireland	-6	-3
France	parity	0
EC Budget	1986 +66	1987 (mean) +262
PES: IBAP	<u>1986-7</u> +21	<u>1987-8</u> (kn) +46
2.7	<u>+24+8</u>	<u>+13</u>
	+29	+59
P8BR	+19	+41

PES costs of 4/2 for UK and France are roughly the same as Scenario A (low officials have doubts about MAFF's EC Budget - and \therefore the Programme 2.7 calculation).

No doubt all overtaken already,

Yours,

Jin

PERSONAL

CDP
16/9.

PRIME MINISTER

GREEN POUND

I have had a personal word with Mr. Jopling's Private Secretary who is an old friend. He is completely baffled by Mr. Jopling's behaviour. He has not discussed matters with his staff at all: indeed the first they knew that he was talking of resignation was when they heard him speaking on the telephone to the Chief Secretary today. Apparently he keeps harping on the commitment in the 1979 Manifesto. I said that I hoped he would discourage Mr. Jopling from any precipitate action. At the very least he should come to see you for a personal talk when you get back from Germany (he is not due back himself until Wednesday evening). He promised to pass this on.

Michael Franklin (the Permanent Secretary) has also been in touch with Nigel to ask if we have any idea why his Minister is in such a state. He is not under any great pressure from the department on this issue.

CDP.

(C.D. POWELL)

15 September 1986

I know why - he has been unfairly criticised by the farmers for the consequences of having to reduce surpluses. They think he hasn't stood up for them. Now he has a chance to show that he has - is. He supports the general policy to reduce surpluses but will not stand discrimination between Rep. Ireland & the U.K. not

DCABKP

E. R.

①

PRIME MINISTER

THE GREEN POUND

I attach notes by the Foreign Secretary and Mr. Williamson on the Green Pound.

The Foreign Secretary proposes:

- (a) we should argue for a lower devaluation of the Irish green punt than at present proposed (6% for animal products and 3% for crops):
- (b) if that fails, we should request a devaluation of the green pound not exceeding 4% for animal products and 2% for crops;

The PES cost of this would be

1986/7
+33

and the PSBR effect
+15

1987/8
+80

+48

1988/9
+86

+50

$\frac{1}{3}$
 $\frac{1}{2}$ | $\frac{1}{3}$
3.

Mr. Williamson is sceptical whether a change in the green pound is really justified. He points out that our mca fluctuate rapidly. Were the pound to strengthen, it could wipe off an amount of mca equivalent to the Irish change quite quickly.

82
Mr. Jopling is reported to very strongly feel that we should have exactly the same as the Irish.

It seems to me that your first step should be to speak on the telephone to the Chancellor this weekend. It would be very bad if you seemed to over-rule him right at the beginning of a PES round. You might try to extract some flexibility from him to deal with an undoubtedly delicate political problem (say 3% and 1%). You could subsequently instruct the Foreign

Secretary to press for a settlement on the basis of whatever
the Chancellor tells you privately he could accept.

If the Chancellor insists that he has no flexibility, you may want to telephone Mr. Jopling and convince him of the over-riding need to give priority to restraining public spending.

Agree to telephone the Chancellor?

Yes

CDP

CHARLES POWELL

13 September 1986

VC4AJF

CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

13 September 1986

PRIME MINISTER

THE GREEN POUND

I discussed this morning with the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury, whether we should seek any change in the green pound at the Agriculture Council next week. This decision is likely to have a significant effect on United Kingdom farmers' competitive position, on employment in Northern Ireland and perhaps most important of all on public expenditure.

The background is as follows. The Irish punt was devalued by 8 per cent within the EMS on 2 August. The green punt was not immediately devalued (green rates are the rates at which Community agricultural prices, which are expressed in terms of ecus, are converted into national currencies). The Irish government has now requested a full green rate devaluation, which would have two effects: it would remove Irish monetary compensatory amounts (7.2 per cent for most animal products and 8.8 per cent for crops, acting as an import subsidy and an export charge) and it would raise Irish farmers' support prices in national currency. The Commission is formally proposing to meet the greater part of this request by a change in the Irish mca of 6 per cent (animal products) and 3 per cent (crops).

The Minister of Agriculture, Fisheries and Food, supported by the Secretaries of State for Northern Ireland, Wales and Scotland, has asked for agreement to request a similar change for the green pound. After a devaluation of the green pound at the price fixing in April of 3 per cent, United Kingdom monetary compensatory amounts (mcas) stood at 7.1 per cent for livestock products and 10.7 per cent for crops. United Kingdom mcas fluctuate with the value of the pound. Recent changes in the value of the pound against the ecu have led to an increase in these monetary compensatory

/amounts

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-2-

amounts to 17.3 per cent for livestock products and 19 per cent for crops. The change in the green pound requested by the Minister of Agriculture, Fisheries and Food would cut these mcas and would raise support prices for United Kingdom farmers in sterling. The Minister of Agriculture, Fisheries and Food bases his argument mainly on the need not to put United Kingdom farmers in a worse competitive position and on the undertakings we have given that there should be no discrimination against them in the operation of the common agricultural policy. The Commission has made no proposal for a change in the green pound nor in the French green franc.

The Chief Secretary, Treasury, is opposed to a matching devaluation of the green pound on two main grounds: first, because of the serious adverse effect on public expenditure in the United Kingdom and, secondly, because it would weaken our position as strong advocates of budgetary rigour and restraint of agricultural expenditure in the Community and, in particular, in relation to proposed levels of Community expenditure in the 1987 draft Community budget. The change would also have a small but unwelcome effect on the RPI. The Chief Secretary also fears that a request by the United Kingdom for a devaluation of the green pound would stir up the French, even though their situation has not changed since the price fixing, to ask for a change in the green franc, which would add considerably to Community expenditure.

OD(E) was unable to agree whether we should seek any devaluation of the green pound and asked for additional information on the potential cost and on the Commission's proposals. This information is now available and I have summarised the main figures in the annex. At my meeting today there was no agreement but I think that we should be able to reach agreement on the following lines -

(1) at the Agriculture Council next week the United Kingdom should argue that the Commission's proposal on the Irish green punt is too high, in the light of the budgetary constraints. The Irish themselves will be asking for even more but there is some grumbling,

/for

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for example from the French, that the Irish are getting too much too soon. In the last resort we would not be able to block the Irish green punt change if there is a qualified majority for it but we must do our utmost to reduce it.

(2) we should make a determined effort, if the green punt is devalued, to secure some recognition from the Irish that there must be further action to restrain surplus in the dairy (the Commission has just made important proposals) and beef sectors;

(3) we should make clear that, because of the competitive situation of United Kingdom farmers and, in particular, because of the accentuated problems on the border between the Republic of Ireland and Northern Ireland (increased smuggling, further reduction in throughput of Northern Irish meat plants and other problems) we are requesting some change in the green pound. Since, however, we believe that the size of the Irish mca change should be reduced eg by half to 3 per cent (animal products) and 1½ per cent (crops), we should follow our own logic and not request as large a change in the green pound as the Commission currently proposes for the green punt. The decision on the maximum figure we might request is necessarily arbitrary. I do not think that we should exceed an mca change of 4 per cent (animal products) and 2 per cent (crops). Even at this level the public expenditure consequences are considerable;

(4) if we decide to request any change in the green pound, we should explore at once with the Commission whether they are prepared to make such a proposal as we would not wish to risk a rebuff.

I am sending copies to the members of OD(E), to the Secretaries of State for Northern Ireland, Wales and Scotland, the Chief Secretary, Treasury, and to Sir Robert Armstrong.

for Michael Foster
for GEOFFREY HOWE
(Resident Clerk)

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ANNEX

MCA CHANGE OF 6% (animal products) AND 3% (crops)

(1) for Republic of Ireland

	1986		1987
i) EC Budget	+33		+131 mecu
	1986-7	1987-8	1988-9 and future years
ii) PES: prog 2.7	+7	+12	+6 £m
iii) PSBR	+7	+12	+6 £m

(2) for the United Kingdom

	1986		1987
i) EC Budget	+5		+21 mecu
ii) PES prog 3.1	1986-7	1987-8	1988-9 and future years
	+49	+112	+112 £m
prog 2.7	-10	-10	+9
net effect	+39	+102	+121
iii) PSBR	+12	+48	+67 £m

(3) for the Republic of Ireland and the United Kingdom, ie (1) and (2) together

	1986		1987
i) EC Budget	+38		+152 mecu
	1986-7	1987-8	1988-9 and future years
ii) PES: prog 3.1	+49	+112	+112 £m
prog 2.7	-3	+2	+15
net effect	+46	+114	+127
iii) PSBR	+19	+60	+73 £m


 for the Republic of Ireland, United Kingdom and France
 (to paragraph 1)

	1986			1987
i) EC Budget	+105			+425 mecu
	1986-7	1987-8	1988-9 and future years	
ii) PES: prog 3.1	+49	+112	+112	
prog 2.7	+14	+30	+28	
	—	—	—	
net effect	+63	+142	+140	
	—	—	—	
			£m	
iii) PSBR	+36	+88	+86	

(5) MCA CHANGE OF 4% (animal products) AND 2% (crops) FOR
 THE UNITED KINGDOM

	1986			1987
i) EC Budget	+3			+14 mecu
	1986-7	1987-8	1988-9 and future years	
ii) PES prog 3.1	+32	+74	+74	
prog 2.7	-6	-6	+6	
	—	—	—	
net effect	+26	+68	+80	
	—	—	—	
			£m	
iii) PSBR	+8	+36	+44	

(6) MCA CHANGE OF 6% (animal products) AND 3% (crops) FOR THE
 REPUBLIC OF IRELAND AND OF 4% (animal products) and 2% (crops) FOR THE
 UNITED KINGDOM, ie (1) AND (5) TOGETHER

	1986			1987
i) EC Budget	+36			+145 mecu
	1986-7	1987-8	1988-9 and future years	
ii) PES: prog 3.1	+32	+74	+74	
prog 2.7	+1	+6	+12	
	—	—	—	
net effect	+33	+80	+86	
	—	—	—	
			£m	
iii) PSBR	+15	+48	+50	



(7) MCA CHANGE OF 3% (animal products) AND 1½% (crops) FOR THE UNITED KINGDOM

	1986		1987	
i) EC Budget	+2		+10	mecu
	1986-7	1987-8	1988-9 and future years	
ii) PES: prog 3.1	+24	+56	+56	£m
prog 2.7	<u>-5</u>	<u>-5</u>	<u>+4</u>	
net effect	<u>+19</u>	<u>+51</u>	<u>+60</u>	
iii) PSBR	+6	+24	+33	£m

(8) For each 1% change in the UK mca the net effect on PES is about £10 million in 1986-7 and about £25 million in 1987-88.

These figures differ slightly from those used earlier because they relate to percentage changes in mcas (as the Commission now proposes) rather than to percentage changes in the green rate.



Prime Minister *all*

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Qz.05302

MR POWELL (10 Downing Street)

The green pound

FILED WITH CAP

The Prime Minister has had copies of the letters of 10 September and 11 September from the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury to the Foreign and Commonwealth Secretary about the question whether or not the United Kingdom should request a devaluation of the green pound at the Agriculture Council on 15-16 September. The Foreign and Commonwealth Secretary held a meeting this morning and will be minuting the Prime Minister today.

This is a difficult choice between a desirable reduction in a competitive disadvantage of the United Kingdom agricultural industry and an undesirable increase in public expenditure. In our view the key points which should influence the decision are:

(1) the effect of the recent situation in which the pound has weakened against other European currencies but no adjustment of the green rate has been made is -

(a) in terms of competition in the market, the United Kingdom agricultural industry has not got the advantage which other sectors of industry have obtained from the change in the value of the pound. Most agricultural products are receiving, on import into the United Kingdom, a Community-funded import subsidy (the monetary compensatory amount (mca)) of 19 per cent on crop products and 17.3 per cent for livestock products. Exports of United Kingdom products are being charged a similar amount. The consumer is benefitting from prices lower than they would otherwise have been;

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but

(b) United Kingdom farmers still have available support prices in pounds at exactly the levels agreed in the price fixing;

(2) the proposed change in the Irish green punt (6 per cent for the mca on animal products and 3 per cent for the mca on crops) will increase competition from the Republic of Ireland (in particular in Northern Ireland where it will draw more cattle away from the meat plants there to the Republic of Ireland) and it is to be expected that United Kingdom farmers would hope to get a change in the green pound to offset this and to increase their own support prices. But the argument that we must do the same as the Irish and at the same time does not hold up. Our mcas are fluctuating. A year ago we had no negative mca at all but the opposite. The high level is quite recent, the biggest increase coming since July. If the pound strengthens, it could wipe off an amount of mca equivalent to the Irish change in a matter of weeks. This argues for caution;

(3) we believe that any change in the green pound would be welcomed by British farmers because it increases their support prices and that the issue is not just whether there would be exact parity with an Irish change;

(4) a change in the green pound has a very small effect on the Community budget (although, if it brought the French in for a green franc change, that would be expensive) but it does have a substantial effect on public expenditure. Mr Jopling's proposal of parity with an Irish change would add £39 million to public expenditure in 1986-7 and £102 million in 1987-8. It would add £12 million to the PSBR in 1986-7 and £48 million in 1987-8. The Foreign and Commonwealth Secretary's suggestion of an mca change of 4 per cent (animal products) and 2 per cent (crops) would add about £26 million to public expenditure this year and £68 million next year; the addition to the PSBR would be £8 million and £36 million.

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It seems to us that the choice is between -

(1) no change in the green pound. We should then indicate in the Agriculture Council that the Irish green punt changes aggravate competitive difficulties for us and that we reserve the right to request some change in the green pound if these difficulties are not sustainable. But we would not go beyond this;

(2) a smaller change in the green pound than is being suggested. Any figure would be arbitrary but, the lower the figure, the less the effect on public expenditure and the less the benefit to farm incomes. The Chief Secretary would clearly find 3 per cent (animal products) and $1\frac{1}{2}$ per cent (crops) more acceptable than 4 per cent and 2 per cent. This would cut the PSBR effect to £8 million in 1986-7 and £36 million in 1987-8. It is also important to keep in mind that it is not certain that the Commission will agree to a United Kingdom request and, the higher the request, the less likely they are to make a proposal

I am sending a copy to Sir Robert Armstrong.

D F WILLIAMSON

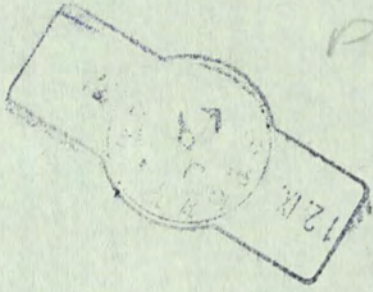
12 September 1986

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CAP

PT 14



COMMISSIONER



From the Minister's
Private Office

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

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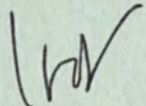
Charles Powell Esq
10 Downing Street
LONDON SW1

11 September 1986

Dear Charles

In your letter of 4 September, you asked for a note on the moisture content of intervention grain. This is enclosed.

I am copying this to David Williamson
Yours ever


C I LEWELYN

MOISTURE CONTENT OF INTERVENTION GRAIN

Grain deteriorates in store if it is too moist. The Community has always therefore applied a maximum acceptable moisture level to intervention purchases so that they can be held in store and so that they will be attractive to buyers whomay themselves want to store the grain concerned for some time; some export buyers seek very low moisture levels. Drying grain costs money, because of energy costs and weight loss. Reducing the maximum acceptable moisture content of intervention grain therefore both makes the grain more attractive to buyers in export markets and reduces the value of intervention to the offeror, thereby lowering the market price.

2. Until the 1985/6 season, the maximum moisture content of grain offered into intervention had to be set by Member States within the range 14-16%, with price bonuses applied to grain with 15.4% or less moisture. The UK applied a maximum of 15%.

3. As part of its proposals for the 1986 price-fixing, the Commission, supported by the UK, proposed a uniform maximum moisture content of 14%. But the Council decided that in 1986/87 Member States should have the option of applying between 14 and 15% and that in subsequent years the maximum should be 14% except for Member States where the Commission agreed that the figure should be higher. Bonuses would be paid on grain with less than 13.9% moisture. The purpose of this proposal was quite explicitly to make intervention less attractive and to encourage more sales from the free market, and also to meet the requirements of those export buyers who insist on very dry grain. The UK in exercising its option to set the figure between 14 and 15% chose 14.5% with a view to providing a transition to the level of 14%

likely to be required from 1987/8, promoting the availability of grain more suited to export markets, and marginally correcting the excessive attractiveness of intervention in the UK; we hold some 30% of Community stocks while accounting for some 14% of production. It is difficult to quantify the savings that might arise from this marginal discouragement to intervention, but they could amount to £1.6 million.

4. So far as we know, we are the only Member State operating a lower limit than 15% (although this is of course still higher than the level which the Commission originally proposed with our support and the difference between the level applied and the maximum level permitted is smaller now than it has been in the past). This will have some effect on producer returns, for the reasons noted in paragraph 1 above, but not as great as the £1 per tonne that Mr Gourlay suggests. In many cases it will make no difference, as even with a 15% maximum, grain was normally offered to intervention stores at lower than 14% moisture; and we would estimate the maximum theoretical effect of the difference between 15 and 14.5% as about 80p a tonne, compared with an intervention price ranging between about £106 and £126 per tonne.

Ministry of Agriculture, Fisheries and Food
September 1986

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10 DOWNING STREET

cc MATE

ok Do you want
Keep this?

Tony

THE PRIME MINISTER

11 September, 1986.

Dear Mr Goulay,

Thank you for your letter of 24 July.

I know of your concerns about the operation of the CAP, but I really feel that Michael Jopling, as Minister of Agriculture, is the right person for you to see. He does the negotiations and the detailed work on all operational matters such as the moisture content of intervention cereals. He will of course let me have a full report of your discussion.

As you know, my own views on the CAP were set out at the National Farmers Union dinner a few months ago - to which you have kindly referred.

Yours sincerely
Margaret Thatcher

S.A. Goulay, Esq.

Co

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COBG ✓
NEW ST. ANDREW'S HOUSE
ST. JAMES CENTRE
EDINBURGH EH1 3SX

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON

EDP
18/9.

// September 1986

Dear Geoffrey,

GREEN POUND

I have seen Michael Jopling's letter of 10 September and am taking this opportunity to put my views on the matter on record since other commitments prevented me from attending, or being represented at, the OD(E) meeting on Monday.

I fully support our objectives of securing necessary reform of the Common Agricultural Policy, and especially of bringing agricultural spending under tighter rein, and I accept that these must remain our overriding policy objectives during our Presidency and beyond. At the same time I have to recognise that Scottish agriculture is in a generally poor state and that the massive (75%) drop in farm incomes following last year's severe weather has badly damaged the economic stability of this important industry. While I would expect some recovery in farm incomes this year, this will not be particularly significant - and certainly not sufficient to place the industry on a firm footing.

The industry in Scotland is well aware of the Irish proposal to devalue their green currency and awaits our reaction with anxiety. If the Irish proposal is met, in whole or in part, farmers will expect parallel action here, as Scottish NFU leaders indicated at their recent meeting with the Prime Minister. Indeed, I understand that the President of the Union has written to the Prime Minister today to reinforce their case for a devaluation of the green pound. In these circumstances I would find it very difficult to defend our position if we were seen to be prepared to deny our producers an advantage which was to be given to the Irish. We have, after all, consistently stated that we shall oppose wholeheartedly unfair discrimination against our producers. I therefore fully support Michael Jopling's initiative in seeking a parallel devaluation of the green pound.

MMR25401

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I am copying this letter to the Prime Minister, Michael Jopling, other OD(E) members, Nicholas Edwards, Tom King, John MacGregor and Sir Robert Armstrong.

Yours ever,
Malcolm

MALCOLM RIFKIND

MMR25401

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CAP

Pt. 14



PRIME MINISTER

GREEN POUND

There was no support in OD(E) for Mr. Jopling's case for a devaluation of the Green Pound. It was agreed that every effort shall be made to dissuade the Commission from giving the Irish permission to devalue.

Mr. Jopling has returned to the charge. He says that the Commission have decided to go ahead and give the Irish a devaluation, though smaller than they wanted. He wants the same for us.

The Chief Secretary intends to dig in his heels because of the public expenditure costs. He estimates these (in PES terms) are:

- (a) Irish devaluation only
+ 7 + 12 + 6
- (b) Irish and UK devaluation
+ 46 + 114 + 127
- (c) Irish, UK and French devaluation
+ 63 + 142 + 140

He rates the risk of scenario (c) - ie the French also seeking a devaluation - as high. He wants a further effort to deter the Commission from giving the Irish their devaluation. He is not prepared to give way unless over-ruled by you.

I very much doubt that the Commission can be persuaded to go back on their decision about the Irish. Equally, I think they would probably reject an application by us for a devaluation, at least at this stage. I suggest that you don't intervene for the time being, but await the reaction of colleagues. (You certainly won't want to undermine the Chief Secretary's

1) If the Commission give in to the Irish, it will be acutely difficult for us. I hope we can dissuade them

10

position.) The problem may solve itself, because it will simply be impossible anyway to get the Commission to act in time for next week's Council. But I suspect that, at some stage, we may have to go for a small change in the rate.

CDP

CHARLES POWELL
10 September 1986

CCMB

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



From the Minister

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for
Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

10 September 1986

Dear Secretary of State

GREEN POUND

Following our meeting in OD(E) on Monday 8 September, we have made every effort to persuade the Commission not to accede to the Irish request for a green punt devaluation. Despite this, and in the full knowledge of the difficulties it would cause for us, I understand that the Commission have now decided to go ahead and propose a 6% devaluation of the green punt for animal products and one of 3% for arable products.

For the reasons set out in John Gummer's letter of 28 August I believe we will find ourselves in an extremely awkward and indefensible position with farmers if we do not now obtain a parallel devaluation of the green pound. In particular the proposed 6% devaluation of the green punt for animal products will put our livestock sector at serious disadvantage. The effect would be at the worst in Northern Ireland. At present support prices in the Republic are 9½% higher than ours; if they devalue and we do not this disadvantage will worsen to 15½%.

We are necessarily pressing for reforms of the Common Agricultural Policy, the consequences of which are having to be accepted by our farmers - not least in the severe cut back in farm incomes now as compared with a few years ago. The industry accepts the need for changes in the CAP and the burdens this is putting on them, provided the process of adjustment is seen to be shared equally by other Member States. What we cannot expect of them is that they should suffer a serious competitive disadvantage through the value of the green pound. This would clearly be inconsistent with our election pledges, and would put me personally in an impossible position because of my association with our original pledge in 1979. It would also conflict with statements which have been made since then, not least at this year's NFU annual dinner.

/ When we met ...

When we met in OD(E) on Monday 8 September we discussed the various possible Commission responses to the Irish without coming to a final conclusion. Now that we know the approach the Commission are going to adopt we must move very quickly to a decision. I would need to be in a position to contact Andriessen as soon as possible to tell him in strong terms, as I did before the Commission's meeting, that, while we had hoped to avoid this situation developing, their willingness to give the Irish a devaluation makes it essential for us to have a parallel proposal for the United Kingdom on the table at next week's Council. I think it would be most helpful if you could reinforce this message with Delors. Clearly we need to take action in time for Andriessen to prepare a proposal to put to the Council on Monday, 15 September.

I shall of course point out that the UK and Ireland are the only countries which can legitimately make a case for devaluation at present.

I am sending copies of this letter to the Prime Minister, other members of OD(E), Nicholas Edwards, Tom King, Malcolm Rifkind, John MacGregor, and Sir Robert Armstrong.



Yours Sincerely
Michael Jopling
For MICHAEL JOPLING
(Approved by the Minister
and signed in his absence)



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

From the Minister's Private Office

Colin Budd Esq
Private Secretary to the
Secretary of State
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

9 September 1986

CCP 2
~~cc: no questions
is there any for me
CAP.~~

Dear Colin

THE COMMON AGRICULTURAL POLICY IN EUROPEAN FOOD SURPLUSES

I am enclosing an updated version of material for use by Ministers and others for briefing on the need to reduce CAP surpluses of food. This includes points to make, suitable for incorporation in speeches. It also takes account of points raised by your Secretary of State and recorded in your letter to me of 22 May.

I am copying this letter to Private Secretaries to Members of the Cabinet and to Sir Robert Armstrong.

Yours ever

C I LLEWELYN
Private Secretary

CAP SURPLUSES

Background

1. There is no difficulty in identifying the basic problems facing the Common Agricultural Policy:

- its rising budgetary costs
- finding outlets for mounting surpluses of agricultural products
- unnecessarily high food prices
- international repercussions to our trade resulting from the adverse effect of Community food exports on world market
- reduction in farm incomes
- general economic cost of diverting resources to agriculture.

2. It is the mounting cost of surpluses which is at the centre of these problems. The CAP has become a victim of its own success, with technological advances resulting in increased productivity. The provision for all CAP market support in 1985 was equivalent to £11 billion or over 70% of the whole Community budget. There are now (August 1986) stocks amounting to 17 million tonnes of cereals, more than 1.3 million tonnes of butter and 650,000 tonnes of beef.

3. The UK has consistently pressed for CAP support prices to bear a closer relation to the realities of the market, as the best way of containing the costs of the CAP and bringing a better market balance of supply and demand. Over the last few years progress has been made with overall cuts in CAP prices in real terms of 4% in 1984, 3.5% in 1985 and 2.2% in 1986. The 1986 price-fixing settlement also included further cuts in effective support to cereals producers (including a 3% producer levy), in milk production (3% cut in quotas by 1989) and in support to Mediterranean products.

4. The Commission has accepted the need to keep EC spending in 1986 and in 1987 within the 1.4% VAT ceiling. Its plans for the 1986 supplementary budget are within the 1.4% VAT ceiling.

5. The Commission has issued proposals for socio-structural measures designed to alleviate some of the effects of price restraint on the most vulnerable producers and to ease necessary changes in the structure of agriculture. These include an early retirement scheme, changes to the rules for disadvantaged areas (LFAs), aid for young farmers and support for certain measures benefiting the environment. The UK remains

of the view that such measures must be examined closely to see if they can be afforded within the Community's resources, if they are cost-effective in their own right, and if they assist in, and do not inhibit, the battle against costly surpluses.

6. The United Kingdom is itself looking at the possibility of a Community voluntary scheme of land diversion for some cereals producers finding it hard to cope with a restrictive price policy.

7. The situation of global agricultural surpluses was discussed at the Economic Summit in Tokyo in May 1986. After analysis of the problem the summit declaration by Heads of Government went on to recognise that agricultural over-production is a problem shared by all developed countries and one which can only be dealt with by international cooperation. It was agreed that where there are surpluses, action is needed to redirect policies and adjust the structure of agricultural production in the light of world demand. The European Council endorsed the Tokyo conclusions recognising the continuing need to adapt the CAP, in particular to get supply and demand into better balance and thereby reduce the proportion of the EC budget taken up by agriculture.

8. A CAP 'fact sheet' is attached at Annex I.

Line to Take

9. Clearly action has to be maintained in the CAP to contain costs. Surpluses cannot be eliminated overnight. The Community comprises 12 Member States with different agricultural interests and thus negotiations are complex and difficult. Nevertheless this year's CAP price-fixing settlement shows that progress can be made. We shall continue to press for further steps to be taken to cut the expensive surpluses and keep the cost of agricultural support within the funds available. A major element of the policy must be prices which reflect market demands more realistically.

10. In the UK Government's view farmers, so long as they are able to compete on fair terms, are as well placed as any in the Community to take advantage of the opportunities that increased competition and a more market orientated CAP would bring.

11. The European Council has, following the Tokyo Economic Summit, acknowledged the need to get supply and demand into better balance, and thus reduce the proportion of

the EC budget going to agriculture.

12. Agriculture is going through a period of change but we are confident that farmers and those industries which support farming have the enterprise, resilience and adaptability to cope with the challenges that lie ahead and that industry will continue to be economically viable.

13. A policy of realistic CAP prices would put the CAP onto a firmer foundation and is in the best long term interests of producers, manufacturers, consumers and taxpayers alike.

COMMON AGRICULTURAL POLICY: BACKGROUND FACTS

1. CAP Market Support (i) 1985 by Commodity

	£m	(million ecu)	(%)
Milk	3,390	(5,933)	(30)
Beef	1,569	(2,746)	(14)
Cereals	1,320	(2,310)	(12)
Sugar	1,031	(1,805)	(9)
Fruit and Vegetables	703	(1,231)	(6)
Wine	526	(921)	(5)
Olive Oil	395	(692)	(4)
Tobacco	493	(863)	(4)
Other	1,747	(3,057)	(16)
TOTAL	11,282	(19,744)	

2. CAP Market Support (i) 1985 by Type of Support

	£m	(million ecu)	(%)
Export Refunds	3,765	(6,588)	(33)
Internal Disposal	1,962	(3,434)	(17)
Public Intervention	2,189	(3,830)	(19)
Private Storage	505	(883)	(4)
Production Subsidies	2,918	(1,506)	(26)

(i) Provisional expenditure under the Guarantee Section of the Agricultural Guidance and Guarantee Fund.

£1 = 1.75 ecu

Sources: 1980 EAGGF Financial Report
1985 EC Commission provisional outturn figures.

3. CAP Expenditure as % of Total EC Budget

spent			CAP as % of	% of EC Budget
	CAP	EC Budget	EC Budget	spent on disposal
	(mecu)	(mecu)		and storage of
				surpluses (1)
1980	11943.7	16301.0	73.3	55.8
1981	11580.9	17784.8	65.1	49.0
1982	13076.7	20424.8	64.0	45.7
1983	16636.8	24301.8	68.5	47.6
1984	19092.9	26123.8	73.1	53.2
1985 (2)	20711.6	28433.2	72.8	51.8
1986 (3)	22982.7	34496.7	66.6	N/A
Average			69.1%	

Notes

(1) Export refunds, losses on sale and internal disposal costs, and storage costs

(2) Budget + transfers

(3) 2nd Reading + PDSAB. The Budget proposed by the Council, before the Parliament's additions, together with the Commission's supplementary Budget.

Sources: EC Commission Financial Reports and Court of Auditors' Reports.
For 1985 and 1986 Budget figures have been used.

Intervention Stocks

UK and EC Agricultural Produce in Public Intervention and Assisted Private Storage
('000 tonnes, million litres of table wine)

<u>Commodity</u>	<u>UK</u> <u>Intervention</u>	<u>EC</u> <u>Intervention</u>	<u>EC</u> <u>Days Supply</u>
Butter	268	1,358	302
Skimmed milk powder	58	988	174
Wheat: Bread	0	2,838	37
Feed	3,460	7,097	111
Barley	1,710	4,949	44
Rye	-	1,145	141
Durum	-	887	68
Beef (a)	73	634	40
Table Wine (b)	-	3,600*	158

FOOTNOTES: Table wine as at end October 1985. All other figures July/August 1986.

* includes stocks of table wine which have become wine alcohol now held in stock.

(a) EC 11 (not Portugal)

(b) EC 10 (not Portugal and Spain)

EUROPE
CAP PTV 4

5. Trends in EC Intervention stock levels ('000 tonnes; million litres of table wine)

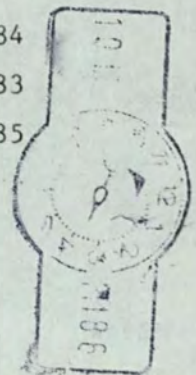
<u>Commodity</u>	1981	1982	1983	1984	1985	Latest figures 1986
Beef	208	229	396	885	775	671
Total Cereals	4,346	8,989	8,922	11,912	16,425	17,454
Butter	185	337	880	948	1,155	1,378
Skimmed milk powder	286	567	990	617	524	907
Table wine *	3,400	3,800	3,900	2,100	3,600	N/A

* - includes stocks of table wine which have become wine alcohol now held in stock.
N/A - not available.

6. Self sufficiency in main Agricultural Commodities

<u>Commodity</u>	UK %	EC %
Beef and veal	88(c)	112(a)
Total Cereals	100(a)	127(c)
Milk fats	88(b)	124(b)
Milk proteins	109(b)	115(b)
Sheepmeat	75(c)	77(a)
Sugar	64(c)	132(c)

(a) = 1983/84
(b) = 1982/83
(c) = 1984/85



PRIME MINISTER

THE GREEN POUND

You should be aware of the attached exchange between MAFF and the Treasury, about a possible devaluation of the Green Pound, which will be discussed in OD(E) on Monday.

Mr. Gummer points out that our negative MCAs are now at a level which means that common prices are some 20% higher in the Community than in the UK. He wants us to follow the Irish in seeking an 8% devaluation of the Green Pound.

The Chief Secretary points out the serious implications for public expenditure in the UK as well as for EC expenditure, and the consequent increase in food prices and the RPI. He believes that we should lobby against an Irish devaluation and not seek one ourselves now (while keeping open the possibility in the next price-fixing).

I suspect that the Chief Secretary will win in OD(E): or just possibly there may be agreement that, if the Irish are granted a devaluation, we should seek a much smaller one.

CDP

mt

CHARLES POWELL

5 September 1986

VC4AIO

Personal for Mr. Powell

bc: Mr Stark
Mr Holroyd
Mr Jay, o/r
Mr McAdam

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Qz.05287

MR BUDD, APS/FOREIGN AND COMMONWEALTH SECRETARY

DEFENCE AND OVERSEA POLICY COMMITTEE SUB-COMMITTEE ON EUROPEAN
AFFAIRS: 5pm, 8 SEPTEMBER 1986

The Minister of Agriculture, Fisheries and Food (letter from Minister of State, Ministry of Agriculture, Fisheries and Food, to Chief Secretary, Treasury of 28 August) has requested agreement to devalue the green pound by up to 8 per cent on a corresponding basis to a possible devaluation of the Irish green punt. The Irish Government is pressing for this point to be decided at the Agriculture Council on 15-16 September. In his letter of 4 September the Chief Secretary has rejected this request.

I attach a Chairman's brief for a meeting of OD(E) at 5pm on 8 September. This meeting will, in fact, have the same cast as we discussed earlier: the Agricultural Ministers, the Chancellor of the Exchequer and the Chief Secretary, Treasury, the Secretary of State for Trade and Industry and the Minister of State, Foreign and Commonwealth Office (Mrs Chalker) under the chairmanship of the Foreign and Commonwealth Secretary.

D F Williamson

D F WILLIAMSON

5 September 1986

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DEFENCE AND OVERSEA POLICY COMMITTEE SUB-COMMITTEE ON EUROPEAN
AFFAIRS: 5pm, 8 SEPTEMBER 1986

CHAIRMAN'S BRIEF

PROPOSED DEVALUATION OF THE GREEN POUND (OD(E)(86) 15)

PURPOSE OF DISCUSSION

1. To consider the proposal from the Minister of Agriculture, Fisheries and Food that the green pound be devalued in line with any devaluation agreed for the Irish green punt at the Agriculture Council on 15-16 September.

CONCLUSIONS

2. The issue is a difficult one. The best course of action for the United Kingdom might be:

i. to resist, by lobbying the Commission not to make a proposal, any change in the Irish green punt and, if a proposal is made, to try to minimise the change;

ii. if, however, the Commission does make a proposal on the Irish green punt which is agreed by the Council, it is for decision whether -

(a) we should make no move to have the green pound devalued;

or (b) we should seek to have the green pound devalued but only by a limited amount, eg not more than 3 per cent.

3. You will wish to be guided by the discussion in the Sub-Committee but may be able to conclude that:

- The United Kingdom should resist any devaluation of the Irish green punt before the 1987 price fixing. We should attempt to stiffen up the Commission, pointing out that

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the United Kingdom would come under pressure to give equal treatment to its farmers and that the French might also get in on the act, with serious consequences to FEOGA;

- a full devaluation of the green punt alone would have a considerable effect on the Community's budget (an estimated 190 million ecu in a full year). A corresponding green pound devaluation must be considered unacceptable. It would undermine our arguments for tight budgetary control. Equally undesirable would be its public expenditure consequences in the United Kingdom (an estimated £200 million in 1987/88) and its impact on the RPI (about 0.25%);

- it is recognised that an increase in the disparity in support prices between the Republic of Ireland and the United Kingdom would provoke greater illegal cross-border traffic and affect the viability of meat processing plants in Northern Ireland. But this consideration cannot override the wider arguments;

and possibly - if, however, despite our views the Irish punt were wholly or partly devalued, we should be prepared to devalue the green pound but not by more than a very small percentage (3% would be the same change as in the last price package).

BACKGROUND

The problem

4. On 2 August the Irish punt was devalued by 8% as part of the realignment of the EMS. This produced negative mcas of -7.2% for dairy, beef and other animal products and -8.8% for crops. There was no immediate request for devaluation of the green punt to remove the negative mcas but following protests from the agriculture sector and the damage wreaked by Hurricane Charley the Irish Government has decided to seek urgently a full devaluation to assist their farming sector.

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5. The Irish request has prompted MAFF Ministers to seek a corresponding devaluation in the green pound. After a devaluation of the green pound at the price fixing in April of 3% UK mcas stood at -7.1% for livestock products and -10.7% for crops. Since then mcas have increased to a current level of -17.3% for milk and other livestock products and -19% for crops. Mr Gummer wrote to the Chief Secretary on 28 August on behalf of Mr Jopling to seek agreement to a devaluation of the green pound to match a green punt devaluation. The Chief Secretary replied on 4 September, turning down the request. Any decision on green rate changes has to be taken by the Council of Agriculture Ministers on a proposal by the Commission. The Council is to meet next on 15/16 September and our line needs to be agreed before then.

6. Green rates - which are applied to trade in agriculture and food products only - are the rates at which Community prices, which are expressed in terms of ecus, are converted into national currencies. The effect of the recent situation in which the pound has weakened against other European currencies but no adjustment of the green rate has been made is -

(1) in terms of competition, the United Kingdom agricultural industry has not got the advantage which other sectors of industry have obtained from the change in the value of the pound. Most agricultural products are receiving, on import into the United Kingdom, a Community-funded import subsidy (the mca) of 19% on crop products and 17.3% for livestock products. Exports of United Kingdom products are being charged a similar amount. The consumer is benefitting from prices lower than they would otherwise have been;

but (2) United Kingdom farmers still have available support prices in pounds at exactly the levels agreed in the price fixing.

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DISCUSSION

7. Four main points will have to be considered:

- i. Our approach to proposed devaluation of the Irish green punt.
- ii. The possibility of other member states seeking devaluations.
- iii. Budgetary implications.
- iv. What our approach on the green pound should be.

i. Irish green punt

The UK's position is that where a member state with negative or positive mcas requests a green currency change it is normally agreed in an effort towards removing mcas. However this usually occurs at the annual price fixing. In seeking a 'mid-year' devaluation the Irish have queered the pitch. Although their request for devaluation preceded Hurricane Charley (when the Irish might have settled for 4%; half the devaluation sought), the effects of the storm have added pressure on the Irish Government to seek a full devaluation. There has yet to be a firm request for weather aid from the Irish but it is still possible for the consequences of storm damage to be met this way, eg by subsidized grain sales from intervention, rather than through devaluation. Moreover any Irish devaluation would have a major impact on meat processing plants in Northern Ireland. Currently, Northern Ireland producers find it more attractive financially to sell cattle in the Republic. This attraction would increase with an increase in support prices there. The degree of illegal cross-border traffic is such that mcas are ineffective and the viability of meat plants in Northern Ireland would accordingly suffer. There is therefore a good case for our resisting an Irish devaluation until the next price fixing.

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ii. Other member states' green currencies

Apart from the Republic of Ireland and the United Kingdom, other countries with negative mcas are Greece (-27%), Spain (-1%), Italy (-1%) and France (up to -4.8%). There has been no indication to date from Spain, Italy or Greece of a desire for a devaluation of their green currencies; but France might, despite Mr Gummer's views, seek a devaluation. At the price fixing this year France sought and obtained agreement to a two-stage devaluation (and our devaluation then was designed to keep us in line with them). The timing of the second stage was unspecified and, while it is assumed that the second devaluation would be left until the next price fixing, the French government might see an earlier devaluation as aid to their restive farmers. A request from the French cannot be ruled out and this risk would be increased if we too go for a devaluation.

iii. Budgetary implications

Devaluation is costly. Full Irish devaluation would add some 190 mecu to the FEOGA budget in a full year (48 mecu for 1986). A UK devaluation of 8% would add a net further 74 mecu (18.5 mecu in 1986). A French move to parity could add an additional 430 mecu in a full year. The costs on the EC budget are therefore significant and would add to the demands on FEOGA, on which there is already tremendous pressure and a likely overspend in 1986. The effect on UK public expenditure is calculated in Mr Gummer's letter to be £40 million in 1986/7 and £120 million in 1987/8. The Treasury estimate the costs to be nearer £80 million and over £200 million respectively. Such figures could lead to a claim on the Reserve in 1986/87.

iv. UK green pound

Mr Gummer's case for a devaluation is made out on two grounds. First, the need to raise farmers' incomes which fell 43% in

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1985. He calculates that a full devaluation would benefit the UK farming industry by between £500 and £600 million in a full year. On the other hand, the UK industry itself has been almost silent in calling for a devaluation of the green pound, although that could change if the Irish succeed. The benefit to the industry would come through the increase in support prices which could well lead to an increase in intervention purchases and stocks in the United Kingdom. The provision of additional expenditure for farmers now on top of that provided through the devaluation at the price fixing, without any major reform of the CAP in compensation, is a major presentational disadvantage. Second, it is represented that a devaluation of the pound in line with a devaluation of the Irish punt would minimise the damage to meat plants in Northern Ireland, which are important employers in the province. There is substance in this argument - though there is already a 10% gap between support prices in Northern Ireland and the Republic. Also he argues that in tactical terms there is value in seeking a change in our green rate outside the price fixing.

8. The Chief Secretary's reasons for turning down the request are as follows:

- i. The suggested Irish devaluation would impose a considerable cost on the EC budget. Given the need to secure substantial savings in order to respect budget discipline and the 1.4% VAT ceiling our primary objective should be to resist (or at least minimise) the impact of any Irish devaluation and not magnify the risk by action of our own, which might provoke action by the French;
- ii. other member states would not regard a UK devaluation as equivalent to the Irish proposal, as sterling is outside the EMS exchange rate mechanism and our variable MCAs can go down as well as up;

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iii. pressing for a UK devaluation would destroy our credibility in seeking the necessary policy reforms in the CAP and the necessary savings to respect budget discipline;

iv. the devaluation suggested would substantially increase MAFF's PES bids and threaten a claim on the Reserve in 1986/7;

v. there would be an unwelcome effect on domestic food prices and on the RPI at a time when it is likely to be under pressure from price increases in other sectors.

The Chief Secretary suggests that we should concentrate on lobbying the Commission on the desirability of delaying or at least minimising any Irish devaluation and not follow suit ourselves at this stage.

HANDLING

9. You will wish to invite the Minister of Agriculture, Fisheries and Food to introduce the correspondence and set out his case for devaluation. The Secretaries of State for Northern Ireland, Scotland and Wales might wish to comment. The Chief Secretary might then respond. The discussion could then focus on the points in paragraph 7.

GOURLAY

1819



J VCLAIN

10 DOWNING STREET

From the Private Secretary

4 September 1986

You will have seen Mr. Gourlay's letter of 24 July seeking a meeting with the Prime Minister for a general discussion of changes in CAP support systems, and also to raise alleged discrimination against British farmers over the moisture content of intervention cereals. in box

The Prime Minister is writing to Mr. Gourlay to say that her other commitments make it difficult for her to see him, and suggesting that he discuss the matters which he wants to raise with Mr. Jopling. The Prime Minister would, however, like further information on the point about the moisture content of intervention cereals. I should be grateful for a note.

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

CHARLES POWELL

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

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MINISTER OF AGRICULTURE, FISHERIES AND FOOD

INTERDEPARTMENTAL WORKING PARTY ON ALTERNATIVES USES OF
AGRICULTURAL LAND AND SOURCES OF RURAL EMPLOYMENT

At her meeting on 19 March, the Prime Minister invited you to prepare a paper for colleagues consolidating proposals on alternative uses for some agricultural land and for the encouragement of alternative employment in the countryside. You established an interdepartmental Working Party of officials from the relevant Departments, under my chairmanship, to assist you in this. The Working Party has now completed its task, and I submit its Report herewith. This note sets out my personal view on the considerations Ministers might wish to have in mind when taking decisions on these matters.

2. The remit stemmed from the need to consider what policies, if any, Ministers might consider necessary to mitigate the effects, not only on agriculture but also on the rural economy as a whole, of a reduction in agricultural activity resulting from the adoption of effective EC policies to reduce surpluses. It was not within the Working Party's remit to consider what EC policies might bring about this reduction nor the timescale of their introduction (although there are some brief comments on these points in Section I of the Report).

3. The Working Party attempted to establish the broad dimensions of the question, in terms of potential changes in land use, farming income and structure, and employment. They will of course depend critically on the decisions of the Council of Ministers, and the notorious difficulty of forecasting developments in Brussels has made the task necessarily somewhat imprecise. The results of our work are set out in Section II.

/ 4. On land

4. On land use, the central estimate is that, over the next decade, some 700,000 hectares less is likely to be needed for cereals and some 500,000 hectares less for dairying. On current trends, 200,000 hectares would be lost from agriculture to other developments, so leaving 1 million hectares of "spare" land. 100,000 to 150,000 hectares could go to an expansion of beef and sheep and in some areas there could be an extensification of agriculture, perhaps extending to a modernised version of 'dog and stick' farming. The immediate impact is likely to be on the marginal cereals and milk areas - eg south west, central and north eastern England, eastern and south west Scotland, parts of Wales. But as people squeezed out of cereals and dairying try to keep up their income by turning to beef and sheep, the knock-on effect on the farmers on the poorer land in remoter areas - the Less Favoured Areas - will feel the impact most unless special arrangements for them are made.

5. Developments in farm incomes and farm structure are particularly sensitive to the nature of policies introduced by Brussels - eg price restraint or quotas; and whether there will be discrimination amongst categories of farmers with some favoured - eg small farmers (and our small farms are not small by EC standards). Overall there could be a trebling of the reduction of numbers of farms - 15,000 on existing trends - to over 40,000. Within this total, the smallest (in UK terms) farms that do not provide employment for even one person may continue much as before, not least since many families on these farms do not rely solely on farming for their income. The largest farms are also likely to continue, though probably shedding labour. The squeeze is likely to be concentrated on those farms which give employment to one to three people - the "family farm". Ministers may wish to consider the social consequences of this.

6. The impact is also likely to be greatest among farmers with high indebtedness, especially (as we have already seen) where their debts have been covered by the value of their land, which is now falling sharply.

7. The effects on employment will be felt both by the agricultural industry and also by the ancillary industries. (The cutback of milk production following the introduction of quotas has already led to a loss of employment among eg milking machinery suppliers and creameries processing milk; and the land drainage contracting industry has slumped with the considerable reduction in the draining of agricultural land.) In agriculture, employment over the next decade is expected to fall by some 50,000 to 100,000, out of a current 615,000. The loss in ancillary industries is harder to estimate, but is likely to be at least half as much of that in agriculture.

Policy Options

8. The Working Party recognised that it was for Ministers to decide whether or not they wished to take any policy initiatives in the light of this situation. They could decide that no new action was called for, arguing that there was no certainty when the corrective action to agriculture would come, what its scale would be, or whether the agricultural cutbacks would be introduced so gradually that normal processes of adjustment would suffice. Ministers could decide that, if and when the cutbacks in agriculture did come, they could "tough it out", arguing that the run down in agriculture was no more than was required of all industries which were too big for the new circumstances, and that, in accordance with their free market principles, it was not the Government's role to interfere to channel the resources released from agriculture in any particular direction. They could point to signs that the growth points for employment seemed to be moving away from the larger towns to smaller towns and possibly to rural areas, and that modern technology allowed many information-based industries to be untied from a particular geographical base. This argument could be valid for southern and eastern England, but less so for the more remote rural areas. It is those areas at the end of the line which always suffer most in a squeeze; and the effects of the squeeze on agriculture would be felt most severely in northern and western

England, much of Scotland and Wales, and almost all rural Northern Ireland - amounting in some areas to dereliction - unless countervailing action is taken.

9. However, the Working Party has set out a number of options (in Section III of the Report, and Annexes B to E), if Ministers do decide that they want to take action. The prospect for novel crops and livestock enterprises are examined in Annex B. Some of these could have a considerable longer-term potential, but within the next decade they are unlikely to occupy more than 200 to 300 thousand hectares. There is no need for major Government involvement in this field - certainly it would not be appropriate for us to propose new EC price support regimes - but we should arrange to assess on a continuing basis the opportunities for novel enterprises, including testing them at the experimental centres.

10. The main potentially significant alternative use of agricultural land is in afforestation and the encouragement of farm woodlands. With a change of emphasis to permit the planting of trees on somewhat better land (grade 4 and the lower part of grade 3), it is estimated that the rate of planting could be doubled, and amount to 400,000 hectares over the decade. Annex C summarises the Working Party's consideration of this. Some financial incentive will undoubtedly be necessary, and careful cost-benefit studies will have to be made. The preliminary studies done for the Working Party are hopeful. The Departments directly concerned are pressing on with these studies, so that any scheme agreed by Ministers can be on as sound a factual base as possible.

11. The expansion of afforestation will also have to be consistent with the Government's environmental objectives. Sensitive landscaping, probably with a mixing of broad-leaf trees and conifers, and planting somewhat lower down the hill, could prove more acceptable to the environmental interests than some current afforestation high on the moors.

12. Woodlands on farms could also be encouraged, accounting for 80,000 hectares over the decade. A number of problems need to be resolved - not least, the need to maintain income during the time that the tree crop is growing, and possible legal difficulties - but this form of on-farm diversification could have a direct effect on marginal land currently producing surpluses. More immediately, the rehabilitation of woodlands currently on farms, often now very neglected, could help to sustain rural incomes and employment.
13. Land can also be used for conservation and recreation (Annex D). On conservation there is already a variety of arrangements whereby agricultural production is held below full potential, for the benefit of conservation. In the new circumstances, these arrangements could be extended. Similarly, in parts of the country there is unfulfilled demand for land for recreation - eg golf courses, land for horses and ponies, and a range of other activities. Between them, these recreational uses could occupy a significant area. Almost all of them are inherently profitable, and except in special circumstances they should not need to be supported by public expenditure, although some relaxation in planning arrangements might be needed.
14. These alternative uses of land can also contribute to rural employment. The last area which the Working Party examined concentrated on the employment issue, and considered diversification both on and off farm (Annex E). On-farm diversification can involve both adding value to the farm produce and moving into ancillary activities, such as recreation and tourism. Diversification off-farm can cover a wide range of enterprises. The Government already has a number of policies in these areas, which are described in the Report. We should aim to build on these, removing the "farm-gate barrier", and ensuring that the activities of the agencies concerned are well co-ordinated and given a new emphasis.
15. In addition to the references already made to modifications in the planning arrangements to facilitate recreational development,

the Working Group also considered whether more fundamental changes were needed in land use planning policy in relation to agricultural land. The requirements of agriculture are currently given considerable weight, dating from the time when the emphasis was on agricultural expansion. The relative weights to be given to the various considerations need adjusting. Some of the Working Party advocated a more radical approach, arguing that there was no need to have any policy for the protection of agricultural land, and that the amenity interests (eg Green Belt) could be safeguarded in other ways. Other members of the Working Party - with whom I personally agree - felt that complete abolition of protection for agricultural land would give rise to considerable opposition, as much from the environmental interests as from the agricultural interests; that there was still need for a policy, but that it needed to be revised to give less emphasis to agriculture and more to the deregulatory and job-creating possibilities. This issue is further examined in Annex F.

General Considerations

16. In addition to these comments on the content of the Report, I would like to draw attention to a number of more general considerations. I have already referred to the problems of making precise estimates of the scale of the problems following reductions in surpluses. Similar uncertainties relate to the extent and nature of possible EC policies to mitigate the impact on the rural economy in cutting agricultural support. The existing Structures Regulation has provisions for improving farm structure and sustaining the rural economy. The Commission's latest socio-structural proposals are intended as a further step in this direction, but they are half-baked and fairly spineless. This is important since some actions would only make sense as part of an EC-wide policy - eg "set aside" (on which you have already made proposals to your European colleagues). At the other extreme, some actions - eg on planning policy relating to the use of agricultural land - are entirely for national decision. In between it would be a judgement, in the light of what might be negotiable in Brussels, whether the

cost/benefit is likely to be more favourable to us by national or EC action.

17. Finance will be another major consideration. A number of recommendations in the report have no - or virtually no - public expenditure implications. But a number of them do. In some cases there should be offsetting savings from a reduction in surpluses. But the matching up of such savings in our contribution to the EC budget with any increase in expenditure to encourage alternative policies will not be easy. Certainly any new schemes will have to be designed to be cost-effective and to have clear objectives against which they can be monitored and evaluated. The Treasury have made their position on this, and their view that no case had been made out for increased public expenditure, very clear in the Report. The Working Party were agreed that in any case additional public expenditure can only be decided by Ministers as part of their PES review.

Conclusion

18. This consideration of alternative uses for some agricultural land and alternative sources of rural employment springs from the pressing need to cut back agricultural activity; but the issue should not be approached in negative terms. In my view, the alternative ideas which have been examined are laudable in themselves, and if adopted should be presented positively. The Government already has a number of policies designed to sustain the rural estate and economy, but gets little credit for them. I fear that there is a general impression that the Government is reacting to events, rather than being in control of them, in rural matters - and this has led to calls from its own sympathisers to set out its policy in relation to the countryside. To a degree this is unfair. It ignores what the Government is already doing, and also the fact that agricultural policy is governed to an overwhelming extent by what is negotiable in Brussels. Nevertheless, in my view the Government should now seize the initiative. It should turn the

/ potentially

potentially negative message of cutbacks in agriculture into a positive policy by a coherent series of measures, building on those already in place, and carefully presented, to sustain the economic and social viability of rural areas in a way that is consistent with environmental objectives.

EJG

E J G SMITH
3 September 1986

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ALTERNATIVE USES OF AGRICULTURAL LAND
AND SOURCES OF RURAL EMPLOYMENT

A Report by an Interdepartmental Working Party

September 1986

JB7AAF

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ALTERNATIVE USES OF AGRICULTURAL LAND AND SOURCES OF
RURAL EMPLOYMENT

SECTION 1

INTRODUCTION

Background

1. At a meeting of Ministers on 19 March 1986 to discuss a longer term strategy for reforming the operation of the Common Agricultural Policy (CAP), the Prime Minister inter alia concluded that "it was also now necessary to look at alternative uses of some agricultural land, in particular possible ideas on "set-aside" and the encouragement of alternative employment in the countryside". She invited the Minister of Agriculture, Fisheries and Food to consolidate proposals on these points into a paper for colleagues. To assist him in this, the Minister established an Interdepartmental Working Party comprised of officials from HM Treasury, the Prime Minister's Policy Unit, the Scottish, Welsh and Northern Ireland Offices, the Departments of Environment, Trade and Industry, and Employment, and the Forestry Commission, under Ministry of Agriculture Chairmanship.

Terms of Reference

2. Based on the remit from the Prime Minister, the terms of reference of the Working Party were as follows:

"As part of our strategy for the Common Agricultural Policy, to consider possible alternative uses of

some agricultural land, and possible measures to encourage alternative employment in the countryside, and to make recommendations accordingly to Ministers."

The Problem and Mechanisms for Change

3. The European Community is faced with the prospect of mounting surpluses of most main agricultural products. New techniques (improved seed varieties, better livestock breeds, pesticides, etc) already in the pipeline will steadily raise agriculture's production capacity, enabling more output to be achieved at lower unit cost in real terms. For instance, the Commission envisages, without corrective action, intervention stocks of cereals in 1991 of 80 million tonnes (costing some £9 billion at 1986 prices to purchase) compared with 15 million tonnes at present. On current trends Community surpluses will continue to grow to the mid 1990's. In the case of milk, the annual surplus is some 13% of production in spite of quotas, whilst beef stocks are presently equal to 12% of annual consumption. The prospect that expenditure will exceed the Financial Guideline for the Community budget, together with the waste of resources inevitable from such over-production, highlights the urgent need for corrective measures. The fundamental problem for the Community is how to achieve, in the short term, a significant reduction in the production capacity of Community agriculture, and thereafter to ensure that production is matched to market needs.

4. There are a number of ways in which the Community could achieve this aim. The Government considers that the reduction of producer prices should be the foundation of whatever package of measures is finally decided. Prices may be reduced by lowering common prices, by weakening intervention and, although less

desirable, via introduction of co-responsibility levies. Price policy could be supplemented by, for example, voluntary set aside; but the ultimate objective would be to reduce the incentive to over-produce, squeeze out less efficient production in the Community, reduce prices to consumers, bring Community prices closer to those on world markets and generally reduce the costs of support.

5. Price reduction has until recently attracted little support from our Community partners, although the Commission now favours it. Quotas were introduced for milk in 1984 and it seems inevitable that they will not only continue, but also be progressively tightened. For cereals, the potential scale of the problem and the dilatoriness of the Community in tackling it means that a quota-type solution is frequently canvassed. That approach could certainly reduce production, but the gains for consumers and economic efficiency would then be forfeited.

6. The price and quota approaches, different though they are in their economic effects, would both be aimed at bringing down production of surplus products. Various combinations of the two can be envisaged, possibly including social payments, incentives to idle land and discriminatory devices favouring small producers. It was not within the remit of this Working Party to form a view on which of these combinations were desirable.

7. In the UK we face two problems. The first, common to the rest of the Community, is the need to reduce over-production (but in a manner that does not penalise our own efficient industry while sheltering the less efficient systems of some partners). The second is to ensure that the overall economy of our rural areas is sustained during this period of change, and the quality of our landscape protected.

8. The curbing of agricultural production after some 40 years of almost unfettered expansion, could have a profound impact on the farming industry, on ancillary industries and on the amenities of the countryside. Resolution of the Community problem would thus be likely to bring with it many other problems and needs, particularly for positive measures to sustain the rural economy. It is clear that any steps in this direction will lead to an increase in the demands already being widely expressed within EC Member States, including the UK, for measures to alleviate the pressures on farm incomes and rural employment. Tough decisions in the Council of Ministers on production restraint may therefore only be politically acceptable if linked to the development of policies designed to sustain the rural economy.

9. Whilst Community over-production of beef requires correction, and the beef support regime is under review, the two most urgent commodity problems concern cereals and milk. For the UK, these two products together account for 40% of the total output of the industry and occupy almost half the agricultural area (excluding rough grazing land). Significant contraction of their production would affect the level and pattern of farm income, rural employment and land utilisation. The pace and degree of these effects would depend on the precise Community policies adopted, and the difficulties involved in negotiating effective CAP reform should not be underestimated. The Working Party began by assessing the area that might be released from these two enterprises. This assessment is based on central assumptions, intended to provide an 'average' picture of possible changes, not on extreme assumptions. For example, it did not consider total elimination of all production in excess of Community consumption. Whilst UK agriculture, comprised as it is of 1/4 million small businesses, is

a resilient industry, there are likely to be limited long-term prospects for other traditional crop and livestock enterprises to occupy the released land, and over the next decade the prospects for novel crop and livestock enterprises are likely to be limited. The industry would thus need to make significant adjustments affecting the intensity of farming, the number of farms, land values, agricultural employment and employment in ancillary industries.

10. The Working Party's assessment is of possible changes over the next ten years. The precise rate and nature of such changes will depend critically on the extent to which the Community is prepared to get to grips with the problem of surplus production. The changes could come quickly and at short notice (as did milk quotas); or their introduction could be protracted (leading eventually to a series of crisis decisions). Decisions on policies to mitigate the effects of change will have to be taken in the light of this uncertainty.

Policy Options

11. It is a matter for political decision as to what extent the Government should itself intervene further to hasten or cushion the effects of the desirable structural adjustment. The Government already has a number of policies in this field, eg to sustain agriculture and population in the less-favoured areas, to encourage forestry, to maintain and enhance the wildlife and landscape value of rural areas, and to encourage small industries in particular rural areas; and the issue in many cases is the extent to which these policies need to be developed. If Ministers decide that further intervention is prima facie desirable, in the face of reductions in commodity support, clear criteria for assessing the justification for individual schemes will be needed.

Annex G summarises the rationale recently agreed for other industry in the context of the industrial support review. In the case of agriculture, account will have to be taken of the fact that the industry does not operate within a free market, and that some of the benefits of its structural adjustment are of an environmental kind, rather than quantifiable in financial terms.

12. The Working Party has considered possibilities for encouraging non-farming activities and alternative uses of the land, whether for recreation, conservation or forestry. In the time available it has not proved possible to conduct cost/benefit analyses of the various policy options - although some work has been done in respect of forestry - nor to assess the nature and cost of any incentives that might be required. If Ministers wish the recommendations in this Report to be pursued, more rigorous appraisals will have to be made.

13. The options set out in this Report are those which appear to the Working Party to have prima facie merit if Ministers wish to take action in this area. Some have no significant implications for public expenditure, but a number do. In that regard, the Working Party took note that, in the Ministerial correspondence leading up to its establishment, the Chief Secretary expressed the view that any proposed expenditure should come from reallocation within existing Public Expenditure Survey (PES) provision. The Treasury representative on the Working Party made plain the Treasury's view that all references in this Report to additional public expenditure should be construed as reallocations within existing PES provisions. The Working Party as a whole recognised that the question of additional provision could only be decided by Ministers in the context of the PES.

14. Finally, while some of the actions considered by the Working Group are entirely for decision by the UK (eg changes in land use planning), others would only make full economic sense if adopted at EC level (eg set aside). The dividing line between the two types of case is essentially a political one.

SECTION II

POSSIBLE SCALE OF ADJUSTMENT ON UK AGRICULTURE

General

15. The scale of adjustments confronting UK agriculture will depend on the strength, timing and nature of mechanisms chosen at the Community level to reduce production capacity. The assessment outlined here (details in Annex A) rests on a set of assumptions about production, crop and livestock yields and thus on the surpluses that may be generated and require correction. Central assumptions have been chosen, but indications are provided of the sensitivity of the results if some of the crucial assumptions are varied. The first part of the analysis provides orders of magnitude of the areas of land that could face a change of use, no account being taken at this stage of novel crops, nor of a possible acceleration of the pace of afforestation. (These matters are considered in Section III).

16. The basic analysis rests on the assumption that the necessary production adjustments for cereals would be secured by price policy, bolstered by arrangements such as voluntary set aside. This is the preferred approach, but the alternative possibility of quotas has also been examined. The area of land displaced from cereals by the mid 1990s has been assumed to be the same, whether brought about by price or quota action. However, the distribution of that area around the UK - and the EC generally - could differ significantly. In the case of milk, the existing quota system is assumed to continue, but with progressively lower quotas in the coming years.

Possible Future Land-use Patterns

17. The results of the land-use assessment up to the mid 1990s are summarised in Table 1 of Annex A. For the UK as a whole the tillage area could decline by some 700,000 hectares (ha), or 13%, compared with 1985. This is almost entirely due to a reduction in the cereals area. (Reductions in the area of sugarbeet, potatoes, and horticulture, are assumed to be broadly balanced by continued expansion of oilseed rape.) If recent trends in cereal yield growth were to accelerate (due perhaps to the introduction of hybrid varieties) the transfer of land out of cereals could be up to one million ha. On the other hand, slower growth in yields, arising from reductions in the use of inputs, could mean under half a million ha being displaced. In the absence of alternative uses, this tillage land is assumed to revert to grass. With a continuing loss of agricultural land, to forestry and to other non-agricultural use, the grass area could increase by nearly $\frac{1}{2}$ a million ha (range $\frac{1}{4}$ to $\frac{3}{4}$ of a million ha).

18. Despite the operation of quotas, Community milk production exceeds consumption by a considerable margin. Quotas are to be cut by 3% over the next two years. If a further 3% cut is assumed thereafter and milk yields grow at $1\frac{1}{2}$ % a year, the UK dairy herd would have to be reduced significantly. At present stocking rates the grass area required for dairying would fall by about $\frac{1}{2}$ million ha. This area, added to the $\frac{1}{2}$ million ha released from tillage, means that about one million ha would need to find some other use.

19. At present stocking rates, one million ha would provide capacity for a massive increase in grazing livestock. Since dairy herd numbers could not

increase (and so, for the short run, there would be less beef from the dairy herd), there would be land available to allow beef and sheep numbers to expand by between 25 and 30 per cent. Such an expansion, which could well be mirrored in other Member States, could not in the longer run be accommodated by Community and export markets. Expansion of beef and sheep would thus have to be curbed; indeed the Commission has already tabled proposals to reduce the cost of supporting beef. Some arable and dairy farmers would, almost certainly, turn to these enterprises; but the inevitable curbing of the increased Community output would lead to many existing beef and sheep producers (mainly in the Less Favoured Areas (LFA's)) being squeezed out, as well as potential new ones being discouraged. It seems unlikely there could be room for more than, say, 100,000 to 150,000 new hectares being occupied by beef and sheep enterprises.

20. An alternative possibility would be to farm the land more extensively, using lower inputs and with lower stocking rates. Some farmers will attempt to compensate for a squeeze by extending the scale of their operations in this way. But this option for maintaining income will not normally be available to the smaller family farms, particularly those in the remoter and less-favoured areas which tend to suffer most when the whole industry is squeezed.

21. These analyses look to the mid 1990s. But technological progress and developments already in train will increase further agriculture's production potential to the end of the century and probably beyond. The adjustments outlined for the next decade are thus likely to continue throughout the 1990s.

Regional Land-use Implications

22. In England, which could in absolute terms account

for the bulk of the immediate adjustment (although the largest reduction in tillage area in percentage terms (17%) would occur in Scotland), tillage land in eastern, southern and central parts would need other uses. Most of the novel crops would probably expand in south-eastern parts. In central and north-eastern areas, tillage land could revert to grassland initially. In the West, former dairying land would add to the supply of grassland. The LFAs would probably be little affected initially, but before long could be considerably affected if more livestock in the lowlands captured their markets. In Scotland, the more marginal cereal and milk producing areas in the east and south west respectively would probably revert to beef and sheep initially. The LFAs, which occupy $\frac{4}{5}$ of both Scotland and Wales and $\frac{3}{4}$ of Northern Ireland could, like those in England, be affected later. In Wales and Northern Ireland the main immediate impact would be the increased availability of grassland no longer required for dairying. The initial effects will be most felt in areas dependent on dairying, particularly where the structure is poor - notably Dyfed. The social consequences in these areas could be very painful, as they might also be in the LFAs if levels of support outside the LFAs fell significantly in real terms.

Agricultural Incomes

23. Sustained pressure on prices or reductions of output by quota (unless compensated by substantial and unwarranted price increases) would depress farming incomes. Those on good arable land would strive to sustain cash flow by saving on labour, machinery and buildings. Some might establish or expand livestock enterprises to use the land and consume cereals. The greatest difficulties are likely to face mixed and mainly cropping farms on poorer arable soils and producers with sizeable debts. In the LFAs, which

account for half the UK agricultural area, farmers already receive considerable special assistance to compensate for present handicap. They specialise in sheep and cattle but these could be put under pressure by livestock expansion in the arable and dairying areas. Many hill farmers could therefore be affected later, and without additional assistance would not be immune from measures to correct the over-capacity of Community agriculture. These are the areas where there is little or no scope for alternative agricultural enterprises, and in some of them agriculture is particularly dominant in the economy of the area as a whole.

24. A quota solution to the cereals problem, would spread the adjustment evenly amongst cereals farmers (although a Community scheme might exempt smaller producers, which would be highly discriminatory against the UK). There would be pressure in the Community to raise cereals prices in order to sustain incomes. The quota solution could therefore lead to less pressure on incomes but at a cost, borne by taxpayers and consumers. Much land, however, would still remain to find a use and this area would grow over the years.

Land Prices and Structures

25. Agricultural land prices appear to have fallen by at least one-quarter since mid - 1984. Intensified income pressures and increased turnover of land would inevitably mean even lower prices in the future, affecting the financial structure of the industry. In 1985 some 13% of owner-occupied farms had liabilities exceeding assets, excluding land - double the proportion in 1980. Income pressure would make it impossible for many to service their debts. Only about 1½ to 2% of land has been sold each year; more land for sale will find buyers only at much lower

prices, in turn throwing more farm balance sheets in jeopardy.

26. More rapid turnover of farms is likely to speed up structural change. Even if recent trends continue, the total number of holdings would be expected to decline by 15,000 in the next decade. One to three-man farms would be most affected (see Table 2). Larger farms (4 men and over) would increase their share of a reduced total production to perhaps 60%. If financial pressures resulted in trebling of the pace of change - not implausible - the decline in holdings could be over 40,000. A possible pattern is shown below. The rapid loss of medium sized farms - generally regarded as "family farms" - would be particularly pronounced. The social implications of such a development would require consideration.

Table 1

UK - Number of holdings by size of holding ('000s)

	1975	1985	Mid 1990s	
				Project past trends
				If pace of change trebles
Under 250 smds*	126	127	128	123
250-500	56	42	31	16
500-1000	46	41	35	26
over 1000 smds	28	30	31	32
Total	257	240	225	197
Av. Area holding over 250 smds (ha)	111	124	139	174

* smds - standard man-days - a 250 smd farm would have crops and stocks sufficient to occupy one man.

Employment

27. There are now 615,000 engaged in agriculture. 290,000 are farmers, between 1/4 and 1/3 of whom have other occupations. Of the 325,000 workers, 160,000 are part-time or casual workers. The ancillary industries have been estimated to employ about the same number as are engaged directly in farming. Together agriculture and ancillary industries account for about 5% of civilian employment in the nation as a whole. But in rural areas agriculture is of course much more important and in some rural counties accounts for around 30% of civilian employment.

28. Over the next decade, continuation of recent trends would suggest the total number engaged in agriculture would decline by some 50,000 - a slower outflow than in the 1970s (although possibilities of alternative employment were much brighter then). With the land use and structural changes discussed above, this could more than double to around 100,000. The shedding of these jobs would be widely spread - even those arable farms continuing in cereals would need to cut costs of which the shedding of labour would be one. The greatest structural changes are likely to be seen in the reduction of 1-3 men farms in central and south-west England, parts of Wales, the intermediate areas of Scotland and throughout Northern Ireland. In addition a large number of jobs would be shed from the ancillary industries - as the introduction of milk quotas showed dramatically. Further reduction in output, reduced purchases of inputs and investment by farmers would have a significant and continuing impact on supplying and merchandising businesses - many are already having to contract their operations.

SECTION III

ALTERNATIVE POLICIES

General

29. The degree of adjustment in agriculture required to absorb the effects brought about by a reduction in surpluses could be substantial over the next decade. This Section considers alternative ways of using land and providing employment in rural areas.

30. The possibilities for alternative use of land and for sustaining the rural economy are considered under four main headings:

- i. Alternative agricultural uses of land (including set-aside and alternative crop and livestock enterprises);
- ii. Use for forestry and farm woodlands;
- iii. Use for conservation and recreation;
- iv. Diversification into secondary processing of agricultural products and into the development of non-agricultural enterprises, both on-farm and off-farm, to sustain and develop the rural economy;

In order to facilitate these possibilities with as few constraints as possible, policy changes are also considered under the further heading:

- v. Changes in the current policy for the protection of agricultural land.

31. This Section sets out the analysis which has been possible in the time available. Further detailed work and costing would be needed before any of the options could be implemented. Ministers will also need to consider whether in principle further Government intervention is justified and if so what the criteria should be. Individual schemes would have to take account of regional variations, and some options may not be possible in many regions. The main conclusions reached are summarised below, with additional detail in Annexes B to F.

Alternative Uses of Land for Agricultural

a. Set-aside

32. Against the background that around one-tenth of the present cereals area in the EC as a whole may be producing surpluses, the Government has presented in Brussels a scheme for encouraging the voluntary setting-aside of a portion of that land. This is designed as an adjunct to the policy of controlling cereal production by price restraint, through speeding up the diversion of parcels of land from cereal growing by assisting marginal growers to achieve a reasonable income from other uses of some of their land. It has mainly been focussed on a five-year time-scale.

33. Since this scheme has been the subject of consideration elsewhere in the Whitehall machinery, it is not discussed further here. Instead, attention is focussed on the options on a more permanent basis for alternative use of land.

b. Alternative crop and livestock enterprises

(Further details in Annex B)

34. There is some scope for the development of novel crops or livestock production. This subject has recently been studied by the Centre for Agricultural Strategy at Reading University. The study suggests that by 1990 around 100,000 ha could be taken up by new crops and 2 million ha for novel livestock over a longer period. While the first figure seems a reasonable one, the second is far too large, although there is considerable potential over the longer term. In both cases much would depend on the availability and size of likely markets, the economics of production (no EC subsidies would be likely or desirable), and the adaptability of crops and livestock to UK conditions.

35. While there is clearly considerable longer term potential, novel crops and livestock are unlikely to account in the next 5-10 years for more than 200,000 to 300,000 ha although they could provide a useful source of farm income and employment. The Government should therefore set up arrangements to assess on a continuing basis the technical, economic and marketing possibilities, including the testing of novel crop and livestock possibilities on Government-funded experimental farms.

Alternative Use of Land for Forestry and Farm
Woodlands (Further details in Annex C)

36. The potential for additional afforestation appears somewhat more promising and offers the most significant productive alternative land use so far identified. There is a large and increasing UK market for timber products which is currently 90% supplied by imports. (The EC as a whole is about 50% self sufficient in timber.) The total area of productive forestry in the UK is a little over 2m hectares, or 10% of the land area. This is expanding at the rate

of about 23,000 ha per annum, mostly in the private sector. This is three-quarters of the future growth envisaged by the Government when last it reviewed forestry policy in 1980.

37. There is scope both for expanding traditional forestry and for encouraging the development and rehabilitation of farm woodlands. The traditional industry could technically quickly double its rate of planting if the policy of steering planting to the poorest land of little agricultural value was relaxed, although the private sector is unlikely to plant better land at current prices without additional financial incentives. A move to plant trees on somewhat better land would have more impact on agricultural surpluses. But not all the land most suitable for a major expansion of forestry would necessarily be that most immediately affected by cuts in surpluses. Doubling the rate of planting would mean planting 400,000 ha in total over the next ten years.

38. The difficulty in encouraging farmers to replace agricultural production by farm woodland is the time taken for trees to produce any financial return to replace the income foregone. (Differences in their tax situation from major traditional forestry investors and the legal implications stemming from the definition of farm woodland in existing legislation may also cause some difficulties.) This could be overcome by introducing special woodland compensatory allowances, loans or loan guarantees. Allowances would be payable annually until the timber crop produced a significant return. Paragraph 9 of Annex C sets out the outline of an allowance scheme. More detailed work is needed to devise a cost-effective scheme, in particular on the relative merits of allowances, loans and guarantees, possible landlord/tenant problems and the advice to be given to

farmers on woodland management and marketing. A scheme could probably be implemented under the Forestry Acts.

39. On some farms a more immediate benefit to farm incomes could be obtained from the rehabilitation of derelict farm woodland. This could contribute a useful source of farm income in marginal areas over a relatively short time scale, but would not of itself directly reduce agricultural surpluses.

40. To justify new incentives for forestry or farm woodlands it would be necessary to demonstrate that increased planting would produce benefits for the economy as a whole. The Forestry Commission and the Agriculture Departments consider that the conversion of agricultural land to woodland could produce substantial savings in agricultural support costs, and that on medium to poor grade land the incentive required to encourage the planting of trees is likely to be less than the resulting savings in agricultural support; but the calculations on this have not been agreed with the Treasury and need further study.

41. The sometimes conflicting needs of environmental considerations and of rural employment and socio-economic considerations will have to be taken into account. In particular, problems arise because, whilst conifers offer the best and earliest financial return and so can give more help to maintaining the rural economy, in some areas they are seen by conservationists as an intrusion into the landscape and a cause of loss of wildlife habitat. However, careful planting design and management, including where possible broadleaved trees, can improve wildlife diversity, help to reduce acidification of fresh waters, provide useful recreational benefits and, if substituting for intensive arable production, reduce pollution of water supplies in lowland areas.

42. Looking to the future, additional research and development work should be undertaken on short rotation coppice, agro-forestry, certain aspects of planting on better land and tree breeding. These offer good long term prospect of improving the return from forestry, particularly farm forestry.

Use of Land for Conservation and Recreation Purposes
(Further details in Annex D)

a. Conservation

43. Rural land, especially in areas of high scenic quality, has considerable social value for recreation and tourism. This value is enhanced in areas that support a rich or unusual wildlife. Traditional farming practices created and maintained landscape and wildlife habitat. While this compatibility remains in some areas, especially in the uplands, elsewhere modern intensive agriculture has diminished the landscape quality. There is considerable public concern about the changes which have taken place and significant support for the protection of relatively unspoilt areas.

44. Rural land is important as a water catchment and it is necessary to protect surface and underground waters from pollution where these are used as sources for the public water supply. Recently agriculture has emerged as an increasing cause of acute pollution in surface water and concern is also growing about water pollution incidents resulting from fertilizer and pesticide usage. Changes from intensive arable to forestry or grassland and towards less intensive livestock production methods could make some contribution towards solving these problems.

45. As the need to reduce agricultural production is recognised, other objectives of public policy can be increasingly accommodated. Further, a reduction of

farming profitability and of the price of agricultural land should make many conservation measures more cost-effective. For example, voluntary restrictive management agreements with the Nature Conservancy Council, National Park Authorities and other local planning authorities under the Wildlife and Countryside Act 1981 would be less expensive if the net profits foregone by not undertaking damaging operations were reduced. Similarly, the costs of acquisition for conservation purposes will be reduced if land values fall. In the Environmentally Sensitive Areas (ESAs) designated under the Agriculture Act 1986 farmers should need smaller incentives to farm in ways beneficial to conservation, though still enough to achieve the objective of the policy. Conservation may also be assisted by the trends now developing in agricultural policy and practice. However there could be local, short-term disadvantages in cases where farmers have to intensify their methods on land which is of high conservation value as well as high agricultural potential. Care will also need to be taken to ensure that any increased public financial support for forestry, small industries or tourism does not put even more pressure on some of the most valuable conservation sites.

46. Conservation measures are relatively inexpensive in terms of overall public expenditure, and non-governmental conservation agencies are very active. Moreover, conservation-oriented management tends to be more labour-intensive than some forms of production-oriented agriculture. There are indirect employment effects from conservation in rural areas because of the increased attractiveness to tourists. There could therefore be advantages in encouraging additional conservation activity. The scope for more frequent use of positive management agreements and for the acquisition of land by voluntary private-sector conservation bodies (for example the Royal Society for

the Protection of Birds) should be examined and the effects of ESA status carefully monitored. More demonstration farms could be established, building on the existing framework but also including farms affected by the current changes, where landscape and wildlife habitats could be 're-created' on land which has been withdrawn from production.

b. Recreation

47. Countryside recreation embraces a wide range of activities from walking and traditional countryside activities such as hunting, shooting and fishing, to specialised sports and activities. Walking and climbing have grown considerably in popularity in recent decades, as the proliferation of long-distance footpaths and the erosion of popular routes by the sheer pressure of numbers indicates. Fishing is our most popular sport. These activities require only modest and low-cost facilities and go hand-in-hand with farming and forestry in the National Parks and many other areas, where the provision of accommodation for visitors is important to farm and village economies and there is scope for other farm-based recreational activities like pony trekking.

48. Nearer to urban centres, considerable areas of land are used primarily for recreation - notably as golf courses (140 to 170,000 hectares) and for the keeping of, or producing the feed for, riding horses (300 to 500,000 hectares). Demand for land for these purposes is growing, especially in south-eastern England, and there is considerable scope for their expansion, taking land out of intensive crop production or grazing. These enterprises are inherently profitable, and should require no assistance from public funds, though planning restraints will need to be eased. Forestry and farm woodlands can offer valuable recreational and sporting benefits.

49. The Countryside Commission will be publishing the results of a survey entitled "Recreation 2000" in the autumn and this will provide a basis for further analysis of the potential for recreational use of rural land in England and Wales and of the resulting economic benefits.

Diversification On and Off Farms (Further details in Annex E)

a. On-farm diversification

50. One-third of farm families already derive a significant part of their income from other gainful activities. Some of these have involved on-farm diversification. Further development of such diversification would help sustain farm incomes and employment. This can involve both agriculturally related activities (such as processing of primary production) and non-agricultural activities (such as tourism and crafts).

51. The scope for such diversification will vary regionally according to market, scenic and other factors. The impact is likely to be felt more in terms of sustaining the rural economy than in reducing surpluses. Nevertheless, diversification should be seen as an important element in an overall strategy for the countryside.

52. Initial steps to encourage diversification have been taken in the Agriculture Improvement Scheme which provides for grants for tourism and crafts for farmers in Less Favoured Areas and for a restricted range of secondary processing activities throughout the country. A provision in the Agriculture Act 1986 provides the statutory basis for an extension of agricultural capital grants to non-agricultural farm enterprise. Overlaps with schemes run by other Government agencies would have to be avoided and

decisions are required on the funds needed to implement this provision. There are constraints under EC law in the extent to which aids can be paid to encourage diversification. In addition, local authorities have recently been reminded of the need to look favourably upon applications for the conversion of redundant farm buildings for non-agricultural use.

53. Further steps to facilitate diversification should include provision of advice to farmers on such matters as matching resources with opportunities, marketing, training and legal requirements. It would seem appropriate that the agricultural development and advisory services should continue to be the initial source for advice to farmers on these matters. This must be done in close consultation with the other agencies working in this field, both agricultural and non-agricultural, to avoid any wasteful duplication of effort.

54. In order to help farmers assess the marketing possibilities of potential new on-farm enterprises, the industry might be encouraged to establish regional marketing advisory groups, with the assistance of the agricultural development and advisory services and the other agencies.

b. Off-farm diversification

55. Although on-farm diversification can play a useful role in helping to sustain the rural economy, it will not on its own be able to deal with the problems of displaced farmworkers and the decline in employment in ancillary industries associated with a reduction in agricultural output, particularly at a time of high unemployment in the rest of the economy. The rural employment problem will therefore only be solved through compensating economic

development off the farm. The main Government agency for promoting economic development in rural areas in England is the Development Commission (DC) and its agency CoSIRA. There are equivalent development agencies in Scotland, Wales, and Northern Ireland. The Agricultural Training Board, Tourist Boards and local authorities also have roles to play. However, the intervention of Government agencies will not invariably be necessary to encourage private enterprise to create new employment opportunities. Certain areas of the countryside have seen an increase in employment in high technology industries and this trend is likely to continue, but is unlikely to extend to the more remote areas.

56. The DC has recently submitted proposals to the Department of the Environment (DOE) for a substantially expanded programme including the provision of additional factory space and assistance to small firms in rural areas and a strengthening of their rural organisation. DOE supports this initiative and is making a bid for extra resources in the current PES round.

57. Help can also be provided by Local Enterprise Agencies (LEAs) - independent local organisations set up primarily by private sector sponsors, sometimes in conjunction with public bodies, and grant-aidable by the Department of Employment (DE) - of which there are now well over 300. As part of the DE's support scheme for LEAs, the DC have drawn up a supplementary scheme to give particular support to rural activities carried out by enterprise agencies to ensure that the needs of rural areas are adequately covered. These proposals are currently under consideration by DOE and DE, but have not yet been discussed with the Treasury. The Agriculture Departments should encourage the farming and land-owning interests to support LEAs. The Welsh Development Agency and the Development Board for Rural

Wales support LEAs in the Principality and at the Secretary of State's request are establishing experimental rural enterprise groups involving local people. The Scottish Development Agency similarly supports a number of LEAs within its area and the Highlands and Islands Development Board is also ready to consider assisting such projects.

58. An intensification of activity by the development agencies could create more off-farm employment opportunities and thus sustain the rural economy, but the agencies say that they could only do this if their budgets were expanded.

Changes in the current policy for the protection of agricultural land (Further details in Annex F)

59. The long established policy under successive Governments has been to protect good agricultural land and to ensure that, as far as possible, the less good land is used for development and that no more than is necessary is taken. This policy has withstood the test of time for many years, but the context within it operates is changing and needs to be redefined (and the relevant circulars to local authorities appropriately rewritten) in the light of the changing agricultural circumstances and of national objectives of encouraging job creation and economic development, including the need to encourage alternative employment in rural areas. Some members of the Working Party urged that Ministers be invited to consider a more radical option, leading to dismantling entirely the present policy towards protection of agricultural land; but the Working Party as a whole could not recommend this. There is also scope for reduction in the Agricultural Departments' role in the planning process, particularly in relation to ad hoc applications for development not in accordance with development plans. Such changes should have some

beneficial impact on employment in rural areas, and hence on the state of the rural economy.

60. Such changes in planning arrangements would not have any financial or EC implications. Unless carefully handled in presentation, however, they could be highly controversial with farming interests and ancillary industries on the one hand; and with environment and conservation interests on the other. These respectively see the current involvement of the Agricultural Departments as an indication of their concern for the long term interests of farming and the rural economy; and as important in helping to preserve the quality of the countryside. The public presentation of these changes would need to stress the continuing environmental safeguards as well as the positive, de-regulatory, wealth and job creating aspects.

SECTION IV
RECOMMENDATIONS

General

61. The Working Party recommends that Ministers consider whether, in the light of the discussion in Section II of this Report, they wish in principle measures to be developed now to mitigate the effects of action to reduce agricultural surpluses on the rural economy and employment, the environment, and agricultural land use. The following paragraphs set out a list of possible measures. In some cases further study is needed. This further examination should include consideration as to where action could best be carried forward at the Community level and where at the national level; the implications for the economy, employment and the Exchequer; and the scope for monitoring and evaluation against specified objectives. Officials should be asked to complete this further work by the end of March 1987.

62. If Ministers collectively decide that action should be taken, the Working Party recommends the following measures.

Alternative Uses of Land for Agriculture

63. Technical and economic appraisals of existing and future novel crop and livestock possibilities should be undertaken by the agricultural development and advisory services, and the results published on a regular basis.

64. Novel crops and livestock possibilities should be tested on Government - funded experimental farms and the results used as a basis for expert advice to farmers.

Forestry and Farm Woodlands

65. The expansion of forestry on better land, and of farm woodland generally, should be encouraged.

Further work should be done on possible measures to achieve this. This further study should bring out the employment, environment and Exchequer implications and consider the need for assistance towards provision of training and advice.

66. The rehabilitation of derelict farm woodland into an economic resource should be encouraged.

67. Additional research and development should be undertaken on short-rotation coppice, agro-forestry, tree breeding, and certain aspects of planting on better land.

Use of Land for Conservation and Recreation

68. Policies to maintain or enhance the landscape, wildlife or geological interest of land, or its value as a water catchment, should be pressed forward. The scope for more frequent use of positive management agreements and for the acquisition of more land by voluntary private sector conservation organisations should be examined. Appropriate procedures should be established for monitoring and evaluating the cost effectiveness of Environmentally Sensitive Areas, and the introduction of further areas pursued.

69. Where cost-effective, protective policies should be developed for water sources affected by agricultural operations, and forestry or grassland encouraged instead of arable uses where necessary for the protection of water sources.

70. Policies to encourage diversification of farm businesses by the provision of facilities for

recreation (accommodation, pony trekking etc) should be continued. The potential for income and employment should be re-analysed following publication of the Countryside Commissions' recent surveys "Recreation 2000" and "Scottish Leisure Survey". Further consideration should be given to allowing the use of small parcels of land for keeping horses for recreational use without the need for specific planning permission.

Diversification On and Off Farm

71. The agricultural development and advisory services should be the focus for initial advice for farmers on all aspects of on-farm diversification. Close liaison should be maintained with the other agencies who have expertise in diversification into non-agricultural activities.
72. The encouragement which has been given to local planning authorities to permit the conversion of redundant premises for use of workshops should be maintained.
73. The provision in the Agriculture Act 1986 on the grant-aiding of ancillary businesses on farms should be implemented, with appropriate funding, in co-ordination with existing Government agencies.
74. The industry should be encouraged to set up regional marketing advisory groups to help farmers assess the marketing possibilities of new on-farm enterprises, with support from the appropriate agricultural and non-agricultural agencies.
75. The budgets of the Development Commission (and equivalent agencies) and Tourist Boards should be increased to enable them to stimulate alternative rural employment as employment in agriculture and its

ancillary industries declines.

76. The Development Commission and CoSIRA (and equivalent agencies) could act as a focus for the setting up of any further Local Enterprise Agencies in liaison with the Regional Enterprise Units of DE (and equivalent agencies) and other interested parties, including the private sector. The Development Commission and DoE should consider what support should be given to rural Local Enterprise Agencies in addition to that available to DE's Local Enterprise Agency Grant Scheme.

77. There should be maximum co-operation between the efforts of the various advisory and grant-providing rural enterprise bodies, and the agricultural development and advisory services should be a focus for first advice for all these activities.

Policy for the Protection of Agricultural Land

78. DoE Circular 75 of 1976 (Welsh Office Circular 110 of 1976) should be reviewed and modified as necessary to reflect current conditions and priorities. A similar review of guidance applying in Scotland should also be undertaken. The revised versions should be published in draft for public comment.

Treasury Position

79. The Treasury considers that the possible extent of structural change over the next decade suggested in Section II would not of itself justify increased Government intervention in favour of agriculture and forestry. Should Ministers nevertheless decide that some further action should be considered, individual schemes would need to be assessed against the specific criteria set out in Annex G (which is based on the

rationale recently agreed for Government support in other industries) and any costs contained within existing planned PES programmes. The Treasury representative disassociated himself from the specific recommendations in paragraphs 63 to 77 because it is not clear that the associated costs can be financed within existing programmes.

SCALE OF ADJUSTMENT

1. The production capacity of Community agriculture now exceeds, and will increasingly exceed, the ability of Community markets to absorb the output.

Significant adjustments in that capacity will therefore be required in the coming years. This annex considers the possible scale of adjustment in the United Kingdom over the next decade.

2. Future UK land use patterns and changes in agricultural incomes, land prices and structures, and employment will be heavily dependent on the nature and timing of policy decisions taken within the Community.

They are consequently difficult to predict. The assessments made here of possible broad orders of magnitude rest on a range of assumptions, and are not forecasts. No account has been taken at this stage of any future use of land for novel crops or livestock or any increased transfer to forestry. Its purpose is to ascertain the area of land for which new uses might be sought.

3. The distribution of any production adjustment around the Community and therefore what proportion would occur in the United Kingdom, would depend on the particular policy instruments, whether price or quantitative (voluntary or compulsory), adopted. The use of the price mechanism as the underlying means of supply control - the approach favoured by the UK government - would tend to cause production to decline mainly in those areas of the EC (regions, farms, fields) where production was least efficient or most difficult. Quantitative supply controls on the other hand (such as quotas) would tend to reduce production across the board, all producers, regardless of their circumstances, being affected. If quotas were freely

tradeable, however, the pattern of adjustment over time would tend to approximate to that associated with a prices policy. The impact of other instruments, including set aside and early retirement schemes, would depend crucially on the precise arrangements adopted.

Future land use patterns

4. This assessment of land use for the mid 1990s is based on the premise that if yields continue to grow and the production of commodities in surplus is to be reduced, and new surplus production is to be avoided, then fewer hectares will be needed for growing cereals, sugar beet, potatoes and some horticultural products. Table 1 below shows the changing pattern of land use based on central assumptions about yield growth and the likely desired level of EC production. The specific assumptions used, and the sensitivity of the results to changes in the key assumptions, are discussed in the Appendix to this Annex. Two key assumptions underlying the projections for crops and livestock are considered in turn below.

Table 1

Derived UK Land Use in the Mid 1990s ('000 hectares)

	<u>1975</u>	<u>1985</u>	<u>Mid 1990s</u>
Cereals	3680	4010	3300
Other Crops	<u>1140</u>	<u>1250</u>	<u>1280</u>
Total tillage	<u>4820</u>	<u>5260</u>	<u>4580</u>
Grass	7210	6740	7210
Rough grazing	6550	6070	5870
"Other land"	<u>390</u>	<u>530</u>	<u>630</u>
Total agricultural area	<u>18970</u>	<u>18590</u>	<u>18290</u>
Grazing area ⁽¹⁾			
(in pasture equivalent)	8290	7740	8180
Forest area	2000	2300	2500 ⁽²⁾

(1) Includes rough grazings converted to pasture equivalents.

(2) Assumes continuation of present rate of planting.

5. As Table 1 shows, on central assumptions there could be a fall of just over 700,000 ha in cereals land - much of this being lower yielding land - only slightly offset by an increase in land used for other crops. The key assumption underlying the projection for cereals is that Community action would be taken - whether through prices or quotas - to achieve a position by the mid 1990's in which there was no net addition to stocks. The level at which stocks would stabilise would depend on the timing of policy actions to control output and on measures to increase demand. The indicative figure of some 700,000 ha reduction in the UK cereals area is based on the further assumptions that EC exports remain at their current level; potential yield growth continues at trend rates but actual yields are lower because of cutbacks in inputs; and that adjustments at the EC level result in equal proportionate adjustments in the UK.

6. It must be emphasised that the range of possible adjustments to the UK cereals area is very wide - from 100,000 ha to 1 million ha depending on the assumptions used (Paragraphs 6.6-6.12 of the Appendix give further details). However, a range of between 500,000 to 850,000 ha seems reasonable for working purposes with a central estimate of 700,000 ha. If the Community pursued a policy of price reduction rather than quotas, then the UK could make proportionately lower adjustments than the Community given that UK growers could exploit the advantages of their superior farm structure, modern capital stock and managerial strengths. Thus the probable impact on the UK cereals area would be towards the lower end of the range. Similarly, slower-than-trend yield growth or greater cutbacks in input use would put the estimate of surplus cereals land at the lower end of the range, whereas higher yield growth - for example from the widespread adoption of hybrid varieties (now beginning to be commercially available) - or a reduction in Community exports would increase the impact on the cereals area in the UK.

7. The central projection of a decline of nearly 700,000 ha in the total tillage area represents a fall of about 13% compared with 1985 and 5% compared with 1975. Some 100,000 ha of existing tillage and grasslands could move out of agriculture for roads or housing, whilst another 100,000 ha could be utilised for farm roads, buildings etc. The net result would be some ½ million ha of tillage land becoming available for other uses by the mid 1990s. In the table this is reflected in an increase in the grassland area. In the absence of profitable alternative uses this process might result in some existing grassland reverting to rough grazing but this

has not been considered here. It has, however, been assumed that 200,000 ha of mainly rough grazing would go into forestry if planting continues at current rates.

8. On the livestock side, the key adjustment considered relates to milk. It is assumed that quotas are reduced by 6% (including the 3% already agreed) and that milk yields grow by 1½% a year. At present stocking rates, the area required by the grazing livestock sector could fall by as much as ½ million ha by 1995. A 6% reduction in quotas is modest in view of the current 13% annual production excess; if quotas were cut by say 9% dairy herds would contract further and in the UK an extra 100,000 ha of land would no longer be required for dairying. The ½ million ha of tillage which is assumed to be initially converted to grass, together with some ½ million ha released from dairying, suggests that, on central assumptions, around 1 million ha of grazing and arable land could become available for other uses. There is inevitably a wide range around this central figure. The industry would itself strive to adjust, and one possibility would be to farm the existing land less intensively eg lower stocking rates. The industry may also - and more probably - look to expand existing enterprises; the scope for this is now examined.

9. Amongst existing enterprises beef and sheep are likely to be considered by farmers. In the case of beef the Community already holds stocks of some 700,000 tonnes, in spite of large annual exports in excess of 800,000 tonnes. The cost of both holding stocks and financing exports is substantial. A reduction in the dairy herd would reduce the Community's beef production capacity and over the next few years should help achieve a better

supply/demand balance without the need for large and expensive exports and stocks. However, if farmers in the Community were to expand beef production on the "spare" hectares the beef surplus situation would not improve in this way. Indeed with continued advances in livestock breeding, grass production and grass conservation techniques, more intensive beef regimes on existing beef land could mean little or no need for additional beef from the "spare" hectares.

Whilst, therefore, farmers would find beef a ready, if less profitable, alternative to cereals and dairying, such a development could only provide a temporary respite for the industry and beef surpluses (despite the ban on hormones) would continue to require correction. Such corrective action could well impact on existing beef producers, such as those in the uplands, and consequently this enterprise is not likely to provide a secure alternative use for the "spare" hectares.

10. Sheep production in the UK has been expanding in recent years at 2½% per annum due to more intensive practices and expansion of lowland sheep farming. Continued husbandry improvements, particularly in the lowlands, should permit further expansion (the trend is already in this direction) without much new land being required. The demand for sheepmeat is weak and in the UK is on a slow downward trend although scope may exist for more sales to the Continental market and to displace imports from New Zealand. But continued expansion at 2½% per annum means an almost 30% increase in UK production by the mid 1990s. Whilst technically feasible, Continental farmers would also have land for more sheep and if they were to exploit this potential then such a large increase in UK production would be unlikely to be wholly accommodated by markets.

11. Beef and sheep therefore, whilst likely to be considered seriously by farmers, seem likely to occupy only about 100,000 - 150,000 ha of the land released from cereals and dairying in the longer term. Greater expansion of these products could create new surpluses and any adjustments that might then prove necessary would create conflicts between existing (including hill) farmers and new producers. Whilst there may be potential for land to be used for novel crops and livestock, it is unlikely they will occupy more than 200,000 - 300,000 ha over the next 5 to 10 years. These alternative land uses are discussed in detail in Annex B.

Regional Analyses

12. Assessments have been made of the possible regional breakdown of the land use changes. The results are summarised in Table 2 and are inevitably speculative. England might be expected to account for 540,000 ha of the 675,000 ha of tillage decline (amounting to 80% of the total UK tillage area and some 12% of the tillage area in England), with the Eastern Arable, Intermediate Arable and non-LFA counties accounting for most of this. Scotland could account for 110,000 ha of the tillage area reduction. In the Eastern and Intermediate arable areas the adaptability of the soil suggests that new and novel crops are likely to expand here if found economic.

13. The assumptions made about increased availability of grassland, due to conversion of cereal land and reduction of the dairy herd suggest that most of the excess pasture availability would be in England. Whilst widely spread around the country, there would tend to be concentrations in western and central England. In Scotland, the additional pasture

land would tend to be concentrated in the east and south west of the Country and in Wales, in the south west. The impact on the Less Favoured Areas (LFAs), which account for about half the UK agricultural area, would initially be relatively small. But the analyses take no account of the possible expansion of sheep and beef on the newly available pasture land. If this occurred then sheep and beef producers in the LFAs would face severe competition and the "knock-on" effect could affect production and land use in the LFAs.

Table 2
Possible Regional Allocation of Land Use Changes

	(000 ha)					
	1975		1985		Mid 1990s	
	Till- age	Grass(1) (Pasture equiv)	Till- age	Grass(1) (Pasture equiv)	Till- age	Grass(1) (Pasture equiv)
ENGLAND	4050	4760	4420	4220	3880	4610
East	1770	440	1890	290	1735	415
Arable ⁽²⁾						
Int Arable	570	550	620	460	550	510
Other non	1670	3050	1870	2740	1560	2965
LFA						
LFA	40	720	45	730	35	720
WALES	110	1080	90	1140	70	1150
SCOTLAND	580	1640	670	1560	560	1610
NORTHERN	80	810	75	820	70	810
IRELAND						
UNITED	4820	8290	5255	7740	4580	8180
KINGDOM						

(1) Grass and rough grazing (converted to pasture equivalent using a coefficient of 8 in Scotland and 4 elsewhere)

(2) Eastern Arable: Humberside, Lincoln, E Anglia, Cambs, Beds, Herts, Essex

Intermediate arable: Bucks, Berks, Hants, Surrey, Sussex, Kent, Notts.

LFA: Less favoured areas in England as designated in 1983

Other non LFA: Other areas of England

Land prices and structures

14. Agricultural land prices have fallen by a quarter on average from their peak in 1983/84 and 15% since early 1985. If income pressures build up and land prices fall further, more farmers will find their liabilities exceeding their assets, forcing further sales and weakening the land market. The normal annual turnover of farms (1½% to 2% of the land) could be expected to increase (although currently the area actually being sold remains low, indicating that buyers are holding off and waiting for lower prices). The extent of any price fall will depend on demand from farmers and non-farmers, for land purchases. This will vary considerably around the country and with proximity to urban areas.

15. Possible developments in agricultural structures are set out in Table 3. Extrapolation of past trends indicates the apparent durability of very small, part-time farms. On most of these the farmer would have another income source. The number of these has been maintained over the years whilst the number of large farms has increased. Those in the small and

medium size groups - the "family farms" - are the ones that have declined most rapidly. The projections suggest that there could be 15,000 fewer farms (as many as 43,000 if the pace of change trebles), with the larger holdings of over 1,000 smds increasing their proportion of UK output from 54% in 1985 to 60% on trend or even 70% if the pace of change were to treble (and both technological factors and policy factors - the squeeze on agricultural production and incomes - point in the direction of accelerated change). Those regions with a predominance of family farms could therefore expect to be disproportionately affected.

Table 3

UK - Number of Holdings by Size of Holding ('000s)

	1975	1985	Mid 1990s	
			Project past trends	If pace of change trebles
Under 250 smds*	126	127	128	123
250 - 500	56	42	31	16
500 - 1000	46	41	35	26
over 1000 smds	28	30	31	32
Total	257	240	225	197
Av Area holding over 250 smds (ha)	111	124	139	174

* smds - standard man-days - 250 smd indicate a one-man farm.

Employment

16. The number of persons (farmers and workers) employed in agriculture, including 250,000 part-time and casual workers and farmers, is currently around 615,000. Ancillary industries such as transport, machinery, feed and fertiliser suppliers, slaughter-houses and milk processing plants are estimated to employ about the same number, implying about 1.2 million in all. Projections indicate that on trend some 15,000 farms and some 35,000 of those engaged in farming might be lost by the mid 1990s. If the squeeze on agriculture led to a greater turnover of farms, a much more rapid shedding of labour could be expected. The total outflow could well double to around 100,000 over the next decade.

17. The impact on the regular whole-time and part-time hired farm workforce could thus be of the order of 70,000, leaving around 150,000. The 9,500 large holdings with 6 or more hired workers (on average 15) could account for a third to a half of the decline, leaving the rest to come from the 70,000 holdings with 1-5 workers. The effects on the rural population would vary throughout the country. In the LFAs much would depend on the degree to which the special assistance was adjusted to cope with the expected pressures outlined in paragraph 13. At the other extreme, farms on the better arable soils, situated mainly in the east and south of the UK, could be expected to be the most adaptable, although their response to a squeeze is likely to be to shed some labour (and these farms are significant in areas like Norfolk and Lincolnshire which, although agriculturally favoured, have limited other employment possibilities). The dairy sector, mainly in the western part of the country, would be expected to adapt through a reduction in number of smaller dairy farms and through smaller dairy units being maintained

on larger holdings. The greatest effects would probably be felt on the 1-3 man enterprises in central and south western parts of England, south west Wales, central and south western Scotland, and throughout Northern Ireland, where the majority of farms with the less adaptable soils are situated.

18. The ancillary industries would face reduced demand for their products and services. Already, sales of machinery to farmers are depressed and lower investment generally in buildings and works could be expected. Curbs on cereals and milk production would inevitably have consequences for employment in the transport, merchanting and milk processing sectors, as the introduction of milk quotas has already shown. The overall reduction in employment in these industries, which supply inputs, process and market the outputs of agriculture, could be half the numbers expected to be shed from farming.

APPENDIX to ANNEX A

LAND USE IN THE MID 1990s : ASSUMPTIONS

1. This Appendix sets out the main assumptions underlying the agricultural land use assessment conducted at the UK level for the mid 1990s. Details of the assessment are shown in the table attached to this Appendix for the four countries of the UK.
2. Briefly, the assessment comprises making assumptions both about the total area of land available for agricultural use and the area of "other" land on farms, and hence the area available for crops, grass and rough grazings. Assumptions are then made on the area of individual tillage crops. It is assumed here that any surplus tillage land would be transferred, at least in the first instance, to grassland. If the squeeze on agriculture was particularly severe some grassland might be expected to revert to rough grazing but this is not considered here. Separate assumptions are made about the transfer of rough grazings out of agriculture for afforestation.
3. Total agricultural area. The recorded total agricultural area of the UK fell by an average of 38,000 hectares (ha) a year between 1975 and 1985. It is evident, however, that the rate of loss has been declining due to less land being transferred to forestry and for roads and urban development. An annual average loss of 30,000 ha a year up to the mid 1990s has been assumed of which about two thirds represents rough grazings transferred to forestry. This latter assumption reflects current trends and allows for no acceleration of the pace of afforestation.

4. "Other" land on agricultural holdings (farm roads, buildings, woodland copses etc) increased on average by 13 - 14,000 ha a year in the past 10 years. It is questionable whether the next decade will see an expansion of buildings and roads at the same rate as in the past. An increase of 10,000 ha a year up to the mid 1990s has therefore been assumed.

5. Rough grazings fell on average by just under 50,000 ha a year in the 10 years to 1985. Some of this would be lost from agriculture (mainly to forestry) and some would be improved and subsequently recorded under some other use, generally grassland. Whether under existing policies the rate of transfer of rough grazings to afforestation would be sustained at historic levels is questionable: the rate has eased recently. Also, if pressures mount - and it is assumed they must - to curb arable expansion and reduce milk production, the incentive and means to improve rough grazings into better pasture is likely to diminish. The rate of loss of rough grazings could therefore slow down further. Over the next 10 years the rough grazing area is assumed to decline by 200,000 ha, almost all for forestry purposes. As indicated earlier, no allowance has been made for any transfer of grassland to rough grazing, though under certain policies this could occur.

6. Tillage crops. Possible developments in the area of the main tillage crops have been examined separately. Since the potential adjustments seem to be most significant for cereals this crop is considered last in more detail.

6.1 Sugar beet. It is assumed that this crop will continue to be regulated by quota and that UK production will continue at around 1 1/4 million tonnes of white sugar a year. If yields continue to grow - some 1-2% a year might be expected - the area

devoted to beet would decline correspondingly.

6.2 Potatoes. Production is regulated by quota under national arrangements, though yields fluctuate markedly from year to year. Total production is assumed to remain at around 6.8 mt though this will depend on competitiveness with imported products. If yields in the UK continue to grow - and they could perhaps reach 42t/ha by the mid 1990s- the area required would fall.

6.3 Horticulture. The UK horticultural area has been declining by about 1½% a year. It is assumed that this trend will broadly continue to the mid 1990s.

6.4 Oilseed rape. This crop has expanded rapidly in recent years. Since 1980 the annual increase in the area has averaged over 40,000 ha. It is unlikely that this rate of growth could be maintained over the next decade: it is assumed that the UK area will increase by a further 150,000 ha by the mid 1990s.

6.5 Other crops and fallow. This area largely comprises a range of fodder crops and fallow. In recent years, the area as a whole has been fairly constant, though significant changes have occurred for individual constituent crops. (Note: The decline in this area between 1975 and 1985 in the table attached to this Appendix is mis-leading because the fallow area for 1975 was unusually high and in 1985 was probably below trend.) Generally, expansion of stockfeed peas and more recently beans has offset declines for many other fodder crops such as turnips and kale. It has been assumed that this area as a whole will remain broadly constant in the next decade. It must be stressed that no account has been taken in this particular analysis of the emergence or expansion of novel or minor crops such as borage, evening primrose, lupins, trees for cropping etc. This issue

is considered separately.

6.6 Cereals. Developments in the Community cereals market (and in the world generally) point to the need for considerable adjustments in the coming decade. The potential implications for land use in the UK are accentuated because of the importance of cereals in arable cropping: cereals account for three-quarters of the tillage area in the UK and for one-third of the total crops and grass area, excluding rough grazings. It is assumed that any action to bring supply closer to demand will be promulgated at the Community level but the precise nature of the schemes introduced, their timing, and the speed of producer responses remain matters of conjecture. Any assessments must therefore be speculative and are capable only of indicating the broad magnitude of the adjustments that may be required.

6.7 The starting point of this assessment is a consideration of what level of cereals production in the mid 1990s might achieve a sustainable equilibrium in the Community (EC12) market, ie a situation in which there was no net annual addition to stocks. Central estimates suggest that consumption of cereals could be around 143 million tonnes (mt) in the mid 1990s. It is assumed that imports might fall to 11 mt, mainly of hard wheat and maize. Exports are currently about 25 mt: and whilst arguments can be advanced to support either a contraction or expansion of this volume, it is assumed that exports will remain at this level. These assumptions suggest the EC cereals production (excluding durum wheat and rice) would need to be about 157 mt a year in the mid 1990s to achieve "steady state" stocks: the actual level at which stocks stabilised would depend mainly on the level of production in years up to the mid 1990s. It must be stressed that this figure is simply indicative: the precise level of production that

could be accommodated would depend on the policy pursued to control supplies and on measures to encourage demand.

6.8 If it is assumed that Community production were to be stabilised at around 157 mt, the implications for the cereals area would depend crucially on the development of yield potential during the next decade, mainly reflecting the emergence of new varieties. However, it does not necessarily follow that the Community's cereals area would fall in direct proportion to the growth in yield potential. If the policies pursued included cost-price pressure, producers might use less inputs (particularly nitrogen fertilizer) and accept lower yields. Such adjustments would vary according to individual circumstances.

6.9 A number of possibilities have been examined and the results are summarised in the table below. This indicates the extent to which the Community's cereal area (as recorded in 1985) might need to be reduced under certain assumptions about growth in yield potential (col 1) and adjustment to the volume of inputs (col 2). Also shown (col 4) is the impact on the UK cereals area if adjustments at the EC level were mirrored here. Col 5 of the table gives an indication of the effect of varying the assumptions on, the "required" level of production: it summarises the impact on the UK if the Community were able to sustain production of 162 mt a year.

6.10 The table indicates a wide range of possible adjustments in the UK from 100,000 ha to 1 million ha. If yields were to increase at trend rates (2½% a year) the reduction in the cereals area would need to be about 21% (860,000 ha) to achieve a "required" level of 157 mt, and of around 17% (700,000 ha) if inputs were reduced such as to depress trend yields by 5%; if the Community were able to sustain the higher level of

production of 162 mt a year, the reduction in the UK area would be 760,000 ha and 590,000 ha respectively.

"Required" reduction in the EC (and UK) cereals area under various assumptions

Assumed yield growth potential per year	Assumed impact on trend yield due to input adjustment	Implied cut in UK cereals area 157 mt	Implied cut in UK cereals area 157 mt (000 ha)	Implied cut in UK area to achieve EC production of 162 mt (000 ha)
(1)	(2)	(3)	(4)	(5)
3%	(0%	25%	1000	900
	(2½%	23%	920	820
	(5%	21%	840	740
2½%	(0%	21%	860	760
	(2½%	19%	780	680
	(5%	17%	700	590
1½%	(0%	10%	410	300
	(2½%	8%	320	200
	(5%	6%	220	100

6.11 Several factors may of course influence the growth of yield potential. For example, if hybrid wheat varieties were to become widely adopted in the next decade - and opinions on the likelihood of this differ, though the technology is becoming available - the growth rate could be faster than hitherto. Similarly, if lower yielding fields were the first to be removed from cereals production the effect would be equivalent to a faster yield growth. On the other hand, yield growth could slow down if inputs were cut

back in response to mounting cereals surpluses. The table includes alternative assumptions to illustrate these possibilities.

6.12 The simplifying assumption has been used that cereals area adjustments at the Community level would result in equal proportionate adjustments in the UK. This assumption is reasonable if quotas were the chosen supply control instrument, but would not be so if control were principally through price policy. If UK growers were able to exploit the advantage of their superior farm structure, modern capital stock and managerial strengths the adjustments here in response to price pressure could be proportionately less than in the Community as a whole.

6.13 In the assessment, it is assumed that by the mid 1990s the UK cereal area would be reduced by about 700,000 ha to some 3.3 million ha. A broad indication is given in the table attached to this Appendix (in parentheses) of the possible impact in the four countries if quotas were pursued and based on 1985 shares of the UK cereals area.

Land Use in 1965, 1975 and 1985 with Derived Patterns for 1995: UK by Country

000 hectares

	1965					1975					1985					1995					
	Eng	Wls	Sct	NI	UK	Eng	Wls	Sct	NI	UK	Eng	Wls	Sct	NI	UK	Eng	Wls	Sct	NI	UK	
<u>Arable crops</u>																					
Cereals (with quota)	3008 (-)	90 (-)	442 (-)	116 (-)	3656 (-)	3047 (-)	81 (-)	464 (-)	61 (-)	3653 (-)	3361 (-)	67 (-)	527 (-)	54 (-)	4010 (-)	2800 (2769)	55 (56)	400 (432)	45 (43)	3300 (3300)*	
Sugar beet	180	-	3	-	184	197	-	-	-	197	205	-	-	-	205	160	-	-	-	160	
Potatoes	209	8	57	25	300	157	5	31	11	204	139	6	33	13	191	117	5	28	10	160	
Oilseed rape	nc	nc	-	-	-	39	-	-	-	39	271	1	23	1	295	408	1	40	1	450	
Horticulture	248	2	9	4	264	266	2	13	4	285	207	1	12	3	224	161	1	10	3	175	
Other crops and fallow	296	31	103	2	432	341	22	74	2	439	236	16	73	6	331	235	10	80	10	335	
Total tillage (with cereals quota)	3941 (-)	131 (-)	613 (-)	147 (-)	4836 (-)	4046 (-)	111 (-)	582 (-)	78 (-)	4816 (-)	4418 (-)	91 (-)	670 (-)	77 (-)	5256 (-)	3881 (3850)	72 (73)	558 (587)	69 (67)	4580 (4580)*	
<u>Grassland</u>																					
Temporary and permanent pasture (with cereals quota)	4850 (-)	933 (-)	1127 (-)	662 (-)	7572 (-)	4450 (-)	932 (-)	1081 (-)	749 (-)	7212 (-)	3924 (-)	1014 (-)	1035 (-)	766 (-)	6739 (-)	4329 (4360)	1020 (1019)	1101 (1071)	764 (766)	7214 (7214)*	
Rough grazing (incl commons)	1297	657	4986	276	7216	1226	602	4499	227	6555	1171	527	4172	200	6070	1140	510	4030	190	5870	
Other land	nc	nc	nc	nc	nc	222	30	86	58	395	333	45	112	40	530	406	54	130	40	630	
Total agricultural area	10089	1722	6728	1084	19623	9944	1615	6247	1112	18978	9846	1676	5988	1083	18594	9756	1656	5819	1063	18294	
Forest area					1800					2000					2300					2500	

nc = not collected at Census.

* The figures in parentheses allocate the assumed UK cereals area according to the distribution in 1985 to indicate the possible impact of a cereals quota scheme.

ALTERNATIVE USES OF LAND FOR AGRICULTURE

1. A study of possible alternative crop and livestock enterprises has recently been carried out on behalf of MAFF by the Centre for Agricultural Strategy (CAS) Reading¹. The results are summarised and discussed in the following paragraphs.

(a) Crops

2. The successful use of land to grow alternative crops is dependent upon the following criteria being satisfied:

- (i) the crops must be suitable for the soil and climate;
- (ii) they must provide needed products with identifiable markets;
- (iii) they must be capable of competing on price and quality with any alternatives;
- (iv) they must be able to provide the grower with an adequate financial return.

1. Carruthers, SP (Ed): Alternative enterprises for agriculture in the UK. Report No 12, Centre for Agricultural Strategy, Reading 1986.

The following crops were identified in the CAS Report as having the potential to meet these requirements.

(i) Flax

3. 700 ha of flax was grown in the UK in 1985, much of it in Northern Ireland, but most of the needs of the Northern Ireland linen industry, some 13 thousand tonnes (kt), were met by imports from Europe. The interest being shown in the wider use of flax in textiles could provide increased demand in the future, but no estimate of the likely size of future demand is available. Growing, processing and marketing expertise is currently lacking and advice on these factors would be required before a significant expansion in flax growing could occur.

(ii) Flavour, perfumery and medicinal plants

4. The market for flavour, perfumery and medicinal plants is complex with few statistics available. The market for culinary herbs is estimated to be expanding by around 10% per year with imports satisfying 70% of current demand. The demand for medicinal plant products is estimated to be increasing by 25% per year, with over 90% provided by imports. For flavourings the most significant demand is for peppermint oil where some £10 million worth is imported annually. Import replacement could result in 10-15 thousand hectares (kha) of UK production. Favourable climatic conditions are likely to be confined to the south east of England; but more consistently favourable conditions occur in, e.g, France.

5. Apart from production considerations, buyers will

need to be convinced that UK sources of supply would be dependable. Marketing cooperatives would help and could be encouraged under the Government's Agriculture and Horticulture Cooperation Scheme.

(iii) Grain Legumes and Oilseeds

6. The EC as a whole is only 20-30% self-sufficient in both animal feed protein and edible oil. Of the possible sources of these products, peas, chickpeas, lentils, pearl lupin and linseed have the greatest immediate potential for new or increased UK production, with sunflowers and navy beans as longer term prospects (more than 10 years), provided varieties suitable to UK conditions can be developed. Suitable varieties of chickpeas and lentils exist already but field trials are needed. The successful introduction of pearl lupin would be dependent on identifying types suitable for farm use and attractive to seed crushers. A continuing increase in the area of peas and linseed is considered likely without any specific promotion being needed.

7. Overall, chick peas, lentils and linseed could, according to CAS, occupy as much as 60 kha of land within 5-10 years, mainly in South-East England. Linseed could develop from the 4 kha grown in 1985 to as much as 40 kha by 1995. UK demand for sunflower is currently equivalent to about 50 kha with the demand for navy beans ("baked beans") 120 kt a year. But further work to develop suitable varieties is needed.

(iv) Alternative Cereals

8. There could be some potential for an increase in durum wheat and triticale production. The UK demand

for pasta products using durum wheat is increasing at around 7% a year but only 8 kha are grown in the UK. Triticale occupied 6 kha of land in the UK in 1985 compared with 100 kha in France. Any large-scale expansion of domestic production would have to depend on the development of overseas markets where the demand is greatest. Competition is fierce and with both these crops quality and yields vary greatly. Probably they have only limited potential in UK over the next few years.

(v) Horticulture

9. Most future opportunities in horticultural products are likely to derive from improved marketing techniques aimed at both import replacement and export. At the present time 100 kt of cauliflower, 20 kt of lettuce, 35 kt of carrots and turnips and 18 kt of celery are imported, amounting to some £40 million a year - imports have increased significantly in recent years. While there have been some considerable export successes by individual groups of growers (bulbs being an outstanding example), growers generally need more education and advice on producing the right quality and on marketing for export.

(b) Livestock

10. Of the twenty-four species of various creatures studied by the CAS, only goats, sheep and horses were considered likely to command satisfactory prices, be sufficiently productive and have the potential to use significant areas of land. Whilst bees, free-range chickens, outdoor pigs and turkeys might supplement some farmers' incomes, they use only small amounts of land.

(i) Goats

11. CAS estimate that up to 700 kha of land could be occupied by goats in the longer term (more than 10 years). They are unclear how much of this would occur in the next 5-10 years. The goat population for milk production is reported to have doubled in the seven years to 1983 and demand for goat's milk, cheese and yogurt continues to increase, although currently the volume is very small. All three products sell at a premium over other dairy products to meet a specialist demand. UK goat's cheese makers apparently see no insuperable obstacles to gaining a large share of the international market currently dominated by the French. Constraints on the expansion of production include problems of widening the market (local markets provide insufficient demand) and the unwillingness of large retail outlets to stock goat products unless a steady and substantial supply can be guaranteed. Any further expansion in goat numbers for dairy products is therefore likely to be fairly slow and the land used by them will thus almost certainly remain small over the next decade.

12. Mohair, produced from Angora goats, is principally imported from South Africa (£36 million in 1983). Also £21 million of cashmere was imported in 1983. Both products command substantial premiums over other fibres and are thought by CAS to be worthy of further consideration. However, these breeds of goat barely exist in the UK and therefore they can have little significance over the next few years until development work has been done.

13. The production of goats for meat production could have potential to satisfy demand from ethnic

groups, the restaurant trade and exports to Italy. However, research into suitable breeds, husbandry methods and marketing will be needed if such an enterprise is to develop to any significant scale.

(ii) Sheep

14. Wool production in the national flock is of secondary importance to meat production. Wool output is well under 10% of total cash output from sheep in the lowlands, rising to 25% in the hills. There is scope for increasing production of fine domestic wools and for considering the introduction of Merino sheep to replace the £70 million worth of this wool imported annually. However, development of suitable cross breeds would be needed and the performance of the Merino sheep under UK conditions tested before the potential for either could be assessed.

15. Sheep dairying has expanded from nothing to 5000 ewes in the last 10 years. Future expansion will depend on market demand as profitability is tied to the premium that the milk currently commands over alternatives. The prospects are probably better than for fine wool production but over the next decade dairy sheep are likely to occupy only a small area of land.

(iii) Horses

16. The potential is for the keeping and feeding of horses for recreational purposes. This is discussed further in Annex D of the present Report. It is difficult to estimate the rate at which further expansion in horse keeping might occur dependent as it

is on demand (which is buoyant) and on various constraints such as planning restrictions and possible public concern about the continuation of certain of the activities involving horses, such as hunting (which currently employs 40,000 horses). Any expansion in land used for horses is likely to be unevenly spread, with most occurring in the south east of England.

Conclusions

17. Taking the novel crop and livestock possibilities together, the CAS has estimated that up to 100,000 ha of land might be used for new crops by 1990 and a further 2 million hectares by new livestock enterprises (half by sheep), though over a somewhat longer period. The figure relating to livestock seems much too high. First the availability and size of suitable markets is uncertain as are UK production costs (no Community support is likely) and much more needs to be learnt about the suitability of crop and animal breeds to UK conditions. Genetic improvements would take years to develop as would the physical multiplication of seed and breeding stock. The scope for occupying land with new crop and livestock enterprises by 1995 must therefore be very limited, although there and could be considerable potential in the longer term.

18. Overall, there is a clear need to investigate further the possibilities which have been identified both from the technical (suitability to UK conditions) and the economic and marketing point of view. This should be part of a continuing investigation process into novel possibilities, where Government -funded experimental farms should play a part. Farmers who might be considering diversifying into new enterprises will require expert advice before launching into large

scale production. If this became available the development would be speeded. Farmers will also need to be sure of the availability of suitable markets, and marketing groups should undertake this exercise for the most promising products.

ALTERNATIVE USE OF LAND FOR FORESTRY AND FARM WOODLANDS

1. This Annex examines some of the issues that arise in relation to expanding forestry, the possible development and rehabilitation of farm woodlands and the potential for short rotation coppicing, for agro-forestry and for further research to improve the economic viability of forestry.

Traditional Forestry

2. The total forest area in the UK (including farm woodlands) is 2.3 million hectares or nearly 10% of the land area. Just over half is in private ownership. Forestry is currently expanding at the rate of 23,000 hectares per annum, some three-quarters of the level of the future growth envisaged by the Government in 1980¹ when it reviewed forestry policy. This is mainly taking place in the private sector, except in Northern Ireland where there is little private activity. Most of the expansion is on the poorest quality hill land in the uplands of Scotland. This reflects the longstanding Government policy of confining forestry as far as possible to land of little value to agriculture. However, the total area planted each year has declined markedly since the early 1970s and the private sector is actively searching for suitable new land to plant. The industry considers that it has the capacity to double the existing rate of planting every 5-10 years if sufficient land were available. This would absorb 400,000 hectares over the next ten years. Without further falls in land prices or additional incentives, the industry would, however, be unlikely to plant better quality, and therefore more agriculturally productive, land.

¹ Official Report 10th December 1980, Col 927-8

3. There is no technical constraint on afforesting marginal arable and pasture land (Grade 4 and poorer Grade 3 land). Indeed the productivity of such lowland forestry can be more than twice that in the uplands. However there is scope for work aimed at reducing the costs of woodland establishment in the lowlands which has had less attention than has been given to upland afforestation.

4. There is a large domestic market for softwoods and a smaller one for hardwoods. Domestic production meets only 14% of the UK market, and imports cost some £4 billion a year. The EC is the world's largest importer of timber and is less than 50% self-sufficient. Long-term price prospects for timber are difficult to predict with confidence, but on cautious assumptions the returns from conifers appear satisfactory and are reasonably robust within the range of historic real price variations.

5. The principal considerations for the private forestry investor are the size and nature of grants, the tax arrangements, and the cost of land. The current tax regime makes forestry attractive mainly to higher rate taxpayers. This rules out most farmers who tend to pay no more than standard rate tax, unless they are able to enter into some form of leasing or partnership arrangement with a higher rate taxpayer. A preliminary analysis by the Forestry Commission suggests that at the level of incentives now available, existing private investors would be unlikely to pay much more than £1000 per hectare. Little marginal land is currently available at this price. Either a fall in land prices or an increase in incentives would thus seem to be needed before forestry could become a significant user of this quality of land. Action by the Community or the UK to curb surplus production could lead to further reductions in land prices and lead to some parcels of better land being planted. There may also be ways of drawing in tax - exempt financial institutions for which the price of land is less crucial. These possibilities should be examined

further.

6. The level of planting by the Forestry Commission² in Great Britain and DANI in Northern Ireland is determined by Forestry Ministers. Current policy is for planting of about 5,000 hectares per annum.

7. Four issues of public policy require consideration:

- a) **The effect on the environment.** The Countryside Commission (CC) and the Nature Conservancy Council (NCC) have expressed concern about the effects of major conifer planting on certain upland areas. Indeed objections by the CC to such planting in National Parks and the Areas of Outstanding Natural Beauty, which account for 60% of the uplands in England and Wales, have been partly responsible for keeping planting to only 2000 hectares per annum in these countries. The principal objections relate to

² The Forestry Commission's objectives, aimed primarily at traditional forestry, can be summarised into a primary objective and three secondary objectives. The primary one is to increase the quantity of wood supplied to industry and the profitability of forestry by enlarging Britain's forest area and by raising the efficiency with which forests are established, managed and harvested. The secondary objectives are to support and stimulate the economy in rural areas; to increase the opportunity for enjoyment by the public of recreation in the forests and to protect and enhance the quality of the rural environment. This last objective has now been given statutory backing. Under the Forestry Act 1967 as amended by the Wildlife and Countryside (Amendment) Act 1985, the Commission is now required to achieve a reasonable balance between afforestation, the management of forests and timber production on the one hand and the conservation and enhancement of the natural environment on the other.

the change in the appearance of the landscape brought about by large blocks of single species planting and the loss of open ground wildlife habitats. On the other hand, the NCC acknowledges that it would be both ecologically and economically sensible if some of the land released from agricultural production could be used in growing trees. The NCC's recent publication ("Nature Conservation and Afforestation in Britain") advocates the use of a wide variety of species, including broadleaves, and suggests that new forests in the lowlands would have higher wildlife value than the arable or improved pastures they replace. This could be a means of satisfying timber production aims, whilst relieving the pressure on more important wildlife areas. The Countryside Commission for Scotland has recently published a major review of forestry in Scotland which envisages scope for a continuation of planting at current rates. The UK Centre for Economic and Environmental Development, established as part of the British response to the World Conservation Strategy, recommended in a recent report³ that "the further expansion of the British forestry industry is in the national interest and should be encouraged, subject to constraints arising from meeting the reasonable needs of other land users". There could be a reduction in nitrate pollution of water supplies, and therefore in the cost of water treatment if forestry replaced arable crops. A good deal can now be done to blend new planting into the countryside by sensitive landscaping. This is encouraged under the consultation arrangements regulating private forestry. Planting of broadleaved species is usually welcomed by environmental interests. The

³ CEED "Forestry: Britain's Growing Resource" - 1986

forestry industry prefer conifers because they yield higher and earlier returns. However broadleaved planting is now being stimulated by the higher incentives introduced in October 1985 under the Government's Broadleaves initiative. The Forestry Commission and DANI could also plant more broadleaves on land taken out of agricultural production, but only at greater cost to the Exchequer.

- b) **Exchequer consequences.** It is not easy to estimate either the cost involved in encouraging a major expansion of tree planting or the savings which would accrue through a reduction in surpluses of agricultural crops. However, MAFF and FC estimates set out in Table 1 suggest that, at current grant rates for tree planting and existing levels of agricultural support, the savings in disposal costs of agricultural products on Grade 4 land normally supporting sheep and cattle and poorer Grade 3 land yielding up to 5 tonnes per hectare of cereals might over time outweigh the additional costs in cash terms. However, the estimated CAP savings make no allowance for the changes in support policy envisaged elsewhere in this Report. If these changes took place the savings available from additional afforestation could be significantly reduced. The illustrative example in table 1 is necessarily speculative and there are also problems in making a comparison between the Exchequer costs of private sector and public sector plantings. For example, the figures are calculated over only 10 or 20 years, and therefore do not bring out the fact that the Government gains a public asset in the form of land which could be disposed of in the future. It might also be necessary to exclude the availability of afforestation incentives in areas of particular scientific or landscape interest. Further work will be required to provide more

accurate estimates of the economic and financial effects under various assumptions about land prices and agricultural output levels and support prices.

- c) **Employment.** The Forestry Commission estimate that about 80 jobs are created in the establishment phase for a planting programme of 1,000 hectares per annum sustained for 10 years. With such a programme the number of jobs could be expected to increase to about 160 when thinning commenced around year 20. Employment would eventually increase further when the forest became due for felling, which is the most labour intensive part of the growing cycle. Downstream jobs would be created at the rate of one for every two in the forest but most of these would not be achieved until thinning commenced after say twenty years.
- d) **EC implications.** The case for support for forestry also needs to be considered on a Community basis. EC Commission proposals on forestry are expected later this year following the consultation paper on EC forestry measures published in January⁴. Consideration of whether to adopt (if permissive) and, if not, how to adapt these to suit UK circumstances will be needed. Some proposals on forestry are included in the EC Commission socio-structural package⁵ but these are mainly linked to early retirement.

4 COM(85) 792 final and COM (86) 26 final

5 COM (86) 199 final

Woodland as a Farm Crop

8. Some expansion in farm woodlands (forestry within an agricultural unit) could also be beneficial. This falls into two parts: development of new woodlands and rehabilitation of existing woodlands.

9. The development of new farm woodlands offers potential for reducing agricultural production whilst maintaining farm income and employment of labour. A recent study by the Agricultural Departments and the Forestry Commission⁶ identified potential for new planting of this type at an average rate of 8000 hectares per annum or 80,000 hectares over the next 10 years. Although there might be scope for drawing on private capital or institutional funds, an increase in farm woodland on this scale is likely to require additional public funds. In particular incentives might be necessary to compensate for the loss of agricultural income on the land in question which is not recouped until significant revenue is generated from the timber crop if farmers were unable to borrow from the private sector against this future income. This would be a period of about 20 years for conifers and 40 years for broadleaved species. This compensation would be in addition to the planting grants payable by the Forestry Commission and could take the form of grants, loans or loan guarantees. The precise details of such compensation schemes would need careful consideration, as would the level of assistance that could be justified in the light of savings in agricultural support costs. An illustrative example of a scheme providing for woodland compensatory allowances roughly equal to the average current farming income on three typical categories of holding is costed as follows. The higher rate (say, £490 per hectare in these costings) would be payable on high yield Grade 3 land, a

⁶ "Woodland as a Farm Crop" MAFF 1985

lower rate (say £190 per hectare) on low yield Grade 3 land and the lowest rate (say, £95 per hectare) on Grade 4 land. This would target on the areas identified as being most vulnerable in the event of a successful EC policy of reduction in agricultural production, and recognises the greater loss of income from agriculture on higher grade land. It is questionable whether Grade 5 land should attract any allowance, as existing incentives to afforestation are adequate here. Grade 1 and Grade 2 land could be excluded to prevent the loss of the very best agricultural land. The compensation scheme would need to be carefully drafted, for example, to exclude existing commercial forestry and minimise leakage through tax concessions. Environmental problems would be minimised through the Forestry Commission's grant schemes' consultation procedures. However, the compensation schemes may have to recognise the varying time over which agricultural income were foregone as between planting conifers, mixtures or pure broadleaves, so as not to act as a disincentive.

10. Such a scheme raises a number of issues of public policy which require careful examination.

- a) It has been calculated, on a necessarily speculative basis, that a farm woodland scheme of say 10,000 hectares per annum might involve expenditure of £15½m a year on average over the first 10 years, and £22m a year on average over the next 10 years. In the view of the Agriculture Departments this would be more than offset by savings on surplus disposal costs assuming the continuation of current levels of agricultural support in real terms and that there is no tax leakage. Details are set out in Table 2. There would also be some administrative costs in making payments, in verification and in advising farmers on eligibility of their land for the woodland compensatory allowances, although it should be possible to make use of the advisory services and

the existing land classification system. There could also be costs involved in providing advice and training. An alternative to a national scheme would be to try to negotiate an EC scheme with 25 or 50 per cent FEOGA funding. This should be explored, though the overall costs and benefits to the UK of any EC scheme would need careful consideration. Meanwhile there is a good case for pressing ahead with development of a national scheme with clear objectives and provision for the monitoring of its cost-effectiveness. The cost might be limited by closing the scheme once a target area had been reached.

- b) The provision of advice and training on woodland management at all stages, particularly on the eventual marketing of the crop, would be needed. The former could be provided by the agricultural advisory services in co-operation with the Forestry Commission and DANI. Farmers might need to co-operate in selling their timber and wood products and some encouragement of wood marketing co-operatives or similar ventures could be beneficial. Consideration should be given to the possibility of making any such arrangements self-financing.
- c) Account will also need to be taken of developments in woodland rehabilitation, short rotation coppice, and agro-forestry outlined in paragraph 12 to 14 below. Any scheme for farm forestry would have to be designed so as to avoid undermining more cost-effective schemes in these areas.
- d) Whilst it might not create many new jobs, farm forestry could have a role in retaining existing ones, particularly as the peak demand for forestry labour fits conveniently into the agricultural cycle.

- e) Under most tenancy agreements a tenant requires his landlord's consent to afforestation. Tenants could face problems in obtaining this since land committed to woodland could not be used for other purposes for many years. Moreover if the woodlands were not regarded as "ancillary to the farming of the land for other agricultural purposes" the land in question could fall outside the definition of "agriculture" in agricultural holdings legislation. If woodland became a significant part of the holding (which might be as low as 20%) the tenant could lose various rights, notably to two-generation succession and to end-of-tenancy compensation under this particular legislation. This aspect needs further study and may require legislation.
- f) The environmental, exchequer, employment and wider EC implications, discussed in para 7 in relation to traditional forestry, would also need to be considered.

Rehabilitation of Woodland

11. This would also offer some potential as an alternative source of farm income and of continued rural employment. The majority of the 250,000 or so hectares devoted to farm woodland at present is unmanaged and in a poor state. Depending upon its age and condition, rehabilitation and management of this woodland could bring some farmers a positive return from sales of timber already on the ground within a relatively short period. A number of local initiatives have been funded by Government in recent years to encourage farmers to begin to bring neglected woodland into management. The latest of these, Project Silvanus, is due to be launched soon. It is aimed at encouraging farmers' active participation in bringing some of the 74,000 hectares of unmanaged, mostly broadleaved, woods in the south west of England under management over a 10 year

period. The intention is to create a self-financing management cycle. This would sustain the traditional wildlife (including game) and landscape of the region, develop an alternative source of farm income from timber, and create new employment in the wood using industry. A similar initiative has been taken in Wales. Attention should be given to the possibility of extending such projects to other areas in the light of evidence on their cost-effectiveness.

Short rotation coppice

12. Short rotation coppice involves the harvesting of fast - growing broadleaved species, such as poplar and willow, at intervals of 3 to 5 years for use in the raw state or, after chipping, for fuel, hard board or as a chemical feedstock. The Department of Energy is financing research on the use for fuel through its Energy Technology Support Unit. Final results are not expected until 1988, but preliminary work suggests that the potential depends critically on the price of alternative raw material sources, which are very competitive at present, and the development of an adequate marketing chain. There are interesting long term prospects and research into the various possibilities should be continued.

Agro-forestry

13. Agro-forestry is a system in which widely spaced trees are grown in conjunction with agricultural crops and livestock. In some parts of the world, notably New Zealand, this provides a higher combined income than either woodland or agriculture alone. It also ensures an annual income in the early years before the woodland matures. The extent to which it could be applied in the different conditions of the UK is uncertain. Current research will provide some answers, but it is likely to be some years before comprehensive results are available for dissemination. The impact on agricultural surpluses would

incentives from public funds might also be less because of the continuing income from agriculture in the early years. Work on this should be pressed forward.

Research

14. In view of the potential forestry now offers as an alternative land use, both on a traditional basis and as a farm crop, there is scope for a change in research emphasis. Continued government funding is required in view of the long term nature of such work, but contributions might be forthcoming from farming organisations, who are expressing increasing interest in forestry, and from the EC. Priority areas are cost-effective methods of establishing woodland on better land, and design for conservation and landscape enhancement. Work should continue on short rotation coppice, agro-forestry and tree breeding, which offer good long term prospects for improving returns from forestry.

Table 1

Illustrative UK Exchequer Savings (Post-Tax) for a Possible Large-Scale Commercial Forestry Scheme

	Costs per hectare (£)					Potential implications of planting 10000 ha pa (£m)					
						Over 10 years (2)			Over 20 years(3)		
	Grant(1)	Land cost	Tax foregone (5)	Establish- ment cost	Total	Cost	Saving on surplus disposal (4)	Net saving	Cost	Saving on surplus disposal (4)	Net saving
Private	240	-	408	-	648	62	249	187	65	701	636
Public	-	1300	-	700-1000	2000- 2300	200- 230	249	49-19	200- 230	701	501-471

- Notes:
- (1) The Forestry Grant Scheme 10 + ha rate has been assumed - £192/ha at planting plus £48/ha at Year 5: £240/ha in total.
 - (2) Ignores costs and savings from Year 11 onwards.
 - (3) Ignores savings from Year 21 onwards.
 - (4) Surplus disposal costs based on current MAFF estimates of UK marginal exchequer net contribution to FEOGA cost of the changes in production.
 - (5) Assumes no opportunity for other tax savings, hence this is a maximum tax loss assumption.

- General
- (a) Assumes no change in level of CAP support over the period.
 - (b) Assumes no Woodland Compensatory Allowances paid to the private sector.
 - (c) Assumes 10000 ha plantings made up of 5000 ha Grade IV, 2500 ha high yield Grade III and 2500 ha low yield Grade III - see Table 2.
 - (d) Values are at present day prices.

TABLE 2

Illustrative UK Exchequer Savings (Pre-Tax) for a Possible Farm Forestry Scheme

	Costs per hectare (£)		Exchequer implications of an Annual Planting Programme of 5000 ha each on Grades III and IV land (£'000)					
			Over 10 years ⁽³⁾			Over 20 years ⁽⁴⁾		
	Grant ⁽¹⁾	Woodland compensatory allowance ⁽²⁾	Total cost	Savings in surplus disposal ⁽⁵⁾	Net position	Total cost	Savings in surplus disposal ⁽⁵⁾	Net position
Grade III land (high yield) 2500 ha	420	490	76825	91290	14465	200375	257540	57165
Grade III land (low yield) 2500 ha	420	190	33575	65315	31740	84125	184065	99940
Grade IV land 5000 ha	420	95	45025	92125	47100	94625	259625	165000
Total (£m)			156	249	93	379	701	322

- Notes:
- (1) The Forestry Grant Scheme 3-10ha rate has been assumed - £336/ha at planting plus £84/ha at year 5: £420/ha in total.
 - (2) The Woodland Compensatory allowance is equal to the estimated income foregone. Agricultural production is assumed to be cattle and sheep on Grade IV land and wheat on Grade III land assuming yields of 5 and 7 tonnes/ha.
 - (3) Ignores costs and savings from Year 11 onwards.
 - (4) Ignores benefits from Year 21 onwards.
 - (5) Surplus disposal costs based on current MAFF estimates of UK marginal exchequer net contribution to FEOGA cost of the changes in production.

General

- (a) Assumes no change in level of CAP support over the period.
- (b) Values are at present day prices.

THE USE OF LAND FOR CONSERVATION AND RECREATION
PURPOSES

1. Rural land is valued not only by those who, like farmers, earn their living from it, but also by those who see it as an amenity, interesting in itself and as the location for recreational pursuits, or as a source of water.

Conservation

2. There is substantial public support for the protection of certain areas because of their landscape, wildlife, geological or archaeological interest. The major conservation designations (which overlap to some extent) cover some 6 million hectares, 30% of the UK land mass: 3 million hectares for National Parks and Areas of Outstanding Natural Beauty, 1.8 million hectares for Green Belts and 2 million hectares for Sites of Special Scientific Interest (SSSIs). Other areas are of significance in their locality.

3. Many of the features which people wish to conserve are the product of farming and compatible with traditional agricultural practices. However, since the war, the intensification of agriculture, especially increased arable use, larger fields, improved pasture and more use of fertilisers and pesticides, has been mainly responsible for changes in scenic landscape and loss of (semi-) natural habitats, together with their animal and plant species. While these changes in the countryside have sometimes been exaggerated by some lobbyists, conservation policy has become increasingly concerned with the protection of key sites from intensive farming methods through

designation and a largely voluntary system of compensation through management agreements, together with the encouragement of "environmentally-friendly" farming over larger tracts of countryside.

4. The quality of water resources is significantly affected by agricultural land use in the water catchment area. Intensive arable farming leads to increased nitrate concentrations in ground waters which are used for water supplies. This problem is causing serious concern, particularly in the Midlands and Eastern England. Reductions in agricultural intensity, especially over water catchment areas on aquifers which are sources of ground water supplies, would be beneficial. The establishment of Water Source Protection Zones (under the Control of Pollution Act, 1974 and as proposed in the recent Consultation Paper on water privatisation and the water environment¹) would imply less intensive cultivation of such areas. Changes from intensive arable to forestry or grassland would be most beneficial. Further, both intensive livestock and arable farming can pollute surface waters. Less arable and livestock farming, accompanied by more forestry, amenity and recreational use of land, could bring significant improvements in the quality of rivers.

5. The main conservation mechanisms are:

i. Planning Controls Designation of land as a National Park, Area of Outstanding Natural Beauty, or Area of Great Landscape Value (or similar) in a structure plan carries with it a stricter approach to

1 The Water Environment: The Next Step, Department of Environment and Welsh Office, April 1986.

development proposals and a recognition that the landscape is of particular importance. The Nature Conservancy Council (NCC) must be consulted on proposals for development in SSSIs. The agricultural and forestry use of land is, however, specifically excluded from the definition of 'development' in the Town and Country Planning Act 1971, although some operations for agricultural purposes are within the definition of development.

ii. Restrictive Management Agreements These are voluntary, and are made by the NCC, National Park Authorities, the Broads Authority and other local planning authorities. They already protect over 100,000 hectares and the figure is rising steadily. Agreements are expected to cover about 30% of SSSIs (0.7 million hectares) in due course. Expenditure this year will be about £9 million.

iii. Acquisition by Public Bodies The policy of the conservation agencies is to acquire land only as a last resort apart from reserves needed for scientific or demonstration purposes. The NCC own about 40,000 hectares in National Nature Reserves (with a further 120,000 hectares protected through other forms of tenure, including leases and Nature Reserve Agreements with farmers). The National Park Authorities own 28,000 hectares. Transactions such as sale and lease-back, or purchase for re-sale under restrictive covenant can help to stretch the public resources available. There could be increasing pressures for purchase if declining land and produce prices encourage farmers to sell land rather than to accept compensation under management agreements.

iv. Acquisition by Non-Governmental Conservation Bodies This has been very successful; for example, the National Trust's "Enterprise Neptune" has purchased 465 miles of coast at a cost of

£8.5 million. The Trust owns a total of 200,000 hectares of land, making it the third largest landowner in the country after the Crown and the State. Other major landowners are the Royal Society for the Protection of Birds (RSPB), with 47,600 hectares, and the County Conservation Trusts. Bodies such as the Woodland Trust and the British Association for Shooting and Conservation are also acquiring land. The current British Wildlife Appeal by the Royal Society for Nature Conservation on behalf of the County Trusts was launched to purchase and manage sites because so much marginal land of conservation value was coming onto the market. It aims to raise £8 million.

6. Other mechanisms not yet employed on a large scale include:

i. Positive Management Agreements These require the owners/occupiers of land to do something, rather than preventing them from doing something. The NCC already use them on a limited scale.

ii. Grants for Maintaining/Adopting Traditional Farming Practices in Environmentally Sensitive Areas Under the Broads Experimental Grazing Scheme in the Halvergate Marshes, farmers are paid £50 per acre to maintain the traditional grazing regime. This scheme covers 7000 ha. The Agriculture Act 1986 provides for this approach to be extended: Agriculture Ministers can designate environmentally sensitive areas (ESAs) in which farmers will be offered incentives to adopt or maintain conservationally beneficial practices. Initially this approach is to be tried only in 8 or 9 areas (covering around 170,000 ha in England and Wales and perhaps another 80,000 ha in Scotland and Northern Ireland) at a cost of £6 million per annum in a full year with the effects being monitored against

the specific objectives of the schemes. However, a larger number of potential areas have been identified by the NCC and the Countryside Commissions.

iii. Conservation Plans for Individual Farms The Countryside Commission, some local authorities, and the Farming and Wildlife Advisory Group run demonstration and link farms to show how conservation and agricultural objectives may be integrated. The NCC demonstrates "environmentally - friendly" farming techniques on some of its National Nature reserves and the Countryside Commission also agrees conservation plans for individual farms as a basis for some of its grant aid. Under the Agriculture Improvement Scheme, grant aid is available for conservation elements, such as hedge and tree-planting, in farm plans.

iv. Management Support for Conservation-Related Activities 'Project Silvanus' in the South West is designed to provide marketing coordination for rehabilitated small woodlands (see paragraph 11 of Annex C). 'Coed Cymru' is concerned with improving the management of existing woodlands in Wales.

7. Conservation measures are relatively inexpensive: total grant-in-aid to the NCC and the Countryside Commission and National Park Supplementary Grant is some £60 million this year, to be used for a very wide range of purposes. Management agreements under the Wildlife and Countryside Act 1981, entered into because of the threat of intensification, generally involve payments based on 'net profit foregone'; as farming profitability falls, the cost of such agreements will tend to decline, although (as farmers endeavour to maintain incomes) there may be greater need for them. The overall effect is likely to mean more agreements at lower cost per hectare - so representing better value for money - as farmers occupying 'designated' land increasingly look to

conservation to maintain their incomes. This offers the opportunity to develop management agreements in a positive sense, ie to include positive management in the interests of conservation.

8. Much conservation activity is funded by the public through their support for voluntary bodies. The RSPB, for example, has a staff of 350 and a budget of over £6 million a year. The National Trust has a budget of over £50 million a year. The County Trusts already own, lease or manage about 50,000 hectares in over 1600 nature reserves. As land prices fall, these organisations will be able to acquire more for the same money.

9. Management of land to maintain or enhance its conservation value is labour-intensive. It can therefore help to sustain the rural economy by boosting employment directly. There are also the indirect regional employment effects from the tourists attracted to areas of high landscape or other natural interest. The effect on agricultural surpluses depends on the type of management regime promoted: planting trees extensively in areas of intensive arable cultivation would have a major effect, whilst simply paying for the maintenance of existing field boundaries would not.

10. In summary, there is considerable public support for conservation. The need to reduce surpluses should lead to a corresponding reduction in pressures on the land and opportunities both to safeguard more land and to reverse some of the changes of recent decades. In particular, the scope for more frequent use of positive management agreements, for the acquisition of land by non-Governmental conservation bodies, the expansion of demonstration farms and more conservation plans for individual farms and the integration of current efforts, should be examined. The effects of

ESA designation should be carefully monitored, and, where cost-effective, the use of this designation extended.

Recreation

11. Countryside recreation embraces a wide range of activities from walking, and traditional countryside pursuits such as hunting, shooting and fishing (which are generally compatible with conservation), to specialised sports and activities. A list of those most commonly engaged in is given in the Appendix to this Annex. The results of a survey conducted by the Countryside Commissions in 1984² and 1985³ show that the majority of recreation activities undertaken in the countryside take place informally without being highly managed or influenced by marketing or publicity techniques (Table 1). Most trips are made by car owners; with nearly half travelling less than 20 miles (in Scotland the average trip is of 60 miles). The needs of motorists and walkers appear to be reasonably well catered for at the present time although the Ramblers' Association continues to campaign for increased access to woodlands, moorlands and land adjoining lakes and rivers. Demand is less well met for horse riding, where bridleways are expensive to provide, motor and motor cycle sports, where there is a need to provide more facilities to avoid the illegal use of footpaths and bridleways, golf, where private clubs are heavily over-subscribed, and archery, where the number of participants continues to rise.

² National Countryside Recreation Survey 1984, Countryside Commission Publication 201

³ Scottish Leisure Survey Volumes 1-4, Countryside Commission for Scotland, 1985.

Table 1
Spread of Interest in Countryside Recreational
Activities in England and Wales

Drives, outings, picnics	19%
Long walks	18%
Visiting friends and relatives	14%
Sea coast	8%
Informal sport	12%
Organised sport	7%
"Pick-your-own"	4%
Historic buildings	4%
Country Parks	4%
Watched sport	3%
Others	7%

12. The main options for increased recreational provisions which would make use of significant areas of land appear to be as follows:

(i) Woodlands. These offer facilities for a wide variety of recreational uses (see Appendix) and many of them are heavily used for that purpose. Subject to any title restrictions and to occasional operating constraints, the Forestry Commission has opened woodlands to the public free of charge for a number of years with considerable success. A range of associated facilities including cabins, camping and caravan sites and visitor centres are also provided and these are operated commercially where appropriate.

(ii) Country parks. There are areas of the UK, particularly the south west of England, where there are very few country parks. They need not occupy large areas of land (some are as small as 7 ha) although, of course, there need not be a limit (some are up to 1200 ha).

(iii) Golf courses. There are currently around 1900 golf courses in England and Scotland and 120 in Wales. Their average size is about 60-80 hectares giving a total area of land occupied in the region of 140-170,000 ha. Most of these are over-subscribed so there is likely to be an increasing demand for more to be established in the next 5-10 years. Although establishment costs are high, the potential profitability should attract private investment. Planning conditions would need to be relaxed if scope for expansion of golf courses was to be maximised.

(iv) Horses. There are up to 550,000 horses in the UK (including 50,000 race horses), which together make use of 3-500,000 ha for keeping, grazing and producing feed. Over 40% of horses are thought to be in the south east of England and less than 26% in the north, Scotland and Northern Ireland. There is an increasing rate of demand for leisure horses with the British Horse Society's membership increasing at 4-6% a year for the past 5 years. Clearly, therefore, there is considerable potential scope for an expansion in land used to support this activity. With rents as high as £500 per horse per year, the net profit per animal can easily exceed that of an average dairy cow. Case law has held, however, that the use of land for keeping (but not grazing) horses for recreation (but not agriculture) requires planning permission, as does the erection of buildings for that purpose. This can represent a constraint on horse-keeping activity. An earlier proposal to exempt up to 2 hectares of land for keeping horses for recreation from the need for planning permission produced a hostile response from local authorities and amenity interests because of the possible adverse effect on amenity (eg pressure for new buildings) particularly in the Green Belt. A revival of this proposal would therefore need to be handled very carefully to avoid an unfavourable public reaction. However, a limited relaxation would be a

useful de-regulatory move, and the scope for this should be reconsidered. If such a relaxation were pursued it would be necessary to make plain that the present controls were not being dropped completely.

(v) Use of land for game. It is possible, where the farmer owns the shooting rights, for additional income to be earned by small farm woodlands if they are managed for game. Mixed and broadleaf woodlands provide the best game cover although conifer woods are also valuable. The precise values are likely to vary greatly, but a 400 hectare farm containing six 2-hectare broadleaved woods should be able to attract rents for shooting rights in the region of £2,000 per annum.

13. In summary, there is clearly a growing demand for more recreation facilities to be provided in the countryside, some of which would appear to be capable of making use of significant areas of agricultural land. Many of these would need little or no injection of public funds (though they would involve some relaxation in planning rules) and would not be dependent on EC constraints. However, a more detailed study of the extent and nature of the demand, the resources needed to satisfy it and the economic and employment prospects that might flow from it, would be necessary before definite conclusions could be drawn. The Countryside Commission is currently engaged in soliciting views and ideas on future recreation possibilities in response to a discussion paper, "Recreation 2000", published in May. The results from this exercise are expected in the Autumn and should go some way to clarifying the issues in this important area of countryside activity. Further consideration should then be given to the matter.

Major Recreational Land Uses

1. Footpaths and bridleways
2. Camping and caravanning
3. Country parks
4. Picnic sites
5. Theme and amusement parks
6. Zoos, safari parks and wildlife and nature reserves
7. Farms (eg "pick-your-own")
8. Historic sites and landscape gardens
9. Village pubs and cafes
10. Sports
 - eg field sports
 - horse-riding
 - orienteering
 - mountaineering and other climbing
 - football, rugby and cricket
 - golf
 - motor sports
 - gliding, flying, ballooning and parachuting
 - archery
 - skiing
11. Woodlands
 - eg picnic places
 - camping and caravan sites
 - log cabin chalets
 - walks
 - horse-riding and pony-trekking
 - motor rallies
 - orienteering, fishing, shooting and archery
12. Areas adjoining water
 - eg walking
 - fishing, boating and sailing

DIVERSIFICATION ON AND OFF FARM

Future rural employment trends

1. Information about farm incomes (eg 1983 survey of agriculture holdings¹, the annual survey of personal incomes² conducted by the Inland Revenue and a study conducted by Wye College³) reveals that about one-third of all agricultural holdings in the UK have one or more members of the family with a source of paid income other than that derived from agriculture undertaken on the farm. The Wye College study also revealed that two-thirds of holdings with other sources of income made less than £2000 from their farming activities on the holding in 1983-84, with 38% making no net income.

2. The nature of employment among the wider rural population has also changed in recent years. Agriculture is no longer the dominant source of jobs with the number employed on farms dropping from 675,000 in June 1977 to 616,000 in June 1985. It now accounts for only 24% of the rural workforce and this downward trend can be expected to continue over the next several years.

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- 1 Structure Survey of Agricultural Holdings 1983, Ministry of Agriculture, Fisheries and Food, 1983
- 2 The Survey of Personal Incomes, Inland Revenue, 1977-1984
- 3 Gasson R: Other Gainful Activities of Farm Families in England and Wales, Wye College, University of London, 1986.

Table 1

Changes in Farm Employment 1977-1985

	Number employed on farms '000		
	June 1977	June 1985	% Decrease
Farmers including partners and directors	296	292	1.35
Workers and managers*	379	324	14.5
Total	<u>675</u>	<u>616</u>	<u>8.7</u>

* Includes part-time employees and casuals (69,000 and 93,000 respectively in 1977 and 61,000 and 98,000 in 1985)

3. Some parts of the UK are, nevertheless, still highly dependent on agriculture as a source of employment and this is likely to continue (Table 2). Moreover it has been estimated that a similar number of non-agricultural jobs are in activities ancillary to agriculture and thus sensitive to changes in agriculture.

Table 2
Percentage of Employed* Rural Residents Working in
Various Industries

	Agricul- ture	Energy and Water	Manu- facturing	Const- ruction	Distribu- tion and Catering	Trans- port	Other Ser- vices
Cambridge- shire	13.0	1.0	22.9	8.0	17.9	4.7	31.8
Cumbria	17.2	1.6	21.5	7.8	19.9	4.6	26.6
Essex	9.9	1.6	21.7	8.8	18.8	5.2	33.0
Lincoln	23.7	1.5	16.8	7.1	18.2	5.3	26.6
Norfolk	17.4	1.3	19.9	8.7	18.3	4.5	29.2
Northumber- land	22.4	5.0	11.3	6.4	16.2	4.2	34.0
Powys	13.1	3.0	20.4	3.8	16.9	4.8	37.4
West Wales	9.8	5.9	10.2	6.5	19.5	6.0	41.9
Dumfries and Galloway	34.7	0.9	12.6	7.1	17.3	4.3	22.2
Grampian	25.8	3.8	13.4	8.6	16.1	4.4	27.1
Orkney Islands	38.9	2.0	5.7	9.7	14.3	9.0	19.3

* Excludes farmers and other self-employed workers

Source: OPCS (1984)

4. In recent years there have been signs that employment in manufacturing industry has held up better in small towns and rural areas than in the conurbations and large towns. There have also been signs of movement to the rural areas by the urban population. This may well accelerate as the improvements in telecommunication technology allow more people to work away from their traditional areas of employment. This trend is, however, likely to remain patchy over the UK as a whole, with some areas

continuing to suffer from a population decline and general loss of employment opportunities.

5. Given the prospect for a continued decline in agricultural output (with the associated knock-on effects on ancillary industries) there is likely to be a continuing need to stimulate enterprise and new business activity in rural areas. In part this can be met by on-farm diversification both into other agriculturally related activities (such as processing of primary production) and into non-agricultural activities (such as tourism and crafts). But, given the potential scale of the employment problem, this is unlikely to be sufficient in itself to sustain the rural economy and provide jobs for those made redundant both on farms and by contracting ancillary industries. Catering for these may require more wide-ranging off-farm rural development policies even though a number of Government agencies and Non-Departmental Public Bodies operate schemes to stimulate enterprise and new viable business activity in rural areas. Any barriers to diversification and development should be rigorously examined. The creation of new employment opportunities should involve the rural economy as a whole, and not (except for categorisation) be artificially divided at the farm gate.

On-farm diversification

6. An increasing number of farmers are showing interest in the potential for diversification on-farm. ADAS socio-economic advisers form the spearhead in the advisory effort associated with this in England and Wales. Where diversification takes the form of development into non-agricultural activities they work closely with the Development Commission and CoSIRA and equivalent Welsh agencies and, where appropriate, with

the Tourist Boards. ADAS should remain the focal point for advice in England and Wales in the first instance. This role should be undertaken by the equivalent services in Scotland and Northern Ireland.

7. Financial support for on-farm diversification is available under a number of schemes. Under the Agricultural Improvement Scheme (AIS) grants of 25% on up to £24,000 of expenditure are available for on-farm tourism and craft enterprises in the LFAs. To qualify, a farmer must submit an improvement plan including some purely agricultural investments, and indicate how the aided facility will be marketed. The grants cover building conversion, access, power supplies and the provision of lavatories. Grants under the AIS are also available at 15-30% for converting buildings for processing enterprises such as cheese and butter manufacture. In addition other grants are available to aid agricultural and horticultural marketing schemes.

8. Section 22 of the Agriculture Act 1986 gives Ministers powers to grant aid diversification by farmers into ancillary activities. The funding of this provision will have to be determined as part of the normal PES discussions and overlaps with schemes run by other Government agencies will have to be avoided. A list of potential on-farm diversification activities identified by the Working Party is given in the Appendix to this Annex.

Other rural development measures

9. Two of the sources of employment, both on-and off-farm, are provided by tourism and small manufacturing enterprises, including craft workshops. Industrial enterprises can start up in converted redundant farm or other rural buildings and on purpose-built industrial estates. Planning

authorities have been repeatedly urged by Government to accept a flexible approach to applications to convert old buildings and there is now evidence of a clear change in attitude, although in some areas old attitudes still persist to some extent. However, there are sometimes problems with finding suitable premises in certain areas and there may be scope for action here. Future telecommunication developments may well offer employment opportunities for people living in the remoter rural areas, and the Highland and Islands Development Board, for example, is currently exploring the possibilities. Some significant employment opportunities created by major industrial sites and residential development can be controversial within a rural environment and planning authorities will need to balance carefully the needs of rural enterprise and of protection of the environment.

Support for new measures

10. The Development Commission (DC), through its wholly-financed agency the Council for Small Industries in Rural Areas (CoSIRA), offers a range of advice and financial assistance to small firms throughout rural England for which farmers are eligible. CoSIRA can help particularly with questions of finance, training, premises and planning requirements related to the setting up of new rural enterprises, both on and off-farm. Loans at commercial rates of interest are also available. This function is carried out in Scotland by the Highlands and Islands Development Board and the Scottish Development Agency, in Mid-Wales by the Development Board for Rural Wales and in North and South Wales by the Welsh Development Agency. In Scotland the Scottish Development Agency operates two schemes specifically aimed at rural areas; Programmes for

Rural Initiative Developments (PRIDE) and Development of Rural Area Workshops (DRAW). The DC and CoSIRA offer a more comprehensive range of services in Rural Development Areas (RDAs). These cover the more remote areas designated by the DC, using criteria of both economic and social disadvantage. Within them the DC has a major programme for providing small workshops, and offers grants for the conversion of redundant buildings and loans to small businesses at preferential rates of interest. It also coordinates the economic and social programmes of other agencies and local authorities in their areas through the system of Rural Development Programmes. Broadly similar help is available in Scotland and in Wales from the bodies operating there although there is no equivalent to the RDAs.

11. A recent DoE commissioned review of DC programmes showed them to be broadly cost-effective in bringing new jobs to rural areas. Further work on the efficiency and effectiveness of the delivery of DC programmes is being done in a review currently being undertaken by the DC. There may therefore be scope, within existing DC provision, for funding any additional measures which can be justified to cope with a decline in the prosperity of agriculture. Nevertheless the DC has recently submitted proposals to the DoE for a substantially expanded programme including the provision of additional factory space and assistance to small firms in rural areas and a strengthening of their regional organisation. The DoE is supporting this initiative in principle and a bid for some additional resources to fund it is being considered as part of the current PES round. However, even if the bid were to be successful, it would still be likely to fall short of the amount the DC would consider to be necessary to carry out additional measures to meet the problems of declining agricultural prosperity.

12. The Small Firms Service (SFS) of the Department of Employment (DE) also provides advice and counselling to new and small enterprises. In Wales a similar service is provided by the Welsh Development Agency. CoSIRA provides a more intensive service in rural areas. A merger of this agency with the SFS was considered and rejected by E(A) in 1985. They were however enjoined to cooperate as closely as possible - which they now do. There is also a strong case for close liaison between these agencies and ADAS and such links should therefore be encouraged.

13. The Agricultural Training Board (ATB) provides a range of training courses in agriculture to both farmers and their employees. (In Northern Ireland this is undertaken by the Department of Agriculture.) If farmers are to diversify into new areas in which they have little practical experience they will need to acquire a wider range of skills. The ATB would be the most suitable agency to provide this in liaison with other advisory groups, and a recent Sub-Committee of the House of Lords has recommended that its powers be extended accordingly.

14. The Tourist Boards provides advice and financial assistance towards the capital costs of tourism developments. This scheme has a budget of £9.4 million for England for 1986/87 (the equivalent figures for Wales and Scotland are £2.5 million and £3 million respectively). New guidelines for the operation of the scheme designed to increase its cost-effectiveness in creating new jobs were introduced in 1986, but if it is desired to influence current trends in the number of jobs in rural tourism by the 1990s, these budgets may have to be increased.

15. Apart from the help that is available for new enterprises from the various formal bodies described

in the previous paragraphs, support is also given to local economic development by less formal groups. Particularly prominent among these groups are the Local Enterprise Agencies (LEAs) which have grown in number from less than 100 three years ago to well over 300 now. LEAs are independent local organisations set up primarily by private sector sponsors sometimes in conjunction with local authorities and other public bodies in order to tackle the economic problems facing the local community. They give advice and counselling, they may help to run workshops, to identify sources of finance and to be involved generally in supporting the development of the local economic community and in particular small businesses. These agencies may apply for financial support from the Government under the Local Enterprise Agency Grant Scheme operated by the DE or in Wales from the Welsh Office (as of next year, the Welsh Development Agency). In Northern Ireland these matters fall to the Department of Economic Development. The aim of this scheme is to make the LEAs more efficient and to increase the support given to them by the private sector. The scheme is therefore designed so that the decline in public sector contributions is offset by progressive increases in private sector support.

16. It was recognised when the Local Enterprise Agency Grant Scheme was set up that LEAs in deprived urban areas and in rural areas can face particular difficulties. These stem from a small private sector base and the presence of relatively few large companies with extensive resources which might provide funding and practical support to the enterprise agencies. Indeed in rural areas where agencies tend to cover larger geographical areas, these problems are intensified. CoSIRA and the Development Commission are therefore considering the possibility of providing additional support to enterprise agencies in rural areas over and above that available under the DE

scheme. Such support should be linked to additional activities or projects undertaken by the enterprise agencies. In Wales the Welsh Development Agency and the Development Board for Rural Wales have established Rural Enterprise Groups in areas where private sector activity is thin on the ground and successful local enterprise agency activity is unlikely, and at least one County Council has established an agency similar to Local Enterprise Agencies and geared to the needs of rural areas. Enterprise agencies in rural areas should look to increase their private sector support. In this context the larger and more profitable land owners and farmers should be encouraged to support LEAs. The Agriculture Departments should pursue this with the various representative bodies.

Potential On-farm Diversification Activities

1. Food and agricultural product processing
 - eg chipped potatoes
 - chopped and shredded vegetables
 - shelled peas and beans
 - cauliflower florets
 - frozen vegetables
 - dried herbs
 - fruit, frozen or bottled
 - fruit juices or pulp
 - vegetable oils
 - wine, cider or other fermented drinks
 - meat pies
 - bakery
 - flour
 - pickles
 - bottled water
 - cream and cheese
 - flavoured and plain yogurts
2. Farm manufacture
 - eg wood products
 - basket weaving
 - iron work
 - treatment of wools
3. Tourism
 - eg bed and breakfast and self-catering accommodation
 - camping and caravan sites
 - teas and other meals
 - pony trekking and horse-riding
 - fishing
 - shooting
 - golf, driving and putting
 - nature trails
 - access to a working farm
4. "Pick-your-own" and farm shops

CHANGES IN THE CURRENT POLICY FOR THE PROTECTION OF
AGRICULTURAL LAND

1. The Government's policy for the protection of good agricultural land is a long-standing policy which successive Governments have maintained. It was set out in DOE Circular 75 of 1976 and Welsh Office Circular 110 of 1976, which stated that

"Government policy for the protection of agricultural land is to ensure that, as far as possible, land of a higher agricultural quality is not taken for development where land of a lower quality is available and that the amount of land taken is no greater than reasonably required for carrying out the development in accordance with proper standards".

A similar policy for Scotland is set out in SDD Circular 24/1981 and the associated National Planning Guidelines.

2. The policy is implemented through the land-use planning system. As expressed in Circular 75/76, it is clearly set in the context of the high priority being given at that time to the expansion of UK food production (eg the White Paper Food from Our Own Resources), and hence to the need to reduce the loss of productive agricultural land to development.

3. Since that overall policy context is now changing, in the light of the development of agricultural surpluses and the probable need to take some land at least temporarily out of full agricultural production, the 1976 Circular will need to be revised or replaced. Likewise the priority that it gave to protecting agricultural land needs to be

reviewed. There are other important national policy objectives - such as the encouragement of private enterprise and job-creating new development, and the conservation of the countryside and the maintenance of Green Belts - which also influence the operation of the land-use planning system. The balance between these varied and sometimes conflicting objectives needs to be re-assessed. In particular, the need to expand and diversify the rural economy, in view of the likely reduction in agricultural and associated employment, has to be given full weight in considering proposals for new development in rural areas.

4. In making this re-assessment there are two broad approaches which Ministers may wish to consider.

5. Taking a radical approach, it can be argued that the efficiency and flexibility of higher grade agricultural land will be reflected in the economic returns from its use for agricultural production and hence in the relative price it can command in the open market. The 1976 Circular in effect applies a shadow value, over and above that price, to uses of such land for agriculture as opposed to other forms of development. In the absence of such a shadow value, other forms of development might produce an equal or higher economic return. In the interests of the economy as a whole, there is a case for removing this artificial restriction. The result would be that proposals for development on agricultural land of whatever quality would be subject only to normal planning criteria. These will include many environmental and amenity reasons - quite separate from agricultural arguments - which may legitimately militate against development in a given rural area.

6. Taken to its logical conclusion, the market economy solution would be to dismantle entirely the present policy towards protection of agricultural

land. This would be consistent with the Government's overall approach to the economy, with the emphasis on wealth and job creation through the operation of free markets and open competition and the minimum of intervention and regulatory constraint.

7. Alternatively, it can be argued that good quality agricultural land remains a valuable, finite national asset. In particular:

- (a) less than 3% of agricultural land in England and Wales is grade 1 and some 14% is grade 2;
- (b) the higher the quality of the land, the more adaptable it is, thus assisting farmers to adjust to the pressures for change they are increasingly facing;
- (c) the inherent quality of the high grades of land plays a vital part in maintaining the efficiency and competitiveness of UK agriculture; and
- (d) the extreme differences in the value of even the best land for agriculture and the prices developers are prepared to pay (up to £4,000-£5,000 per hectare compared with up to £400,000-£500,000 per hectare) renders comparisons between the two meaningless.

In view of these considerations, there remains a strong case for conserving good quality agricultural land. That policy also accords well with the policies of conserving the countryside and maintaining Green Belts, which command widespread public support.

8. Under this approach, there would be no need to change the way in which this policy is expressed in the circulars mentioned in para 1 above but the

context in which it operates has to be redefined and the circulars appropriately rewritten. These changes might reinforce the presumption in favour of development in the planning system; stress that greater relative weight should be given to job creating and diversification proposals, whether on or off farm; and stress that, even with reduced agricultural production, if UK agriculture is to remain efficient and competitive with our EC partners, the most economic and flexible agricultural land must be safeguarded. The policy line will, however, need to be decided in the light of the conclusions the Government reaches about the consequences of changes in agricultural support and the effects of those changes on the farming community and on the countryside.

9. If a policy of protecting good agricultural land is to be maintained within this changing policy context, it will also be necessary to review the way in which it is applied in practice.

10. First, such a policy cannot be applied in an absolutist fashion, because the agricultural quality of the land itself varies from place to place and because the weight to be attached to other policy objectives will also vary from case to case. The policy therefore has always been applied in a pragmatic fashion. It will clearly be even more necessary in future to weigh carefully the occasions on which the agricultural priority should prevail over other considerations.

11. Although no general announcement has been made, MAFF is already prepared to accept proposals to use better quality land for recreation - golf courses etc - where it is reasonably practicable for the land to be returned, without significant loss of quality, to agriculture at some time in the future. This approach

should be continued. It is already conveyed through the advice given on individual planning applications, but it should now be made publicly known.

12. It is a requirement, under the Town and Country Planning General Development Order 1977 (the GDO), that MAFF/WOAD be consulted on individual planning applications that are not in accordance with an approved development plan and would involve the loss of 10 or more acres of agricultural land. DAFS are consulted about broadly similar applications in Scotland. Although there is little evidence that the Agriculture Department's involvement in these individual cases has had a significant impact on the total amount of development, it can lengthen the planning process. The GDO could be amended to remove the statutory requirement to consult the Agriculture Departments on individual cases. If this course were pursued, it would be important for those Departments to retain the ability, in the more substantial cases (eg the recent applications for "commuter villages" around London), to ensure that local planning authorities were made fully aware of the agricultural implications of the proposal. Agriculture Departments should also continue to be consulted by mineral planning authorities to advise them on the restoration and aftercare aspects of minerals planning applications where the land is to be returned to agricultural use.

13. It is also for consideration whether the Agriculture Departments should continue to be involved in consultations, as at present, with local planning authorities on the agricultural implications of development plans. On balance, particularly if the Departments were not to be consulted on the generality of individual cases, it seems desirable that they should continue to be consulted on the preparation and review of development plans. If the proposals put

forward by the Secretary of State for the Environment to move to a single tier development plan are adopted, Agriculture Departments should also be consulted on drafting of the regional or sub-regional strategic guidance.

14. Any change in policy in this area is bound to be controversial. Those seeking to develop wealth and job creation opportunities (including some local authorities) would welcome relaxation; so too would those farmers who wish to diversify in order to minimise the impact of adjusting to the need to reduce surplus production.

15. On the other hand, the farming interest and ancillary industries see the Agricultural Departments' involvement in the planning system as an indication of their concern for long term interest of farming and the rural economy, and are likely to criticise any disengagement as signifying a diminution of this concern. Criticism would also come from the 'green' lobby, which sees the Government's policy for the protection of agricultural land as an important factor in protecting the wider countryside from intrusive development. Some local planning authorities might also be critical, since the policy is often helpful to them in reinforcing their opposition - for other planning reasons - to proposals for development in the countryside.

16. The Government would be able to explain and present the changes outlined above on the following lines:

(a) it must ensure that Government policy takes full account of current conditions and priorities, including changes affecting the agricultural industry;

(b) while it is necessary to maintain a policy of protecting good agricultural land, it is also necessary to encourage other forms of job-creating development, including alternative types of employment in rural areas;

(c) this approach implies no weakening of the Government's commitment to the maintenance of Green Belts and the conservation of the rural heritage;

(d) local planning authorities have had many years' experience of cases involving the development of agricultural land and it is no longer necessary for there to be such a detailed direct MAFF involvement in such cases.

17. It is recommended that

(a) The policy context of DOE Circular 75/76 (and Welsh Office Circular 110 of 1976) should be revised in the light of the approach that Ministers decide to adopt on the wider issue of changing agricultural support policies and their implications. The policy adopted in Scotland should similarly be revised.

(b) Within that broader policy context, a policy for protecting good agricultural land should continue but should be weighed along with other relevant policy objectives in deciding individual planning applications and in allocating land for development.

(c) In the light of the changing conditions, the Agricultural Departments need not continue to offer advice on the generality of planning applications although they should have the opportunity to do in cases of special significance, and should also be able to contribute to the preparation and review of

development plans, and on regional and sub-regional guidance (if adopted).

(d) These changes in the policy context and in the application and administration of arrangements for conserving good agricultural land should be incorporated in a new circular to replace DOE Circular 75/76 (and Welsh Office Circular 110 of 1976). Other Departments concerned should be consulted on its preparation and it should be published in draft for public comment.

(e) The reasons for these changes should be presented on the lines set out in para 16 above.

THE RATIONALE FOR GOVERNMENT INTERVENTION

1. The Government's general policy view is that the allocation of resources is normally best left to the free market. Nevertheless there are cases where defects in the market mechanism cannot be sufficiently improved or can only be improved slowly. In these circumstances public intervention may in principle be justified. Given the need to obtain value for money it is essential that the clearest possible objectives should be set for particular schemes of intervention, and that adequate means of monitoring and evaluation of such schemes are established from the outset.

2. The criteria that ought to be satisfied before Government support is provided are:

(i) the supported activity should be expected to become viable without continuing support and should offer long-run real benefits to the national economy;

(ii) the activity should be additional in the sense that it would not otherwise have taken place, and should not simply displace another activity with no net gain to efficiency;

(iii) intervention should seek to improve the working of the market mechanism and the benefits from intervention should exceed the costs of the distortion created by the intervention itself;

(iv) the case for intervention and the form of that intervention must be based on a diagnosis of the specific circumstances or market failures, which can justify Government support.

3. A joint report by Treasury and DTI into DTI industrial support (The ISR) produced in August 1985* and endorsed by Treasury and DTI Ministers concluded that there was no single accepted way of classifying those features of the economy which may justify support to an industry. There are, however, a number of arguments which may provide a prima facie case for intervention in the Agriculture and Rural sectors. These will include risks beyond the capability of the producers concerned to bear themselves (without jeopardising survival) or to pool with others, inadequate information flows, entry or exit barriers, and external effects where the gains are not appropriable and the costs cannot be recognised through the market.

4. It will be clear from the above that export promotion or import substitution do not of themselves constitute a justification for Government support. The criteria suggested are designed to achieve efficient allocation of resources through cost effective methods of intervention; as such, they help to distinguish between the efficiency justification for intervention and the distributional or income support arguments.

* The review of DTI industrial support. Joint Report by the Treasury and DTI, August 1985.

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C. V. B. G.

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



From the Minister

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
SW1P 3EB

CAP 0002
24/7.

24 July 1986

CEREALS SET-ASIDE

Thank you for your letter of 16 July. Many of the matters which you raise will inevitably come up in the discussions currently taking place in the Working Group on Alternative Land Use and Rural Employment (ALURE), which was set up in response to the Prime Minister's 19 March remit to me and on which your Department is strongly represented. I suggest that we should let this Group progress its work a little further as the next step. By all means let us then meet ourselves to discuss the various issues involved.

WILL REQUEST IF REQUIRED

Having said this, I would just like to comment briefly on a few of the points you have made.

I think the first point to stress is that my proposals for a scheme for cereals set-aside are concerned to supplement and reinforce a prices policy designed to take land out of cereals production. To this end, it has deliberately been couched in terms which could be adapted to the needs of Member States throughout the Community.

My second point, which flows from the first, is that the paper contains a variety of options on which Member States might draw. One of these is the disposal of land for non-agricultural use for woodlands since we certainly envisage, as you suggest in your letter, that prospective proposals on

/ woodlands should be ...

EURO POL
CAP
PT14

woodlands should be linked in with any set-aside scheme so far as this is practicable. I expect the ALURE Group to have quite a bit to say on woodlands, bearing in mind both economic and environmental aspects.

Having said this, however, my third point is that the question of the cost of alternative policies must be very much at the forefront of our minds. You yourself stress the need to stimulate action which costs less. I quite agree on the need to diversify rural economies and to provide incentives for alternatives which have clear benefits, including environmental ones. But to do this in ways which will be cost-effective as compared with current policies, and to demonstrate that this is the case, will by no means be easy. This is a particular area where I hope that the ALURE Group will be able to help us.

Finally, I think you may be under a slight misapprehension about my proposals for fallowing. Contrary to what you fear, this is intended to be fallow within a rotation and not fallowing entire farms. In this connection, I should perhaps recall that before the relatively recent widespread use of chemical fertilisers, fallowing was an entirely traditional agricultural practice, was a permanent feature of our countryside, and attracted no criticism from environmental or other interests. I do not see how a return to this practice could leave us open to attack.

I am sending a copy of this letter to recipients of our earlier correspondence.

John E. ...
Michael

MICHAEL JOPLING



AGRICULTURE HOUSE · KNIGHTSBRIDGE · LONDON SW1X 7NJ

01-235 5077



THE
NATIONAL FARMERS'
UNION

FROM THE PRESIDENT

S. A. GOURLAY

24 July 1986

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

225/17.

Dear Prime Minister

A number of very important issues concerning agricultural policy are now under consideration and decisions which will be crucial to the long-term future of British farmers and growers need to be taken during the coming months.

The NFU has openly acknowledged the need for change in some CAP support systems and we have put forward constructive proposals in several areas. We have suggested a realistic and fair way of taking land out of production so as to deal effectively with the cereals surplus. We have proposed changes for beef which will bring the cost of intervention under control. We want to see the Common Market scheme for buying up milk quota effectively operated in this country. We have shown how farm woodlands could be developed to provide alternative forms of income for farmers and to take land out of agricultural production. We have tried to take a positive approach towards environmental questions in terms of both UK policy and the proposals put forward by the EEC Commission under the farm structures policy.

In taking this positive attitude towards policy changes there are two important conditions on which we insist. One is that there must be no discrimination against the UK.

Secondly we are determined that new policies should not cripple our industry financially and prevent it playing its proper part in our national life, and in particular as the chief creator of wealth in the rural economy.

I am sure from your speech at our Annual Dinner last February that you are aware of our thinking and share many of our objectives. But in view of the critical nature of these issues I would be grateful for an opportunity to discuss them with you personally.

May I make one critical point related to your own words at our Annual Dinner when you said "the message that Michael Jopling will carry into Europe this year is that the policy must be firm but that it must also be fair".

\..

This sentiment was warmly welcomed by NFU members but cereal growers have been deeply disappointed by a decision taken by Michael Jopling to apply higher standards in the UK for the moisture content of intervention cereals than are applied in any other Community Country. The resulting reduction of about £1 per tonne in the market price may not seem large, but this is exactly the kind of back-door discrimination which we fear and which we hoped your words would eliminate.

I do hope you will agree to see me so that I can explain more fully our views on the various policy measures which we would very much like to see progressed during the UK's Presidency of the European Council.

A copy of this letter is being sent to Michael Jopling.

*Yours sincerely
Simon Gourlay*

S A Gourlay
President NFU



10 DOWNING STREET

From the Private Secretary

✓
CDOE
CO
FO (Challen)
LAD
DTI
HMT
FO

22 July 1986

Ivor

CEREALS SET-ASIDE

The Prime Minister has seen a copy of the Foreign Secretary's minute of 21 July to Mr Jopling dealing with cereals set-aside, in which he also proposes that there should be early interdepartmental discussion on beef reform. The Prime Minister agrees with the Foreign Secretary that such a discussion is needed. She would like to be kept closely informed of the outcome.

BF. 11

I am copying this letter to the Private Secretaries to all members of OD(E), to the Private Secretary to the Secretary of State for the Environment and to Sir Robert Armstrong.

Yours sincerely,

Charles Powell

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



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CCPC ①
FCS/86/197

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Cereals Set-Aside

- Yes not*
- Prime Minister*
I think an
early discussion
on beef would
be useful. But
MAFF will have
to be jostled.
Agree to
support?
CDP 21/7
1. Thank you for your letter of 11 July covering the paper which you have sent to Commissioner Andreissen. I agree that, subject to his views, we should aim for discussion at the September Informal Agriculture Council.
 2. A cereals set-aside scheme is unlikely to be agreed until next year's price fixing. We do, however, have a real prospect of reaching agreement on reform of the beef regime during our Presidency. We are agreed that there are elements in the Commission proposals which would cause difficulties for our own farmers, but that we must aim for a reduction in intervention. A reform once in place could save substantial amounts if it could be agreed during our Presidency. This could have an important bearing on our ability to keep future Community expenditure within the bounds. I hope we can have an early opportunity to discuss your own ideas on beef reform before negotiation starts in earnest in September.



3. I am copying this minute to the Prime Minister, members of OD(E), the Secretary of State for the Environment and Sir Robert Armstrong.

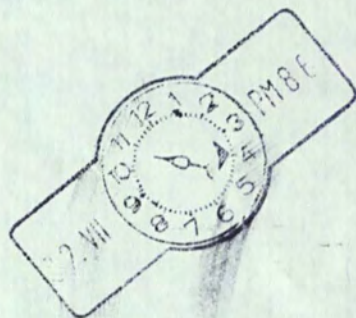
A handwritten signature in black ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

21 July 1986

Euro pol bud.



CFPC



Foreign and Commonwealth Office

London SW1A 2AH

4 July 1986

Prime Minister

Dear Charles,

MF

*CDP
4/7*

EC/New Zealand

The New Zealand High Commissioner called yesterday evening on the Foreign Secretary to deliver a message from Mr Lange to the Prime Minister. I enclose a copy of his letter.

The settlement of differences between France and New Zealand is on the lines we had expected. It opens the way for the Commission to make a proposal for the amount of New Zealand butter to be allowed reduced levy access to the EC in 1987 and 1988. We impressed upon the New Zealanders the importance of committing the French not to oppose the quantities which the Commission proposed in 1983. As Presidency we shall be working for an early solution along these lines. But the Irish and Danes will be looking for lower figures. Nor is it a foregone conclusion that the Commission themselves will revert to the previous figures, given the reduction in production imposed on EC producers over the past three years. Sir David Hannay has therefore been instructed to lend vigorous support to New Zealand approaches to the Commission.

I am sending copies of this letter to Ivor Llewellyn (MAFF) and David Williamson (Cabinet Office).

Yours ever,

Colin Budd

(C R Budd)
Private Secretary

C D Powell Esq
PS/10 Downing Street

SECRET.



New Zealand High Commission
London

2 July 1986

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
LONDON
SW1A

Dear Sir Geoffrey

I have been instructed to ask you to pass on to your Prime Minister the following letter from my own Prime Minister.

"Dear Prime Minister

I want you to know that we have now been given in the strictest confidence by the Secretary-General of the United Nations a copy in draft of his rulings on the dispute between France and New Zealand.

One of his rulings relates to New Zealand access to the EC, and particularly the fixing of butter quantities for 1987 and 1988. The French are to give a guarantee that they will not oppose a Commission proposal for 77,000 tonnes in 1987 and 75,000 tonnes in 1988.

In our view, that guarantee removes a crucial obstacle from the access path. It clears the atmosphere. It not only commits France to supporting the tonnage we want. It also takes away any shield from behind which other member countries could reject those tonnages.

I am therefore writing to President Delors requesting that the Commission now table its proposal on our butter access, and that it contain the quantities of 77,000 tonnes in 1987 and 75,000 tonnes in 1988.

/My

SECRET.

SECRET.

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My letter (of which I attach a copy) makes clear to Mr Delors that New Zealand has been concerned to accommodate the wish of our friends in the Community that the problem between France and New Zealand should not become a matter of contention between the EC and France, or the EC and New Zealand. We had also agreed to a deferral of the access debate to allow mediation to be considered.

I am sure you will agree with me that the picture now looks much clearer. I hope you agree with me that the Commission should be asked to act as I have proposed.

The United Kingdom now has the Presidency of the Council. Michael Jopling will be in the chair when Farm Ministers' meet and Geoffrey Howe in the case of Foreign Ministers.

I think it would strengthen the case for a quick decision on terms which we favour if the United Kingdom, in its position of influence, could also make that point strongly to the Commissioners involved, and to Delors himself.

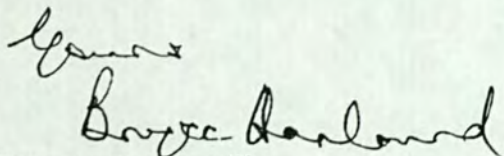
We shall need to coordinate our work on this issue, and I am instructing the High Commissioner in London and the Ambassador in Brussels to liaise closely with British officials from now on. I hope this is acceptable to you.

British support has always been given to us unstintingly on access. We in New Zealand are most grateful for it, and we should welcome it again on this occasion.

Yours sincerely

David Lange"

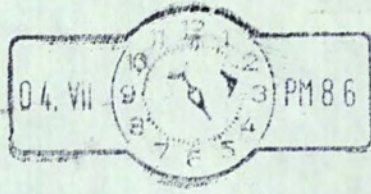
I have also been instructed to make some additional points to you, and will be doing so when I present this letter.



(Bryce Harland)
High Commissioner

Enc

SECRET.



CCPC²

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mt

Prime Minister
It appears that
France and New
Zealand have solved
the problems both of
butter and of the two
French
agents
in a
satisfactory
manner
CDP
2/7

NOTE FOR THE RECORD

NEW ZEALAND BUTTER

Mr Ted Woodfield called on me this evening at his request. He said that the result of the adjudication on the case of the two convicted French agents would be announced very shortly, possibly on 4 July. An agreement acceptable to the French and New Zealand governments had been reached. The adjudication would also refer briefly to the question of access for New Zealand butter. The New Zealand understanding was that, in order to be consistent with the other elements in the agreement, France would support figures of 77,000 and 75,000 tonnes for New Zealand's butter access to the United Kingdom market in 1987 and 1988 (ie the figures almost agreed in the last round of Community discussion) without other changes in the conditions (eg the calculation of the special levy). The New Zealand authorities had asked the Commission to consider favourably making a proposal in this sense and expected the French authorities to make a similar approach to the Commission. A further element was the increased readiness of New Zealand to establish more effective cooperation with the Commission than had been the case in recent years on the disposal of surplus stocks and on some correction of the excessively low prices in world markets.

I said only that the British Presidency would await the Commission's proposal before taking a view on the possible handling in the Agriculture Council.

D F Williamson

D F WILLIAMSON

1 July 1986

- cc: Mr Powell (10 Downing Street) —
- Mr Budd (FCO)
- Mr Llewelyn (MAFF)
- Mr Renwick (FCO)
- Mr Andrews (MAFF)
- Mr Stark
- Mr Mallaby
- Mr Holroyd

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FRAME EXTERNAL/AGRICULTURE

MY TELNO 1828: EC/NEW ZEALAND: VISIT OF PRIME MINISTER LANGE

SUMMARY

1. LANGE VISITED BRUSSELS ON 30 MAY FOR TALKS WITH THE COMMISSION. A TETE A TETE WITH DELORS (PRESIDENT OF THE COMMISSION) WAS FOLLOWED BY A ROUND TABLE DISCUSSION AND LUNCH WITH COMMISSIONERS COCKFIELD (INTERNAL MARKET), CLINTON DAVIS (ENVIRONMENT/TRANSPORT), ANDRIESEN (AGRICULTURE) AND CARDOSO E CUNHA (FISHERIES). (DE CLERCQ WAS IN SEOUL FOR THE TRADE MINISTERS' MEETING). OUR IMPRESSION (FROM DEBRIEFING THE NEW ZEALAND MISSION AND GIOLA, DEPUTY DIRECTOR GENERAL, DGM) IS THAT THE TALKS WENT WELL AND THE ATMOSPHERE WAS CONSTRUCTIVE, FRIENDLY AND RELAXED. THERE WAS NO DETAILED DISCUSSION ON QUANTITIES OF NEW ZEALAND BUTTER, THOUGH ANDRIESEN INDICATED SOME OF THE ELEMENTS HE REGARDED AS NECESSARY FOR A SOLUTION. LANGE EMPHASISED THAT THE EC/NEW ZEALAND RELATIONSHIP SHOULD BE MORE BROADLY BASED.

DETAIL

2. THE NEW ZEALAND MISSION POINTED OUT THAT THIS WAS THE FIRST VISIT BY A NEW ZEALAND PRIME MINISTER TO BRUSSELS: AND THE FIRST COMMISSION/NEW ZEALAND CONTACT AT THIS LEVEL SINCE THORN'S VISIT TO WELLINGTON IN 1982 (THOUGH THERE HAD OF COURSE BEEN CONTACTS AT OTHER LEVELS). LANGE'S AIM HAD BEEN TO CONSIDER HOW THE EC/NEW ZEALAND RELATIONSHIP SHOULD DEVELOP IN THE FUTURE: THERE HAD BEEN TOO MUCH EMPHASIS IN THE PAST ON BUTTER AND SHEEPMET, AND THERE WAS NO NEED TO HARP ON THEM AT THIS MEETING. IN THE TALKS, LANGE EXPLAINED RECENT DEVELOPMENTS IN THE NEW ZEALAND ECONOMY INCLUDING PROBLEMS IN THE AGRICULTURE SECTOR AND GOVERNMENT MEASURES, AND ALSO SPOKE OF DEVELOPMENTS IN THE SOUTH PACIFIC REGION. HE WAS GIVEN A FULL EXPOSITION BY COCKFIELD ON THE DEVELOPMENT OF THE EC'S INTERNAL MARKET AND ITS LIKELY INTEREST FOR THE EC'S TRADING PARTNERS. LANGE PICKED UP THE SUGGESTIONS FOR NEW AREAS OF COOPERATION MENTIONED DURING DE CLERCQ'S TALKS IN WELLINGTON IN APRIL (UKREP TELNO 1128). IN PARTICULAR CLINTON DAVIS RAISED ENVIRONMENTAL MATTERS WHICH THE COMMISSION WOULD FOLLOW UP WITH THE NEW ZEALANDERS. CLINTON DAVIS ALSO REFERRED TO PROBLEMS IN SHIPBUILDING AND MARITIME TRANSPORT, ACCORDING TO THE COMMISSION. THERE WAS SOME DISCUSSION WITH CARDOSO ON FISHERIES INCLUDING THE POSSIBILITY OF EC/NEW ZEALAND LINKS IN PROCESSING THE MARKETING OF FISH. THE NEW ZEALAND MISSION DESCRIBED ALL THIS AS POSITIVE AND FORWARD-LOOKING.

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3. THERE WAS THEN SOME DISCUSSION OF THE SITUATION IN THE COMMUNITY AND THE INTERNATIONAL ECONOMIC SCENE IN THE LIGHT OF THE TOKYO SUMMIT. DELORS SPOKE OF THE POSSIBILITY OF A THIRD ENERGY SHOCK. ON THE NEW GATT ROUND, LANGE STRESSED THE NEED FOR RESULTS IN THE AGRICULTURE SECTOR: THE COMMISSION AGREED, SUBJECT TO ACHIEVING AN OVERALL BALANCE IN THE NEGOTIATIONS. LANGE ARGUED THAT IT COULD BE DAMAGING TO THE INTERESTS OF THE SMALLER COUNTRIES INVOLVED IF ONLY THE LARGER PLAYERS' INTERESTS WERE TAKEN INTO ACCOUNT IN THE MTNS. IN RESPONSE DELORS GAVE AN ASSURANCE THAT THE COMMUNITY DID NOT INTEND TO SETTLE ITS TRADE PROBLEMS WITH THE U S AT OTHER COUNTRIES' EXPENSE. ON EC/JAPAN, DELORS' LINE SHOWED A BALANCE BETWEEN FRUSTRATION AT THE LACK OF RESULTS, AND SOME ACKNOWLEDGEMENT THAT NAKASONE WAS PROBABLY DOING HIS BEST.

? N2

4. LANGE HAD PRESSED THE CASE FOR COMMUNITY ACCESS TO THE EC MARKET FOR AGRICULTURAL PRODUCTS, POINTING TO THE NEW ZEALAND AGRICULTURAL PROBLEMS. HE ARGUED THAT THE NEW ZEALAND DAIRY INDUSTRY COULD NOT PROVIDE THE KEY TO RESOLVING THE EC'S SURPLUS PROBLEM: BUT HE DREW ATTENTION TO THE ADJUSTMENTS MADE IN THE NEW ZEALAND DAIRY SECTOR, AND ALSO TO THE NEW ZEALAND DAIRY BOARD'S PROPOSAL FOR COOPERATION OVER PLANS FOR BUTTER DISPOSAL. ANDRIESEN SAID THAT DGVI WERE LOOKING POSITIVELY AT THE PROPOSAL FOR A JOINT VENTURE COMPANY TO TAKE OVER THE BUTTER SURPLUS AND DISPOSE OF IT. AS EXPECTED, ANDRIESEN MENTIONED NO FIGURES FOR NEW ZEALAND BUTTER EXPORTS TO THE COMMUNITY FOR 1987/88: BUT CONFIRMED THAT THE COMMISSION PROPOSALS WOULD COVER BOTH YEARS AND HAD SAID THAT THE QUANTITY SHOULD BE LINKED TO AN UNDERSTANDING WITH NEW ZEALAND ON THE NEED TO RAISE THE MINIMUM BUTTER PRICE UNDER THE INTERNATIONAL DAIRY ARRANGEMENT TO DOLLARS 1,000 PER TONNE. THE COMMISSION INTENDED TO PUT FORWARD A PROPOSAL TO THE COUNCIL IN MID-JUNE. ANDRIESEN ALSO REFERRED TO WHAT SEEMED TO BE A HARDENING OF THE BRITISH ATTITUDE.

-2-
CONFIDENTIAL

5.

5. THE ACCOUNT GIVEN TO US BY GIOLA WAS BROADLY SIMILAR. HE ADDED THAT, IN HIS GENERAL INTRODUCTION, LANGE HAD EMPHASISED HIS AND NEW ZEALAND'S ATTACHMENT TO EUROPE AND TRADITIONAL LINKS WITH THE UK, AND ARGUED THAT IT WAS NEW ZEALAND'S ISOLATED SITUATION IN THE PACIFIC WHICH LED HIM TO TAKE HIS PRESENT POSITION ON NUCLEAR MATTERS. LANGE RAISED NEW ZEALAND'S PROBLEMS WITH FRANCE EN TETE A TETE WITH DELORS: WE UNDERSTAND THIS WAS DONE IN LOW KEY AND IT WAS AGREED THAT THE AFFAIR SHOULD NOT OBSCURE MORE IMPORTANT ISSUES.

HANNAY

YYYY

ADVANCE

SHEPHERD ECD FCO

FURNESS SPD FCO

RENWICK FCO

D C WILSON FCO

JAY CAB

ANDREWS MAFF

HADLEY MAFF

KUYK MAFF

PS/MR JOPLING MAFF

AND TO NO 10 DOWNING STREET

MAIN

FRAME EXTERNAL/AGRICULTURE

FCO PASS SAVING COPENHAGEN, THE HAGUE, ROME, DUBLIN, BONN

LUXEMBOURG, ATHENS, LISBON, MADRID

FRAME EXTERNAL/AGRICULTURE

ECD(E)

SPD.

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CONFIDENTIAL



Foreign and Commonwealth Office

London SW1A 2AH

22 May 1986

CAP 22/15

Dear Ivor,

will request if required.

The Common Agricultural Policy
and European Food Surpluses

Thank you for your letter of 6 May, enclosing briefing material on the need to reduce CAP surpluses.

The Foreign Secretary thinks this material valuable. He suggests it might be useful if the next edition could also include a reference to the relevant part of the conclusions of the Tokyo Economic Summit (copy attached).

The Foreign Secretary also thinks it would be helpful to give some figures illustrating rather more vividly the magnitude of the problem in Community budgetary terms eg that over 50% of the total EC budget is now devoted to the storage and disposal of surpluses.

Finally it would be helpful to give figures on the surpluses of butter, cereals, wine, beef and olive oil to substantiate more clearly than the annexes do the statement that they are too high. This could be done by indicating the trends involved. Could you perhaps also include in the next edition Community self-sufficiency percentages and the cost of intervention stocks?

I am copying this to Private Secretaries to members of the Cabinet and to Sir Robert Armstrong.

Yours Sincerely,
Colin Budd

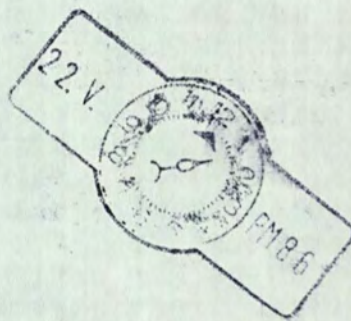
(C R Budd)
Private Secretary

C I Llewellyn Esq
PS/Minister of Agriculture,
Fisheries and Food

connection we attach great importance to continued cooperation through the Special Facility for Sub-Saharan African countries, early implementation of the newly established Structural Adjustment Facility of the IMF and the use of the IDA. We intend to participate actively in the forthcoming United Nations Special Session on Africa to lay the foundation for the region's long-term development.

12. The open multilateral trading system is one of the keys to the efficiency and expansion of the world economy. We reaffirm our commitment to halting and reversing protectionism, and to reducing and dismantling trade restrictions. We support the strengthening of the system and functioning of the GATT, its adaptation to new developments in world trade and to the international economic environment, and the bringing of new issues under international discipline. The New Round should, inter alia, address the issues of trade in services and trade related aspects of intellectual property rights and foreign direct investment. Further liberalization of trade is, we believe, of no less importance for the developing countries than for ourselves, and we are fully committed to the preparatory process in the GATT with a view to the early launching of the New Round of multilateral trade negotiations. We shall work at the September Ministerial meeting to make decisive progress in this direction.

13. We note with concern that a situation of global structural surplus now exists for some important agricultural products, arising partly from technological improvements, partly from changes in the world market situation, and partly from long-standing policies of domestic subsidy and protection of agriculture in all our countries. This harms the economies of certain developing countries and is likely to aggravate the risk of wider protectionist pressures. This is a problem which we all share and can be dealt with only in cooperation with each other. We all recognize the importance of agriculture to the well-being of rural communities, but we are agreed that, when there are surpluses, action is needed to redirect policies and adjust structure of agricultural production in the light of world demand. We recognize the importance of understanding these issues and express our determination to give full support to the work of the OECD in this field.



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CGRC



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

From the Minister's Private Office

Colin Budd Esq
Private Secretary to the
Secretary of State
Foreign and Commonwealth Office
Downing Street
London
SW1A 2AL

6 May 1986

Dear Colin

THE COMMON AGRICULTURAL POLICY AND EUROPEAN FOOD SURPLUSES

I am enclosing an updated version of material for use by Ministers and others for briefing on the need to reduce European surpluses of food, which I enclosed with my letter to you of 19 December 1985. This includes points to make, suitable for incorporation in speeches.

I am copying this letter to the Private Secretaries to members of the Cabinet and to Sir Robert Armstrong.

Yours ever
CI

C I LLEWELYN
Private Secretary

EUROPEAN AGRICULTURAL SURPLUSES: THE NEED TO CHANGE THE CAP

POINTS TO MAKE

Why the Common Agricultural Policy needs to be changed

The Common Agricultural Policy (CAP) cost Europe £11.3 billion in 1985 almost double its cost in 1978. And since 1982 it has taken a rising part of the Community's budget so there is less to spend on other policies .

The cost of the CAP has grown because support prices have been set too high in relation to market demand and growing yields and efficiency in farming. As a result there has been a build up of expensive surpluses. Stocks of butter, cereals, wine, beef and olive oil are all too high. This wastes money because of the costs of storing and disposing of unwanted produce at subsidised prices.

Selling off stocks to other countries causes difficulties in international trade because traditional exporters like New Zealand have their markets damaged. Some stocks are used for food aid, but there are limits to what can be dealt with this way. For example, not all the stocks are of foods which are suitable for the needy countries; and distribution of food is often a major difficulty.

Nor is it necessarily cost-effective to dispose of large stocks on the Community market, for example in special schemes to pensioners. The Government does, however, continue to review the possibilities for outlets like these.

Consumers are also disadvantaged by the high prices. If they were set lower consumers would get the advantage of cheaper food. And a lower cost of living also helps the economy generally by releasing resources for use in other parts of the economy. .

How UK is Tackling the Problem

The UK has consistently pressed for CAP support prices to bear a closer relation to the realities of the market as the best way of containing the costs of the CAP and bringing a better market balance of supply and demand.

Significant progress has been made. The 1984 price fixing included an overall reduction, for the first time, in the level of common prices. It included a cut in real support prices across the Community of 4%. Milk quotas were introduced for the Community 5% below the level of production in the previous year. The 1985 price fixing, taken with the Commission's action on cereals and rapeseed, constituted a further cut in real support prices of 3½%.

The 1986 price fixing includes further cuts in support to cereals producers (including a 3% producer levy), in milk production (3% cut in quotas by 1989) and in support to Mediterranean products (eg olive oil intervention price cut 5%, withdrawal prices for peaches and tomatoes cut by 7½%, tobacco prices cut by up to 6%).

The Commission has accepted the need to keep EC spending in 1986 and 1987 within the 1.4% VAT ceiling. Its plans for the 1986 supplementary budget are within 1.4% VAT ceiling.

We shall continue to press for further steps to be taken to cut the expensive surpluses and keep the cost of agricultural support within the funds available. A major element of the policy must be prices which reflect market demands more realistically.

COMMON AGRICULTURAL POLICY: BACKGROUND FACTS

1. CAP Market Support⁽ⁱ⁾ 1985 by Commodity

	fm	(million ecu)
Milk	3,390	(5,933)
Beef	1,569	(2,746)
Cereals	1,320	(2,310)
Sugar	1,031	(1,805)
Fruit and Vegetables	703	(1,231)
Wine	526	(921)
Olive Oil	395	(692)
Tobacco	493	(863)
Other	1,747	(3,057)
TOTAL	11,282	(19,744)

2. CAP Market Support⁽ⁱ⁾ 1985 by Type of Support

	fm	(million ecu)
Export Refunds	3,765	(6,588)
Internal Disposal	1,962	(3,434)
Public Intervention	2,189	(3,830)
Private Storage	505	(883)
Production Subsidies	2,918	(5,106)

(i) Provisional expenditure under the Guarantee Section of the Agricultural Guidance and Guarantee Fund.

fl = 1.75 ecu.

3. CAP Expenditure as % of Total EC Budget

1980	73
1981	65
1982	64
1983	69
1984	70
1985	73

4. Intervention Stocks

UK and EC Agricultural Produce in Public Intervention
and Assisted Private Storage ('000 tonnes)

<u>Commodity</u>	<u>UK Intervention</u>	<u>EC Intervention</u>	<u>EC Days Supply</u>
Butter (a) Skimmed	207	1,111	250
milk powder (a)	39	644	113
Bread (b)	0	2,238	34
Wheat:			
Feed (b)	3,322	6,093	-
Barley (b)	1,922	4,391	50
Rye (b)	-	1,045	152
Durum (b)	-	1,036	88
Beef (c)	79	604	39
Olive Oil (a)	-	63	26
Table Wine (b)	-	616	27
		million	
		litres	

(A further 320 million litres (approx) of wine has become wine alcohol now held in stock).

FOOTNOTES: Table Wine as at end October 1985. All other figures end March 1986.

(a) EC12

(b) EC10

(c) EC11 (not Portugal)



07. V.

CCBG



2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref: B/PSO/14188/86
Your ref: B/PSO/13568/86

6 MAY 1986

CD 65

Mr Michael,

Thank you for your letter of 24 April, together with the Prime Minister's Private Secretary's letter of 19 March setting out the remit to you to prepare a paper consolidating proposals on alternative uses for some agricultural land, as well as the encouragement of alternative employment in the Countryside.

I am happy for my officials to contribute to the discussions of the Working Party which you propose to ask one of your Deputy Secretaries to chair. It will, of course, be important to ensure that terms of reference are sufficiently comprehensive, and that my officials have an adequate opportunity to ventilate the various relevant DOE concerns. However, I am sure all that can be settled at official level.

For the moment, I can only say that I am delighted that arrangements are being made for a proper overview of what is a sensitive and highly important area for us all.

I think your letter somewhat overtakes the points raised in David Young's letter to me of 4 April about the same topic, and I assume that he will be replying direct to you about your latest proposals.

I am copying this letter to the Prime Minister, David Young, Malcolm Rifkind, Nicholas Edwards, John MacGregor and Sir Robert Armstrong. You may also, in the circumstances, wish to send a copy of the correspondence to Paul Channon.

Kenneth Baker

KENNETH BAKER

EURO POL CAP PT14.





cc/BG

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Michael Jopling MP
Minister for Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

2 May 1986

MGA

Dear Michael,

ALTERNATIVE LAND USES AND EMPLOYMENT IN THE COUNTRYSIDE

Thank you for sending me a copy of your letter of 24 April ^{at 11.45} to Kenneth Baker.

I am content for my officials to be represented on the working party you suggest to produce the report which the Prime Minister has commissioned. With regard to the possibility of public expenditure consequences which you mention, I suggest that the working party's remit should be to produce fully costed recommendations for reallocating expenditure within the existing PES provision. The question of additional provision could only be considered in the context of the Public Expenditure Survey alongside other Departmental claims and I would have to say at the outset that I see little prospect of being able to agree to any additional resources for this purpose.

I am copying this letter to the Prime Minister, Geoffrey Howe, Kenneth Baker, David Young, Malcolm Rifkind, Nicholas Edwards, Paul Channon and to Sir Robert Armstrong.

Yours ever,
John

JOHN MacGREGOR

EURO. POL. — C.A.P. — PE 14



graphically illustrated by chemical weapon development and by what he has said about the scale of the Soviet capability. It is estimated that the Soviet stockpile of chemical weapon agents totals 300,000 tonnes. It is a massive stockpile and the Soviet Union has a range of methods of delivering the weapons. I hope that every hon. Member recognises the crucial importance of deterring the Soviet Union from using that capability.

Mr. A. E. P. Duffey (Sheffield, Attercliffe): The Minister has said that a decision has yet to be taken by NATO defence Ministers and by ambassadors. The right hon. Gentleman knows that, if the defence review committee establishes today a new generation of chemical warfare weapons as a force goal, it will become a common Alliance objective, to which Britain will subscribe. Despite him saying that the United States hopes that it does not have to stock chemical weapons outside the United States, what are the storage implications for Britain in certain circumstances?

Mr. Stanley: There are no storage implications, until such time as the United States approaches Britain and requests that chemical weapons be based in this country. The United States has made no such request and it has made it clear that such a request would not be made in peacetime.

Mr. Neil Thorne (Ilford, South): Will my right hon. Friend confirm that it takes about three times as many men to perform a task in nuclear/biological/chemical kit than without it, and that if we have no such protection to afford our troops we shall require at least three times as many men as we already have? As the Soviet bloc already has three times as many men as we have, that would entail us having nine or 10 times the number of service men that we have now.

Mr. Stanley: I confirm what my hon. Friend says, which is that fighting a conventional war with one's own forces in NBC kit while the forces of other countries do not have to wear it would result in a serious degradation of one's conventional operating capability.

Mr. Roland Boyes (Houghton and Washington): Does the Minister accept that we on the Opposition Benches agree that there should be a comprehensive and verifiable reduction in chemical weapon stocks? Does he agree also that the talks in Geneva are not advancing quickly enough? Does he accept that there is something illogical, contradictory and obscene about the argument that we must increase the number of chemical weapons before we can begin to reduce their number? The Minister says that everyone agrees with that argument, but I think that no one agrees with it.

Mr. Stanley: I see nothing obscene in the proposition that we should give ourselves the basic deterrent capability to ensure that these profoundly evil weapons are not used against our own people, whether civilians or service men, in western Europe.

Mr. Patrick Cormack (Staffordshire, South): Is my right hon. Friend aware that every sane person hopes that a complete ban can be achieved, and that anyone who has

seen the extra vulnerability of our troops on the sparsely populated northern flank that would stem from the extra protective clothing that they would have to wear to withstand chemical weapons will understand at a stroke how expensive and disastrous a policy of unilateralism would be?

Mr. Stanley: I am grateful to my hon. Friend. He is entirely right to reflect on what he has seen and on his own experiences on the northern flank. Fighting in aircraft or in armoured vehicles on the ground in NBC kit would severely degrade our operating capability.

Mr. Eric Deakins (Walthamstow): Why is NATO being asked to endorse these appalling new weapons for United States forces in the USA when it was not asked for its views on the introduction of the SDI or the updating of the American nuclear strategic deterrent?

Mr. Stanley: As the hon. Member knows, there have been detailed discussions with all the NATO countries on the SDI programme. He will be aware that it was one of the requirements for congressional approval, and a reasonable one, that the NATO countries, whose deterrent would be added to by these weapons, endorsed a force goal indicating that they favoured the deployment.

Mr. Anthony Nelson (Chichester): Does my right hon. Friend accept that some of us who are the staunchest proponents of our nuclear strategic deterrent are nevertheless gravely concerned about the wisdom of developing and building up a stockpile of ever more hideous and novel means of killing one another? Will he confirm that, whatever decision the United States takes about acquiring and building up such a stockpile on its own territory, the Government will be no party to the acquisition of those stocks in peacetime by other NATO states?

Mr. Stanley: One can speak only for this country, and as I have made clear, there is no question of the deployment of American binary munitions in the United Kingdom in peacetime. It is of paramount importance that the NATO countries, and in this case the United States, maintain a viable deterrent capability against the formidable chemical weapons stockpile that the Soviet Union has acquired.

Mr. D. E. Thomas (Meirionnydd Nant Conwy): Is it conceivable that these weapons will be brought to Caerwent to the United States arms dump in a time of emergency? Has the Minister's deterrence argument developed into an argument for continuing modernisation of the deterrent capability? How will a chemical deterrent deter the Soviet Union, and how is that an additional component to the existing nuclear deterrent? Will he explain this development in his deterrence theory?

Mr. Stanley: I hope that the hon. Gentleman will cast his mind back 40 years, and recall that perhaps it was because both sides had a chemical warfare capability that chemical weapons were never used between 1939 and 1945.

Agriculture Council

3.48 pm

The Minister of State, Ministry of Agriculture, Fisheries and Food (Mr. John Selwyn Gummer): With permission, I will make a statement about the meeting of the Council of Agriculture Ministers which took place in Luxembourg from 21 to 25 April 1986. I attended this meeting with my right hon. Friend the Minister, who is, unfortunately, ill and not able to be present in the House. After negotiations which lasted throughout the week, the Council reached decisions on farm support prices and related measures for 1986-1987.

The basis of the agreement is a freeze in common support prices, with substantial price reductions for certain Mediterranean products, in particular tomatoes and tobacco. Following recent currency developments, some changes in green rates were indicated. It was, however, important that these were not of such a size that they undermined the policy of price restraint. For this reason, the United Kingdom supported devaluations of the green pound, the green franc and the green punt which will increase support prices in national currencies by 2.75 per cent. in the livestock sector and by 1.35 per cent. in the arable sector.

Turning to specific commodities, the United Kingdom has been particularly concerned about the growing surplus of cereals, and we made it clear at the beginning of the negotiations that we intended to press for effective changes to the existing regime on a fair basis. I am pleased to say that the changes we have agreed in the intervention arrangements and in quality standards, together with the introduction of a 3 per cent. co-responsibility levy, will have the effect of substantially reducing the effective level of support. The co-responsibility levy has been agreed for five years, with provision for a report by the Commission after two years on how the system is operating. As the House knows, we would have preferred a straight cut in the price for cereals. However, the co-responsibility mechanism as agreed is a substantial improvement on the simplification of the Commission's original unsatisfactory proposals.

The levy will apply to cereals sold into intervention and act as a direct price cut, with a real effect on the market. The levy will be collected at the processing stage, but cereals processed on the farm will be excluded. We would expect to pay a proportion of the total levy which is close to our share of Community cereals production. An aid for small cereals producers will be introduced. The detailed arrangements for this remain to be decided.

The Commission's original proposals included an unsatisfactory price structure for barley and a big increase in the average threshold price for maize. We secured changes in the Commission's proposals to remove the barley price distortion and to provide for a lower increase in the average maize threshold price.

The support levels for rapeseed and sunflower seed will also be reduced, if the crops in the Community exceed a prescribed maximum guaranteed quantity.

The reduction in cereal prices will be of particular benefit to pig and poultry producers. The final form of the monetary compensatory amount reductions in this sector have yet to be decided, and the Commission will be submitting proposals on this in the near future. In the

meantime, increases in negative MCAs for pigs, eggs and poultry resulting from the recent realignment will be suspended until 1 June 1986.

For milk, I am glad to say that we resisted considerable pressure for a price increase. In addition, the Commission's proposal to change the fat-skim ratio was dropped. This will avoid adding to the costs of those food manufacturers who use skimmed milk.

Despite the very real steps taken by the European Community to reduce the milk surplus, culminating in the introduction of quotas, the Community is still a substantial over-producer of milk. Therefore, the United Kingdom was determined to secure a further reduction and so to cut this surplus. We were, however, insistent that the burden should fall equally on all member states. I am glad to say that, in the face of strong opposition from a number of countries, a further 3 per cent. cut in milk quotas was agreed. This will be effected over the next three years, initially through a Community buyout scheme, but if this voluntary system is not effective in all member states, it will be underpinned by compulsory reductions.

The maximum compensation chargeable to the Community budget for this scheme will be about 18p a litre over seven years. But each member state will be able to set the rate of payment according to its own circumstances. There is also provision for national schemes to continue alongside the Community scheme. We secured a provision which allows larger dairy farmers to sell part of their quotas under this scheme. Additionally, the arrangements to offset under-production of quota in one region against over-production in another will continue for a third year. This has given useful flexibility in the United Kingdom in each of the first two years of quotas.

For beef, we succeeded once again in securing an extension of the beef variable premium scheme unchanged. The maximum rate expressed in sterling will be increased as a result of the green rate devaluation. The Commission's proposals for reforming the regime for beef are to be further studied by the Council, with a view to the decisions being taken by the end of this year.

For sheep, we insisted on the removal of the proposed limit to the number of ewes per farm qualifying for the annual premium. We also secured the removal of the proposal to amalgamate Northern Ireland and the Irish Republic into a single region for the purpose of calculating ewe premium.

Turning to the budgetary costs, the Commission indicated that the package as a whole will produce a total saving over 1986 and 1987 of 777 million ecu, a saving of 118 million ecu greater than would have been achieved under the Commission's original proposal. There remains, however, a serious problem about the substantial additional costs resulting from changes in the relationship between the ecu and the dollar and from the realignment of currencies. In supporting the settlement, we made it clear that its budgetary implications would have to be referred to the ECOFIN Council. They are being considered today by the Council, which my right hon. Friend the Chancellor of the Exchequer is attending. We shall continue to seek a thorough examination of the scope for savings to minimise any supplemental budget this year.

Overall, this price fixing has produced a highly satisfactory outcome and one that follows closely the approach endorsed by the House, without opposition, on 10 March. The pressure on support prices in the

Community has been maintained. In particular, the effective reduction agreed for cereals marks an important step in the battle against surplus production. The outgoers scheme for milk is the next stage in bringing about a better balance between production and consumption.

By devaluing the green pound, we have ensured that our farmers are treated fairly in relation to producers elsewhere in the Community, including particularly France and Ireland. We have removed from the original package those key elements of discrimination to which this House rightly took such exception — the 25 tonne exemption for cereals and the limits on headage payments for beef cattle and sheep. Moreover, this settlement will have a negligible effect on food prices, which are, in any case, continuing to rise less than the rate of inflation. The package therefore represents a further significant step towards improving the common agricultural policy while safeguarding the competitive position of our own farmers. It is therefore good for Britain and good for Europe.

Mr. Brynmor John (Pontypridd): I thank the right hon. Gentleman for his statement, the arrangement of which was conducted with all the consideration that we have come to expect of the Government.

Is the figure which the right hon. Gentleman has cited of 18p a litre over seven years correct? In my copy of the statement the figure is 17p a litre. The right hon. Gentleman will appreciate that other additions to the final draft were not communicated to me.

Will the right hon. Gentleman pass on to the Minister of Agriculture, Fisheries and Food our good wishes for his recovery from illness? Clearly, the Minister was suffering from the long Report and Third Reading stages of the Agriculture Bill. I am sorry that he is not in his place.

I welcome the ewe premium which I thought at first was the first step in the Government's farm woodlands policy because "ewe" was spelt "yew" in my copy. I welcome the retention, however temporarily, of the beef variable premium. It would make no sense in the present climate if the Community scrapped the only policy among all its regimes that is good for farmers and consumers. I welcome also, because the measure was included in our amendment to the legislation on the milk outgoers scheme, the ability to surrender part of the milk quota.

The central judgment on this package depends on what it does to solve the long-term problems of the common agricultural policy. The Minister of State did not merely say that that was the best we could do in all the circumstances; he rhapsodised about it, saying that it was "good for Britain and good for Europe."

Other comments suggested that the package was a major step forward. It seems to be a case of optimism overcoming experience.

To describe the package in that way, the right hon. Gentleman must have some vision. Will it lead to a cut in the production of surplus commodities and, if so, by what percentage? If the right hon. Gentleman merely says that he will cut the rate at which the surpluses increase, I must tell him that that cannot possibly justify his description, because surpluses will continue to increase at a slower rate than previously. If the measures will not lead to a cut in production, does that not mean that, once again, Agriculture Ministers have dodged their responsibilities for a further year and have just looked at the matter on the basis that it will never arise?

What is the budgetary effect of all the measures? I have heard a great deal about the savings which are supposed to be effected. Does the Minister confirm that the effect of the loss in value of the American dollar means that £1 billion will be added to the agricultural budget of the EEC or, is it, as *Agra Europ* said this morning, £1.5 billion? If that is so, how is it to be paid for? Is it to be paid for by even further cuts in the present miserable regional budget or is it to be paid for by extra income? Will the right hon. Gentleman give an assurance to the House that under no circumstances will the EEC raise the take it has from the VAT in the current year, at present 1.4 per cent.? That is a crucial question. It was raised during the debate on the subject and it is a question which I think that the Minister has to answer.

On the milk outgoers scheme, is the Minister satisfied that the amount under the European scheme, whether 17p or 18p a litre over seven years, is sufficient to attract voluntary yielding of the amount of production? A large number of people believe that it is not. Therefore, resort to compulsion will be necessary. In which case, how is that to be done? I hope that the tenants' share of the milk quota is not to be based upon the formula that was suggested in the new clause to the Agriculture Bill for outgoing tenants.

I put to the Minister the fundamental irrelevance of the co-responsibility levy on cereals. It did not work on milk, so why should we think that it should work on cereals? What will the scheme do? As I understand it, it imposes only a percentage tax which is half as great as that which is necessary to make it self-supporting and after all, that is the basic tenet of a co-responsibility levy.

The Minister has mentioned the effect on consumers of devaluation of the green pound. One thing is clear, although he said that the overall effect is minimal; we will have to wait and see, but, according to the Minister, butter is to go up by 1p to 1½p a pound. How will that affect the hard-pressed dairy industry? We talk about a surplus to requirements of 16 per cent. but if raising the butter price reduces consumption even further, will he not be compounding the problem of the dairy industry?

I conclude that the Government have been a party to a package which shirks the underlying long-term problems of the farm industry. When will the Council face up to the problems? Does it not mean that agriculture deserves more candour from its Minister, Europe-wide, than it is getting at present?

Mr. Gummer: If we were to have said in advance of the price fixing that we would have moved so far and made such major changes, many Opposition Members would have denied that possibility. They would have said that we were suggesting a major change which could not have been achieved. Therefore, I think that it is a little churlish of the hon. Gentleman to talk about a situation in which we have ensured that every nation has accepted what could be, if they did not get a voluntary agreement, a compulsory cut in their production of milk.

We have a co-responsibility levy which will have a direct effect on prices, we have stopped the pressures for price rises in milk, we have seen that there have been substantial price cuts in Mediterranean products and we have seen that there has been a 777 million ecu reduction in what would otherwise have been the cost. We have done

[Mr. Gummer]

all those things and we have set this example within a change in the green pound rate which is less than might have taken place and less than many countries pressed for.

I agree with the hon. Gentleman that we will not solve all our problems by what we have done. When one is trying to move from massive surpluses, one can do so only in a way which gives the industry the time to make the necessary changes. There are limits to the weight one can put on farmers in any one year. If one looks at the substantial reduction in the price of cereals this year—cereals which have already been planted and the input costs of which have already been carried—one has to say that there is another side to the argument.

The hon. Gentleman will have to answer the farmers who will ask whether he was suggesting that, despite the increase in import costs and the reduction in the price of cereals, he would have increased the burden on farmers in this country. That is what the hon. Gentleman is saying. I hope that he will say that now in West Derbyshire and Ryedale and make clear exactly what he means. He clearly means the kind of weight reduction which it would have been impossible for farmers to bear in one year.

Of course, the hon. Gentleman is right to push us and see that we go on pressing for this change. However, there is a substantial change which we might not have expected otherwise. It would have been right for him to mention the extension of the BVPS. He made it sound as if that was an easy operation. Every year it causes difficulty because it is a system which we approve of but which other countries do not find acceptable. On this occasion, not only is it unchanged but clearly, its continuation is linked to the emergence of a new beef regime. It will be for us to see that we get a beef regime which suits the Community and Britain especially.

The hon. Gentleman specifically asked about the VAT. There is no question of breaking the VAT ceiling in 1986 and 1987. The Commission recognises that both the 1986 and 1987 budgets must stay within the 1.4 per cent. ceiling. We made that clear and it was clearly written into the minutes.

We believe that there is a difficulty with the milk outgoers scheme. I am sure that the hon. Gentleman will agree that, whatever price it is fixed at, one does not want to be spending more money than one needs to spend to get milk producers out. However, one must have enough, and we think that we have struck the right balance. We will be holding discussions with the National Farmers Union.

Of course the co-responsibility levy is not the way we would like to have done it. The hon. Gentleman is right. We would have preferred to have a direct price reduction. However, we have established a form of co-responsibility which is much fairer between the countries and which has many more of the effects of a direct cut in prices. That must be good.

The hon. Gentleman is right about the amount of the rise in the price of butter. It will be balanced by other reductions. I agree that we would like to have seen a reduction in the price of butter; that was our policy and we failed to achieve it. However, we achieved almost every other item on the milk side. I agree with the hon. Gentleman's comments about the increase in the price of butter. However, I think that it is only fair for him to say

that it is just as certain that there will be ~~other~~ other reductions. That is why the situation generally will be somewhat neutral.

Several hon. Members rose—

Mr. Speaker: Order. I have to take into account that we have a heavy day in front of us. I will allow equal time for Back Benchers—that is to say, 20 minutes for questions. I hope that in that time I may be able to call everybody.

Mr. Teddy Taylor (Southend, East): As we were told last year that strict budgetary controls were binding in the Council, can the Minister explain why, in the first year of restraint, he has passed a package which exceeds those controls? Can he also say what steps he is taking to ensure that those who are compensated for moving out of milk production will not begin to produce other commodities which are already in chronic surplus?

Mr. Gummer: On the second point, my hon. Friend knows that there are no rules to stop people going into other forms of production. We are concerned to get people moving into things which are not in over-production and we are trying to arrange the regime so that we reduce the scope and the advantage of producing in those areas. My hon. Friend is perfectly right. There is no way in which we can stop people moving into another form of over-production.

On the first point, I made it perfectly clear that the budgetary implications of this are being discussed at this moment at ECOFIN. However, the Commission has made it clear that it is intended that the budgets should be kept within the guidelines.

Mr. Richard Livsey (Brecon and Radnor): May I first send good wishes to the Minister, who I realised last week was suffering from ill-health. I wish him well.

We welcome the retention of the variable premium what has been done with the sheepmeat regime and the devaluation of the green pound. That does not seem to be quiet sufficient. None the less, it is a move in the right direction. We are concerned that there appears to be no real resolve in the Community to reduce the surpluses. That especially applies to cereals. I believe that the Minister's estimate of 770 million ecu is somewhat at variance in that he said that it was a reduction. The estimates, by all accounts, appear on the supplementary budget which looks likely to come before us as a result of the settlement, and it could be an increase of 1.5 billion ecu or possibly 2.5 billion ecu, depending on the estimates. That is a serious problem. Sometimes farmers who most need support are not getting it, whereas the support prices are increasing the surpluses. Can the Minister make that clear?

Mr. Gummer: The hon. Gentleman cannot have it both ways. He cannot on the one hand, object to the fact that the devaluation is not great enough, and, on the other, say that we are not trying to deal with the problems of surplus. He must accept that it was not sensible to have so large a devaluation that it would undermine the price part of the package. That would be unacceptable. The hon. Gentleman must get his act together on this. I realise that it would have been more electorally advantageous among the farming community to have a larger devaluation, but I think that those in the farming community understand that this was the right balance—to take into account the



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

From the Minister's Private Office

Tim Flesher Esq
No 10 Downing Street
London SW1
1986

28 April

Dear Tim

I enclose a draft of the statement that, in my Minister's absence, Mr Gummer intends to make this afternoon on the outcome of the Council of Agriculture Ministers' meeting held in Luxembourg last week. I should be grateful for immediate clearance.

I am copying this to Bernard Ingham (No 10), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), Rhodri Walters (Chief Whip (Lords) Office), Michael Stark (Cabinet Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Joan MacNaughton (Lord President's Office) and to Private Secretaries to other Agriculture Ministers and to Members of OD(E).

*Yours ever
C I Llewelyn*

C I LLEWELYN
Private Secretary

COUNCIL OF AGRICULTURE MINISTERS, 21/25 APRIL 1986

DRAFT STATEMENT

With permission, Mr Speaker I will make a statement about the meeting of the Council of Agriculture Ministers which took place in Luxembourg on 21/25 April 1986. I attended this meeting with my Rt Hon Friend, the Minister, who is, unfortunately ill today and not able to be present.

After negotiations which lasted throughout the week, the Council reached decisions on farm support prices and related measures for 1986/1987.

The basis of the agreement is a freeze in common support prices, with substantial price reductions for certain Mediterranean products, in particular tomatoes and tobacco. Following recent currency developments, some changes in green rates were indicated. It was, however, important that these did not undermine the policy of price restraint. For this reason, the United Kingdom supported devaluations of the green pound, the green franc and the green punt which will increase support prices in national currencies by 2.75% in the livestock sectors and by 1.35% in the arable sectors.

Turning to specific commodities, the United Kingdom has been particularly concerned about the growing surplus of cereals, and we made it clear at the beginning of these negotiations that we intended to press for effective changes to the existing regime on a fair basis. I am pleased to say that the changes we have agreed in the intervention arrangements and in quality standards,

together with the introduction of a 3% co-responsibility levy, will have the effect of substantially reducing the effective level of support. The co-responsibility levy has been agreed for 5 years, with provision for a report by the Commission after 2 years on how the system is operating. As the House knows, we would have preferred a straight cut in the price for cereals. However, the co-responsibility mechanism as agreed is a substantial improvement and simplification of the Commission's original unsatisfactory proposals. In particular, the levy will apply to cereals sold into intervention and act as a direct price cut, with a real effect on the market. The levy will be collected at the processing stage, but cereals processed on the farm will be excluded. We would expect to pay a proportion of the total levy which is close to our share of Community cereals production.

An aid for small cereals producers will be introduced. The detailed arrangements for this remain to be decided.

The Commission's original proposals included an unsatisfactory price structure for barley and a big increase in the average price for maize. We secured changes in the Commission's proposals to remove the barley price distortion and to provide for a lower increase in the average maize threshold price.

The support levels for rapeseed and sunflower seed will also be reduced if the crops in the Community exceed a prescribed maximum guaranteed quantity.

The reduction in cereal prices will be of particular benefit to pig and poultry producers. The final form of the MCA reductions in this sector have yet to be decided, and the Commission will be submitting proposals on this in the near future. In the meantime, increases in negative MCAs for pigs, eggs and poultry resulting from the recent realignment will be suspended until 1 June 1986.

For milk, I am glad to say that we resisted considerable pressure for a price increase. In addition, the Commission's proposal to change the fat:skim ratio was dropped. This will avoid adding to the costs of those food manufacturers who use skimmed milk.

Despite the very real steps taken by the European Community to reduce the milk surplus, culminating in the introduction of quotas, the Community is still a substantial over-producer of milk. The United Kingdom was determined to secure a further reduction and so to cut this surplus. We were, however, insistent that the burden should fall equally on all Member States. I am glad to say that, in the face of strong opposition from a number of Member States, a further 3% cut in milk quotas was agreed. This will be effected over the next 3 years, initially through a Community buy out scheme, but if this voluntary system is not effective in all Member States, it will be under-pinned by compulsory reductions. The maximum compensation chargeable to the Community budget for this scheme will be 4 ECU per 100 kg over 7 years. But each Member State will be able to set the rate of payment according to its own circumstances. There is also provision for national schemes to continue alongside the Community scheme. We secured a provision which allows larger dairy farmers to sell part of their quotas under this scheme.

Additionally, the arrangements to off-set under-production of quota in region against over-production in another will continue for a third year. This has given useful flexibility in the United Kingdom in each of the first two years of quotas.

For beef, we succeeded once again in securing an extension of the Beef Variable Premium Scheme unchanged. The maximum rate expressed in sterling will be increased as a result of the green rate devaluation. The Commission's proposals for reforming the regime for beef are to be further studied by the Council with a view to the decisions being taken by the end of this year.

For sheep, I insisted on the removal of the proposed limit to the number of ewes per farm qualifying for the annual premium. I also secured the removal of the proposal to amalgamate Northern Ireland and the Irish Republic into a single region for the purpose of calculating ewe premium.

Turning to the budgetary costs, the Commission indicated that the package as a whole will produce a total saving over 1986 and 1987 of 777 million ECU, a saving of 118 million ECU greater than would have been achieved under the Commission's original proposal. There remains, however, a serious problem about the substantial additional costs resulting from changes in the relationship between the ECU and the dollar and from the realignment of currencies. This is being considered today by the ECO-FIN Council, which my Rt Hon Friend, Chancellor of the Exchequer is attending.

Overall, this price fixing has produced a highly satisfactory outcome. The pressure on support prices in the Community has been maintained. In particular, the effective reduction agreed for cereals marks an important step in the battle against surplus

production. The Outgoer's Scheme for milk is the next stage in bringing about a better balance between production and consumption. By devaluing the green pound, we have ensured that our farmers are treated fairly in relation to producers elsewhere in the Community, including particularly France and Ireland.

We have removed from the original package those key elements of discrimination to which this House rightly took such exception - the 25 tonne exemption for cereals and the limits on headage payments for beef cattle and sheep. Moreover, this settlement will have a negligible effect on food prices, which are, in any case, continuing to rise less than the rate of inflation. The package, therefore, represents a further significant step towards improving the Common Agricultural Policy while safeguarding the competitive position of our own farmers. It is therefore good for Britain and good for Europe.



Rose Thistle



CD

CCP

Qz 05014

MR WICKS (10 Downing Street)

EUROPEAN COMMUNITY : AGRICULTURAL PRICE PACKAGE

The Agriculture Council has concluded on the following basis

- a price freeze on Community support prices with some selective cuts mainly on products of particular interest to Mediterranean producers (eg tomatoes)
- a change in the green pound giving a reduction in monetary compensatory amounts of about 1.5 per cent for cereals and other crops and 3 per cent for some livestock products. This means that United Kingdom farmers' support prices will rise by about these amounts in national currency. There are also changes in green rates for other countries with negative monetary compensatory amounts, eg France, Ireland and Italy, some of which differ slightly from the British figures. The Federal Republic of Germany and the Netherlands get nothing but the price freeze, although we assume that some national measures will be taken at least by the Germans
- there is a weakening of intervention for cereals
- the milk outgoers' scheme, which involves a phased cut of 3 per cent in milk quotas, goes ahead
- the discriminatory elements on beef and sheepmeat are totally removed
- the cereals co-responsibility levy is introduced at 3 per cent applicable to cereals going for processing, intervention or export. There is provision for some financial support for small cereals producers
- the total package gives an estimated budgetary saving of 320 million ecu in 1986 and 457 million ecu in 1987



- the Commission gave the required assurances that their proposals on the supplementary budget for 1986 and the budget for 1987 would be within the 1.4 per cent VAT ceiling.
- Mr Jopling made clear that the financial situation must be examined in the ECOFIN Council on 28 April and this was agreed.

This is the best information available to us from the delegation after the extremely long meeting, mostly in very restricted session. Fuller details will be available by telegram later today.

I am sending copies to Colin Budd (FCO), Rachel Lomax (Treasury), Ivor Llewelyn (MAFF) and to Sir Robert Armstrong.

D F WILLIAMSON

25 April 1986

CC *PS*C DP
24/6.**CONFIDENTIAL**

The Rt Hon Kenneth Baker MP
Secretary of State for the Environment
2 Marsham Street
London
SW1 3EB

24 April 1986

You wrote to me on 18 March about the consequences in the countryside of possible changes in agricultural support. You have also had a comment on the same subject from David Young in his letter of 4 April. I have been giving some thought as to how we might carry these matters forward.

It is relevant that, since you wrote your letter but before I had received it, the Prime Minister held a meeting to discuss our longer term strategy for reforming the operation of the Common Agricultural Policy. A note of that meeting appears in the Prime Minister's Private Secretary's letter of 19 March which I am circulating with this letter to those who have not already seen it. As you will see, the Prime Minister asked me to prepare a paper consolidating proposals on alternative uses for some agricultural land as well as the encouragement of alternative employment in the countryside.

In the second place, the Commission has now presented to the Agriculture Council a series of proposals. They include a pre-pension scheme for farmers over 55, schemes to encourage young farmers, amendments to the existing Less Favoured Area provisions, a development, of the environmentally sensitive area proposals and other measures relating to forestry, marketing, training and research and development. Clearly we shall need to consider these proposals. To the extent that they move in directions which we would find attractive here, it will be sensible for us to incorporate them into our own thinking. Indeed, it will be important to ensure that we neither put our own producers at a competitive disadvantage nor find ourselves carrying the burden of adjustment on behalf of the rest of the Community.

There are of course a number of inter-woven strands. We have been doing much work on possible set-aside schemes for taking land out of cereals production, and a paper on this subject has been circulated at official level. In addition the Forestry Commission and we have been working on the role of afforestation and farm woodlands for land no longer required for agriculture; and similarly work

is going on on alternative crops of agricultural commodities not in surplus. There is also the implementation of the concept of "environmentally sensitive areas" contained in the Agriculture Bill. The impact on rural employment which all this might have must be considered, together with the encouragement both of diversification of on-farm employment and of alternative employment in rural areas.

Some of this work will have to proceed on the basis of timetables already laid down or the exigencies of the Brussels machine. But it clearly would be useful for us to have an overview as envisaged at the Prime Minister's meeting. What I intend to do, therefore, is to ask Ted Smith, one of our Deputy Secretaries here, to chair a working party which will proceed on the basis of the paper which the Prime Minister has called for. I envisage including in the working party representatives of the other Agricultural and Forestry Departments, the Treasury, your own Department and the Department of Employment. Mr Smith will be in touch with the appropriate officials as soon as possible. He will aim to complete a report which we can then consider by the end of July.

I do not think it would be right, as David Young has suggested, for us to say anything in public at this stage. Quite apart from the obvious Treasury objection to any indications which might have public expenditure consequences, we really do not know what is likely to emerge from Brussels which would have a bearing not only on the extent of future changes in land use, but also on what Community measures might be available.

I am copying this letter to the Prime Minister, David Young, Malcolm Rifkind, Nicholas Edwards, John MacGregor and Sir Robert Armstrong.

MICHAEL JOPLING
(Approved by the Minister
and signed in his absence)



CONFIDENTIAL

Qz.05003

MR POWELL

CABINET, COMMUNITY AFFAIRS: AGRICULTURE

The Agriculture Council has not finished its meeting and is recommencing this afternoon for another night session. Mr Jopling will not be in Cabinet. The position is as follows:-

(i) the latest compromise maintains the basic price freeze (with an even bigger price cut of 10 per cent for tomatoes) and has removed completely the elements which discriminated against the United Kingdom on beef and sheepmeat. The milk quota cut of 3 per cent is now spread over 2 years (2 per cent and 1 per cent). The United Kingdom's beef variable premium scheme is not in the package but the delegation believes that we shall obtain its continuation;

(ii) on the cereals co-responsibility levy the situation is better than the Commission's original proposal but worse than the first compromise (which would have wholly removed the discrimination). Under the new proposal the co-responsibility levy would be paid on all cereals sold but there would be a separate scheme of aid for small cereal farmers. The net budgetary effect would be a saving of the same order as the original proposal (about 300 million ecu);

(iii) on green rates the Commission has proposed an additional change for the devaluing countries of 1 per cent on cereals and 2 per cent on the livestock products (there may be slightly different arrangements for pigs and poultry). This is modest but would, of course, be welcome to British farmers. The net effect is that farmers in the revaluing countries would continue to get nothing - Herr Kiechle has reacted sharply against this - and that farmers in the devaluing countries would get this additional element in national currency. The French are pressing for a green rate change of 4 per cent on livestock and 2 per cent on cereals;



CONFIDENTIAL

(iv) the Commission is estimating that the new package will knock 130 million ecu off the original saving of about 400 million ecu in 1986. This is within the agricultural guideline. The additional expenditure resulting from the fall of the dollar and the EMS realignment (irrespective of the package) is estimated at 1310 million ecu in 1986. Since we intend to maintain the 1.4 per cent VAT ceiling this means that about 520 million ecu would have to be pushed into 1987 or found by other reductions in expenditure.

Our advice is:-

(i) the package itself is modest and should have some restraining effect on production and, in due course, on costs. It is difficult to see how the Minister of Agriculture, Fisheries and Food could do better than this;

(ii) the additional costs arising from other factors are substantial and it is essential that we should get an undertaking from the Commission that these can be financed within the 1.4 per cent ceiling in 1986 and 1987. In our view this can be done by cuts on other costs (eg intervention stock financing) and, where necessary, by pushing some of the expenditure over.

I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

24 April 1986

P. J. Jones

CONFIDENTIAL

PRIME MINISTER

AGRICULTURE COUNCIL

There is some possibility that an attempt will be made to settle this year's agricultural price fixing in the European Community in the course of tonight in Luxembourg. There are three main problems for us:

- The Presidency compromise on the table does not maintain our Beef Variable Premium. This is a regular annual battle and we shall probably get it in the end.
- There is still provision for a co-responsibility levy for cereals which is unsatisfactory from our point of view (though not as bad as the original proposal). The levy would be applicable to all cereal producers but it would be paid back to small farmers (i.e. the Germans would benefit).
- There would be 2% devaluation in the green rate for animal products and 1% for cereals. This will create difficulties for the French who are demanding 4% and 2%.

If negotiations come to a head during the night, Mr. Jopling will have to consult the Chancellor urgently on a green rate devaluation. If they cannot agree there may be an appeal to you.

C.D.P.

(C.D. Powell)

23 April 1986

DCABDI

010



cc PC (2)

Qz 04988

MR POWELL (10 Downing Street)

Pine Minister
For once the

mt

European Assembly has
shown some common sense.
I wish I believed that
it would last.

EUROPEAN COMMUNITY : RESOLUTION OF THE EUROPEAN PARLIAMENT ON AGRICULTURAL PRICES

CDP 21/4

Over a period of years the European Parliament has passed a number of resolutions in favour of agricultural prices higher than those recommended by the Commission or acceptable to the United Kingdom government. It is worth noting that this year, against the opposition of most French and Irish members, the resolution broadly supports a price freeze; endorses the view that agricultural spending must grow less rapidly than own resources (the agricultural guideline); suggests that more agricultural expenditure should be from the guidance section (structural measures) rather than from the guarantee section, thus supporting a bigger element of national financing; recommends limits on the volume of cereals going into intervention, together with a limit on export refunds; and suggests a further cut in milk quotas. Other elements of the resolution - for example, special measures for small farmers - are not satisfactory for United Kingdom interests. Nonetheless, the change in the general approach is quite marked. The European Democratic Group, which provided the rapporteur (Mr James Provan), campaigned hard on this issue.

I am sending copies to Colin Budd (FCO), Ivor Llewelyn (MAFF) and Sir Robert Armstrong.

DF Williamson

D F WILLIAMSON

21 April 1986



CONFIDENTIAL

ccpc



NORTHERN IRELAND OFFICE
WHITEHALL
LONDON SW1A 2AZ

SECRETARY OF STATE
FOR
NORTHERN IRELAND

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street East
SW1

21 April 1986

Geoffrey

*CDP
22/4*

~~CAP~~ PRICE FIXING 1986

Michael Jopling wrote to you on 17 April with some proposals concerning the Green Pound. I strongly support his view that he should secure arrangements equivalent to those agreed for France and I would be very unhappy if the French obtained a different and better concession on pigs and poultry.

I note that Michael feels there may be a serious attempt to reach agreement on all the issues next week. I trust he will be able to negotiate the flexibility which I have requested in various letters to ensure that the income impact of the final settlement does not hit the Northern Ireland agricultural industry relatively more harshly than elsewhere. This is of course particularly relevant if the Commission bring forward definitive proposals for an EC Milk Outgoers Scheme.

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

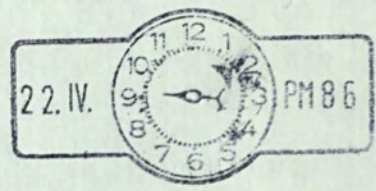
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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

JU54
Secretary of State for Trade and Industry

21 April 1986

The Rt Hon Michael Jopling MP
Minister of Agriculture,
Fisheries & Food
Ministry of Agriculture,
Fisheries & Food
Whitehall Place
London SW1

CDP
2/14

Dear Michael

EUROPEAN COMMUNITY: THE COMMON AGRICULTURAL POLICY

Thank you for sending me a copy of your letter of 14 April to Geoffrey Howe. *WILL REQUEST IF REQUIRE*

I am content with your proposal that we float in Brussels ideas on the lines you suggest for possible set-aside arrangements designed to tackle the problem of cereals over-production. In so doing, the linkage you rightly make with price restraint is central. Any cost-effective set-aside scheme must be aimed at securing greater price restraint than would otherwise have been negotiable. A set-aside scheme must not be seen as a substitute for action on prices - otherwise we run the risk of paying twice. We will therefore need to examine very carefully the parameters of any scheme (e.g "one-off" or "roll-over"?) that emerges out of talks in Brussels, and I welcome your suggestion of further discussions by officials as our ideas develop.

I am copying this letter to the recipients of yours.

[Handwritten signature]
[Handwritten signature]

PAUL CHANNON

1786
BOARD OF TRADE
BICENTENARY

ERKO POL
CAP



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ccpe



CONFIDENTIAL

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COP
2/6.

FM/86/106

MINISTER OF AGRICULTURE, FISHERIES & FOOD

European Community: The Common Agricultural Policy

1. Thank you for your letter of 14 April, enclosing a copy of your paper describing a set-aside scheme for taking land out of cereals production and seeking agreement that we put forward the key principles underlying such a scheme. *WILL REQUEST IF REQUIRED*

2. I think your paper is an imaginative and helpful contribution towards solving the problems of over-production in the most important sector of the CAP. I hope very much that a set-aside scheme such as you suggest can be made to work. As you say, further analysis of the variables is needed before we can finalise the details of a scheme and I hope that we can proceed very quickly on this.

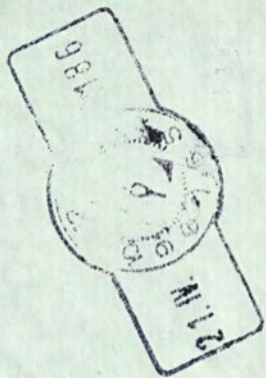
3. I note that our idea was aired in the High Level Group this week. I am sure we should continue to advance the merits of a scheme on the lines you propose even if it is not agreed immediately. In particular, it is a proposal we can pursue during our own Presidency. As you say, the crux is the link between set-aside and a restrictive price policy. We will need to give a firm steer to the Commission on the type of set-aside which we want to see. That in turn will depend upon a clearer assessment of the robustness of the scheme in relation to UK interests, at which we must look closely.

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

Foreign & Commonwealth Office
21 April 1986

GEOFFREY HOWE

CONFIDENTIAL



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CAF

PT 14

CCPC

CDP
21/4.FCS/86/ 103MINISTER OF AGRICULTURE, FISHERIES AND FOODCAP Price Fixing 1986

1. Thank you for your letter of 17 April suggesting tactics for the Agriculture Council next week in the event of a settlement on the 1986 CAP price fixing.
2. I note that in the new Presidency proposals it looks as if, in response to the representations we have been making, a number of the features in the Commission proposals which could have been discriminatory against us will be removed. This is encouraging.
3. I welcome your comments on budgetary discipline and the involvement of ECOFIN. I consider it of the greatest importance that you should make clear to the Presidency, Commission and other Member States throughout this negotiation that there can be no question of the 1.4% ceiling being exceeded in 1986 or 1987 and that there will be no additional funds available next year.
4. On the question of green rates, I note that the French appear to realise that they will have to accept a two-stage devaluation and I hope that the Commission will propose a devaluation this year below the 4% they are seeking.

/5. I have



5. I have seen what Nigel Lawson has to say in his letter of 18 April about your proposal that the green rate for the pound should be devalued to the same extent as any devaluation for the French; I have much sympathy with the important point that he makes. While our farmers must not be disadvantaged, there will have to be a careful evaluation of the costs. Our efforts in any event should be directed to ensuring that any devaluation is as modest as possible. Obviously we must avoid declaring our hand on a green rate devaluation until we have reached an agreed view.

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

A handwritten signature in black ink, appearing to read 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

FOREIGN AND COMMONWEALTH OFFICE

21 April 1986

EURO POL

CAP PT 14



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cap



Qz04991

MR POWELL (10 Downing Street)

cc Mr Stark
Mr Holroyd
Mr Jay

EUROPEAN COMMUNITY : AGRICULTURAL PRICE FIXING

with
COP?

We spoke about the Minister of Agriculture, Fisheries and Food's letter to the Foreign and Commonwealth Secretary on 17 April. In case you wish to intervene in order to record the Prime Minister's views, a short draft letter is attached.

D F Williamson

D F WILLIAMSON

21 April 1986

cc: FCO
HMT
DTI
LOP
MS/FCO.



bc PC

10 DOWNING STREET

From the Private Secretary

21 April 1986

Dear Ivor,

EUROPEAN COMMUNITY: AGRICULTURAL PRICE FIXING

The Prime Minister has seen a copy of your Minister's letter of 17 April to the Foreign and Commonwealth Secretary and of the Chancellor of the Exchequer's letter of 18 April. She has commented that, if there are to be green rate changes which have the effect of increasing some prices in national currencies, it is all the more important to maintain a tough stance on Community price levels and to get some weakening of intervention.

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

Yours sincerely,

Charles Powell

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



Restrictions in
Europe would require
a double

(1)

10 DOWNING STREET

From the Private Secretary

CAP Rice Fixing intervention
proposed

The Chancellor refuses to be
bounced by Mr. Jopling into
giving a commitment now to a
Green Pound devaluation. He obviously
fears that it will remove any
incentive to restrict toughly. He
points to the horrendous
implications for the Community Budget
(e to extra £50 million on public
expenditure).

At the end of the day, there

will have no - be a green
pound devaluation. And politically
I doubt if you can accept
British farmers getting less than
the French.

But you won't want to
undermine the Chancellor. Agree
not to express any view at
this stage? - other than

CDD
18/4

that of the
top of the

note
not

CONFIDENTIAL



CPC

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

18 April 1986

The Rt Hon Michael Jopling MP
 Minister of Agriculture, Fisheries & Food
 Whitehall Place
 LONDON SW1A 2HH

Dear Minister,

CAP PRICE FIXING 1986

Thank you for sending me a copy of your letter to Geoffrey Howe about possible green currency devaluations.

will request if req'd.

I can understand your concern that UK farmers should not be treated less favourably than their French counterparts in any green currency devaluation. Circumstances in the two countries are, however, different, since sterling floats outside the exchange rate mechanism and our MCA is therefore variable. Moreover, we have to consider the possibility of green currency devaluations in the context of budget discipline, the observance of which is a major UK objective in the price fixing negotiations. You state that the devaluation package outlined in your letter would cost 240 mecu this year and twice this amount in a full year. The Commission have also said that the EMS realignment has an immediate impact on the budget of 388 mecu this year and 664 mecu next year. Although we think the latter figures are overestimates, these costs are potential additions to the overrun of agricultural expenditure this year. The Commission put this at 790 mecu in February, but since then the dollar has fallen further against the ecu and they did not make any allowance for the possibility of the Agriculture Council increasing the cost of the price proposals. There is, therefore, the threat of a very large overrun of agricultural expenditure this year, which, given the other pressure for extra spending, could even pose a threat to the 1.4 per cent VAT ceiling.

A devaluation of the green pound would also increase UK public expenditure. I understand that your officials have calculated that the effect could be to increase IBAP's expenditure in 1986-87 by over £50 million.

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It is essential, therefore, that we do not adopt a position on green currency devaluations which simply adds to the pressures on the Budget. Instead you should point to the potential costs of a devaluation, to all the competing pressure for additional expenditure and to the necessity of reaching an overall settlement consistent with the 1984 budget discipline agreement. You should put the onus on those who are seeking devaluations to say how the cost is to be absorbed within the budgetary limits. It follows from this that I could not agree to your supporting any devaluations, even modest ones, until the shape of a possible overall package has emerged and our officials have had a chance to examine its consistency with budget discipline and with the 1.4 per cent VAT ceiling, and its implications for domestic public expenditure. You should, in any case, insist that decisions in the Agriculture Council should be provisional pending consultation with the Ecofin Council on the reference framework for 1986 and the financial guideline.

To summarise my views:

- i. you should give no hint that the UK government is seeking a devaluation;
- ii. you should stress the need for restraint on prices, the budgetary constraints, the cost of green rate devaluations and the need to weigh this option against the costs of an overall settlement;
- iii. you should ask the Commission for its estimates of the budgetary costs of varying degrees of devaluation;
- iv. without prejudice to our basic position, you should argue for any devaluation to be small;
- v. the UK's final position on a devaluation should not be decided until my officials have had a chance to study the EC and domestic costs of an overall settlement;
- vi. you should remind your colleagues that the Agriculture Council should not take decisions on the price fixing which would break the reference framework or financial guideline without first consulting the Ecofin Council.

If it looks as if the Agriculture Council is moving towards a provisional settlement next week there will need to be further consultations with my officials and with me on any proposal for devaluations, as well as on the budgetary implications generally.

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

John Major

Nigel Lawson

NIGEL LAWSON

approved by the Chancellor & signed in his absence



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

18 April 1986

The Rt Hon Michael Jopling MP
Minister of Agriculture, Fisheries & Food
Whitehall Place
LONDON SW1A 2HH

COP
2/14.

Dear Minister

CEREALS SET ASIDE

WILL REQUEST
IF REQUIRED

Thank you for sending me a copy of your letter of 14 April to Geoffrey Howe.

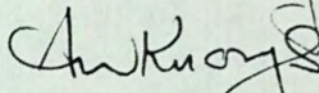
I am content for you to float your ideas on set-aside in general terms in Brussels and, subject to clarification of various points at official level, to follow up by putting more detailed proposals to the Commission. My officials are still discussing with yours estimates of the UK Exchequer costs but it does look as if a set-aside scheme, on the basis of the specifications and assumptions set out in your paper, would be cost-effective compared with a situation in which the Council failed to take effective action to curb cereals production. I have to point out, however, that these "savings" would not prevent expenditure in this sector rising further and posing problems for budget discipline.

The chances are that the details of any scheme which emerged from a negotiation in the Agriculture Council would differ, possibly substantially, from the model we favour. This could affect significantly its cost-effectiveness in EC and domestic terms and it is important therefore that our officials complete urgently their analysis of the sensitivity of the results to changes in the details of the scheme so that we can identify our minimum requirement for an acceptable scheme. Two of the requirements that I would like to emphasise particularly are the need for a set-aside scheme to be firmly linked to a severe price policy and for there to be a high rate of national financing. It would also be wise in further analysis of this option to pay careful attention to the US experience with set-aside, which has not been entirely happy.

I am asking my officials to report back to me on the Exchequer effects of set-aside and on the results of the sensitivity analysis.

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

Yours sincerely



pp NIGEL LAWSON

(approved by the Chancellor)





From the Minister

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Downing St East
SW1

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

C/PC
①

Prime Minister
Mr. Topping agrees that we should
go for a devaluation of the Green
Pound no less favourable than whatever
for the Green Franc.

The Council should have a
done to commit. But 17 April 1986
subject to his views, are
you content with that?

Dear Secretary of State

COP. 7/4
Yes no

CAP PRICE FIXING 1986

It has become clear in the last few days that there may be a serious attempt at next week's Council to reach agreement on CAP prices and related matters. We have agreed in OD(E) our line for the negotiations except on green rate changes where it was noted at the Prime Minister's meeting on 19 March that following a realignment it would be necessary to look at a possible green pound adjustment. Next week's meeting is in any case to discuss the agrimonetary issue and I shall need to be clear on our approach to this.

M. Guillaume made it clear to us this week in Paris that the French will be seeking a two stage devaluation. At the present price fixing, they want:-

- (a) to devalue the green rate applied for commodities except pigs and poultry sufficient to reduce MCAs and increase prices by about 4%. This would leave French MCAs for most of these commodities at -2.2% (-1.0% for milk);
- (b) to devalue the green rate applied for pigs and poultry sufficiently to remove the present MCA. This would result in a (largely notional) support price rise of 4.7% for pigs and 6.3% for poultry but would eliminate the MCA subsidy on French imports of these commodities.

From our discussions with the Germans, it is clear that Mr Kiechle is concerned about a significant French devaluation

/which would

which would give their farmers price increases in francs with the Germans facing a price freeze in Deutschmarks. The position on cereals and milk will be particularly sensitive for German farmers. We need to recognise that other Member States will also be looking for green rate devaluations to give price increases for their producers. The Irish may be looking for 3%, the Italians up to 6.5% and the Greeks substantially more. →

We do not know precisely what the Commission have in mind for the French. But they are likely to resist going as far as the French want (in order to reduce the difficulties for the Germans and for budgetary reasons). We understand that they are likely to propose a smaller devaluation for cereals than for animal products.

Our general policy stance on MCAs is that Member States should be able to dismantle these in the context of the price fixing. But we must clearly ensure that the budgetary implications of green rate changes are fully taken into account before decisions are taken. We would not want to oppose a moderate Commission proposal responding to the French and other requests provided this does not lead to market distortion especially as a result of any different treatment between cereals and pigmeat and poultry in France alone. We should in any case get no support in doing so. But we should use green rate changes to reinforce our arguments for price restraint, including on the mediterranean commodities. We should certainly be ready to support a smaller devaluation for cereals, though it would be likely to cause the French to line up with the Germans against the proposed changes in the cereal arrangements which would if adopted effectively reduce producer returns.

So far as the green pound is concerned, I consider that, politically, we must ensure that our farmers are not treated less favourably than their French counterparts; this was recognised by the Prime Minister at Cabinet this morning. We must, therefore, secure devaluations equivalent to the arrangements agreed for the green French franc. Over the past two years the real prices received by our farmers have fallen by 11.8% compared with a fall for French producers of 7.7%. The level of inflation in the UK was 5.1% in the year to February 1986 compared with only 3.4% in France. Although inflation is falling in both countries the signs are that it will be lower in France. Thus producers would be put at a continuing disadvantage if we did not use this opportunity to devalue the green pound on a par with the green franc to give support price changes of a similar amount.

I would propose to make it clear to the Commissioner privately that he should keep the devaluations of green rates as small as possible to contain pressures from the Germans for price increases and for budgetary reasons. I should also tell him we shall need a proposal on the green pound which has corresponding effects on UK support levels to those which the French are granted from the green franc devaluation. Depending how the negotiations develop, I shall need to be ready to make our position clear in the Council.

/The budgetary

The budgetary consequences would depend on how far the Commission comply with the French request and what is included for the other green currencies. On the assumptions that France obtained exactly what they have indicated to us they want; Belgium, Luxembourg, Demark and Ireland devalued to parity; Italy devalued sufficiently to extinguish MCAs; Greece devalued to give a price rise of 15% and the UK kept in step with France; the cost would, we estimate be about 240 mecu in 1986 (roughly half the full year effect) net of the own resources gain? The major part of this cost (about 195 in 1986) would arise in France and so the efforts I propose making to seek a more moderate proposal by the Commission for France will be important. The cost of seeking equivalent treatment for the UK is relatively much smaller (corresponding UK figure about 15 mecu). The effect on the Retail Price Index would be about one tenth of one percentage point. These costs reflect what the French are asking for. They would be reduced insofar as the devaluations were smaller and if the cereals devaluations were more limited than for other commodities.

Throughout the negotiations I shall continue to press for the proper application of the budgetary guideline, for full costings of any new or compromise proposals (including those on green rates) and for the Council and Commission to look for savings to ensure that the guideline is respected. If it becomes clear that the Council is going to agree a package which would cost more than the guideline we shall press for adoption to be suspended until ECOFIN has been able to consider the situation.

This is, I consider, a defensible approach for us to adopt both in relation to the interests of farmers and in relation to our objectives for budgetary restraint and for reforming the CAP. I hope that colleagues will agree that I proceed in the way I have described.

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

Yours Sincerely
C. J. J. J.

for
MICHAEL JOPLING
(Approved by the Minister
and signed in his absence.)



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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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The Right Hon Michael Jopling MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1A 2HH

17 April 1986

Dear Michael,

EUROPEAN COMMUNITY: THE COMMON AGRICULTURAL POLICY

will request if req.

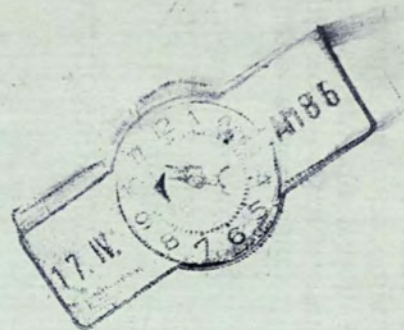
Thank you for sending me a copy of your letter of 14 April to Geoffrey Howe setting out proposals for a voluntary set-aside approach for taking land out of cereals production.

While I have some reservations about the details of the scheme which has been devised by your officials, and will expect my officials to be closely involved in the further consideration which will be given to the proposals, I agree with your view that something must be done to provide alternatives for those cereals producers who will be least able to cope with the effects of price cuts. I therefore strongly support your suggestion that the set-aside proposal should be put forward in outline at the forthcoming meeting of the High Level Group.

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

Yours ever,
Malcolm Rifkind

MALCOLM RIFKIND



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FRAME AGRICULTURE

CHEAP BUTTER FOR RUSSIA.

SUMMARY

1. 100,000 TONNES OF OLD BUTTER ARE TO BE MADE AVAILABLE FOR EXPORT TO USSR AT A COST TO THE EXPORTER EQUIVALENT TO UNDER 10 PENCE PER 250 GRAMME PACK.

DETAIL

2. THE COMMISSION PUT TO TODAY'S MILK MANAGEMENT COMMITTEE A REGULATION FOR EXPORT OF 100,000 TONNES OF INTERVENTION BUTTER AGED 18 MONTHS OR OVER TO THE REGION COMPRISING USSR, MONGOLIA, INDIA AND PAKISTAN. THE NET PRICE TO TRADERS BUYING THE BUTTER (AFTER ALLOWING FOR THE EXPORT REFUND) WOULD BE APPROXIMATELY 320-330 ECU PER TONNE WHICH IS EQUIVALENT TO UNDER 10 PENCE PER 250 GRAMME PACK. ALL THE BIDS RECEIVED HAVE BEEN FOR EXPORT TO RUSSIA. THE TRADERS' MARGIN AND THUS THE PRICE TO BE PAID BY THE RUSSIANS ARE NOT KNOWN.

3. 80,000 TONNES OF THE BUTTER ARE UNSALTED AND ARE TO COME FROM GERMAN STOCKS. THE REST IS SALTED, 11,000 TONNES COMING FROM THE U.K AND 9,000 TONNES FROM IRELAND, THE BID IN BOTH THESE CASES COMING FROM THE IRISH DAIRY BOARD.

4. IN THE VOTE, ALL DELEGATIONS WERE IN FAVOUR APART FROM ITALY (WHO VOTED AGAINST) AND THE U.K AND NETHERLANDS (WHO ABSTAINED).

HANNAY

YYYY
ADVANCE:
HARRISON FCO
GORDON FCO
MCADAM CAB
CARLAW DTI
HADLEY MAFF
COCKING MAFF
CRUICKSHANK MAFF
KUYK MAFF
BUTT TSY
MAIN:
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FRAME AGRICULTURE

FRG AND CAP: CALL ON AGRICULTURE MINISTER KIECHLE

SUMMARY

1. KIECHLE AS EVER PREOCCUPIED WITH FARM INCOMES AND SEEMS TO REGARD NATIONAL MEASURES AS INEVITABLE. FARMERS IN MILITANT MOOD. LITTLE PROSPECT OF CHANGES IN POLICY AFTER NEXT YEAR'S FEDERAL ELECTIONS.

DETAIL

2. I CALLED ON KIECHLE ON 8 APRIL ON THE EVE OF HIS TALKS WITH MR JOPLING IN LONDON TODAY. HE SEEMED TIRED AND STRAINED AFTER ATTENDING AN EXTRAORDINARY GENERAL MEETING OF THE FARMERS' UNION IN THE MORNING AND SPENDING 3 AND A HALF HOURS IN THE AFTERNOON WITH PANDOLFI. DISCUSSING THE ITALIAN WINE POISONING AFFAIR.
3. KIECHLE HAVING RECEIVED GUILLAUME AT HIS FARM OVER THE WEEKEND, I ASKED FOR HIS ASSESSMENT OF THE LINE THE NEW FRENCH MINISTER WOULD TAKE. HE REPLIED THAT GUILLAUME HAD BEEN FEELING HIS WAY CAUTIOUSLY AT THE LAST COUNCIL. GUILLAUME BELIEVED VERY STRONGLY IN FRANCE'S VOCATION AS AN AGRICULTURAL EXPORTER, PARTICULARLY OF WHEAT (KIECHLE UNDERSTOOD HE HAD 150 HECTARES OF HIS OWN). HE WAS INTERESTED IN INCREASING EXPORTS, ESPECIALLY TO OTHER MEMBER STATES. ON THE IMPORT SIDE HE WAS LIKELY TO DEMAND EARLY ACTION AGAINST CEREALS SUBSTITUTES. PRICE INCREASES WERE ALSO AN IMPORTANT OBJECTIVE AND THE DEVALUATION OF THE FRANC WOULD GIVE HIM HIS CHANCE. AS A WHOLE HIS POLICY WOULD BE DETERMINEDLY ORIENTATED TOWARDS THE INTERESTS OF FRENCH FARMERS.
4. KIECHLE COMMENTED RATHER SADLY THAT THE INCOME PROBLEMS OF HIS OWN FARMERS WERE WORSENING. ACTION OF SOME KIND WOULD HAVE TO BE TAKEN. GIVEN THE DIFFERENT STRUCTURE OF GERMAN AGRICULTURE HE COULD NOT FOLLOW UK IDEAS FOR CAP REFORM, WHICH WERE BASED ON THE SURVIVAL OF THE MOST EFFICIENT. THE STRUCTURE OF GERMAN FARMING WAS CHANGING AND THIS EVOLUTION WOULD CONTINUE, BUT KIECHLE WAS DETERMINED TO PREVENT THE PACE OF CHANGE BEING FORCED BY UNDUE ECONOMIC PRESSURE. DRIVING FARMERS OFF THE LAND AT A HIGH TIME OF HIGH UNEMPLOYMENT WAS BOTH SOCIALLY AND POLITICALLY UNACCEPTABLE.
5. I ASKED WHETHER THE POLICY STATEMENT ISSUED RECENTLY BY THE CDU/CSU (MY TELNOS 196 AND 205) WAS AIMED MAINLY AT THE PERIOD UP TO THE FEDERAL ELECTIONS NEXT JANUARY AND, IF SO, WHAT CHANGES IN POLICY WE MIGHT EXPECT THEREAFTER, ASSUMING REELECTION. KIECHLE SAID RATHER STIFFLY THAT THE POLICY STATEMENT WAS INTENDED AS A LONG-TERM ORIENTATION.

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6. ON THE PRICE FIXING NEGOTIATIONS KIECHLE SAID THAT THE SEARCH FOR AGREEMENT MUST CONTINUE. IT WAS IMPORTANT FOR MINISTERS TO SHOW SOME UNDERSTANDING OF THEIR COLLEAGUES' PROBLEMS AND NOT TO PRESS FOR DECISIONS WHICH WOULD DRIVE OTHERS INTO A CORNER. HE MENTIONED THE POSSIBILITY OF FURTHER NATIONAL MEASURES. MY IMPRESSION WAS THAT HE WAS RESIGNED TO THE EVENTUAL NEED FOR THESE.

7. I RAISED TWO POINTS ON WHICH I EMPHASISED THAT WE FELT PARTICULARLY STRONGLY: THE DISCRIMINATION AGAINST LARGE AND EFFICIENT FARMS BUILT INTO THE COMMISSION'S PRICE PROPOSALS, AND THE NEED TO ABIDE BY THE AGREEMENT ON BUDGET DISCIPLINE. ON THE LATTER POINT I SAID THAT I COULD NOT ENVISAGE THE HOUSE OF COMMONS AGREEING TO AN INCREASE IN THE 1.4 PER CENT VAT CEILING WHILE AGRICULTURAL EXPENDITURE APPEARED TO BE OUT OF CONTROL: THIS WAS AS MUCH A POLITICAL IMPERATIVE FOR BRITAIN AS OTHER POINTS WERE FOR SOME OF OUR PARTNERS. KIECHLE TOOK THE LINE THAT AN EARLY INCREASE WAS UNNECESSARY PROVIDED THAT ACTION TO CURB SURPLUS PRODUCTION WAS TAKEN SOONER RATHER THAN LATER. WE COULD AGREE COMPLETELY ON THIS OBJECTIVE, EVEN IF WE DIFFERED AS TO MEANS. WHERE HE COULD NOT AGREE WITH US WAS IN OUR OBJECTION TO FAVOURABLE TREATMENT FOR SMALL FARMERS. IT WAS A QUITE NORMAL PRINCIPLE OF THE TAXATION SYSTEM IN BOTH OUR COUNTRIES THAT EACH SHOULD CONTRIBUTE ACCORDING TO HIS MEANS. I SAID I SAW NO LOGIC OR POLITICAL REASON IN PUNISHING EFFICIENCY.

8. I DREW ATTENTION TO MR JOPLING'S RECENT STATEMENTS ON THE POSSIBLE MERITS OF A VOLUNTARY SET-ASIDE SCHEME AND ON THE PROSPECTS FOR EXPANDING FORESTRY, AS AN ALTERNATIVE USE FOR LAND, AND I MENTIONED THE CONFERENCE ON LAND USE TO BE HELD NEXT WEEK AT THE ROYAL SOCIETY. KIECHLE SAW THIS AS AN AREA WHERE WE COULD USEFULLY WORK TOGETHER.

9. EARLIER IN THE DAY FIRST SECRETARY (AGRICULTURE) WAS PRESENT WHEN KIECHLE ADDRESSED A FARMERS' UNION MEETING IN BAD GODESBERG. THE MAIN SPEAKER WAS HEEREMAN, THE UNION PRESIDENT, BUT IT FELL TO KIECHLE TO REPLY TO MAINLY HOSTILE QUESTIONING. THE MOOD OF ANGER ON THE FLOOR WAS DIRECTED VARIOUSLY AT THE COMMISSION, FOR THEIR PRICE PROPOSALS AND ASSAULT ON GERMAN FOOD PURITY LAWS; AT THE FRENCH, FOR HAVING STOLEN A MARCH ON THE GERMANS THROUGH THE EMS REALIGNMENT; AT STOLTENBERG AND KOHL, FOR HAVING AGREED TO IT; AND AT THE AMERICANS, FOR THEIR TRADING POLICIES IN GENERAL AND THEIR EXPORTS OF CEREALS SUBSTITUTES IN PARTICULAR. HEEREMAN FUELLED THE ROW OVER CURRENCY REALIGNMENT. NO ONE WAS IN THE MOOD TO LISTEN TO KIECHLE'S REASSURANCES THAT THE CHANGES WOULD NOT LEAD TO HIGHER POSITIVE MCAS OR LOWER PRICES.

10. SEVERAL TIMES KIECHLE TOLD THE MEETING THAT THE OPPORTUNITIES FOR INTRODUCING NATIONAL MEASURES WERE LIMITED TO THREE FIELDS: AID TO LESS FAVOURED AREAS, THE AGRICULTURAL SOCIAL SECURITY SYSTEM AND THE TAXATION SYSTEM.

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11. THE MEETING PASSED A MOTION CALLING FOR AN EMERGENCY ACTION PROGRAMME. THE MAIN ELEMENTS WOULD BE A REDUCTION IN FARMERS' SOCIAL SECURITY PAYMENTS TO HALF THE PRESENT LEVEL, SUBSIDISATION OF INTEREST RATES DOWN TO 3 PER CENT, PAYMENTS TO FARMERS IN RECOGNITION OF THEIR SERVICES TO THE ENVIRONMENT AND FULL FINANCIAL COMPENSATION FOR ANY RESTRICTIONS ON FARMING IMPOSED IN WATER PROTECTION AREAS. OPPOSITION TO THE COMMISSION'S PRICE PROPOSALS WAS FIRMLY RESTATED.

BULLARD

FCO PLEASE ADVANCE IMMEDIATE TO: MAFF: PS/MR JOPLING
PS/SIR M FRANKLIN
D H ANDREWS
D HADLEY

FRAME AGRICULTURE
ECD(1)

(ADVANCED AS REQUESTED)

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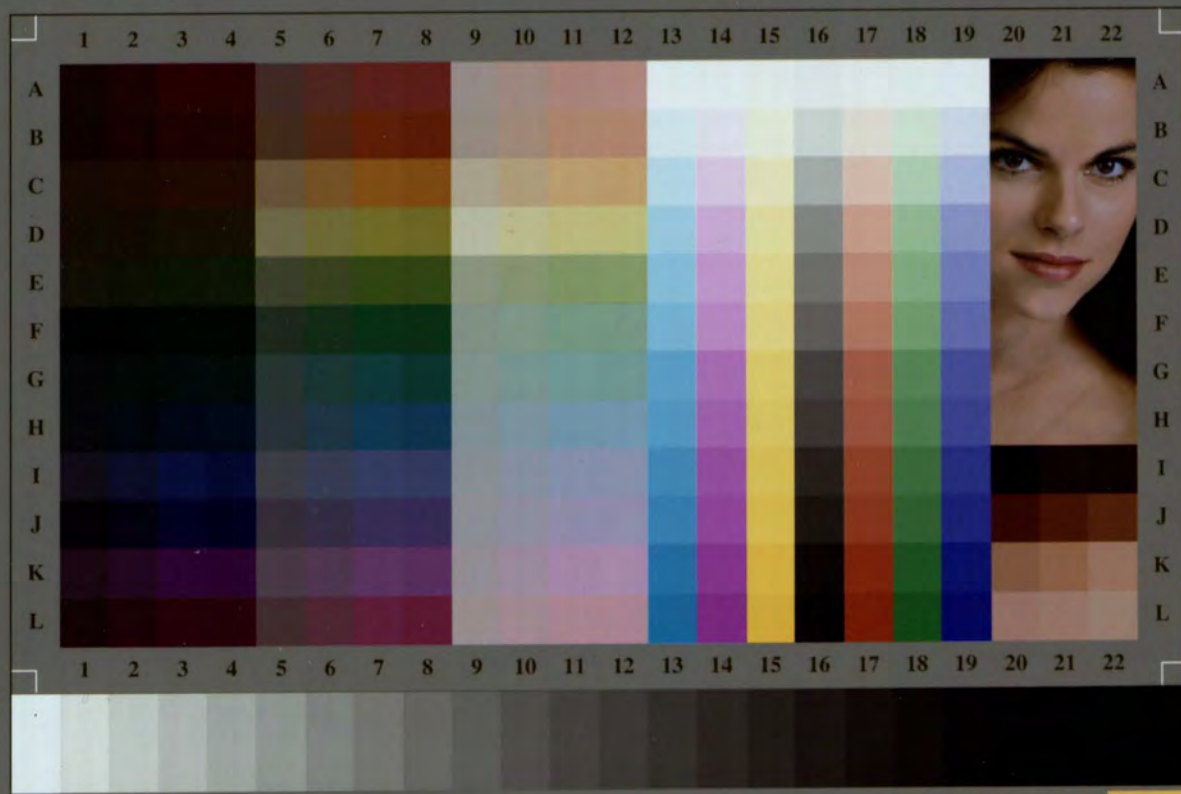
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