PART. 17

MT.

Confidential Filing.

Common Agricultural Policy (CAP)

EUROPEAN POLICY

Pt 1: May 1979

Pt 17: April 1987.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
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30.9.87							

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PART 17 ends:-

SS/DTI TO CH/EXQ 30.9.97

PART 18 begins:-

SS/WALES TO MOS/MAFF 1.10.97

TO BE RETAINED AS TOP ENCLOSURE

Cabinet / Cabinet Committee Documents

Reference	Date
OD(E)(87) 9	20.03.87
OD(E)(87) 4th Meeting, Minutes	24.03.87

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

Signed CWayland Date 1 October 2015

PREM Records Team

CCB/4

DEPARTMENT OF TRADE AND INDUSTRY
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Secretary of State for Trade and Industry

30 September 1987

The Rt Hon Nigel Lawson QC MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London SW1P 3AG

cDP 1/x.

Dear Nigel,

AGRICULTURAL REFORM

Thank you for copying to me your minute of 21 September to the Foreign and Commonwealth Secretary. I have also seen John MacGregor's minute of 29 September to you on this subject.

Like John I broadly agree with the ten principles attached to your minute. Equally like him I do not think we should forget the wider context. Of course the reduction and control of the budgetary cost of the CAP is an immediate priority. But even if we are successful in securing substantial reforms, the CAP will still involve a substantial measure of external protection against competitive producers as well as internal intervention to raise prices. This combination means that consumers as well as taxpayers suffer that EC GDP growth is restricted and that many third world producers are denied access to one of the largest food markets in the world. I therefore agree with you that the long term aim of reform must be to treat agriculture much more like other sectors of the economy and make it more open to world market forces. Many other EC members will have difficulty in agreeing to this but the subject has to be faced in the GATT Uruguay Round.

So far the subjects of EC budgetary control and the Uruguay Round have tended to be dealt with as separate issues. I think it is now important that the two are brought together. In particular I want to ensure that when the EC tables its negotiating offer in Geneva before the end of the year we secure a commitment, even if couched

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bc BG

10 DOWNING STREET

LONDON SW1A 2AA

30 September 1987

From the Private Secretary

Dear Shirley,

The Prime Minister has seen the Ministerial correspondence about the revised proposals for the Farm Woodlands Scheme circulated by your Minister under cover of his letter of 14 September to the Chief Secretary, Treasury.

The Prime Minister hopes it will be possible to reach agreement quickly on the outstanding issues on intensification. She notes that Treasury and MAFF officials are giving this urgent consideration.

The Prime Minister has also noted the concern of the Secretaries of State for Wales and Scotland (as described in paragraph 6 of the revised proposals circulated by your Minister) about their effects on Scotland and Wales. She hopes this issue also can be quickly resolved, if necessary through a small meeting of those Ministers most directly involved under the chairmanship of the Lord President. Her view is that while it remains important for the Scheme to meet all four objectives set out in broad terms in the March Consultation Document, the benefits of the scheme should concentrate on the more productive land so as to maximise the prospects of reducing surpluses and to be acceptable in environmental terms.

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

Yours,

David.

David Norgrove

Mrs Shirley Stagg
Ministry of Agriculture, Fisheries and Food.

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From: R T J Wilson
30 September 1987

MR NORGROVE

FARM WOODLANDS SCHEME

at flags.

You will have seen the Minister of Agriculture's letter of 14 September setting out his proposals for a revised Farm Woodlands Scheme. You will also have seen the subsequent ministerial correspondence including the Chief Secretary's letter of 23 September which was generally content with the proposals except for what he saw as a lack of provision on intensification; and the Secretary of State for Wales's letter of 24 September which expresses strong criticism of the proposal to exclude non-improved land which would rule out 80% of land in Scotland and Wales.

2. The issues need to be resolved soon if Mr MacGregor is to be able to introduce his Bill and announce the Government's intentions as soon as Parliament returns. In view of the Prime Minister's diary commitments over the next few weeks, I wonder whether the best course might be for the Lord President to convene a small ad hoc group for the purpose. I understand that he would be willing to take this on.

3. I attach a draft letter along these lines for your signature. The reference to the Prime Minister's views reflects the discussion which took place earlier this year, recorded in your letters of 16 January, 5 February and 7 May.

RTJW.

R T J WILSON

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Please type for my signature. DRN.

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~~DRAFT~~ LETTER FROM MR NORGROVE TO MR MACGREGOR'S PRIVATE SECRETARY

The Prime Minister has seen the Ministerial correspondence about the revised proposals for the Farm Woodlands Scheme circulated by your Minister under cover of his letter of 14 September to the Chief Secretary, Treasury.

The Prime Minister hopes it will be possible to reach agreement quickly on the outstanding issues on intensification. She notes that Treasury and MAFF officials are giving this urgent consideration.

The Prime Minister has also noted the concern of the Secretaries of State for Wales and Scotland (as described in paragraph 6 of the revised proposals circulated by your Minister) about their effects on Scotland and Wales. She hopes this issue also can be quickly resolved, if necessary through a small meeting of those Ministers most directly involved under the chairmanship of the Lord President. Her view is that while it remains important for the Scheme to meet all four objectives set out in broad terms in the March Consultation Document, the benefits of the scheme should concentrate on the more productive land so as to maximise the prospects of reducing surpluses and to be acceptable in environmental terms.

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

EURO POL: CAP
PR 17

PRIME MINISTER

FARM WOODLAND SCHEME

John MacGregor has revised the proposed farm woodland scheme in the light of the consultation.

The scheme has four objectives:-

- diversion of land to reduce agricultural surpluses
- environmental considerations
- farm income/rural employment
- timber production

John MacGregor argues that the first objective must have priority. However he has concluded that the schemes originally proposed (in which planting would be attracted onto the most marginally productive land available in each of the three zones, lowland, disadvantaged area and severely disadvantaged area) would do little to reduce surpluses and would risk condemnation from environmental interests because such land might often be valuable from a conservation point of view. He therefore proposes to exclude all such land from the scheme and to restrict eligibility to arable land and grassland up to ten years old. This would be better from the point of view of reducing production and from the point of view of the environment. It would allow an increase in the annual payments on offer both in the lowlands and in the less favoured areas.

Peter Walker and Malcolm Rifkind accept the logic of the new approach, but are concerned about the political problems of excluding 80 per cent of land in Scotland and Wales. They have each suggested variants.

The Chief Secretary is generally content but is concerned that the scheme could simply lead farmers to intensify production elsewhere. Mr Ridley very much welcomes the changes and indeed would like to go further and to exclude all upland, say above a thousand feet, in view of the concern about the environmental effects of forestry.

These issues need to be resolved soon if Mr MacGregor is to be able to introduce his Bill and announce the Government's intentions as soon as Parliament returns. I recommend that you should invite the Lord President to hold a meeting, and he is willing to take this on. He may however find it difficult to settle without some guidance from you to those concerned. Assuming that you wish to tip the balance towards Mr MacGregor and the Chief Secretary, you might say that, while it is important for the scheme to meet all four objectives, the benefits of the scheme should concentrate on the more productive land, so as to maximise the prospects of reducing surpluses and to be more acceptable in environmental terms.

Content that the Lord President should hold a meeting and to write as proposed?

DRN Yes m

David Norgrove

29 September 1987

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

From the Minister

CDP 29/9.

CHANCELLOR OF THE EXCHEQUER

AGRICULTURE REFORM

File with DRN

Thank you for copying to me your minute of 21 September to the Foreign and Commonwealth Secretary.

I agree broadly with the ten principles attached to your minute. But as your suggest that the principles, and presumably the explanations of them in the paper, might guide our negotiating strategy and be drawn on as appropriate in speeches, I am enclosing some reactions and drafting alternatives which I hope we could discuss. Most are points of presentation, designed from the point of view of achieving our negotiating objectives more easily. One or two are points of substance.

I have three main comments. First, I agree that we need to explain clearly why reform of agricultural policies is necessary, referring particularly to their undesirable effects on the economy as a whole. It is helpful that the Economic Policy Committee has produced a paper on the subject, even though most of its conclusions are considerably qualified.

But second, in presenting these arguments we must be conscious of the presentation, tactics and to some extent policies which will help us to achieve results in reducing the surpluses and the budgetary costs. In my experience there has been a shift in the outlook of other Member States; recent decisions on the CAP would have been unthinkable a few years ago. We have to continue and accelerate this process. But we cannot expect sudden overnight conversion.

At present we have two immediate tasks. One is to get further changes in the CAP, particularly in the context of discussion of budgetary stabilisers, which will reduce surpluses and the economic cost of the policy; and to achieve this in ways which rely to the maximum extent on market forces. The other is to ensure that the Commission is left free to negotiate for sensible objectives in the GATT Round, not illusory ones such as sharing out the world market.

I doubt whether coming out point-blank with the statement that the aim is to expose EC agriculture to world market prices with simply some modest mechanism to smooth their fluctuations will help us in these tasks. The reaction from other Member States will be that they always knew that the UK wanted to do away with the CAP and here is the proof. The risk is that we will get left on one side, our views will be discounted and the reform agenda will be set by others. It is with that problem in mind that I have suggested some drafting changes.

Third, I do feel that we cannot count on reduction in price support alone to get the costs under control. You know how keen I am to reduce budgetary costs and to establish budgetary disciplines. But it is not politically realistic to think that other key Member States will go along with the decisions which would be necessary to achieve this. I do therefore believe that, certainly in the period immediately ahead, we ought to make it clear that we are prepared to accept the continuance of dairy quotas and to argue positively for schemes to take land out of agriculture production such as set-aside in cereals as complementary measures. They will both help us to cut costs and also, I think, give us a better chance of achieving our negotiating objectives.

I am copying this minute to the Prime Minister, the Foreign and Commonwealth Secretary, the Secretary of State for Trade and Industry and the Secretary of State for the Environment.

29 September 1987

for John MacGregor

(Approved by the Minister and signed in his absence)

PRINCIPLES OF AGRICULTURAL REFORM

Paragraph 1: Plenty of consumers are benefitting from low world prices, even in the EC so far as oils and fats are concerned. I propose:

> "The problem of excess agricultural production is becoming increasingly serious. It means that other sectors of the economy are contributing massively to agriculture either through taxes or food prices or both. This has damaging consequences for those sectors."

Paragraph 2: Here and elsewhere the implication is that no reform at all has yet happened, and that the picture is one of unrelieved lack of realism. But both the EC and the US have taken important steps to cut support levels over the last few years. The reforms in the CAP for milk and beef achieved under our own Presidency are now bearing fruit. I think it would be counter-productive in our public presentation, particularly in an EC context, not to acknowledge this. We must of course add that much more needs to be done.

Ten Principles

(i) The first part of the second sentence could be interpreted as implying that the US and Japaness would only be justified in reforming their farm policies if the EC does so. I am sure that that is not what is meant. I suggest a redraft as follows, the last two sentences of which are important presentationally as far as other member states are concerned.

> "It is crucial that the GATT Round Negotiations shall secure major reform of other developed countries' support systems, notably the US and Japan, as well as our own in the EC. But further CAP reform is urgent and cannot be delayed until the substantive

phase of those negotiations. There is no reason to suppose that this will take the pressure off other developed countries. The principle that countries can claim credit for actions taken since the launch of the negotiations is widely recognised."

(iii) Your principle refers to costs for both consumers and the economy in general, but the following two sentences seem to concentrate only on the first of these. Consumer representatives are constantly documenting the cost to the consumer. I believe that greater emphasis should be placed on the wider economic effects, and suggest rewording as follows:

"Under the CAP transfers to agriculture from the rest of the economy come via the budget and, to an even greater extent, via consumers who pay prices well above world prices. These transfers adversely affect the rest of the economy. Opportunities should be taken to demonstrate the magnitude of the total costs, their incidence and their causes, so that these can be fully understood as we press reforms.

(v) I have several comments:

First, it should be specified that a reduction in inputs is likely to mean less intensive use of land. This is a helpful presentational point.

Second, in the context of forthcoming negotiations on CAP reform, at least in the next two or three years, I do not think that it is realistic politically, nor helpful from a negotiating point of view, to suggest that any quotas and set-aside proposals should be time limited or that existing quotas should become redundant as prices are progressively reduced. In the discussions coming up on the future of the dairy regime, we will not get anywhere in arguing this line and may therefore undermine our own objectives; and from the point of view of containing budgetary costs, keeping supply and demand in balance through the quota system is almost certainly the only negotiable route. In cereals, we are going to need complementary measures on top of price reductions to get support costs down. It is also important to make a distinction between set-aside proposals and quotas.

I therefore suggest the following for the last four sentences:

"Resources need to leave agriculture in a balanced way - reducing labour and inputs so as to use land less intensively as well as diverting land to other purposes. Reforms which work with the grain of market forces are always to be preferred, and our emphasis must continue to be strongly in that direction; though complementary measures such as set-aside, which will also help to reduce budgetary support costs, may be necessary in some sectors for transitional reasons in the short to medium term. Intervention buying, by creating an artificial outlet, works against market forces and its role should be diminished so that it reverts to a safety net wherever possible."

(vi) I am concerned with the conclusion of "taxes or" in the third line. In general we should be against taxes, co-responsibility levies and similar revenue raising devices as not being the way to tackle expenditure problems. This point is recognised in the last sentence, but I do not think that we are simply looking at revenue raising devices which are likely to increase prices or conflict with the Commuinity's GATT obligations; they are the wrong method in themselves. I suggest:

"Levies or taxes, whether on farm output on or consumption, are in effect borne by consumers and must be avoided, especially if they conflict with the Community's GATT obligations."

(vii) I cannot accept that direct income aids are the best form of transitional measure to accompany price cuts. Aids which directly get resources out of agricultural production must surely be better than those which are merely decoupled from it. There are few or no signs yet that other EC Member States see transitional income aids for poorer farmers as a method of making reductions in support politically acceptable. The UK is unlikely to benefit; and, however much we say they should be nationally financed, this will be very difficult to achieve when the Commission has already proposed a Community contribution. I suggest:

> "In order to assist the process of price reduction, it may be necessary to offer other forms of support. Preferably these should be directly linked to reductions in output: for example, aids to divert land to other purposes, including forestry; to convert to more extensive forms of agriculture; and to leave land unused (set-aside). Schemes of this sort will not only speed up the supply response to lower prices but can also bring environmental benefits. Direct income aids for poorer farmers should only be contemplated if they are manifestly necessary to achieve agreement on price cuts. They should be related to total income, production-neutral, degressive, and financed by Member States within a Community framework."

(viii) It seems unnecessary to repeat what has been said about income aids under (vii).

I suggest the following:

> "Guaranteed prices should be set in relation to the actual need for secutiry of food supplies for the Community. They should not be tailored to providing a given level of income but should be related much more closely to prevailing world prices and permit market forces to operate. The operation of future markets to help insure against unexpected price fluctuations should not be inhibited by support mechanisms. Agricultural policies should be adapted to meet the needs of environmental protection."

(ix) I suggest instead of the last sentence:

"The argument that lower farm support will lead to rural unemployment is thus losing its force."

(x) After "as a whole" add "and the need to avoid unnecessary disputes with third countries."

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SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

The Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries & Food
Whitehall Place
London
SW1A 2HH

29 September 1987

NBM.

Dear Minister.

FARM WOODLANDS SCHEME

For the benefit of colleagues who have not so far been involved in discussion of the revised version of the Farm Woodlands Scheme, I thought it would be helpful to expand on the case for retaining LFA rough grazings within the scope of the Scheme. These arguments are referred to briefly in paragraph 6 of the paper circulated with your letter of 14 September.

I agree that the revised Scheme, with its increased incentives for planting on arable land or improved grassland, is a considerable improvement on the earlier proposals. Nevertheless, I think it is essential that we retain the modest payments previously proposed for planting on rough grazings in the Less Favoured Areas. The exclusion of this land, accounting for 80% of all farming land in Scotland, would be seen as a device to ensure that the great majority of Scottish farmers, including many of those who are in the most serious financial straits, would be denied access to the benefits of the Scheme. There was no suggestion in our consultation document that LFA rough grazings would be excluded and I do not see how I could begin to defend a measure which so obviously discriminated against the generality of Scottish farmers.

It does not seem to me to follow that the retention of payments for LFA rough grazings would undermine the effectiveness of the Scheme. The Scheme as a whole has other objectives including, as you have indicated in paragraph 3 of your paper, support for farm incomes and rural employment.

The small annual payments proposed for LFA rough grazings and the fact that farmers in these areas, even with forestry grant assistance, would have to find up to 70% of establishment costs from their own resources, will ensure that take up will be limited. I have also suggested that, if necessary, applications for this type of land could be held back until it became clear that unallocated cash was available. Consequently it seems to me that planting on LFA rough grazings would not syphon off significant resources which might otherwise be directed to the better land. The important point is that this option should be available so that we would not be accused of promoting a scheme which only helps farmers on the better land.

Reference is made in the paper to the possible environmental objections to planting on rough grazings and permanent pasture, including such land in the LFA. My experience as Environment Minister for Scotland does not lead me to the conclusion that all LFA rough grazings are of high conservation value. Nor, is it correct to imply that our existing traditional forestry programme, which to date has expanded by planting this type of land, merits such blanket criticism on conservation grounds. Consultation procedures exist to protect sensitive areas and these should be applied, as necessary, to safeguard those areas which require protection.

Still on the subject of consultation, I note the views expressed in paragraph 15 of your paper. As you know, the Forestry Commission are preparing a paper on their consultation arrangements and this should help us to decide on what scope there is for limiting consultations in certain circumstances without offending environmental interests.

You also circulated a second paper on possible restrictions on intensification which might be linked to the Farm Woodlands Scheme. In my view, this paper sets out convincing arguments against the need for such measures and I strongly support your conclusion that there is nothing to be gained from complicating the Scheme in this way.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Peter Walker, Norman Fowler, Tom King, Nicholas Ridley, David Young, John Major, John Belstead and Sir Robert Armstrong.

Yours sincerely

Andy Running

f. MALCOLM RIFKIND

Approved by the
Secretary of State and
signed in his absence

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CAP

ATT7

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt Hon John MacGregor OBE MP
Ministry of Agriculture, Fisheries and Food
Whitehall Place
LONDON
SW1A 2HH

29 September 1987

NBR?

Dear Minister,

FARM WOODLAND SCHEME

file with DRN

You asked for comments by 28 September on the revised proposals for the Farm Woodland Scheme enclosed with your letter of 14 September to the Chief Secretary and the accompanying paper about discouraging intensification.

I very much welcome the modifications you have made to the original scheme, which go a long way to meet the strong criticisms made by environmental bodies. It will now give more help to farmers who want to plant broadleaved trees, or coppice, and should be more effective in reducing surplus production. I appreciate the reasons which make you unwilling to accept firm targets for the proportions of broadleaved trees, but I welcome your intention to review the scheme after the first year if it has not been sufficiently successful in encouraging broadleaved trees.

As to the inclusion of the less favoured areas, I can see the force of the arguments Malcolm Rifkind and Peter Walker have deployed. However these are the areas in which there has been most concern about the environmental impact of afforestation. I therefore support your preference for sticking to the better land and excluding the remainder of less favoured areas, even on the contingent basis Malcolm and Peter have suggested. In fact, I would like the scheme to go further in the same direction and exclude all upland, say, above 1000 ft. I would be grateful for your reaction to this proposal.

As to consultation procedures, I sympathise with your wish to reduce administrative costs, but the issue is a very sensitive one in the light of the need to resist pressure from various bodies to bring forestry within planning control, and in the light of the review of the Forestry Commission's consultation procedures, on which no announcement has yet been made. I do not believe it would be justifiable to consult more widely in the case of this particular scheme than the Forestry Commission have

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consulted hitherto, but we shall find it difficult to defend consulting less widely. It is also difficult to see that there would in fact be any material saving, on the assumption that farmers will have applied for Forestry Commission planting grant as well as FWS payments. I trust therefore that these particular aspects of the administrative arrangements can be further examined before the scheme comes into operation, in order to devise procedures which are economical and efficient, but do not undermine the credit the final scheme should win for us with environmental interests, as well as with farmers.

Thank you also for your paper on the options for discouraging intensification. It is helpful to have careful analysis in the paper, although I do not entirely share its conclusions.

As regards the need to discourage intensification in the context of the FWS (para 23), I recognise that the scheme is a limited one. However, I note that further discussions are now to take place with Treasury officials to produce an agreed paper, and I would want my officials to be included in those discussions. As far as the cereals extensification scheme goes, I feel the restrictions that must, under the EC Regulation, be imposed in some form should go further than para 24 proposes. We shall need to consider this further in the light of your detailed proposals for extensification, which I hope we shall see shortly, and it will be important to ensure that it adequately reflects environmental considerations.

Finally, I would like to return to the question of capital grants. We are finding ourselves increasingly in the curious situation in which with one hand we pay farmers grants with which to intensify, whilst with the other we pay them to extensify. The difficulties this poses are obvious. I appreciate all the problems involved in making changes in the capital grant system, but I do wonder whether attempts should not be made to bring it into better harmony with the changed direction of agricultural policies. I should be grateful for the views of other colleagues.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Peter Walker, Norman Fowler, Tom King, David Young, Malcolm Rifkind, John Major, John Belstead and to Sir Robert Armstrong.

Yours sincerely,

Deborah Lamb

pp. NICHOLAS RIDLEY

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

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pa

Plan for sweeping change in forestry law is shelved

By Charles Clover
Environment Correspondent

THE CABINET has shelved a specially-commissioned report which proposed a radical new forestry policy.

The proposed changes included the privatisation of the Forestry Commission and the end of the controversial tax incentives which have appealed to wealthy investors such as Cliff Richard and Terry Wogan.

The proposals were drawn up by Mr Ridley, Environment Secretary, and a "think-tank" of Department of Environment officials.

Last night it was understood that earlier this year objections were raised by the Scottish Secretary, Mr Rifkind, the then Agriculture Minister, MrJopling, and the Welsh Secretary, Mr Edwards, who said that the time was not right for a review of the forestry industry.

The three Ministers are known to have been lobbied by wealthy forestry-owning peers and by a newly-created industry defence group, the Forestry Industry Committee of Great Britain, led by Mr James Galbraith, manager of the Duke of Buccleugh's large afforested estates.

Environmental damaged

A confidential report, prepared for Mr Ridley by his department's "think tank", makes devastating criticism of the economics of the £60 million a year subsidies to the forestry industry and the environmental damage caused by subsidised conifer plantations on Britain's last upland wildernesses.

The report's proposals were first presented to the Cabinet sub-committee on land use and the rural economy, known as "Alure," last December, but were later rejected by a full meeting of Mr Ridley's Cabinet colleagues.

In March Mr Ridley went on to give his support publicly for a £3 million extension of subsidies for commercial conifer forestry in the £25 million "farming and rural enterprise" package launched by a panel of eight Ministers three months before the election.

The proposals put forward to Cabinet by Mr Ridley and his Departmental working group were:

- To split the loss-making Forestry Commission into two — Forestry Enterprise, which would be prepared for privatisation, and the Forestry Authority, which would be a government regulatory body given strong new powers to control planting in environmentally sensitive areas. The result, says the report, would be "A forestry policy nearer to the interests of the nation than those of the forestry industry."
- To abolish tax-relief for forestry, through which wealthy investors currently claim up to 70 per cent against the cost of establishing plantations, then pay minimal income tax on the sale of the timber by changing from one tax-schedule to another.
- To create a new grants structure for planting and managing forests so that government could direct forestry in a cost-effective and environmentally beneficial way.

The confidential report, "Forestry Policy in Britain: a DoE Perspective", concludes that much afforestation is now dictated by the tax-planning objectives of wealthy individuals and institutions at the expense of landscape areas of scenic beauty, wildlife, water quality, public recreation and access to the countryside.

The report, by the Central Unit on the Environment, argues that the three main justifications for a subsidised forestry policy are outdated and open to question.

- The strategic justification behind the Forestry Commission's foundation in 1919 to reconstruct the resources depleted in the 1914-18 war, says the report, "no longer stands up in the context of modern warfare and current trading patterns."
- The import-saving argument for a subsidised forestry industry, says the report, "is hard to justify, particularly in the context of current Government economic policy, which favours allowing free-market forces and a flexible exchange rate to determine which industries survive and which fail."
- The social (employment-creating) justification for subsidised forestry, the report says, is also "questionable". Planting and felling take place many years apart and do not provide continual employment in small rural communities. "Typically, forestry work is done by large mobile contract teams recruited in the larger towns and cities," says the report.

Mounting criticism

The report went to the Cabinet before a highly critical National Audit Office report on the forestry industry last December.

Criticism of "green money machines" of American sitka spruce and lodgepole pine has continued to mount.

In July, Mr William Wilkinson, chairman of the Nature Conservancy Council, the DoE-sponsored body, called for a two-year moratorium on forestry planting on a million acres of sensitive peatland in Caithness and Sutherland.

So far the Government has not responded to the call for a ban, but a junior Scottish Office Minister, Lord Sanderson, has made statements affirming Government support for commercial forestry.

The Scottish Office holds the main responsibility, which is the responsibility of the Welsh Office in Wales and in England the Ministry of Agriculture.

The Department of the Environment technically only holds a watching brief over forestry's environmental impact.

The committee which produced the confidential report, the Central Unit on the Environment, was set up as a Ministerial committee by the Environment Mininster, Mr Waldegrave, but following the departmental reshuffle after the election three of the committee's five members have been drafted elsewhere.

Headed off

Dr Jack Cunningham, Shadow Environment Secretary, said last night: "For once I feel sorry for Mr Ridley. We would have supported proposals to stop the misuse of tax incentives and afforestation on environmentally and ecologically sensitive areas.

"He has been headed off, as on nuclear waste dumps, by base political interests, over worries about losing Tory votes in Scotland."

CCBG

FCS/87/196

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

NBPM.

Farm Woodland Scheme

1. Thank you for your letter of 14 September enclosing your revised proposals for the Farm Woodland Scheme.

2. I welcome the increased emphasis you place on the objective of reducing surpluses. The potential CAP savings of £30 million over 5 years, though modest in comparison to the Community's overall surplus problem, are still well worth pursuing.

3. I have seen John Major's letter of 23 September, and share his concern that the revised proposal contains no provision for discouraging intensification by participating farmers on their remaining land. I am glad that you have agreed to further discussions on this.

4. I am copying this minute to the recipients of yours.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

28 September 1987

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cgt

Cg 02975

CDP 25/9.

MR POWELL, (10 Downing Street)

COMMISSION PROPOSALS FOR AGRICULTURAL STABILISERS

The Commission has now set out in greater detail its proposals for agricultural stabilisers in COM(87)452/2. Draft legal text are still awaited. These will permit a thorough assessment of the measures. But I thought it would be helpful to make a preliminary assessment.

The Commission proposals are welcome. They keep up the timetable for getting decisions on stabiliser mechanisms in time for the Copenhagen Summit. Apart from proposals on beef - which are legitimately deferred - and, so far, on rice, cotton and olive oil stabiliser mechanisms are now suggested for the whole field. The Commission's (and our) difficulty will be in securing the agreement of other member states to them and quickly. In addition to objections to individual aspects of the proposals there are signs of wider resistance to adjustments being made within a marketing year. In our eyes certain of the proposals could be improved; but if the outcome is along the lines of the Commission's ideas the progress achieved in controlling the cost of the CAP will be significant.

Points on individual commodities are:-

- <u>Sugar</u>: the aim is to use the existing techniques to make the regimes self-financing. This is welcome.

- <u>Cereals</u>: the Commission proposes introducing a maximum guarantee threshold of 155 million tonnes with consequential price reduction, suspension of intervention and increases in the co-responsibility levy if this is exceeded. We have difficulty with the idea of using the co-responsibility levy - which is a tax on consumers - as a stabiliser. But the other aspects are welcome.

- Protein crops: these have not previously been subject to a stabiliser. It is proposed to introduce the maximum guaranteed quantity, beyond which the support price would be reduced. Welcome.

- Wine: this is a costly regime and the Commission proposes reducing the support price for wine for compulsory distillation, discontinuing temporary aid relating to short-term fluctuations in wine prices; and limiting replanting rights. Welcome.

- Tobacco: the Commission proposes an effective maximum guaranteed quantity for each group of varieties. Welcome.

- Oilseeds: the Commission proposes phasing out the limit on the cut in prices which can be enforced when the guaranteed quantity is exceeded. But it maintains its proposal for an oils and fats tax, in spite of the fact that at the Brussels European Council it was asked only to report back on discussions with third countries. Its justification is that the proposed tax will yield a contribution of 2 becu to the Community's resources: it cannot be defended as a stabiliser.

- Fruit and vegetables: the Commission are proposing that a wide range of these commodities should be subject to stabilisers - though this is an area in which we believe their proposals could have been tougher.

- Milk: the Commission proposes to maintain existing mechanisms but to tighten them up, for instance extending the quota system beyond 1989 and to make the temporary cuts in quota permanent.

- Sheepmeat: this is an area of difficulty for us. The variable premium which we have been able to run under the present sheepmeat regime has suited us well on the whole. The Commission is proposing the introduction of maximum guaranteed quantities with the direct effect on the amount of premium payable when there are over-runs on production; and also that the variable premium would be replaced over the period 1988 to 1992 by a single headage payment. There is also the risk that there will be some form of headage limitation on the number of ewes per holding which may receive the premium.

There is as yet no assessment of the financial consequentials of the proposals; and we have to recognise that, because some of the changes will not be introduced until the new commodity years, the savings will not begin to appear until later in 1988. The Commission have made the point that in order to ensure savings they will need to have additional management power, within rules laid down by the Council. We support them in this intention, particularly if the aim is to control expenditure regime by regime. We shall also need to be on our guard against the developing argument that further CAP reform must be dependent on corresponding action by third countries. The internal state of the CAP and its budgetary effects cry out for measures now - though there is nothing to stop us from subsequently using these to our credit in the negotiations in GATT.

J.H.H.

J H HOLROYD

25 September 1987

CCBG

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WELSH OFFICE
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From The Secretary of State for Wales

The Rt Hon Peter Walker MBE MP

24 September 1987

NBPM.

FARM WOODLAND SCHEME

John MacGregor wrote to you on 14 September attaching revised proposals for the Farm Woodland Scheme. The paper has my support generally but I thought I should let you and other colleagues know the cause of my concern which is referred to in para 6 of the paper. As the paper records, it is a concern which is shared by Malcolm Rifkind.

The proposal to exclude non-improved land from the Woodlands Scheme rules out virtually the whole of Wales (and Scotland). Such a proposal is bound to cause an uproar throughout the Principality unless we were able at the same time to make it clear that we were doing something positively to help the areas affected. These are the areas most deeply concerned about the Commission's attack on the sheepmeat regime and which share all the problems currenty being faced by livestock farming in general. Rightly or wrongly, the farming community in the areas affected will claim the Government is producing a scheme which is simply designed to alleviate problems of lowland farmers in England.

I am conscious of the importance of CAP savings and the need therefore to target the scheme primarily at the lowlands. However, this was only one of four objectives listed in the consultation document, which specifically asserts that "the scheme should meet all of those four objectives". One of those was "to contribute to supporting farm income and rural employment", which, so far as Wales is concerned, current proposals would do little to assist. It may be that those objectives were rather ambitious but it is too late now to try to re-write them. The industry in the LFA has no viable alternative to livestock production and farmers in those areas have no illusions about the paucity of the assistance they may expect generally from ALURE. The one element of that policy to which most of them could relate, albeit only at the margins, is the Woodland Scheme.

/John MacGregor ...

The Rt Hon John Major MP
Chief Secretary to the Treasury
Treasury
Parliament Street
LONDON SW1P 3AG

John MacGregor refers to the risk of criticism from the conversation lobby but I do not share his view that they are likely to be oritical only of planting on unimproved land, which is largely within the Less Favoured Area. There is just as much of a possibility of criticism of our encouraging planting in the lowlands. This is something we can face. But my main concern is that the revised proposals effectively remove the possibility of assistance for the vast majority of Welsh farmers who were encouraged, by our own consultation document, to expect it. I can see no way in which I could explain to them convincingly why this has happened.

I therefore must press for us to honour what was taken as a virtual promise to offer assistance to the Less Favoured Areas at the levels proposed in the consultation document.

... I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Norman Fowler, Tom King, Nicholas Ridley, David Young, Malcolm Rifkind, John MacGregor, John Belstead and to Sir Robert Armstrong.

Yours ever

Europol

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CC BG

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

From the Minister

CONFIDENTIAL

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

24 September 1987

Dear Chief Secretary

NBPM.

FARM WOODLAND SCHEME

Thank you for your letter of 23 September. I am glad that you are generally content with my revised proposals.

If you feel it would be useful, I would be content for our officials to meet and draft a further paper on the intensification issue, although you know that I and my agricultural colleagues are doubtful about whether anything further should be done. I must, however, emphasise the urgency of this as I wish to have all the details of the Scheme settled in time to introduce the Bill and announce our intentions as soon as Parliament resumes.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Peter Walker, Norman Fowler, Tom King, Nicholas Ridley, David Young, Malcolm Rifkind, John Belstead and to Sir Robert Armstrong.

Yours sincerely

Shirley Stagg

for **JOHN MacGREGOR**

(Approved by the Minister and signed in his absence)

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CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries and Food
Whitehall Place
London
SW1A 2HH

23 September 1987

Dear John,

FARM WOODLAND SCHEME

Thank you for your letter of 14 September with which you attached papers on your revised proposals for the farm woodlands scheme and on possible restrictions on intensification.

Subject to one important proviso I am generally content with the revised terms of the farm woodlands scheme which you are now proposing. I welcome your acceptance that the prime objective of the scheme should be the reduction of agricultural surpluses thereby securing consequential savings on CAP expenditure. Provided that those savings can be secured by appropriate action to discourage farmers from intensifying production on the remainder of their holdings, I would be prepared to accept the substantial increases in annual payments needed to persuade farmers to plant trees on better quality land.

I understand that our officials have agreed on the main principles for evaluating the success of the scheme during its 3 year experimental period. Your paper recognises the need for the adequate financial control systems: as a minimum expenditure by the Agriculture Departments should be subject to the same monitoring and control procedures as have been agreed for capital grants and expenditure by the Forestry Commission should fall within its cash limited grant in aid. It will be necessary for you to agree on a territorial allocation of the expenditure with your colleagues in advance of the Chancellor's Autumn Statement on public expenditure. If the pattern of expenditure proves different from the initial allocation, PES provision in the future years can of course be transferred between Departments by mutual consent after consultation with the Treasury.

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CONFIDENTIAL

My only reservation about your proposals concerns the lack of any provision to discourage participating farmers from intensifying production on the remainder of their holdings. I have looked at the arguments in the second paper by your officials attached to your letter but I remain unconvinced that no action is necessary. The MAFF paper seems to argue on the one hand that participation in the farm woodlands scheme will not of itself result in farmers intensifying production more than they otherwise would and on the other that any form of restriction to discourage exceptional cases could only be purchased at a high cost in terms of higher incentives or lower take up under the schemes. The paper goes on to say that nevertheless under the EC extensification scheme you will be obliged to impose just such conditions under the terms of the EC Regulation. The discussion of capital grants makes much of the problems of distinguishing which operations might lead to increased production and those which might not. (I cannot believe that it is so difficult as your officials suggest as each grant application under the Agricultural Improvement Scheme (EC) has to be accompanied by an improvement plan for the holding which should reveal whether any increase in production of surplus products is envisaged). The paper does not address the question (raised in your letter of 6 May to Michael Jopling) of the impropriety of the Government paying farmers to reduce production out of one pocket and to increase it out of another.

I suggest that our officials should meet urgently with a view to converting the present MAFF paper on intensification into an agreed paper which sets out a range of options for discouraging intensification with sufficient detail on the legislative and other implications which we could subsequently consider. I feel sure that there should be a way through this problem which does not create needless additional bureaucracy while giving us some better assurance that the CAP savings we are aiming for will in fact be achieved.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Peter Walker, Norman Fowler, Tom King, Nicholas Ridley, David Young, Malcolm Rifkind, John Belstead and to Sir Robert Armstrong.

Yours Ever,
John

JOHN MAJOR

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CONFIDENTIAL

ccBt ccBG

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Prime Minister
CDP 22/9

FOREIGN SECRETARY

AGRICULTURAL REFORM

We will shortly be resuming discussion in OD(E) of our negotiating objectives in the EC future financing review. Agricultural reform lies at the heart of this exercise. But reform has also to be set in its wider international context - notably the GATT negotiations but also continuing debate in groups such as the Development Comittee of the IMF and IBRD.

I thought it might be useful to step back a little from detailed on-going work to consider what broad principles we should have in mind in the process of agricultural reform. I enclose a paper written in the Treasury which sets out ten principles which put agricultural policy in the wider context of improving the performance of the whole economy. They are designed to provide a link between immediate tactics and the long-term aim of reform. They should also assist us in occupying the moral high ground in the agricultural debate, rather than simply being seen as pursuing a UK budgetary interest.

I suggest that these principles might guide our negotiating strategy and, subject to any reflections you and others might have, be drawn on as appropriate in speeches on the subject.

The Economic Policy Committee of the Community, under French chairmanship, has recently produced a helpful paper on the CAP, which has much in common with these ten principles. It is attached for convenience.

I am copying this minute to the Prime Minister, the Minister of Agriculture, the Secretary of State for Trade and Industry and the Secretary of State for the Environment.

N.L

21 September 1987

PRINCIPLES OF AGRICULTURAL REFORM

1. The problem of excess agricultural production is becoming increasingly serious. It has damaging consequences for budgets and for other sectors of the economy. Yet consumers do not gain from low prices.

2. There is a consensus that reform is necessary, but less agreement on what form it should take. If, however, the fundamental problems are to be tackled, reform must work with the grain of market forces. Agriculture must be treated much more like other sectors of the economy.

3. To be fully effective, policies should be reformed at world level. But the priority for the UK is reform of the CAP. Its objectives need to be achieved in more cost effective ways. The Community has for too long treated prices principally as a means of supporting farm incomes, ignoring the costs to the taxpayer, the consumer, the third world and to jobs in the non-agricultural economy.

4. The annex sets out the overall economic costs of the CAP taking account of the wider economic effects as well as the budgetary consequences.

5. The ten principles set out here should underlie the UK approach to the reform of the CAP. They do not cover immediate negotiating objectives, but are designed rather to provide the necessary link between the tactics for reform over the short and medium term and the long term aim of reform. As such they should provide a consistent framework both for the UK negotiations and for Ministerial statements on the long term objectives.

TEN PRINCIPLES

(i) Reform of agricultural policies, and the CAP in particular, must be seen in the wider international context.

Agricultural policies in developed countries distort world trade and impoverish third world countries. Progress on CAP reform, whilst necessary and desirable on its own merits, is also a necessary condition for obtaining parallel reforms in other countries (notably the US and Japan), but it cannot be delayed until the substantive stages in the current GATT Round negotiations.

(ii) Reform of the CAP must be consistent with Treaty of Rome objectives and implemented within a Community framework.

The CAP is a central feature of Community policy. But its form needs to be adapted to today's circumstances. Some national measures may be needed (particularly to deal with the social consequences of reform), but they should be consistent with Community objectives and subject to Community rules.

(iii) The costs to the consumer and to the economy more generally are as important as the budgetary costs in justifying reform.

In addition to its budgetary costs, the operation of the CAP keeps prices to customers well above those prevailing in world markets. Opportunities should be taken to demonstrate to the wider audience (eg the consumers) the magnitude of these costs, their incidence and their causes.

(iv) The long term aim of reform must be to treat agriculture much more like other sectors of the economy and make it much more open to market forces.

Interventions to secure Treaty and other objectives with regard to agriculture and the rural community must be judged against the principle that the allocation of resources is generally best left to market forces.

(v) Reform should seek progressively to reduce guaranteed prices much nearer to the levels which would then prevail on world markets.

This is the surest way to curb surplus production and to reduce the costs falling on budgets and consumers (including other farmers). Resources need to leave agriculture in a balanced way - reducing labour and capital inputs as well as diverting land to other purposes. Reforms which work with the grain of market forces are preferable to administrative controls. The primary long term purpose for guaranteed prices should be as a smoothing device rather than income support. Any quotas and set-aside proposals should be time-limited and existing quotas should become redundant as prices are progressively reduced.

(vi) Necessary action to control budgetary costs and improve in-year budget discipline should be consistent with making the support system more market orientated.

Measures to increase annual budget discipline (ie, stabilisers) through price reductions are to be preferred. Those which work through quantity controls, taxes or other means should be judged in terms of their consistency with market forces, as well as their likely cost-effectiveness. Limitation or suspension of intervention buying can have similar effects as a reduction in institutional support prices. Revenue raising devices likely to increase prices to the consumer or conflict with the Community's GATT obligations are to be avoided.

(vii) Adjustment costs arising from reform should be met by transitional arrangements linked to price reductions.

In order to achieve significant reductions in prices, it may be necessary to provide other forms of support to those currently engaged in agriculture. Such arrangements, of which direct income aids linked to total incomes are to be preferred, should be decoupled from production, degressive and time-limited. They should be financed by Member States within a Community framework.

(viii) In the longer term, policies should be specifically tailored to cope with inadequacies in market mechanisms.

Guaranteed prices should smooth fluctuations at levels much more closely related to the then prevailing world prices. They should not be the primary source of income support but a means of smoothing income variance. Any income support should be decoupled from production and related to total incomes of those least well-off engaged in agriculture. Risk sharing through insurance and futures markets should no longer be inhibited by the mechanics of CAP intervention. Agricultural policies should be adapted to meet the needs of environmental protection.

(ix) The preservation and development of rural economies are more likely to be achieved in cost-effective and self-sustaining ways by a diversification of economic activity outside agriculture.

The prospects of alternative economic activity in rural economies are improving with advances in communications and the changing nature of manufacturing and other businesses. Sustained support to agriculture is more likely to hinder than enhance the exploitation of these opportunities.

(x) Individual countries should assess the benefits of any package of reform proposals in terms of its wider impact on their economies and the Community as a whole; they should not focus exclusively on any single component.

To assess only the immediate and direct effects of any single proposal for reform would be to neglect the significant wider benefits available from adopting a package of proposals.

6. In assessing particular proposals on the CAP or on agricultural reform more generally, the UK should have regard to the principles enunciated here. They should be drawn on when the UK publicly makes the case for reform. It is acknowledged that reform will depend on what other countries and Community Member States can be persuaded to accept. Recent international meetings have shown a growing awareness of the need to reform agriculture policies on the market oriented lines consistently advocated by the UK. The current budgetary crisis in the Community offers an immediate opportunity to make progress consistent with the above ten principles.

ANNEX 1

The Costs of the CAP

1. The economic and budgetary costs of the CAP arise because the prices of Community agricultural produce are held above world price levels (see charts). A vicious spiral is set up by the primary reliance of the CAP on guaranteed prices well in excess of world prices. This provides an incentive for increased output. It also increases the prices of agricultural inputs (notably land). This squeezes the incomes of the small and medium sized farms. As a consequence, whilst most agricultural output is produced at a profit, most farmers in the Community operate uneconomically. This increases the demand for higher guaranteed prices. And so the vicious spiral continues.

2. At the same time, demand for agricultural produce is growing only slowly. Advances in agricultural technology, in part prompted by the protection afforded to the sector in most of the developed world, have proceeded rapidly. Stomachs are growing less quickly than our ability to fill them; and market prices fall. So, the produce from protected agriculture can only be sold on world markets below cost. This increases the economic and budgetary costs of protection.

3. These consequences are not the result of the particular form of the CAP. Economic and budgetary costs will be incurred to a significant extent by any policy which holds Community prices above the level that would prevail if Community producer had to compete in, or consumers had access to, world markets.

4. The **budgetary costs** of the current policy include the export restitutions, internal subsidies and intervention storage and disposal costs required to support CAP guaranteed prices. In 1986 total EC budgetary costs stood at 23 billion ecu, some two-thirds of the Community's total budget. The figure is spiralling upwards: unless action is taken the cost in 1988

could be over 30 billion ecu. In 1986 about three-quarters of this expenditure were attributable to storage and disposal costs (ie half the total EC budget). (The preponderance of agricultural expenditure in the EC budget is the main factor responsible for the UK's disproportionate budgetary contribution to the Community.)

5. In addition to the Community's expenditure the Member States are responsible for the initial costs of intervention buying and for national support programmes. Total expenditure by the Member States in the early 1980s was estimated to be broadly equivalent to the level of Community expenditure. Overall, according to OECD figures, the total contribution made by Community taxpayers to the agricultural sector in the 1980s was about 40% of the sector's value-added and about 1% of Community GDP.

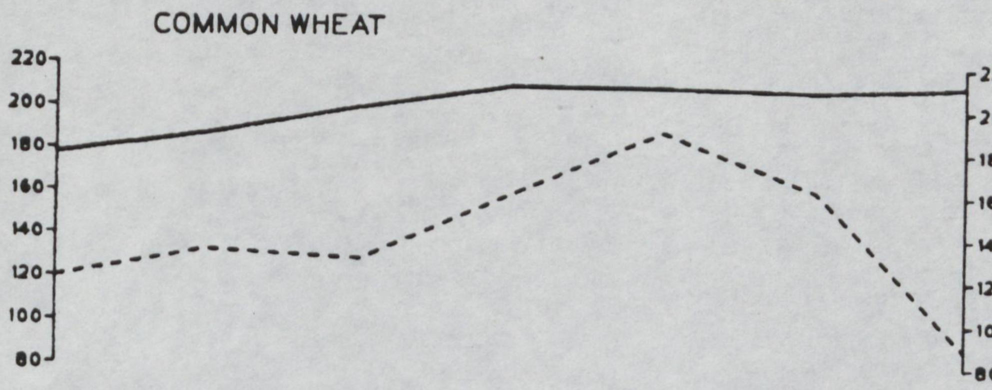
6. The **consumer** also foots the bill through higher food prices. The excess costs (over current world prices) to the consumer were estimated by the OECD to amount to 60% of Community agricultural value-added and 1.8% of Community GDP (some 65 becu or £550 a year for a family of four). The comparison with current world prices tends to exaggerate the costs somewhat because liberalisation would cause world prices to rise from current levels but to nothing like the level of guaranteed prices.

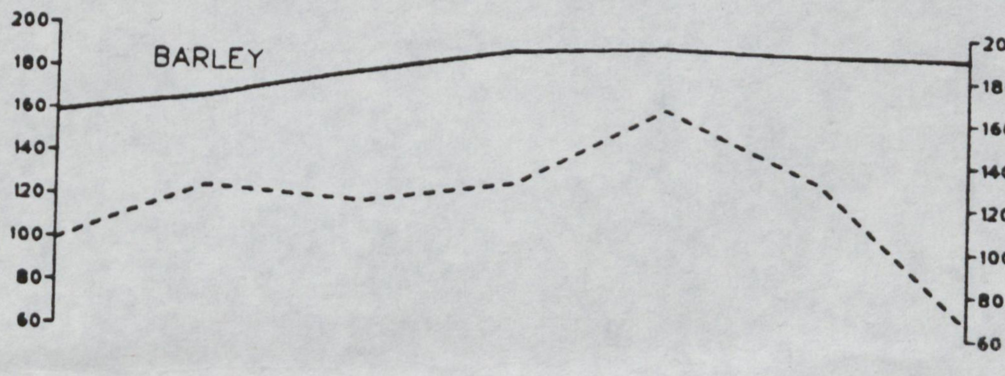
7. On these (somewhat unrealistic) estimates, almost all the income of Community farmers is provided by the taxpayer and the consumer in excess prices.

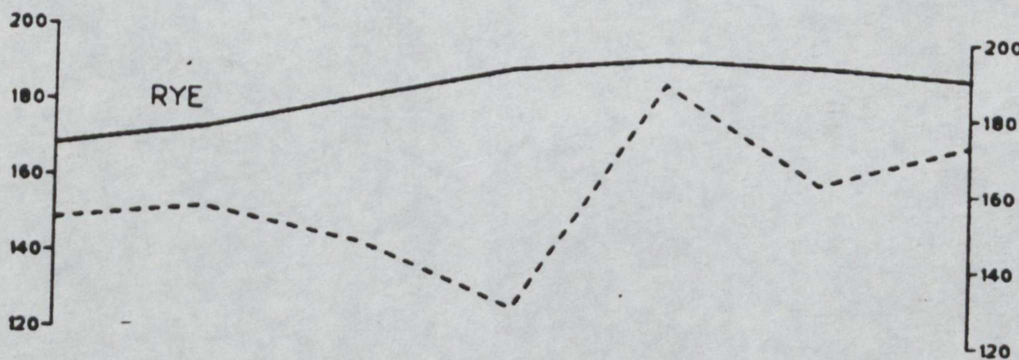
8. This involves a loss to the real economy in terms of consumers' **standards of living**, **output** and **jobs**. There are various ways in which this comes about (see Note 1). A policy which sustains resources producing almost zero value-added must mean that alternative more economic activity is starved of resources. International trade effects from agricultural protection have an adverse impact on the non-agriculture economy of developed economies and exacerbate trade tensions.

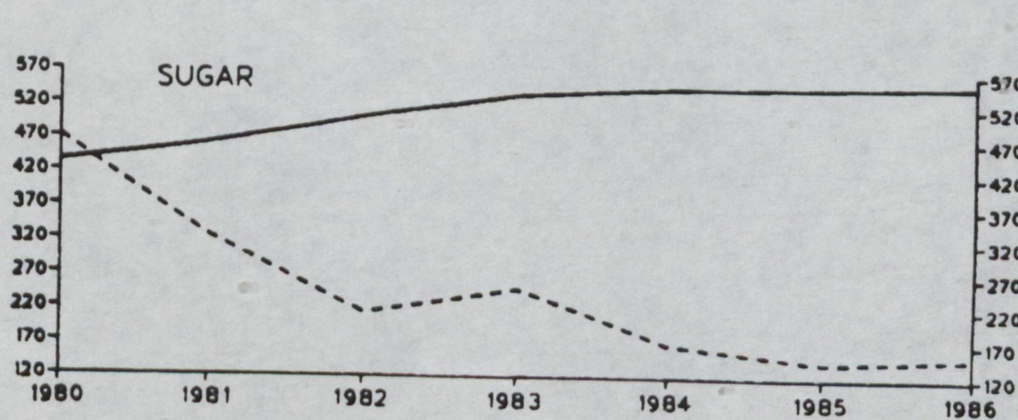
9. Recent estimates suggest that, through these wider effects, Community agricultural support has reduced GDP by up to 1%. With the estimates of taxpayer and consumer costs quoted earlier, this means that for every £100 transferred to the farmers, there could be a loss to Community GDP of £35 (some estimates are even higher). This could represent a significant loss of jobs in the Community, primarily in manufacturing and many of them in the UK.

COMMUNITY PRICES AND NOTIONAL WORLD PRICES









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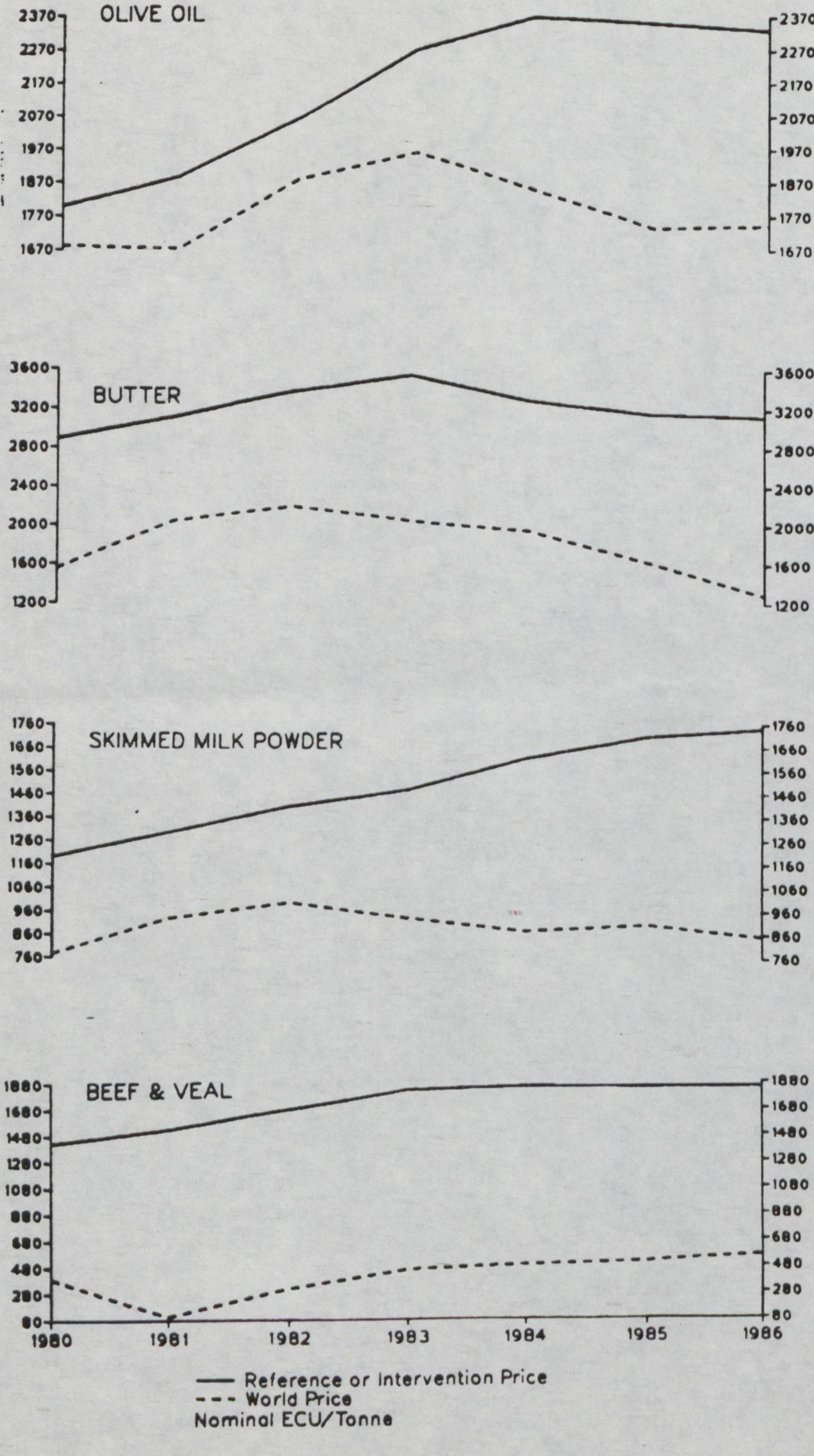

NOTE 1

THE IMPACT ON OUTPUT AND JOBS FROM THE CAP

1. The CAP sustains agricultural resources producing approximately zero value-added. Alternative more economic productive activity does not take place. Estimates suggest that this could amount to a full 1 per cent of Community GDP and perhaps 1 million Community jobs.

2. These effects come about in the following ways:-

a. Higher output prices hold resources in the agricultural sector. They induce higher prices for inputs, above all land. This displaces other uses and development of rural land and employment opportunities (an increasingly important consideration as the urban-rural shift of economic activity continues). Capital and R&D get locked into agriculture which could be better used elsewhere.

b. Higher prices for agricultural products adversely affect those industries using them as inputs (eg food-processing). More generally, a regime which maintains high prices and tends to increase them (the political pressure from the large number of marginal farmers) increases inflationary pressures.

c. Upward pressure on the real exchange rate, ie lower competitiveness, brought about by the positive shift in the balance of trade in agricultural products (induced by agricultural support) will reduce the balance of trade in non-agricultural products. Consequently we forfeit the benefits of comparative advantage and Community manufacturing has suffered.

d. Third World countries' incomes are reduced both by the downward pressure on <u>world</u> prices from Community and other countries' surpluses and by lack of access to Community markets. This exacerbates debt problems with implications for world growth and stability. It undermines demand for manufactured goods of the Community in developing countries.

e. Higher agricultural output and intensification generates environmental costs and displaces other rural development and activity and other non-agricultural output more generally. Not only is this a cost in its own right, but it also increases pressure for the public sector to intervene in these areas to compensate for the distortions introduced by its interventions in agriculture. Subsidies breed subsidies.

EUROPEAN COMMUNITIES

ECONOMIC POLICY COMMITTEE

Brussels, 8 July 1987

The Chairman

ECONOMIC REFLECTIONS

ON THE COMMUNITY'S AGRICULTURAL POLICY

REPORT TO THE COUNCIL

The Economic Policy Committee sees it as one of its tasks to take a position on pressing questions of economic policy in order to assist and orient policy-makers in their decisions. It therefore considers it appropriate to comment on agricultural policy from a general economic point of view. It is clearly not the business of the Committee to present detailed specific proposals for the reform of the Common Agricultural Policy.

The Committee has asked me to report to the Council (Economic and Financial Affairs) on the outcome of its dicussions on agricultural policy. This could be useful in view of the deliberations on this matter which will follow the European Council of the end of June 1987.

*

* *

The current situation and fundamental problems

1. The Common Agricultural Policy (CAP) has certainly achieved most of the aims listed in the Treaty of Rome. But in recent years it has itself resulted in serious imbalances. As long as the Community had a shortage of most of the main agricultural products, supporting farm incomes via prices - the salient feature of the CAP - meant that the cost was paid for essentially by the consumer. This helped to disguise budgetary and other problems. As the Community became increasingly self-sufficient in food, however, substantial production surpluses also came into existence since year

by year supply was on average increasing far more sharply than demand. This led to the build-up of huge stocks, placing an ever-heavier burden on the Community budget. The CAP also led to a distorted allocation of economic resources and intensified certain trade conflicts. At the same time it still failed to prevent large sections of the agricultural population from regarding their incomes as unsatisfactory. Besides the Community, almost all the other industrialized nations share responsibility for the present situation on the agricultural markets. World-wide protectionism in agricultural policy led to a collapse of world market prices and to distortions in international agricultural trade.

Budgetary and macroeconomic aspects

2. It is true that reform of the CAP has become a pressing need as a result of the high costs and the financing difficulties besetting the Community budget. However, reform should not be confined to this one aspect of the situation, however important it may be. It should be geared to reducing progressively the present distortions without at the same time creating new ones.

3. Prolonged maintenance of support or guarantee prices above their equilibrium level has the effect of retaining too many workers and too much capital in agriculture and produces excessive costs for the other sectors of the economy. This results in distortions between agriculture and these other sectors. Moreover, if some products are afforded greater protection than others, it also results in distortions even within agriculture.

4. When agricultural prices are held above equilibrium levels, they also directly impair the competitiveness of the industries processing agricultural products. High prices and support costs place a burden on other sectors, reducing the competitiveness of the economy as a whole. As a result of the

wider effects of agricultural protection on international trade, agricultural policy has also had an adverse effect on producers of other tradeable (especially manufactured) goods.

Guidelines for reform

5. The main pillar of the reform of the CAP must be to make agriculture once more subject to the rules of the market economy. Prices which do not reflect the market situation give rise to the misallocation of resources. This is why genuine market signals must again, and to an increasing degree, determine farmers' decisions, and the conditions for this must be established. Price policy should not be the only tool of ensuring proper incomes for those engaged in agriculture. A more market-oriented policy is needed to bring about a balanced relationship on a lasting basis between the supply of and demand for agricultural products and the more efficient allocation of resources. Such a policy requires certain transitional arrangements and should be accompanied by appropriate socio-structural measures.

The adjustment process

6. The existing imbalances have built up over a long period. They are so great that they cannot be corrected in the short term. Because prices on world agricultural markets have been distorted by manifold interventions, internationally concerted action is necessary so that the conditions for market equilibrium can gradually be restored. The distorting elements of the policy of agricultural intervention must be eliminated step by step. This applies to the Community but also to other countries which determine world trade in agricultural products.

7. The reform of the agricultural policy will require an adjustment process stretching over several years. During this phase it will very probably be difficult to avoid measures working in the same direction as the necessary shift of

official prices such as a limitation of intervention obligations and the introduction of co-responsibility levies. In cases where supply takes too long to respond to the gradual adjustment of prices, and surpluses build up, temporary recourse to instruments of administrative control may be justified, such as measures restricting the output of products qualifying for price guarantees (quotas), or the use of certain factors of production (setting aside of land). In doing so, special situations in Member States should be taken into account.

8. When products are subjected to quotas, a gradual alignment of producer prices on equilibrium prices is also necessary. Views differ on the most appropriate way to relate the process of price adaptation to the phasing out of quotas.

The policy of setting farmland aside requires the utmost caution because it distorts factor prices. It boosts the value of the agricultural land which is allowed to be used and prevents land from being used for alternative purposes (agricultural or otherwise). It can also lead to more intensive use of the land remaining in production, and partly frustrate the objective of reducing production.

9. As regards the adjustment of prices, two further considerations should be taken into account:

On the one side, it would be desirable gradually to harmonize the degree of protection enjoyed by the various agricultural products, so as to reduce the distortions within the agricultural sector. This would mean that, as far as possible, the most heavily protected products should be dealt with first.

On the other side, price differences resulting from monetary compensatory amounts should be gradually reduced and disappear altogether with the completion of the internal market. The European Council has introduced a system which goes in this direction.

Social and structural policy

10. The reform of the CAP by a gradual transition to a policy more reliant on market forces must be accompanied by measures, dealing with the following in particular :

- greater mobility of the factors of agricultural production;
- social welfare measures to support this reorientation;
- an appropriate policy on agricultural structures.

The Comittee is aware that structural adjustment in agriculture, as in other sectors of the economy, is easier to undertake in an environment of economic growth and high employment.

a) Factor mobility

11. Labour mobility could be encouraged by an improved training policy, backed up by appropriate aid for conversion and restructuring. These aids should not, wherever possible, be linked to the quantities produced, or to farm inputs. They need not depend on whether or not the farmer leaves the sector. Non-agricultural jobs should be created by encouraging the expansion of other industries or services.

Moreover, care should be taken to ensure that there is no further distortion of relative factor costs in the agricultural sector and that there are no artificial and short-sighted incentives favouring the use of capital rather than labour, such as aids to investment or for the more intensive use of land following set-asides.

b) Aids of a social nature

12. The Committee acknowledged the value in principle of such aids for an appropriate transitional period. Aids should be person-related. The basis for determining aid should be the total income of persons employed in agriculture (including subsidiary earnings) and not only their income from agricultural activity. The Committee felt that it is not part

of its remit to express a detailed view on the manner in which, or the level at which, such aids could be granted. Given the diversity of farmers' situations in the Community, implementation by national authorities within a Community framework would be most appropriate. This should not be seen as a step towards the renationalisation of the CAP. These measures should not be such as to increase agricultural output.

c) **Policy on agricultural structures**

13. Policy on agricultural structures should, as a general rule, be designed to be consistent with a policy directed towards reducing distortions and surpluses. Above all it should not encourage investments designed to increase production when this is inappropriate. This basic stance should not rule out social or other policy measures insofar as these seem necessary for reasons to do with the structure of society, the environment and regional development. In this context, the Comittee pointed to the need to take account of the problems of regions which would be particularly affected by the adjustments in agriculture.

Incorporation of new objectives

14. In recent years, increasing importance has been attached to concerns such as the protection and improvement of the environment and of landscapes. In these respects farmers may perform a service to society without receiving payment via producer prices. New tasks could properly be defined for them for which they would be paid - insofar as this is not already the case. Compensation could be envisaged in cases where the permanent abandonment of farmland or its conversion to other uses is entailed. If, for ecological reasons or for the purposes of landscape improvement, it seems desirable to preserve agricultural activities in specific areas, provision should be made for the appropriate measures.

15. In order to prevent over-intensive use of the soil, ecologicially undesiderable production methods, the inadequate rotation of crops or high-density stockfarming from entailing risks and costs to the environment, the same principles should as far as possible be applied to agriculture as are applied in environmental policy generally, among which the principle that "the polluter pays" plays a key role.

Summary

16. The main considerations are the following:

- It is essential to obtain a better adjustment of supply to demand through measures enabling the market to play a greater role.

- A more strongly market-related pricing policy should be the central pillar of the reform of the CAP. In particular, pricing policy must gradually be detached from the objective of income support; other instruments should be used to ensure proper incomes for those engaged in agriculture. Prices should again be more strongly determined by the aim of balancing supply and demand than they are in the present system. This would help to ensure the better allocation of resources whilst reducing the overall budgetary burden. It can only be brought about by an adjustment process stretching over several years.

- Since the reorientation of agricultural policy requires radical adjustments on the part of farmers, it requires corresponding back-up measures. These could in particular comprise aids for restructuring and conversion as well as social measures, the overall budgetary costs of which should be lower than the savings obtained by the price reductions.

- New or broader tasks in the field of environmental and landscape protection and improvement might provide employment and reduce the extent of the necessary structural adjustment.

- World agricultural markets are at present characterized by distortions caused by various interventions in most countries. The progressive removal of interventions which work against a more balanced relationship between supply and demand is thus also a matter for international negotiations and will call for contributions from all participating in them.

CCBG

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

From the Minister

RESTRICTED

Await cmnts from Treasy, Environ & FCO. GP 14/9

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

14 September 1987

Dear Chief Secretary,

FARM WOODLAND SCHEME

FLAP PT 16

On 2 March Michael Jopling circulated a consultation document on the Farm Woodland Scheme. This formed part of the package of documents on farming and rural enterprise which the Government published on 10 March.

I have now considered the responses to the consultation document and enclose a paper setting out my proposals for a revised Farm Woodland Scheme. I also enclose a paper on the options for discouraging intensification: this responds to a request I made on 6 May when I was still at the Treasury.

I should be grateful for any comments by 28 September.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Peter Walker, Norman Fowler, Tom King, Nicholas Ridley, David Young, Malcolm Rifkind, John Belstead and to Sir Robert Armstrong.

Yours sincerely,

Valerie Heathcoat

p.p. JOHN MacGREGOR
(approved by the Minister and signed in his absence)

14.9.87

RESTRICTED

FARM WOODLAND SCHEME: REVISED PROPOSALS

1. This paper considers the changes that might be made to the Farm Woodland Scheme in the light of the consultation exercise undertaken on the document published as part of the Farming and Rural Enterprise package in March.

2. My detailed proposals, which reflect the results of the consultation exercise, are set out in the Annex. This paper considers the key issues on which we need to take a collective view. The revised proposals are agreed by Tom King and, apart from the issue described in paragraphs 6 and 7, by Peter Walker and Malcolm Rifkind.

Objectives of the Scheme

3. We need to be clear what the purpose of the Scheme is. The consultation document listed four objectives: diversion of land to reduce agricultural surpluses; environmental considerations; farm income/rural employment; and timber production. All four objectives are important, but I am sure that we should give the first objective priority and construct a Scheme that meets this aim. Obviously any Scheme must be seen as an environmental plus. It should also be viewed as a new opportunity for farmers (who will not welcome anything too complex and bureaucratic) and it must produce timber to justify the planting grants. However, we need to give more emphasis than at present proposed to reducing surpluses and achieving CAP savings.

Target land

4. The Scheme proposed in the consultation document would attract planting onto the most marginal productive land available in each of the three proposed zones (lowland, disadvantaged area and severely disadvantaged area). I am now convinced that this is not going to be the best way of meeting the main objective. It does relatively little to reduce surpluses and it risks condemnation from environmental interests because this land may often be valuable from a conservation point of view (unimproved grassland, moorland, heathland etc). I therefore propose that we should exclude all such land from the Scheme and restrict eligibility to arable land and grassland up to 10 years old (which is more productive than land that has not been ploughed or reseeded for many years). We estimate that about 50% of the total UK agricultural area of 18m hectares would be eligible on this basis.

5. I recognise that this change of approach may be unwelcome to some farmers who have already earmarked some of their poorest land for the Scheme. However, environmental interests would very much welcome the change and I think farming interests would have to accept the logic of the move. In any event there is some uncertainty as to which land would be eligible as the consultation document proposed the exclusion of "land not in productive agriculture". But the main selling point would be an increase in the annual payments on offer both in the lowlands and in the less favoured areas (see paragraph 8). This would be justified by the higher CAP savings.

6. Peter Walker and Malcolm Rifkind accept the logic of this new approach, but are concerned about the political problems of excluding half our agricultural area from the Scheme and 80% of land in

Scotland and Wales. Malcolm has therefore suggested that in the Less Favoured Areas there should be a fourth category of planting on the excluded area which would attract the £30 per hectare grant originally offered in the SDA. Peter supports this suggestion, but feels that the rate for unimproved grassland in the DA should be set at the original DA rate of £60 per hectare. In the administration of the Scheme proposals for arable land and improved grassland at the rates of aid proposed in paragraph 8 would be dealt with first in any given year, but farmers could make separate applications for afforesting unimproved grassland (subject to the overall 40 hectare maximum). These would be held over until it became apparent nearer the end of the year what the demands on the Scheme were. If and only if there were cash available, grant in respect of unimproved grassland would be allocated in order of receipt.

7. I can of course see the force of these arguments. However, I strongly suspect the CAP savings would be minimal on such land. Moreover, we would dilute the credit I believe we shall gain from environmental interests for our retargeting of the Scheme. I would therefore prefer to stick to the better land only. But Peter and Malcolm feel strongly that given the pressures being felt by farmers in the LFAs it would be politically dangerous to exclude them from this Scheme; they believe that any environmental concern can and should be met by making the full consultation procedures (see paragraph 15) apply to these applications.

Rate of aid

8. There has been almost universal condemnation of the proposed rates of aid. This is to be expected from farming interests, but I think we may have underestimated the major problems we face in getting farmers to plant trees as a crop. If we were to target better land in the way I have proposed we could justify payments of £190 per hectare in the lowlands, £150 in the DA and £100 in SDA (compared with the proposed rates of £125, £60 and £30 per hectare). The income foregone calculations give figures in excess of this and some consultees have argued for payments of £250 in the lowlands for a Scheme of this kind. However, it seems right to be cautious given the possibility of some extra income from recreational use, the value of the capital asset that the timber in question will eventually represent and the fact that we do not want to attract more than 12,000 hectares a year into the Scheme (with approximately threequarters in the lowlands) during the 3 year experimental period.

9. I have also considered and rejected a number of alternative ways - eg free trees or grants for preparing a plan of operations - of making the Scheme more attractive without actually increasing the rates of payment. However, such palliatives are costly to administer and are no substitute for increased payments for the prudent farmer we are trying to attract.

Review of rates of aid

10. Another key factor in determining whether the Scheme is attractive or not is the arrangement for review of the rates of aid. The careful farmer will not enter the Scheme unless he can be sure that it will give him a reasonable income on an ongoing basis. Colleagues were understandably reluctant to contemplate index-linking, and I agree that we should reject this. However, I do see the need for periodic reviews of the level of annual payments, at which we would rework the income foregone calculations and announce updated rates of payment if these could be justified in the light of changed

circumstances. I think we also have to allow for the possibility that payments might be reduced by certain maximum proportions, even though this might be a deterrent to some potential applicants.

Environmental benefits

11. If it is to be a success the Scheme must bring environmental benefits. As noted above the move onto better land would be welcome to environmental interests. In addition we propose to:

i) make payments for 30 years on mixed woodland containing over 50% broadleaves and to introduce special 40 year payments for oak and beech woodland which takes longer to mature;

ii) publicise the higher rates of planting grant already payable for broadleaves; and

iii) encourage broadleaves and sensitive planting in the advisory literature we shall be producing.

Although the majority of traditional forestry planting in the UK as a whole is coniferous, it is worth noting that in England, where most planting takes place on lower land, 64% of private sector planting last year was of broadleaved trees. This strongly suggests that with the FWS being targeted at better quality land than traditional forestry, and with the extra incentives described in (i) and (iii) above, we ought to be able to achieve our aim of at least one third broadleaves overall without compulsory minima.

12. In my view to go further than this, for example to try and introduce preference for environmentally attractive schemes (however one might define these), would hugely increase the administrative cost of the Scheme and risk alienating farming interests by over emphasising the environmental objective to an extent that could prejudice the success of the Scheme.

Intensification

13. We were asked to consider whether it would be possible to build in some mechanism for ensuring that the assumed CAP savings were realised, for example by discouraging extra intensification of production elsewhere on the holding. I entirely agree with the underlying objective and believe that our revised proposals are the best way of achieving the necessary savings - without imposing bureaucratic controls which would greatly increase the administrative costs of the Scheme and be perceived as a major disincentive by farmers. In particular:

i) to the extent that the Scheme will be targeted on more productive land, more animals (or crops) will be displaced from each hectare planted with trees. It follows that farmers would be less easily able to make up the lost production from the remaining area;

ii) farmers must plant a minimum of 3 hectares of trees (except in Northern Ireland where holdings are about half the size of the UK average and this does not seem appropriate). We also intend to operate a 1 hectare minimum for each block of woodland. This will apply throughout the UK and will help to prevent farmers planting odd corners of unproductive land;

iii) the costs of planting and establishing woodland are not fully covered by the planting grants farmers will receive and their annual payments will be made in arrears. So farmers entering the Scheme will not find themselves with any more cash in hand for investment elsewhere on the holding than under their previous agricultural enterprise;

iv) the Scheme is an experimental one and will be independently evaluated as it progresses so that we can be clear that CAP savings are being realised in practice.

Administrative costs and consultation

14. This is an extremely difficult area. Colleagues may recall that the original estimate for administering this Scheme was £4m. We have managed to reduce this to £1.9m, but this could be exceeded if any extra conditions were added. Land use change is costly to administer, as experience with the planning system and ESAs shows.

15. However, I am still not satisfied that we have done enough to cut down the administrative cost of the Farm Woodland Scheme and I would like to try and dispose of the Forestry Commission's time-consuming consultation arrangements with local authorities. I do not think these can be justified if we are confining the Scheme to land that is already in intensive agriculture, although we might agree to continue to consult on landscape aspects for bigger Schemes and to apply appropriate arrangements in sensitive areas like SSSIs, ESAs and National Parks. We would also have to continue with full consultations on the unimproved land in the hill areas if this were included. Nevertheless, this change would save money, improve the attractiveness of the Scheme to farmers and speed up the processing of applications by up to two months.

Financial Aspects

16. These are summarised in Section L-N of the Annex. The net cost over the first 5 years has fallen from £21.9m to £17.2m. We shall need a minor adjustment to our PES bid in 1990/91, but the total PES cost will not exceed the £10m announced in Parliament on 9 February which was based on our then estimate for that year. The Treasury have agreed the financial aspects summarised in the Annex. However, they doubt whether the CAP savings assumed can necessarily be delivered in full unless further measures are taken to discourage participants in the Scheme from consequential intensification on the remainder of the holding. This issue is the subject of a separate paper.

Recommendation

17. Colleagues are invited to agree to a Scheme on the lines proposed above. The Bill* which will be presented to Parliament at the beginning of the autumn session will provide enabling powers only, whereas the details above will be included in the Scheme which will be made by SI. However, I see advantage in making the Government's intentions clear during the Second Reading of the Bill. There is also a considerable amount of work to be done if we are to have an effective Scheme in place by summer 1988 and we need to settle the framework for that work as soon as possible.

Ministry of Agriculture, Fisheries & Food
14 September 1987

*This will cover Great Britain as the necessary powers already exist in Northern Ireland.

SUMMARY OF POSSIBLE MODIFICATIONS TO THE FARM WOODLAND SCHEME

A. BASIS FOR PAYMENT

ORIGINAL PROPOSALS	MODIFIED PROPOSALS
SDA/DA/Elsewhere (lowland) Exclude only "land not in productive agriculture"	SDA/DA/Elsewhere (lowland) Include only arable and cropping land, and improved grassland (defined as grass reseeded within the last 10 years) This would exclude rough grazing (including heathland and moorland) and permanent pasture (grassland over 10 years old) (But see paras 6 and 7 of main paper)

B. RATES OF PAYMENT AND REVIEW

ORIGINAL PROPOSALS	MODIFIED PROPOSALS
SDA: £30/ha DA : £60/ha Elsewhere: £125/ha	SDA £100/ha (improved land only) DA £150/ha (improved land only) Elsewhere £190/ha (improved land only) (But see para 6 of paper which argues for retention of original unimproved rates in SDA and DA)
Review of rates of payment: Rates would be reviewed from time to time in the light of all relevant factors	Review of rates of payment: Reviews would take place in year 3 when the Scheme is reviewed generally and every 5 years thereafter. Could result in increases or decreases in rates of payment in certain circumstances.

C. DURATION AND EXTENT

ORIGINAL PROPOSALS	MODIFIED PROPOSALS
Conifers and mixed woodland: 20 years	Woodland with less than 50% broadleaves: 20 years
Pure broadleaved woodland: 30 years	Pure broadleaves (other than oak and beech) and mixed woodland with more than 50% broadleaves: 30 years Woodland containing only oak or beech: 40 years
Target area for scheme: 36,000 ha over 3 years Maximum of 12,000ha in first year with subsequent maximum decided in light of uptake	Target area for scheme: 6,000ha in 1988/89 and 12,000 ha thereafter with adjustments to annual targets if if necessary to achieve 36,000 ha in total in the first 3 years.

D. MINIMUM AND MAXIMUM AREA

ORIGINAL PROPOSALS	MODIFIED PROPOSALS
Minimum area per holding: 3ha	Minimum area per holding: 3ha (Great Britain) 1ha (Northern Ireland)
Minimum area per block of woodland: 1ha	Minimum area per block: 1 ha
Maximum area per holding lowlands: 20ha SDA and DA: 40ha	Maximum area per holding: 40ha everywhere

E. PROPORTION OF BROAD LEAVED TREES	
Intention to achieve one third overall	Intention to achieve onethird overall
Aim at minimum of 35% in lowlands 20% in DA 5% in SDA except where physical conditions preclude this	Rely primarily on incentive of: (i) higher BWGS planting grants and higher FGS grant rates for broadleaves
	ii) extending payment periods for woodland with more than 50% broadleaves (30 years) and for oak or beech only (40 years)
	(iii) Forestry Commission scrutiny of proposals to see that they take sufficient account of amenity and conservation factors. FC may return unsatisfactory proposals for amendment
	(v) Advice and encouragement oriented towards broadleaves, including "conservation recommended" species for each region in the advisory literature
	Consider compulsory minimum percentage if desired results not achieved in year 1. Precise percentage would depend on extent of any shortfall
F. SCHEME CONDITIONS	
Planting must form part of normal farming operation	Retain this condition to exclude absentee landlords and investors
	Woodlands would be subject to prevailing felling controls but, in order to encourage farmers to afforest better land, there would be a presumption in favour of allowing them to return the land to agriculture after clear felling
Land planted must be in productive agriculture	More restrictive criterion as in Section A above
Other exclusions as for FC grant schemes, eg Christmas trees	Retain: Make clear that planting of traditional coppice is eligible, but with only 10 year annual payments
Plan of operations must be prepared	Retain. Can include plans for management of existing woodland
Clearance under prevailing forestry consultation procedures	Retain, subject to the following: (i) seek to negotiate 10/ha cutoff below

which consultation is not required. Above 10/ha consultation should be on landscape aspects only

(ii) exclude National Nature Reserves completely

(iii) continue to consult NCC on cases occurring in SSSIs and the CC, CCS and NCC in ESAs.

(iv) continue to consult National Park Authorities on cases in National Parks (and similarly the CC for Scotland on cases exceeding 10 ha in National Scenic Areas in Scotland)

(v) most archaeological sites would be excluded by restriction to cropped and reseeded land, but consideration will be given to what other protection may be needed.

On change of occupancy new owner or tenant must re-apply	Simpler mechanism for new occupier to agree formally to abide by scheme conditions

G. RELATIONSHIP WITH OTHER SCHEMES

Consideration will be given to relationship with EC Schemes to avoid unnecessary overlap	Extensification Scheme: consider possibility that farmers wishing to take up afforestation option might join FWS and abide by its conditions
	HLCA payments: option of paying woodland compensatory allowances under Article 15 (3) of Reg 797/85 will not be taken up in UK at present
	Commission's proposals for Forestry Action Programme still awaited but unlikely to be agreed on and in place soon enough to affect this 3 year experimental scheme
Consultation document sent to Commission who have not yet commented	Meeting with EC Commission planned before introduction of Bill

H. ELIGIBILITY OF TENANT FARMERS

Use of model clauses in tenancy agreements or long forestry leases will be encouraged if industry representatives can reach agreement on them	Industry making good progress on model clauses Tenants will be required to have landlords consent before joining the scheme
	Landlords will not be eligible for FWS on land they have taken from tenants using a tenancy agreement resumption clause

TAXATION

The annual payments would be taxed as income (to be effected by appropriate Finance Act provision)	Normal tax treatment of commercial woodlands (occupier assessed under Schedule B unless he elects for Schedule D). If the recipient of the annual payments is assessable under Schedule B as occupier of the woodlands or is not otherwise assessable on the annual payments, they will generally be taxed under Schedule D. Transfer of woodland from Schedule D to Schedule B normally only possible on change of occupation. NB. Farmers intending to arrange a change of occupation will need to bear in mind that the new occupier must satisfy all the conditions of the Scheme if the new occupier is to continue to receive payments.

J. MARKETING

No proposal except that "the "the industry will want to consider how to ensure efficient marketing"	Diversification Scheme grants (both capital and marketing) to be introduced for on-farm <u>processing</u> of timber and resulting products. NFU and Timber Growers UK understood to be seeking to develop improved timber market information service for farmers.

K. NURSERY STOCK

MAFF and FC will keep in close touch with the Horticultural Trades Association on the likely demand for nursery stock.

L. COSTS AND SAVINGS

<u>Original Proposals</u>* £m

	1988/89	1989/90	1990/91	1991/92	1992/93	5 yr total
Total cost	3.5	7.9	9.3	10.8	12.3	43.8
CAP savings	-	2.2	7.5	4.8	7.4	21.9
Net cost	3.5	5.7	1.8	6.0	4.9	21.9

<u>Modified Proposals</u>*

	1988/89	1989/90	1990/91	1991/92	1992/93	5 yr total
Total cost	3.3	7.4	9.8	12.1	14.5	47.1
CAP savings	-	3.4	8.5	6.6	11.4	29.9
Net cost	3.3	4.0	1.3	5.5	3.1	17.2

*Assuming Scheme continues after the review in year 3

M. FINANCIAL CONTROL

Monitoring system to compare uptake with trigger levels and operate overall hectarage limit. Treasury to be consulted on details as Scheme progresses.

Territorial split: minor deviations from planned uptake can be covered by PES transfer between Agriculture Depts. Significant deviation from plans would require ad hoc discussion by Agriculture Ministers.

N. EVALUATION

Survey after 3 years picking up the various Scheme objectives Continuous assessment of data provided by farmers	As proposed, plus ongoing monitoring of estimated CAP savings and administrative costs. Basic performance measures agreed with Treasury who will be consulted on details as Scheme progresses.

Ministry of Agriculture, Fisheries and Food
14 September 1987

LAND DIVERSION SCHEMES :
POSSIBLE RESTRICTIONS ON INTENSIFICATION

1. This note considers the proposition that, unless farmers taking part in land diversion schemes are prevented or discouraged from intensifying production on the remainder of their farms, the savings in CAP expenditure expected from these schemes will not materialise. It also considers how such restraints could be imposed if it were decided that they were appropriate.

2. The only such schemes currently under examination are: the Farm Woodland Scheme; and the Extensification Scheme. The latter is an EC scheme, and the Regulation requiring it to be implemented imposes conditions of this sort. It is therefore considered separately, and paragraphs 3 to 12 relate primarily to the Farm Woodland Scheme. It is now proposed that this scheme should be targeted upon arable and other improved land, thus maximising CAP savings.

Intensification

3. While they are likely to have subsidiary aims, farmers' main objective will almost inevitably be to maximise profitability. This means maximising not production itself, but production relative to costs. Intensification can be defined as some specific improvement, probably to the land itself, involving an investment, the cost of which is justified by the value of the extra output. As lower CAP support reduces the returns from extra output, such investments will become less worthwhile.

4.. Intensification has almost certainly not been the main cause of the expansion of UK farm output over the last 15-20 years. The main factor is likely to have been scientific advances in seed varieties, animal breeding, agro-chemicals and agricultural techniques generally. These advances must be expected to continue. They can be offset only by price reductions sufficient to drive marginal land out of intensive production, direct measures to take land out of agriculture, or a full-scale system of quotas on farm output.

5. In many cases, a farmer will already be operating as intensively as the inherent quality of his land permits. Where that is not so, the decision to carry out an improvement is never likely to be a sudden one. Assuming the improvement is one which increases

/output

output - rather than reduces costs - the farmer needs to be sure that the prospective value of the extra output justifies the investment. The timing of the improvement is likely to be a separate question, depending particularly on the availability of the necessary funds.

6. Both the Farm Woodland and the Extensification Schemes will prove attractive to farmers whose land gives below average yields. It is the same farmers who will be affected most severely by reductions in CAP support. It follows that intensification of production is inherently less probably on these farms, since the extra output will be less likely to justify the cost.

7. Assuming, however, that an improvement is felt justified, the farmer might decide to carry it out either before or after he enters one or other of the Schemes. It seems reasonable to conclude that, as a result of entering the Scheme, his output will be less than it would otherwise have been and savings in CAP expenditure will result. This will only not be the case if participation in the Scheme causes him to carry out some measure of intensification which he would not otherwise have done.

8. Possible motives for his doing so can be considered in turn:

(1) To maintain output. It is difficult to envisage any reason why a farmer would wish to maintain a given level of output from his farm, as opposed to a given level of income.

(2) To maintain income. This can hardly apply. A farmer will not enter the Scheme unless he judges that the aid offered will offset the profit foregone.

(3) Because he will have extra funds for investment. This seems very unlikely. The aid rates are not designed to do more than offset loss of income from land of relatively modest productivity. It may be that, where the land is of particularly low productivity, the aid may yield a modest profit. But, as has been argued above, it is on such farms that improvements are least likely to be justified. In any case, under the Farm Woodland Scheme farmers will have to face the cost of

of planting, etc, in the initial years and this, despite the planting grant, is not likely to leave any spare funds.

(4) Because he will have spare labour, machinery or other facilities. This is rather more plausible, at least in theory. But it may be doubted whether in practice it is likely to be a very significant factor. MAFF envisages that woodlands will typically be planted on only 5 to 10% of a farm (say 5 - 10 ha on a farm of 100 ha or more); and, of course, this will be the least productive of the improved land on that farm. This does not seem to be a high enough proportion to affect farmers' improvement plans significantly. On an arable farm, it could be expected that spare capacity of that order would soon be taken up by the natural increase in yields from new varieties, etc. Planting and initial maintenance of woodland will require labour and some other inputs.

(5) Because he will have more time and energy to plan improvements. This seems an insufficient reason. The main factor inhibiting improvements is lack of money, not of time. And some farmers might be attracted precisely by the prospect of having somewhat less to do after a woodland had been established.

The conclusion must be that the likelihood that participation in a land diversion scheme will significantly affect a farmer's decision on an inprovement measure is small.

9. In the light of this conclusion, it is necessary to consider the effect of imposing conditions of the sort envisaged. In order to simplify administration so far as possible, it is assumed that these conditions will have as their aim to prevent any intensification that might otherwise have been carried out whether or not this is related to the planting of farm woodlands. On the other hand, that will inevitably discourage participation in the scheme and thus reduce the resulting savings. Alternatively, the rates of grant will have to be increased to maintain the Scheme's attractions and therefore the savings. Value for money would be reduced unless the extra cost was balanced by the intensification avoided.

10. The extent of the discouragement or of the necessary increase in the aid is difficult to assess. But it seems likely to be substantial, for the following reasons:

(1) Although in practice many participating farmers might not carry out any intensification measures at all, they would not want to debar themselves from doing so for reasons unconnected with planting under the Farm Woodland Scheme if circumstances should make it appropriate.

(2) This is particularly so in view of the long duration - 20 years minimum - of the obligations under the Farm Woodland Scheme. This is well beyond the period that the farmer can reasonably foresee. And he would have to reckon that restrictive conditions would reduce the value of the farm if he should need to sell it during that time.

(3) The farmer could well be deterred by the bureaucracy that would be involved in checking that he had fulfilled the conditions.

11. Restrictive conditions would also impose considerable extra resource costs on Government Departments due to the extra effort that would inevitably be involved in policing.

12. In view of the above, it seems most unlikely that any benefits that would be derived from imposition of conditions related to intensification of production would be sufficient to justify the extra cost of, or reduced participation in, the Scheme.

13. It must also be noted that MAFF will monitor the FWS closely to check that the CAP savings are being achieved. This will include an assessment of any developments on the rest of the farm. There will be a full review after three years, and tightening the conditions of the Scheme could be considered if this seemed necessary.

Extensification Scheme

14. The EC Regulation governing this Scheme provides for a cutback of at least 20% in the output of the product concerned (Member States must apply the Scheme to cereals and to beef), together

with a requirement that "production capacity" for other surplus products on the same holding must not be increased.

15. The Regulation lists set aside as one means of extensification, but others are permissible. With certain methods, restrictions on other output on the same farm are obviously necessary: for example, an undertaking to reduce numbers of beef cattle will not produce an equivalent - if any - cut in CAP expenditure if sheep numbers are free to expand correspondingly.

16. In the UK it is envisaged that set aside will be the means of extensification for cereals. MAFF considers that, for the reasons given above, restrictions on other farm output are in fact unnecessary and indeed likely to reduce the savings or value for money of the Scheme. Nevertheless, unlike the Farm Woodland Scheme, we will in the case of the extensification arrangements be obliged to provide for some such restrictions in order to comply with the EC Regulation. (Proceeding on this differential basis would offer an opportunity to compare the effect of the additional obligations under the Extensification Scheme with the Farm Woodland Scheme without restrictions relating to the rest of the holding.)

17. The EC Commission will have to judge whether Member States' proposals for intensification fulfil the requirement. MAFF envisage that a cereal producer would have to undertake not to increase his arable area, including the area set aside, beyond its previous level (possibly with some exception for non-supported crops); and not to increase breeding sheep and cow numbers (though probably with some flexibility to switch between the two).

18. For beef, where the farmer's obligation will be to reduce the number of animals sold, tighter restrictions will be necessary in order to ensure that extensification is achieved. It is envisaged that the numbers of all sheep and cattle, and not just breeding livestock, will have to be pegged at their previous level; and that the farmer will have to be prevented from selling hay from any surplus pasture created by the Scheme.

Possible Means of Restriction

19. These are:

(1) Farm plans, tailored to each farmer's circumstances.

(2) Broad restrictions on areas or livestock numbers as envisaged for the Extensification Scheme.

(3) Restriction on eligibility for capital grants.

20. Farm plans would be exceptionally burdensome and costly to administer. They would have to be drawn up individually and it would be necessary to consider requests to alter them. MAFF does not have the resources to operate such a system. Restrictions on areas and numbers can be regarded as a much simplified and standardised farm plan. For the Extensification Scheme, the farmer's primary obligation will have to be checked in any case and checking the secondary obligation, although it will increase adminsitration costs, may not be all that burdensome. But, as already indicated in paragraph 11, imposing such restrictions on the FWS would add seriously to the resource costs and the burdens of administering that Scheme.

21. Restrictions on eligibility for capital grants would also pose major difficulties. Given the changes which were made under the new AIS introduced in 1985, it is now very difficult to specify any particular qualifying items as being unambiguously linked to intensification. They might or might not be so linked according to circumstances: for example, renovation or replacement of worn out buildings, or drainage systems, could not be said to prejudice savings from land diversion. Furthermore, in some cases, it is clear that there is in fact no such link. It would obviously be undesirable to debar access to the latter items. In the case of the former, it would be necessary to consider whether access to this category should be prohibited altogether or whether the Minister should have discretion to withhold grant in certain circumstances. But any attempt to lay down hard and fast rules would be difficult and would be bound to lead to dispute and even the possibility of judicial review. The alternative of deciding on a case by case basis would be administratively extremely burdensome and could again run the risk of dispute and challenge.

22. If it were decided to impose the conditions or restrictions referred to above (and the second is necessary for the Extensification Scheme), they would have to be incorporated in the Statutory Instrument embodying the Scheme in question. It is not considered appropriate to rely on the existing discretion in the Capital Grants Scheme, which was not designed for such a purpose. Since capital grants are given under EC provisions, any measure of this sort for the Farm Woodland Scheme would have to be cleared with the Commission. Restrictions on these grants would also discriminate against UK farmers compared with their continental counterparts.

Conclusion

23. The likelihood that participation in the Farm Woodland Scheme would cause farmers to intensify production on the rest of their farms is very low. The measures needed to prevent it would be likely to make the Scheme unattractive unless grant rates were increased: and it seems unlikely that such an increase would give good value for money.

24. Conditions relating to production capacity on the rest of the farm are obligatory under the Extensification Scheme. For cereals, these should be light, in order not to deter participation. For beef, the restrictions are integral to achieving the aims of the Scheme, and must be framed accordingly.

Ministry of Agriculture, Fisheries and Food

14 September 1987

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file

MJ
cc FCO

SUBJECT
cc OPS
MASTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 165/87

10 DOWNING STREET

LONDON SW1A 2AA

THE PRIME MINISTER

25 August 1987

Your Majesty.

Thank you for your letter of 18 July to European Community Heads of Government about the proposal for an oils and fats tax.

The strong concern expressed by ASEAN and other states helped to ensure that participants at the European Council in Brussels on 29/30 June were well aware of the serious consequences the tax would have on the Community's trading partners. It helped us to secure the blocking of the proposal.

As you know, the Commission intend to consult the Community's main trading partners about the tax in the coming months. ASEAN member states will no doubt take the opportunity to underline their deep concern. You may rest assured that my own opposition to the proposal will remain firm.

Yours sincerely

Margaret Thatcher

His Majesty Sultan Haji Hassanal Bolkiah Mu'izzaddin Waddaulah Sultan

Foreign and Commonwealth Office

London SW1A 2AH

21 August 1987

Dear Andy,

LETTER FROM SULTAN OF BRUNEI: PROPOSED OILS AND FATS TAX

The enclosed note of 5 August from the Brunei High Commission asks us to transmit to the Prime Minister a message from the Sultan of Brunei to EC Heads of Government.

Though the message acknowledges that Brunei itself would be little affected by the proposed oils and fats tax, it reflects the concern of the ASEAN states in general. Led by the Malaysians they mounted a major lobbying exercise against it before the Brussels European Council. The Sultan's letter provides an opportunity to underline the need to keep up the opposition when the Commission conduct their further consultations with the Community's main trading partners. I enclose a short draft reply.

Yours ever

John Sawers

R J Sawers
Private Secretary
to Mrs Lynda Chalker

Andy Bearpark Esq
Private Secretary
No 10 Downing Street

BGS

DSR 11C
(Revised 5/87)

SECURITY CLASSIFICATION

Top Secret

Secret

Confidential

Restricted

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PRIVACY MARKING

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In Confidence

DRAFT LETTER FROM PRIME MINISTER TO SULTAN OF BRUNEI

Thank you for your letter of 18 July to European Community Heads of Government about the proposal for an oils and fats tax.

The strong concern expressed by ASEAN and other states ~~meant~~ helped to ensure that participants at the European Council in Brussels on 29/30 June were well aware of the serious consequences the tax would have on the Community's trading partners. It helped us to secure the blocking of the proposal.

As you know, the Commission intend to consult the Community's main trading partners about the tax in the coming months. ASEAN member states will no doubt take the opportunity to underline their deep concern. You may rest assured that my own opposition to the proposal will remain firm.

GW3AAR

Mr Fitton
ECD(E)

FOREIGN AND COMMONWEALTH OFFICE
7 AUG 1987
ECD(I)
ALLOCATIONS

Note 207/87

The Brunei Darussalam High Commission presents its compliments to the Foreign and Commonwealth Office in London and has the honour to enclose herewith the text of message from His Majesty Sultan Hassanal Bolkiah Mu'izzaddin Waddaulah Sultan and Yang DiPertuan of Negara Brunei Darussalam, to all Heads of Governments of the European Economic Communities concerning the EC proposed levy on Vegetable oils and fats.

In this regard the Brunei Darussalam High Commission has the further honour to request the Foreign and commonwealth Office to convey the message to The Right Honourable Mrs. Margaret Thatcher, Prime Minister of Great Britain.

The Brunei Darussalam avails itself of this opportunity to renew to the Foreign and Commonwealth Office the assurances of its highest consideration.

FOREIGN AND COMMONWEALTH OFFICE
DOWNING STREET
LONDON SW1A 2AL.

BRUNEI DARUSSALAM HIGH COMMISSION
LONDON

5TH AUGUST 1987.

...arul Iman
... Darussalam

SUBJECT
CCOPS
MASTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T141/A/87

18 July 1987

Your Excellency,

I have the honour to refer to the proposed levy on vegetable oils and fats which has caused considerable concern among us, in ASEAN. Brunei Darussalam and ASEAN follow with interest the discussion at the recent EC Summit Meeting in Brussels of this proposal. We are very pleased that the Summit had deferred the decision to introduce the proposed levy on vegetable oils and fats.

In this regard, Brunei Darussalam wishes to reiterate ASEAN's deep concern on the effect the proposed levy would have on ASEAN economies as a whole. The proposed levy would deprive some ASEAN member states of an essential foreign exchange. As Your Excellency is aware, ASEAN is dependent on commodity export, including vegetable oils, for foreign exchange earning. Although Brunei Darussalam is not directly affected by the proposed levy, as a concerned member of ASEAN, we see it might threaten the economic viability of ASEAN. Furthermore, it would limit the capability of ASEAN to recover from the recession, and would also have further repercussion as the proposed levy would further limit ASEAN's ability to import both consumer and capital goods from the EC.

The proposed levy would be in contradiction against the principal objectives of GATT. It is our hope that the levy would not be imposed as it would impede trade relations between ASEAN and EC.

Please accept, Excellency, the assurances of my highest consideration.

HASSANAL BOLKIAH
SULTAN AND YANG DI-PERTUAN
OF BRUNEI DARUSSALAM

GRS 580

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OF 161010Z JUL 87
INFO IMMEDIATE MAFF
INFO PRIORITY UKREP BRUSSELS, BONN, WASHINGTON
INFO ROUTINE OTHER EC POSTS

MY CALL ON THE FRENCH PRIME MINISTER: EC ISSUES.

1. DURING MY CALL ON MONSIEUR CHIRAC ON 15 JULY, HE EXPRESSED HIS PROFOUND GRATITUDE TO MRS THATCHER FOR HER UNDERSTANDING OF THE OVERRRIDING DOMESTIC POLITICAL IMPORTANCE FOR THE FRENCH OF AGREEMENT AT THE EUROPEAN COUNCIL ON MONETARY COMPENSATORY AMOUNTS. HE WENT ON TO SAY THAT, WHILE THE FRENCH GOVERNMENT ENTIRELY SHARED WITH US OUR INSISTENCE ON MAINTAINING STRICT BUDGETARY DISCIPLINE AND SHARED WITH US, TOO, THE NEED TO LIMIT THE EUROPEAN COMMISSION'S AMBITION TO GAIN CONTROL OF GREATER FINANCIAL RESOURCES IN LINE WITH THEIR ASPIRATIONS FOR GROWING SUPER-NATIONALISM AND TOO, SHARED THE VIEW THAT THE EFFORTS OF THE SOUTHERN GROUP OF EC MEMBERS TO GET THEIR HANDS ON EVER INCREASING RESOURCES SHOULD BE RESISTED, NONETHELESS THERE WERE SOME FUNDAMENTAL ASPECTS IN APPROACHING THE COMMUNITY BUDGET AND COMMUNITY AGRICULTURE WHICH CONTINUED TO DIVIDE FRANCE AND BRITAIN.

2. IN THIS CONTEXT, M. CHIRAC SAID THAT HE HOPED TO DISCUSS WITH MRS THATCHER, DURING THEIR FORTHCOMING MEETINGS, WHAT KIND OF COMMON AGRICULTURAL POLICY WE THOUGHT THAT THE COMMUNITY OUGHT TO BE ASPIRING TO IN THE YEARS TO COME. HE BELIEVED THAT WE CONTINUED TO HANKER AFTER A QUOTE DEFICIENCY PAYMENTS UNQUOTE SYSTEM. THE TRADITIONAL FRENCH APPROACH WAS WELL-KNOWN. IF BRITAIN AND FRANCE WERE TO TAKE THE LEAD IN GUIDING THE COMMUNITY IN THE RIGHT DIRECTION EG OVER INDISPENSABLE BUDGETARY DISCIPLINE, IT WAS VITAL THAT THEY SHOULD SEEK TO RESOLVE THEIR DIFFERENCES OVER AGRICULTURE. M. CHIRAC SHOWED THAT HE WAS AWARE OF THE TALKS PLANNED ON 28 JULY BETWEEN MR MACGREGOR AND THE FRENCH MINISTER OF AGRICULTURE, MONSIEUR GUILLAUME. HE WENT ON TO MAKE A STRONG PITCH IN FAVOUR OF THE OILS AND FATS TAX, REHEARSING IN SOME DETAIL THE ECONOMIC ARGUMENTS WHICH, HE SAID, HE HAD PUT AT THE EUROPEAN COUNCIL. THERE WERE GOOD ANSWERS TO OUR WORRIES ABOUT EG THE EFFECT ON COMMONWEALTH PRODUCERS AND ON DOMESTIC PRICE LEVELS. THE OIL AND FATS TAX, HE

SAID, WOULD HELP PUT A BRAKE ON EC OLIVE OIL PRODUCTION AND WOULD THEREFORE HELP, NOT HINDER, IMPORTS FROM THE THIRD WORLD. HE BELIEVED, HOWEVER, THAT THE PRIME MINISTER'S PRINCIPAL, THOUGH MORE OR LESS UNSTATED CONCERN WAS OVER THE EFFECT OF THE TAX ON THE GROWING US PROTECTIONIST SENTIMENT. FROM HIS OWN CONTACTS, HE THOUGHT THAT MR SCHULTZ GROSSLY EXAGGERATED THIS DANGER: PRESIDENT REAGAN HAD LED HIM TO BELIEVE THAT HE UNDERSTOOD THE CASE FOR AND WOULD NOT OBJECT TO THE OILS AND FATS TAX. HE HOPED TO HAVE A FURTHER DISCUSSION ON THE POLITICAL ASPECTS OF THIS WHEN HE SAW THE PRIME MINISTER. M. CHIRAC WENT ON TO SAY THAT WESTERN EUROPE'S RELATIONS WITH THE UNITED STATES OVER AGRICULTURE, TRADE AND OVER WIDER ISSUES AS WELL WERE THE SECOND MAJOR THEME WHICH HE WOULD LIKE TO DISCUSS WITH THE PRIME MINISTER.

3. M. CHIRAC SHOWED INTEREST IN THE DURATION AND SCOPE OF THE PRIME MINISTER'S VISIT TO WASHINGTON. HE DID NOT PRESS THE AIRBUS AS MUCH AS WE HAD BEEN LED TO BELIEVE (FCO TELNO 384). WHILE HE MADE THE STANDARD POINTS ABOUT THE US POSITION (CONCEALED DEFENCE SUBSIDIES ETC) HE INDICATED A REASONABLE CONFIDENCE THAT THE CURRENT DISCUSSIONS BETWEEN THE PARTIES WERE MAKING SATISFACTORY PROGRESS.

FERGUSSON

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TO DESKBY 010800Z FCO
TELNO 2280
OF 010615Z JULY 87
INFO PRIORITY EUROPEAN COMMUNITY POSTS, WASHINGTON

FRAME AGRICULTURE

AGRICULTURE COUNCIL: 30 JUNE - 1 JULY 1987

SUMMARY

1. AFTER AN ALL NIGHT SESSION COUNCIL OF AGRICULTURE MINISTERS SUCCEEDED IN ADOPTING THE 1987/88 PRICES PACKAGE.

2. THE DETAILS WERE CLOSE TO THOSE ON WHICH INDICATIVE VOTES WERE TAKEN AT THE COUNCIL ON 18 JUNE, WITH THE REPLACEMENT OF THE PROPOSALS ON POSITIVE MCAS AND FUTURE MCAS BY THE TEXT AGREED AT THE EUROPEAN COUNCIL. HOWEVER, TO AVOID A GERMAN VETO, THE BUYING-IN PRICE CUTS FOR CEREALS AND OILSEEDS WERE REDUCED BY ONE PERCENTAGE POINT. FOLLOWING BLOCKING OF THE OILS AND FATS TAX, COMMISSION PROPOSAL ON THE OILSEED GUARANTEE THRESHOLD AGREED FOR 1987-88 ONLY WITH DECISIONS FOR THE FUTURE TO FOLLOW CONSIDERATION OF THE OILS AND FATS TAX AT THE COPENHAGEN SUMMIT. ALSO, INTERVENTION PRICE CUTS FOR OILSEEDS, OTHER THAN THOSE ARISING FROM THE OPERATION OF THE GUARANTEED THRESHOLD, REDUCED BY THREE PERCENTAGE POINTS.

The French seem to have got this brought back to Copenhagen. They will no doubt try to link it to other elements in the package there.

3. IMPLEMENTING TEXTS TO BE VERIFIED AT A MEETING OF SCA STARTING AT NOON TODAY, FOR FORMAL ADOPTION AS ''A'' POINTS AT BUDGET COUNCIL ON 2 JULY.

DETAIL

4. ANDRIESSEN (COMMISSION) PRESENTED A REVISED COMMISSION COMPROMISE (DETAILS IN MIFT) AS CONTAINING NO NEW CONCESSIONS APART FROM THOSE NECESSARY AS A RESULT OF THE EUROPEAN COUNCIL, MOST NOTICEABLY IN THE AGRI-MONETARY, CEREALS AND OILS AND FATS SECTORS. THERE COULD BE NO QUESTION OF FURTHER NEGOTIATION.

5. POTTAKIS (GREECE) LED THE WAY IN SEEKING A LARGER GREEN RATE DEVALUATION. PANDOLFI (ITALY) O'KENNEDY (IRELAND) AND GAUTHIER SAUVAGNAC (FRANCE) WANTED MORE TOO (THE LAST SOLELY FOR SHEEPMEAT).

6. POTTAKIS ALSO WANTED CONCESSIONS ON COTTON AND, BECAUSE THE OILS AND FATS TAX WAS NOT TO BE ADOPTED, ON OLIVE OIL AND SOYA. PANDOLFI AND GAUTIER SAUVAGNAC JOINED IN OPPOSING INTRODUCTION OF A MAXIMUM GUARANTEED QUANTITY FOR SOYA, ADDING DEMANDS FOR A LOWER LIMIT ON THE SUPPORT CUTS POSSIBLE UNDER THE MAXIMUM GUARANTEED QUANTITIES FOR OILSEEDS.

7. KITTEL (GERMANY) SAID THAT HIS AGREEMENT TO THE AGRI-MONETARY PACKAGE WAS ON THE UNDERSTANDING THAT THERE WAS NO COMMITMENT ON THE

DECISION THE COUNCIL HAD YET TO TAKE ON THE RULES GOVERNING COMPENSATORY NATIONAL AIDS. HIS AGREEMENT TO MILK QUOTA ADJUSTMENTS WAS DEPENDENT ON AGREEMENT TO CONTINUATION OF NATIONAL RULES RESTRICTING IMITATION DAIRY PRODUCTS. INWARD PROCESSING RELIEF FOR WHEY SHOULD BE EXTENDED. DE KEERSMAEKER (PRESIDENCY) SAID THAT THE GERMAN POINT ON NATIONAL AID COULD BE NOTED IN THE MINUTES BUT COULD NOT ALTER THE TEXT AGREED AT THE SUMMIT.

8. MR MACGREGOR (UK) SOUGHT CLARIFICATION OF HOW THE NEW AGRI-MONETARY SYSTEM WOULD APPLY TO FLOATING CURRENCIES. THERE SHOULD BE A STATEMENT THAT EC PRICE CUTS, INTRODUCED TO ELIMINATE ARTIFICIAL MCAS, WOULD APPLY TO ACP SUGAR PRICES. HE SOUGHT AN ASSURANCE THAT MILK QUOTA LEASING COULD CONTINUE IN THE UK AS NOW. THE WHEREAS CLAUSES OF THE IMITATION DAIRY PRODUCTS PROPOSAL WENT FURTHER THAN WAS NECESSARY TO JUSTIFY FRENCH AND GERMAN NATIONAL RESTRICTIONS. THERE SHOULD ALSO BE AN ASSURANCE THAT THE TERM ICE CREAM COULD CONTINUE TO BE USED. HE COULD AGREE THE PROPOSED GREEN RATE CHANGES IF OTHERS DID.

9. IN RESPONDING TO THE VARIOUS DEMANDS, ANDRIESSEN GAVE LITTLE GROUND. THE ONLY WORD OF ENCOURAGEMENT ON THE NON-UK POINTS WAS AN OFFER TO CONSIDER THE MERITS OF THE CASE ON WHEY INWARD PROCESSING RELIEF AT THE NEXT COUNCIL. ON THE UK POINTS, HE SAID THAT THE SOLUTION TO AGRI-MONETARY PROBLEMS CREATED BY A FLOATING CURRENCY LAY IN THE UK'S HANDS. HE COULD OFFER NO IMMEDIATE SOLUTION ON ACP SUGAR BUT AGREED THAT ONE MUST BE FOUND WHICH ENABLED THE ACP PRICE TO BE AGREED AND THE REFINERS TO MAKE A REASONABLE PROFIT. HE WOULD BE AS HELPFUL AS POSSIBLE ON MILK QUOTA LEASING WITHIN THE LEGAL CONSTRAINTS. (POOLEY ADDED THAT THE COMMISSION WOULD PROPOSE A SIMPLE REGULATION ALLOWING LEASING AND LEAVING THE DETAILS OPEN). HE GAVE THE REQUESTED ASSURANCE ON ICE CREAM AND, POOLEY HAVING REFERRED THE POINT TO THE COUNCIL LEGAL SERVICE, DEWOST SAID THAT, WHILST HE WOULD HAVE LIKED TO RETAIN ALL THE WHEREAS CLAUSES IN THE IMITATION PRODUCTS REGULATION, ON REFLECTION HE COULD AGREE TO THEIR BEING SIGNIFICANTLY CUT TO REMOVE THOSE TO WHICH THE UK TOOK EXCEPTION.

10. DE KEERSMAEKER THEN CALLED FOR THE COUNCIL TO DECLARE ITS OPINION. MRS HOLBERG (DENMARK), ROMERO (SPAIN), FISCHBACK (LUXEMBOURG), BRAKS (NETHERLANDS), VAN DER MOORTEL (BELGIUM), BARRETO (PORTUGAL) AND MR MACGREGOR (DESPITE HIS DISAPPOINTMENT THAT THE OILSEED AND CEREALS PRICE CUTS HAD BEEN REDUCED AND HIS VIEW THAT IT WAS STRANGE TO CONSULT THIRD COUNTRIES ON THE OILS AND FATS TAX, ON WHICH THE COUNCIL ITSELF WAS NOT AGREED) COULD ACCEPT THE PACKAGE. KIECHLE (GERMANY) OPPOSED ON CEREALS AND RAPESEED PRICES, GUILLAUME (FRANCE) ON OILSEEDS, O'KENNEDY ON GREEN RATE DEVALUATIONS, PANDOLFI ON OILSEED PRICES AND POTTAKIS ON THE PACKAGE AS A WHOLE.

11. TO SOLVE THE PROBLEM OF THE BLOCKING MINORITY ON OILSEEDS, PANDOLFI MADE CLEAR THAT HIS MAIN OBJECTION WAS TO DECIDING ON THE INCREASE IN THE MAXIMUM CUT IN PRICES UNDER THE MAXIMUM GUARANTEED QUANTITY FOR 1988/89 AND SUBSEQUENT YEARS BEFORE THE PROCESS OF CONSULTATION AND DECISION ON THE OILS AND FATS TAX. HE COULD ACCEPT THE PROPOSALS FOR 1987/88 AND HE FELT THAT IT WOULD BE BETTER FOR

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/THE

THE COUNCIL TO AGREE FOR THIS YEAR RATHER THEN TO LEAVE THE COMMISSION TO TAKE ACTION UNDER ITS OWN POWERS. ANDRIESSEN SUPPORTED THIS APPROACH. THE ACTION HE COULD TAKE UNDER HIS OWN POWER WOULD BE LESS EFFECTIVE. HE AGREED, THEREFORE TO SPLIT HIS PROPOSAL SO THAT THE COUNCIL COULD SIGNIFY ITS AGREEMENT TO THE PART WHICH RELATED TO THIS YEAR. HE WOULD NOTE THAT THERE WAS A MAJORITY, BUT NOT A QM FOR THE PROPOSAL FOR LATER YEARS. THIS APPROACH WAS ACCEPTED BY THE COUNCIL AS A WHOLE.

12. DE KEERSMAEKER THEN SOUGHT AND OBTAINED UNANIMOUS AGREEMENT TO THE PROPOSAL ON MILK SUBSTITUTES, INCLUDING THE PROVISION PROVIDING TEMPORARY COVER FROM FRENCH AND GERMAN NATIONAL RESTRICTIONS. PANDOLFI SOUGHT, AND WAS GRANTED, A PROMISE BY ANDRIESSEN TO INVESTIGATE A PROBLEM IN THE VAT REPAYMENT SYSTEM IN ITALY. FINALLY, GAUTIER SAUVAGNAC THEN ASKED FOR A UNANIMOUS COUNCIL AGREEMENT UNDER ARTICLE 93 TO THE CONTINUANCE OF FRENCH NATIONALLY FINANCED STORAGE AIDS FOR WINES AND, THERE BEING NO OPPOSITION, DE KEERSMAEKER DECLARED THIS TO BE AGREED.

FUTURE BUSINESS

13. MRS HOLBERG ANNOUNCED THAT TO COMPENSATE FISCHBACK FOR THIS COUNCIL HAVING BEEN HELD IN BRUSSELS, THE JULY MEETING OF THE COUNCIL WOULD BE HELD IN LUXEMBOURG.

HANNAY

YYYY
ADVANCE
KERR FCO
WALL FCO
SHEPHERD FCO
HOLROYD CAB
MCADAM CAB
JOHNSON DTI
HADLEY MAFF
THOMAS MAFF
MYERS MAFF
PACKER MAFF
CANN MAFF

WENTWORTH MAFF
MURPHY MAFF
HOLLIS MAFF
BONNEY TSY
ESSORY DAFS
MURRAY DANI
J I DAVIES WOAD
MAIN
FRAME AGRICULTURE

UCLNAN 9079

FRAME AGRICULTURE
ECD (I)

COPIES TO:
ADVANCE ADDRESSEES.

(ADVANCED AS REQUESTED)

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cc PC

FCS/87/141

CDP
20/6.

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Agriculture Price Fixing

Vat: Hap.

1. Thank you for your letter of 24 June. I agree with you that our aim must be to deal a mortal blow to the oils and fats tax at the European Council. The French Government will not formally acknowledge its demise, but if we can get consideration of it pushed into the overall future financing negotiations, that will effectively put it to rest. I agree with you that the questions of the tax and reform of the oils and fats sector need to be separated: I believe that the Commission now recognise that, though the French do not.

2. You raise the question whether we should invoke the Luxembourg Compromise if, despite our efforts, the tax proposal comes back to the Agriculture Council, and our blocking minority falls away. I do not rule this out, though we would do ourselves a lot of damage, not least domestically, if we invoked the Compromise and were then voted down, as in 1982. But I do not think it makes sense to take a decision now: the question is hypothetical, and the situation does not on present form seem likely to arise. Our major effort since the Agriculture Council has been to ensure that the blocking minority holds at the European Council; the latest indications look good.

3. You raised the possibility of our voting against the Germans if they invoked the Luxembourg Compromise on the rest of the package. Our view on the Compromise, formally given in writing when the Prime Minister signed the Solemn Declaration in June 1983, is that:

/"When

"When a member state considers its very important interests to be at stake, discussion should be continued until unanimous agreement is reached."

4. We repeated that view in the booklet "Europe: The Future" which the Prime Minister circulated to Heads of Government in 1985. When the argument was being made, in the negotiations on the Single European Act, that there should be some objective test of what constituted a very important national interest, we successfully defended the view that only the member state concerned could judge when its very important national interests were at stake.

5. We have given assurances to the House that the Luxembourg Compromise remains unaffected by the Single European Act, and that it continues to provide a potential protection for our interests. We would severely undermine that protection if we now refused to accept Germany's judgement of what constituted a very important national interest. Nor would it necessarily even be expedient to do so, for if the consequences of the Germans successfully invoking the Compromise were that the Commission implemented more stringent proposals, we would have gained.

6. I therefore believe that, in both our short-term and long-term interests, if the German Government invoke the Luxembourg Compromise we should not take part in any vote subsequently called by the Presidency.

7. I have carefully considered your suggestion that we might tell the Germans that our support for them, should they again invoke the Compromise, would be dependent on their undertaking to return the favour, when next the question of a

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UK invocation arises. This is tempting, but dangerous, for how would we react if - as I would expect - they refused to give such an undertaking? Since our interests would still lie in supporting them on the Compromise, I think it best not to pursue the idea.

8. I do, however, agree with the question you propose to put on imitation milk products.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office
27 June 1987

EUROPUL', CAP. Pt 17,

C5/032

CONFIDENTIAL

cc PC

Treasury Chambers, Parliament Street, SW1P 3AG
01-270 3000

Rt Hon John MacGregor OBE MP
Minister of Agriculture, Fisheries and Food
Ministry of Agriculture, Fisheries & Food
Whitehall Place
LONDON SW1A 2HH

CDP 26/6.

26 June 1987

Dear Minister

AGRICULTURAL PRICE FIXING

Thank you for sending me a copy of your letter of 24 June to Geoffrey Howe.

I can see that it is extremely difficult to take tactical decisions on how we should react in any resumed discussions in the Agriculture Council until we have a clearer idea of the Presidency's intentions on procedure and exactly how the Commission propose to act if the Council fails to take decisions by 1 July. I should be grateful if my officials could be kept closely in touch with developments on this score. It might therefore be sensible for us to concentrate at this stage on what our key objectives should be on the main elements in the Price Fixing and to leave oursleves some discretion how these should be achieved.

On the oils and fats tax our position is clear enough: we should aim to get the European Council to inflict a mortal wound on the proposal. It should certainly be decoupled from the rest of the Prices package; and, if we cannot kill it off completely, we should aim to get consideration put off to the future financing review because of its wider implications. If, contrary to expectations, this tactic fails and the blocking minority in the Agriculture Council risks falling apart, the UK should make clear that it would in our view be wholly improper for the Council to vote on the proposal, and unlawful to adopt it by qualified majority (because the proper legal base for a revenue raising measure is Article 201 of the Treaty, which requires unanimity) and that we would be obliged to consider action before the European Court if the proposal were so adopted. It is helpful in this connection to have the Attorney General's confirmation that we should challenge such a decision before the Court. We would need to say this in the Council both in order to preserve our posture before the Court subsequently and in order to counter Parliamentary criticism should we fail to invoke the Luxembourg compromise against impostion of this new tax. In other words, we would need to use language similar to the Luxembourg compromise, and going beyond it, even if we do not formally invoke the compromise itself.

On reform of the agrimonetary system our aim should be to achieve an agreement on changes which are no less stringent than the current Commission proposals. If the Germans invoke the Luxembourg compromise and succeed in preventing a vote, we should make it clear that the consequence can only be an end to the strong currency/switchover system as provided for in the current Regulations. We must in no circumstances agree that the current arrangements (with all their associated inflationary effects) should be rolled over for another year.

On the agricultural prices themselves, the current compromise is the weakest we should be prepared to accept. If the Germans use their veto and succeed in blocking this element of the package, the Commission have said that they will take management action (as in 1985) to implement the current proposals. This would be a better outcome for us than a further postponement of decisions by extending the marketing year at current price levels. In any event we must continue to make clear at the Council and in any subsequent statements that in the UK view the proposals do not go far enough in securing budgetary savings and that we look to the Commission to make further proposals this year (notably on CAP stabilisers) to help retrieve the budgetary situation.

On the proposals for specific green rate changes you have indicated that we are willing to accept the current proposal for the green pound equivalent to a seven point reduction in the MCA for beef and 5½ points for other products. We should make it clear that the UK could not accept increased devaluations for other Member States going beyond the current compromise. If the Germans can be persuaded to lift their veto on the prices package and agrimonetary reform in return for a decision to defer any revaluation of the green DM until 1988, we could accept that. But the consequence should be to reduce all the proposed devaluations by ½%, restoring the green pound proposal to -6.5% for beef and -5% for other products.

Geoffrey Howe will no doubt have views on your suggestion for approaching the Germans at this stage on their attitude if we chose to invoke the Luxembourg compromise at some future date. I am very doubtful about the wisdom of doing this. In the unlikely event that the Germans gave us an unequivocal and positive response, we would then be bound to support their use of the compromise against the present package. In the more likely event that they gave us an equivocal response, we would merely have embroiled ourselves in a further complexity to no purpose.

I leave it to you to decide the line to take on imitation milk products in the light of the negotiating context in which you find yourself.

I am copying this to the Prime Minister, Geoffrey Howe, Members of OD(E), the Attorney General and to Sir Robert Armstrong,

Yours sincerely

A W Kuczys

pp **NIGEL LAWSON**

(approved by the Chancellor & signed in his absence)

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

25 June, 1987.

AGRICULTURAL PRICE FIXING

The Prime Minister has seen a copy of the Minister of Agriculture's letter of 24 June to your Secretary of State, and notes that the Foreign Secretary feels that we should not invoke the Luxembourg Compromise to prevent adoption of an oils and fats tax if we lose our blocking minority in the Agriculture Council. While the situation is entirely hypothetical, the Prime Minister would not rule out use of our veto in such circumstances. She would certainly wish to be consulted before any decision was reached.

I am copying this letter to the Private Secretary to the Minister of Agriculture, Fisheries and Food, to Private Secretaries to other members of OD(E) and to Sir Robert Armstrong.

(C.D. Powell)

Lyn Parker, Esq.,
Foreign and Commonwealth Office.

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10 DOWNING STREET

Prime Minister

CAP Price Fixing

You need not read all this. But you should be aware that

- if you are unable to kill the oils & fats tax at the European Council; and
- if we subsequently lose our blocking minority in the Agriculture Council

the Foreign Secretary and John McGregor do NOT propose to invoke the Luxembourg compromise to block it. I am not

Sure this is right.

No need for a decision now. But you may wish to signal your interest & wish to be consulted before any decisions are taken.

CDP

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CC PC

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

WHITEHALL PLACE, LONDON SW1A 2HH

→ CDP

From the Minister

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and Commonwealth Affairs
Foreign and Commonwealth Office
Whitehall
London SW1A 2AH

24 June 1987

We must discuss the question of using the veto in view of the German position

Dear Geoffrey,

AGRICULTURAL PRICE FIXING

As you know, the Agriculture Council again failed to reach agreement last week. Revised proposals were tabled by the Commission. The Presidency took an indicative vote on this revised package divided into five sections: the oils and fats tax; changes to positive MCAs; changes to negative MCAs; the future agrimonetary system; and support prices and related measures. It appeared from this that there was no qualified majority for the oils and fats tax; and that there would be a qualified majority for all the other sections of the package except that Germany made clear they would invoke the Luxembourg Compromise on the future agrimonetary system and on the prices and related measures.

Where we go from here is not clear. The new marketing years for major commodities (milk, beef, cereals, sugar, rapeseed) are due to start on 1 July. It seems possible that the Council will meet again next Tuesday to vote formally on individual regulations. Meanwhile the Commission are preparing to put in place, under the powers they conceive they have to operate in a legal vacuum, prices and support arrangements for these commodities on the assumption either that the Council will again be unable to take a decision because of the German veto, or that there is no meeting of the Council before 1 July. I assume the prices and measures will be those in the current package and that this was why the Presidency took pains to demonstrate that there was a majority for them: but we cannot be certain. There are several different scenarios.

First, the oils and fats tax. In the discussion of this in the European Council, we should ideally want to kill it off definitively

/ - but I can ....

- but I can see that this is not likely to be achievable. I would, however, hope that we can get it transferred from the CAP context into the discussions on future financing. But unless the European Council has taken a very firm decision in this sense before the Agriculture Council meets, the Presidency would be very likely to put the issue to a vote.

In a vote, the present blocking minority may hold, thus causing it not to be adopted. I note that you have pinned Genscher down. It would clearly be very good to get a negative vote. But this could have unfortunate consequences. The Commission - who have throughout stressed the indissoluble link between the tax and other changes in the oils and fats sector - might withdraw some of their proposals for reform, eg the strengthening of the guaranteed quantity system for rapeseed and sunflower and the introduction of the system for soya and olive oil. Or those strongly in favour of the tax (France, Italy, Belgium and Greece) may refuse to vote for these changes, thus producing the same result. (If the Germans successfully use the veto to block decisions on prices and related measures, we can expect the Commission only to put in place measures for which there is a qualified majority in favour.)

Alternatively, the blocking minority may not hold. If so, I understand you feel we should not attempt to invoke the Luxembourg Compromise. I do not wish to contest that. But it has a bearing on the attitude we take to the German veto.

On this, it is not clear how many individual measures the Germans will attempt to block: presumably at least the price cuts and related measures for cereals, oilseeds and proteins, together with the changes to the agrimonetary system. The agreed Government position is that we should support them, as of course we did in 1985. But in doing so, we should be setting aside the following considerations:

(1) We want all these measures to go through.

(2) The Germans (with France and Ireland) refused to uphold our use of the veto in 1982, so that we were outvoted.

(3) There is no unique German interest in the prices part of the package (as opposed to the agrimonetary part), which I understand to be your main ground for concluding that we should not use the veto on the oils and fats tax.

Against this background, I think there is a strong case for telling the Germans that we will not uphold their veto, at least on the prices part of the package, unless they give us a clear understanding that they will support us on any future occasion.

On another German point, the package contains a regulation on the designations to be used for "imitation milk products". It is proposed that the Council should by unanimity amend the Commission's proposal to permit France and Germany to maintain their current ban on the manufacture and sale of these products. This amendment is not in

/our interests. ....

our interests. I would propose that we should avoid giving the Germans any advance assurance that we will go along with it.

To sum up, I draw the following conclusions, with which I hope you agree:

(1) If we cannot get the oils and fats tax removed from the price fixing package in the European Council, we should do everything possible to stop the Commission continuing to make a strong link between the tax and the reform of the oils and fats sector.

(2) We should immediately make contact with the Germans to say that we hope they will not persist in blocking the current prices package, particularly the prices and related measures. If they do, we will need to consider our response. Is the German Government prepared to undertake to support the UK in the event that we ourselves should in future need to involve the Luxembourg Compromise?

(3) The Germans should also be asked - though this is a much smaller point - whether they can suggest any reason why there should be unanimous agreement to the proposed regulation on the designations of imitation milk products in circumstances in which they are blocking the price fixing package.

We can of course discuss all this on Friday.

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

Yours ever,

John

JOHN MacGREGOR

Qz.05873

MR POWELL (10 Downing Street)

1987 Agricultural Price Fixing

The Agriculture Council has ended without agreement. You should know, however, that the Presidency drew certain "political and procedural conclusions" including:

(i) they established that on the proposed oils and fats tax there was a blocking minority of three (United Kingdom, Federal Republic of Germany and the Netherlands). This is a reasonably good position for us since it implies that the oils and fats tax will not be proceeded with. We shall, of course, need to maintain the alliance against the tax and can probably bring the Danes back into it;

(ii) on agri-monetary issues that the Germans were not prepared to accept any of the changes proposed and had thus effectively blocked any green rate changes;

(iii) on the United Kingdom green rate the Minister of Agriculture, Fisheries and Food indicated that he was ready to accept what is on the table in the Presidency compromise (contrary to the position taken earlier by Mr Jopling), provided that there were no changes in what is proposed for others, in particular the French and the Irish.

We are content with the present situation, although it does seem probable that a pretty messy package of points will come to the European Council.

I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

18 June 1987

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FRAME ECONOMIC
FRAME AGRICULTURE

FROM UKREP BRUSSELS

JOINT AGRICULTURE-ECOFIN COUNCIL: 15 JUNE 1987
1987-1988 BUDGETS AND AGRICULTURAL PRICE FIXING

SUMMARY

1. A SINGLE LENGTHY TABLE ROUND, NOTABLE ONLY FOR VIGOUROUS ATTACKS ON GERMANY BY FRANCE AND NETHERLANDS, REVEALED FEW CHANGES FROM POSITIONS ALREADY ADOPTED IN AGRICULTURAL AND BUDGET COUNCILS, AND NO NEW IDEAS FOR RESOLVING THE 1987-88 AGRICULTURAL BUDGET PROBLEMS. PRESIDENCY CONCLUDED THAT IT HAD CLARIFIED PROBLEMS, BUT THAT DISCUSSION SHOULD CONTINUE IN INDIVIDUAL COUNCILS. EVERY EFFORT WOULD BE MADE TO AVOID OR MINIMISE ISSUES BEING REFERRED TO THE EUROPEAN COUNCIL. COMMISSION PROMISED TO INTRODUCE RECTIFYING LETTER TO 1988 PDB IF EVENTUAL PRICE FIXING PACKAGE SUBSTANTIALLY EXCEEDED COST OF COMMISSION PROPOSALS.

2. AN ATTEMPT BY COMMISSION TO PREVENT THE 1988 REFERENCE FRAMEWORK BEING ADOPTED AS AN 'A' POINT BY ECOFIN WAS FOILED OVER LUNCH.

3. THE CHANCELLOR OF THE EXCHEQUER AND MINISTER OF AGRICULTURE (MR MACGREGOR) REPRESENTED THE UK.

DETAIL

4. DELORS (COMMISSION) DESCRIBED THE BACKGROUND TO THE JOINT COUNCIL, CALLED UNDER THE 1984 BUDGET DISCIPLINE CONCLUSIONS. THE 7 BECU GAP BETWEEN THE 1988 FINANCIAL GUIDELINE FIGURE AND REAL AGRICULTURAL NEEDS WAS FAR BIGGER THAN IN PREVIOUS YEARS. HE HAD PROMISED THE COMMISSION WOULD NOT RESORT TO EXPEDIENTS AND IT WAS THEREFORE NECESSARY FOR THE COUNCIL TO FACE UP TO TWO PROBLEMS. FIRSTLY, THE FINANCIAL GUIDELINE FAILED TO TAKE ACCOUNT OF MONETARY FACTORS: IT WAS BASED ON AN UNREALISTICALLY HIGH DOLLAR EXCHANGE RATE, WHICH ACCOUNTED FOR 2.7 BECU OF THE DIFFERENCE, AND INTERNAL MONETARY REALIGNMENTS ACCOUNTED FOR ANOTHER 1.3 BECU. SECONDLY, THE PRESIDENCY PRICE-FIXING COMPROMISE WOULD ADD NEARLY 1 BECU TO THE COMMISSION PROPOSALS, AND A FURTHER 2 BECU IF THE OILS AND FATS TAX WAS REJECTED.

5. THE CHANCELLOR OF THE EXCHEQUER WELCOMED THE JOINT COUNCIL, WHICH WAS NECESSARY IN THE FINANCIAL CIRCUMSTANCES. THE COMMUNITY COULD NOT IGNORE THE GROWING INTERNATIONAL CONSENSUS FOR A MORE MARKET-ORIENTED AGRICULTURE WITH LESS PRICE AND INTERVENTION SUPPORT. THERE WAS A DANGER OF EXCEEDING THE GUIDELINE BY 4 BECU THIS YEAR AND 8 BECU NEXT. SAVINGS OF AT LEAST 750 MECU MUST BE FOUND IN 1987, ESPECIALLY FROM REGIMES WHOSE COST HAS RISEN MOST. THE STRONG CURRENCY SYSTEM ALONE HAD RAISED PRICES BY 12 PER CENT SINCE 1984: IT WAS RIDICULOUS THAT EVERY EMS REALIGNMENT SHOULD AUTOMATICALLY INCREASE THE AGRICULTURAL BUDGET. COMMUNITY FARMERS COULD NOT BE PROTECTED AGAINST ALL ADVERSE EFFECTS OF EXCHANGE RATE MOVEMENTS. DECISIONS SHOULD BE TAKEN SOON ON THE CHANGE FROM ADVANCES TO REIMBURSEMENTS AND ON AUTOMATIC STABILISERS TO PREVENT EXPENDITURE OVERRUNS IN THE IMMEDIATE FUTURE. INCREASED OWN RESOURCES COULD NOT BE DISCUSSED UNTIL SUCH STEPS HAD BEEN TAKEN. THE OILS AND FATS TAX WAS NOT AN EXPOENDITURE SAVING, NOR A STABILISING MECHANISM: IT WAS HIGHLY REGRESSIVE, AND AS A NEW SOURCE OF COMMUNITY REVENUE COULD ONLY BE AGREED BY UNANIMITY UNDER ARTICLE 201 OF THE TREATY. THE BEST SOLUTION WAS TO DROP IT.

6. MR MACGREGOR AGREED DIFFICULT DECISIONS HAD TO BE TAKEN IF A DISORDERLY DESCENT INTO CHAOS WAS TO BE AVOIDED. FARM INCOMES WERE UNDER PRESSURE, BUT OVER-PRODUCTION STILL CONTINUED. THE COMMISSION'S PROPOSALS WENT A LONG WAY, BUT THE UK COULD GO STILL STILL FURTHER IN REDUCING THE CEREALS BUYING IN PRICE, RESTRICTING GUARANTEE THRESHOLDS AND REDUCING THE BASE FOR MCA CALCULATIONS. BUT ANY MEASURES MUST BE NON-DISCRIMINATORY. HE ECHOED THE

/CHANCELLOR'S

CHANCELLOR'S SENTIMENTS ON THE OILS AND FATS TAX AND AUTOMATIC STABILISERS, AND WELCOMED THE COMMISSION'S INTENTION TO EXAMINE WAYS OF GETTING LAND OUT OF PRODUCTION.

7. IN THE FOLLOWING TABLE ROUND, MOST DELEGATIONS SPOKE TWICE, EXPRESSING FAMILIAR VIEWS ON THE 1987 AND 1988 BUDGETS, THE PRICE FIXING, THE OILS AND FATS TAX AND AGRIMONETARY REFORM. IN EACH CASE, THERE WAS NO HINT OF A SIGNIFICANT DIFFERENCE BETWEEN FINANCE AND AGRICULTURE MINISTERS.

1987 BUDGET

8. IRELAND AND GREECE REITERATED THEIR SUPPORT FOR AN IGA AND THEIR OPPOSITION TO THE CHANGE FROM FEOGA ADVANCES TO REIMBURSEMENTS, THE IRISH ADDING THAT IF THE SHIFT WERE INTRODUCED THE WHOLE INTEREST RATE COST MUST BE REFUNDED TO POORER MEMBER STATES. SPAIN ALSO OPPOSED THE SHIFT. ITALY ADMITTED IT WAS IN LINE WITH POLICY CHANGES, BUT SAID IT POSED PRACTICAL DIFFICULTIES AND SHOULD NOT HAVE AN UNEVEN IMPACT ON MEMBER STATES. GERMANY COULD SUPPORT PROVIDED THE REIMBURSEMENT DELAY WAS FIXED: THE NETHERLANDS COULD AGREE IT AS A TEMPORARY SOLUTION, TO BE REPAID IN THE 'FORESEEABLE FUTURE' (NOT 1988), PROVIDED INTEREST SUBSIDIES WERE UNIFORM AND UNIVERSAL: FRANCE COULD AGREE PROVIDED IT CREATED NO LEGAL PRECEDENT, AND GUILLAUME (FRANCE), TRIED TO LINK IT TO ACCEPTANCE OF THE OILS AND FATS TAX.

1988 BUDGET

9. DELORS CRITICISM OF THE 1988 FINANCIAL GUIDELINE WAS ECHOED BY PANDOLFI (ITALY) AND SIMITIS (GREECE), WHO OPPOSED THE WHOLE 1988 REFERENCE FRAMEWORK. ANDERSEN (DENMARK) SAID HE COULD AGREE AN INCREASE OVER THE GUIDELINE FOR AGRICULTURE IN 1988 AS THE DOLLAR'S FALL WAS AN EXCEPTIONAL CIRCUMSTANCE UNDER ARTICLE 2 OF THE BUDGET DISCIPLINE CONCLUSIONS. BALLADUR (FRANCE) COULD SUPPORT A 'REASONABLE' AGRICULTURAL BUDGET, INCLUDING THE OILS AND FATS TAX, IF CONTAINED WITHIN A REASONABLE OWN RESOURCES INCREASE BY THE CONTAINMENT OF NON-AGRICULTURAL EXPENDITURE.

10. O'KENNEDY (IRELAND) ARGUED THAT THE 1988 BUDGET WOULD BE SETTLED AS PART OF THE FUTURE FINANCING PACKAGE. CADILHI (PORTUGAL) AND DEHESA (SPAIN) AGREED A SOLUTION COULD ONLY BE FOUND IN THE CLOBAL FUTURE FINANCING CONTEXT. THEY AND CALAMIA (ITALY) WERE VERY CONCERNED THAT INCREASING AGRICULTURAL EXPENDITURE WOULD SQUEEZE DNO CREDITS FOR THE FUNDS AND COHESION. CALAMIA APPEARED TO SUPPORT AUTOMATIC STABILISERS FOR AGRICULTURAL SPENDING, AND DEHESA AND BARETO (PORTUGAL) SAID THEY TOO SUPPORTED PROPOSALS TO LIMIT AGRICULTURAL SPENDING.

1987/88 PRICE FIXING

11. SEVERAL MINISTERS COMMENTED ON THE PROGRESS OF CAP REFORM IN GENERAL AND THIS YEARS'S PRICE-FIXING PROPOSALS IN PARTICULAR. O'KENNEDY ADMITTED ADJUSTMENT WAS NECESSARY BUT INSISTED IT BE GRADUAL AND PRESERVE THE FAMILY FARM. SIMITIS REPEATED THAT IT WAS NORTHERN PRODUCTS AND LARGE SCALE FARMERS THAT CAUSED THE SURPLUSES. PANDOLFI SUPPORTED THE COMMISSION'S PRICE-FIXING PROPOSALS AND RUDING (NETHERLANDS, FINANCE) CONSIDERED THEM A MINIMUM: THE PRESIDENCY'S COMPROMISE WAS UNACCEPTABLY GENEROUS. BRAKS (NETHERLANDS, AGRICULTURE) POINTED TO THE REAL PRICE INCREASE FOR FARMERS SINCE 1984: EVEN COPA ADMITTED THERE WAS ROOM FOR PRICE CUTS.

OILS AND FATS TAX

12. FRANCE, LUXEMBOURG AND IRELAND REPEATED THEIR SUPPORT, GUILLAUME ATTACKING THE BRITISH AND DUTCH FOR THEIR CONTINUED OPPOSITION. PANDOLFI ADMITTED THAT THE TAX MAY NOT BE WELL-TIMED AND COULD CAUSE PROBLEMS WITH THE USAE: BUT HE HAD SEEN NO REAL EVIDENCE THAT THIRD COUNTRIES WOULD SUFFER, AND THE 2.3 BECU WAS BADLY NEEDED. DEHESA AND RUDING WERE OPPOSED. STOLTENBERG (GERMANY) FAILED TO MENTION IT, BUT CONFIRMED TO US AND THE PRESIDENCY AFTERWARDS THAT GERMAY REMAINED FIRMLY AGAINST IT.

AGRIMONETARY ISSUES

13. THIS PROVOKED THE MOST HEATED COMMENTS. RUDING SAID ANY SYSTEM SHOULD QUICKLY AND AUTOMATICALLY DISMANTLE MCAS, AND NOT BE COMPENSATED FOR BY INCREASED PRICES. THE SWITCHOVER SYSTEM WAS UNACCEPTABLE, LEADING TO A RENATIONALISATION OF COMMON PRICES. HE DIRECTLY ATTACKED GERMANY FOR NOT PRACTISING THE BUDGET DISCIPLINE AND FREE TRADE IT USUALLY PREACHED WHENEVER IT CAME TO AGRICULTURE. BRAKS ADDED THAT CIRCUMSTANCES HAD CHANGED SINCE 1984 AND THE GENTLEMAN'S AGREEMENT WAS DEAD. ANY COMPENSATION SHOULD BE SOCIAL AND NOT LINKED TO PRODUCTION. BALLADUR AND GUILLAUME WERE EVEN MORE

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CRITICAL. THERE WAS A LEGAL OBLIGATION TO DISMANTLE POSITIVE MCAS THIS YEAR: FAILURE TO DO SO WOULD COST 250 MECU PA. GERMAN FARMERS BENEFITTED FROM HIGHER PRICES THAN FRENCH AND PROFITED FURTHER FROM VAT COMPENSATION MEASURES. IF ALL FARMERS WERE PAID AT GERMAN LEVELS IT WOULD COST AN ADDITIONAL 1.5 BECU. ALL NEGATIVE MCAS SHOULD BE DISMANTLED AND COMMON PRICES REDUCED TO COMPENSATE. AGRICULTURAL DECISIONS COULD NOT BE DELAYED BECAUSE OF MONETARY QUESTIONS.

14. AN UNREPENTANT STOLTENBERG REPLIED AT LENGTH TO THE CRITICISM, INDICATING NO SHIFT IN GERMANY'S POSITION. HE FAVOURED A RATIONAL AND EFFICIENT AGRICULTURE, BUT THIS COULD NOT BE DONE SUDDENLY. SURPLUSES HAD TO BE DISPOSED OF TO IMPROVE MEDIUM TERM PROSPECTS, AND DECISIONS WERE NEEDED TO TAKE LAND OUT OF PRODUCTION. THE PROPOSALS ON PRICES AND MCAS WERE ONE-SIDED AND DETRIMENTAL TO GERMAN INTERESTS: THEY WERE NO BASIS FOR A SETTLEMENT. THEY WOULD WORK FOR A REASONABLE COMPROMISE ON PRICES, BUT MCAS NEEDED TO BE DISCUSSED IN MORE-DETAIL SEPARATELY FROM THE PRICE FIXING. FINANCE MINISTERS SHOULD BE INVOLVED IN THE DECISION. ON OWN RESOURCES, HE COULD AGREE A QUICK INCREASE TO 1.6 PER CENT AND WOULD CONSIDER DELORS' REFORMS IF THEY PROVIDED FOR ALL THE RICHER MEMBER STATES TO MAKE A CONTRIBUTION TO HELP THE POORER COUNTRIES, AS GERMANY HAD FOR YEARS.

15. DE KEERSMAEKER (PRESIDENCY) SUMMARISED THE STATE OF PLAY IN THE AGRICULTURE COUNCIL. NO PRICE FIXING SETTLEMENT WAS POSSIBLE GIVEN MEMBER STATES' PRESENT VIEWS, AND CERTAINLY NO SETTLEMENT WITHIN THE 1987 BUDGET OR 1988 FINANCIAL GUIDELINE. THE OILS AND FATS TAX SHOULD BE LEFT ASIDE, THOUGH IT WAS AN INDISPENSABLE PART OF THE PACKAGE FOR SOME. PROGRESS HAD BEEN MADE ON AGRIMONETARY ISSUES: THERE WAS CONSENSUS ON A SEMI-AUTOMATIC SYSTEM, THOUGH THE EXACT RATE AND TIMING WAS NOT YET AGREED.

16. IN REPLY, DELORS AND CHRISTOPHERSEN ASKED FOR THE JOINT COUNCIL TO CONTINUE UNTIL DECISIONS COULD BE TAKEN, AS PROVIDED IN THE 1984 BUDGET DISCIPLINE CONCLUSIONS. ONLY THE JOINT COUNCIL COULD NOW ADOPT THE PACKAGE. DELORS THOUGHT THE AGRIMONETARY ISSUES COULD BE SETTLED TODAY: TO SEND THEM TO THE EUROPEAN COUNCIL WOULD UPSET ALL OTHER DISCUSSION THERE. DELORS ALSO APPEALED TO THE COUNCIL NOT TO ADOPT THE 1988 REFERENCE FRAMEWORK: TO DO SO WHEN THE FIGURES WERE SO BLATANTLY INADEQUATE WOULD DISCREDIT BUDGET DISCIPLINE. CHRISTOPHERSEN SUGGESTED THE COMMISSION WOULD OPPOSE IT. FINALLY DELORS ADMITTED THAT THE DIFFERENCES ON THE OILS AND FATS TAX SEEMED IRRECONCILABLE, BUT THERE WAS NO OTHER WAY THE AGRICULTURAL BILLS COULD BE MET WITHOUT IRREPERABLE HARM TO FARMERS. CHRISTOPHERSEN ADDED THAT IF THE EVENTUAL PACKAGE EXCLUDED THE TAX AND ADDED 3 BECU TO THE 1988 PDB FIGURE, THE COMMISSION WOULD BE OBLIGED TO INTRODUCE A RECTIFYING LETTER INCREASING FEOGA CREDITS IN THE PDB TO 30 BECU AND THE VAT RATE TO 1.9 PER CENT. (WE UNDERSTAND, IN CONFIDENCE, THAT CHRISTOPHERSEN AND ANDRIESSEN ARE SEEKING DELEGATED AUTHORITY FROM THE COMMISSION MEETING THIS WEEK TO INTRODUCE SUCH A RECTIFYING LETTER IF NECESSARY).

17. EYSKENS (PRESIDENCY) CONCLUDED THAT THE DISCUSSION HAD CLARIFIED POINTS OF FRICTION. SOLUTIONS SHOULD NOW BE FOUND IN A MORE STRUCTURED PERSPECTIVE, AND AS FEW POINTS OF PRINCIPLE AS POSSIBLE BE PUT, IF NECESSARY, TO THE EUROPEAN COUNCIL. THE JOINT COUNCIL HAD CONCLUDED ITS WORK, BUT DISCUSSION WOULD CONTINUE IN INDIVIDUAL COUNCILS. THE 1988 REFERENCE FRAMEWORK ALREADY REFERED TO TO THE NEED TO EXCEED THE GUIDELINE FIGURE IF EXCEPTIONAL CIRCUMSTANCES EXISTED.

1988 REFERENCE FRAMEWORK

18. OVER LUNCH THE CHANCELLER AND RUDING ARGUED STRONGLY FOR ADOPTION. OTHERS WERE SILENT OR OPPOSED. EYSKENS EVENTUALLY AGREED TO ADOPT IT AS AN 'A' POINT, SLIGHTLY AMENDED WITH A STATEMENT BY HIMSELF AS PRESIDENT THAT EXCEPTIONAL CIRCUMSTANCES DID EXIST ON THE BASIS OF THE EVIDENCE GIVEN TO THE JOINT COUNCIL. THE COUNCIL

/STATEMENT

STATEMENT IN 7045/87 THEREFORE BECOMES A PRESIDENCY STATEMENT, PROBABLY SUPPORTED BY OTHERS, AND THE WORDS 'PEUT S'AVERER NECESSAIRE' ARE REPLACED BY 'S'AVERE NECESSAIRE'. THE FRAMEWORK WAS ADOPTED AS AN 'A' POINT ON THAT BASIS WHEN ECOFIN RESUMED.

MILES

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WALL FCO
LYALL GRANT FCO
WILLIAMSON CAB
BUDD CAB
MERCER CAB
MCADAM CAB
PS/MINISTER MAFF
ANDREWS MAFF
HADLEY MAFF
THOMAS MAFF
DICKINSON MAFF
PERRINS MAFF
PS/CHANCELLOR TSY
PS/MST TSY
LAVELLE TSY
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FRAME AGRICULTURE

AGRICULTURE COUNCIL 24-26 MAY 1987 : THE FINAL TWO DAYS.

SUMMARY.

1. COUNCIL BROKE UP WITHOUT AGREEMENT AND WILL RESUME ON 15 JUNE, WHICH WILL ENABLE IT TO HAVE A JOINT SESSION WITH ECOFIN, WHICH HAS ALREADY PLANNED A MEETING ON THAT DAY.

2. THE MAIN REASONS FOR THE FAILURE TO AGREE WERE THE STRONGLY DIVERGENT FRENCH AND GERMAN POSITIONS ON THE PHASING OUT OF EXISTING POSITIVE MCAS AND THE FUTURE OF THE AGRIMONETARY SYSTEM AND THE CONTINUED EXISTENCE OF A BLOCKING MINORITY (UK, NETHERLANDS, GERMANY AND PERHAPS DENMARK) ON THE OILS AND FATS TAX. THERE WERE PERSISTENT RUMOURS THAT GERMANY WOULD HAVE DESERTED THIS MINORITY HAD SHE OBTAINED A SATISFACTORY SOLUTION ON MCAS BUT IN THE END THIS WAS NOT PUT TO THE TEST.

3. IN THE ABSENCE OF AGREEMENT THE MARKETING YEARS FOR MILK, BEEF, DRIED FODDER, CERTAIN HORTICULTURAL PRODUCTS AND EGG AND POULTRY MCAS WERE, IN EFFECT, EXTENDED FOR A MONTH, ON THE SAME BASIS AS LAST TIME.

4. EARLIER SESSIONS REPORTED IN MY TELNOS 1827 AND 1845.

5. THE COUNCIL ON 25 MAY WAS MAINLY CONDUCTED IN BILATERALS THE RESULTS OF WHICH WERE REPORTED TO A MEETING RESTRICTED TO MINISTERS ONLY LATE IN THE EVENING. DE KEERSMAEKER'S (PRESIDENCY) GENERAL MESSAGE WAS THAT THE NEGOTIATIONS WERE VERY DIFFICULT BECAUSE THE MAJORITY OF DELEGATIONS WERE STICKING TO OR EVEN INCREASING THEIR LISTS OF DEMANDS. IN PRACTICE THERE WAS LITTLE ROOM FOR MANOEUVRE. ONLY MINOR TECHNICAL CHANGES WERE POSSIBLE IN THE PRESIDENCY'S COMPROMISE ON MARKET SUPPORT REGIMES. FLEXIBILITY WAS NEEDED TO FIND A SOLUTION ON MCAS. THE OILS AND FATS TAX WAS AN ESSENTIAL PART OF THE PACKAGE.

6. ANDRIESSEN (COMMISSION) CONFIRMED THIS ASSESSMENT. ECOFIN'S DEMAND FOR A 4 BECU SAVING WAS HOPELESSLY UNREALISTIC BUT THE BUDGET PROBLEM WAS VERY REAL AND SUGGESTIONS THAT IT COULD BE RESOLVED BY REMOVING THE PROVISIONS FOR DESTOCKING AND STOCK DEPRECIATION SHOWED THAT CERTAIN DELEGATIONS WERE NOT TAKING THE PROBLEM SERIOUSLY.

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7. THE ENSUING DEBATE WAS DOMINATED BY CONFLICTING EXCHANGES BETWEEN KIECHLE (GERMANY) AND GUILLAUME (FRANCE) ON THE AGRIMONETARY SYSTEM AND SOME REPETITION OF EARLIER POSITIONS ON THE PRESIDENCY PACKAGE FROM OTHERS. EVENTUALLY AT ABOUT 2 AM DE DEERSMAEKER CONCLUDED THAT ALTHOUGH EFFORTS SHOULD CONTINUE TO REACH DECISIONS, FURTHER PROGRESS IN THAT SESSION WAS NO POSSIBLE. THERE SHOULD BE FURTHER EXCHANGES THE FOLLOWING MORNING BETWEEN THE PRESIDENCY, COMMISSION AND THE MOST INTERESTED DELEGATIONS ON THE AGRIMONETARY PROBLEMS AND A WORKING GROUP COULD CONSIDER PURELY TECHNICAL ADAPTATIONS OF THE PRESIDENCY COMPROMISE ON MARKET SUPPORT REGIMES. MR JOPLING (UK) MADE CLEAR THAT WE WOULD WISH TO BE INCLUDED IN THE CONTACTS ON AGRIMONETARY ISSUES AND THAT SOME OF OUR RESERVATIONS ON THE PRESIDENCY PROPOSALS ON MARKET SUPPORT REGIMES WERE NOT SIMPLY TECHNICAL.

8. OVERNIGHT, HOWEVER, THE PRESIDENCY CHANGED ITS PLANS. THE PROPOSED MEETING OF OFFICIALS RESOLVED ITSELF INTO A NUMBER OF BILATERAL CONTACTS AND THE DISCUSSIONS ON AGRIMONETARY QUESTIONS BETWEEN THE FRENCH AND GERMANS WERE SO UNPRODUCTIVE THAT OTHER DELEGATIONS WERE NOT INVOLVED.

9. WHEN THE COUNCIL RESUMED, TROJAN (CHEF DU CABINET TO ANDRIESSEN) GAVE A REPORT ON HIS UNPRODUCTIVE DISCUSSIONS WITH CERTAIN DELEGATIONS. THESE HAD SHOWN SOME SIGNS OF PROGRESS ON THE PRINCIPLE OF SOME AUTOMATIC DISMANTLEMENT ON MCAS, BUT THERE WERE DIFFERENCES OVER THE PERIOD, THE AMOUNT AND COMPENSATION AND A STRONG DISAGREEMENT OVER THE QUESTION OF WHETHER THERE SHOULD BE ANY DISMANTLEMENT OF POSITIVE MCAS THIS YEAR.

10. GUILLAUME OUTLINED A VARIANT OF THE SYSTEM PROPOSED BY THE PRESIDENCY AND SAID THAT HE COULD RELUCTANTLY ACCEPT COMPENSATION PROVIDED IT WAS NOT LINKED TO PRODUCTION. HE WAS SUPPORTED BY BRAKS (NETHERLANDS), AND ON COMPENSATION BY MR JOPLING, THOUGH HE PREFERRED THE PRESIDENCY'S MODEL FOR MCA DISMANTLEMENT. FLORIAN (GERMANY) AND KIECHLE (GERMANY) OPPOSED. THEY MIGHT BE ABLE TO ACCEPT AUTOMATIC DISMANTLEMENT OF 20 PERCENT (COMPARED WITH THE PRESIDENCY'S 30 PERCENT) OF FUTURE MCAS BUT COULD NOT MOVE ON EXISTING MCAS THIS YEAR AND NEEDED A GUARANTEE OF COMPENSATION.

11. ANDRIESSEN CRITICISED BOTH THE FRENCH AND GERMAN POSITIONS AND MADE CLEAR THAT FOR THE COMMISSION THE CHOICE WAS BETWEEN MAINTAINING THE STRONG CURRENTY SYSTEM WITH THE INFLATIONERY EFFECTS OFFSET BY PRICE REDUCTIONS OF THE PRESIDENCY'S PROPOSAL. THE SIMPLE MAINTENANCE OF THE STRONG CURRENCY SYSTEM AS IT EXISTED AT PRESENT WAS NOT ON OFFER. IT WAS ALSO ESSENTIAL TO HAVE A TARGET DATE FOR GETTING RID OF MCAS. THE COMMISSION COULD TOLERATE SOME FORM OF COMPENSATION.

12. AFTER A BREAK, DE KEERSMAEKER CONCLUDED THAT BOTH BECAUSE OF THE AGRIMONETARY IMPASSE AND BECAUSE OF THE MAJOR PROBLEM OF THE OILS AND FATS TAX FURTHER PROGRESS WAS IMPOSSIBLE. THE IMMINENCE OF ELECTIONS IN SOME MEMBER STATES WAS ALSO A FACTOR. ON THE REST OF THE PACKAGE A QUALIFIED MAJORITY WAS IN SIGHT ALTHOUGH MINOR CHANGES

IN THE PRESIDENCY'S SUGGESTIONS MIGHT BE MADE. ALTHOUGH INFORMAL CONTACTS, IN PARTICULAR IN THE MARGINS OF NEXT WEEK'S INFORMAL COUNCIL, SHOULD CONTINUE IN AN EFFORT TO PAVE THE WAY FOR A FINAL SOLUTION, THIS COULD NOT NOW BE ACHIEVED UNTIL THE JUNE AGRICULTURE COUNCIL, WHICH HE PROPOSED SHOULD BE POSTPONED FOR TWO DAYS UNTIL 17 JUNE.

13. ANDRIESSEN SAID THAT THE COMMISSION HAD DECIDED TO REQUEST A JOINT MEETING OF AGRICULTURE AND FINANCE MINISTERS BECAUSE OF THE CONFLICT BETWEEN ECOFIN'S DECISIONS ON THE 1988 GUIDELINE WHICH WAS 4 BECU BELOW THE COMMISSION'S MINIMUM ESTIMATE AND THE PRESIDENCY COMPROMISE WHICH WOULD REDUCE THE SAVINGS PLANNED BY THE COMMISSION.

14. ON THE BASIS OF PREVIOUS EXPERIENCE OF JOINT COUNCILS GUILLAUME, BRAKS, KIECHLE, O'KENNEDY (IRELAND) AND ROMERO (SPAIN) WERE ALL SCEPTICAL. COORDINATION WAS A MATTER FOR CAPITALS. FINANCE MINISTERS PROBABLY WOULD NOT TURN UP. IT WAS NOT NECESSARY TO LISTEN IN THE COUNCIL TO AMBASSADORS REPEATING WHAT THEY COULD SAY IN COREPER.

15. DE KEERSMAEKER WAS SYMPATHETIC BUT SUGGESTED THAT THE AGRICULTURE COUNCIL SHOULD REVERT TO ITS PREVIOUS PLANNED DATE OF 15 JUNE WHEN ECOFIN WAS MEETING ANYWAY. THERE COULD THEN BE A COUPLE OF HOURS OF JOINT SESSION.

16. ANDRIESSEN THEN MADE AN ANNOUNCEMENT ABOUT THE PRODUCTS WHOSE MARKETING YEARS WOULD END BEFORE THE NEXT MEETING, MILK, BEEF, DRIED FODDER, CAULIFLOWERS, LEMONS, PEACHES AND APRICOTS AND POULTRY AND EGG MCAS. FOR MILK AND BEEF HE PROPOSED A FURTHER MONTH'S EXTENSION OF THE 1986/87 MARKETING YEARS. FOR DRIED FODDER HE SAID THAT THE COMMISSION WOULD TAKE MEASURES TO ALLOW THE CONTINUED CALCULATION OF THE VARIABLE AID ON THE CURRENT BASIS. FLAT RATE AID WOULD CONTINUE TO BE SUSPENDED BUT WOULD BE PAID RETROSPECTIVELY IF THE COUNCIL FAILED TO ADOPT THE COMMISSION'S PROPOSAL TO END IT. FOR FRUIT AND VEGETABLES EXISTING PRICES WOULD BE MAINTAINED SUBJECT TO RETROSPECTIVE ADJUSTMENT IF THE PRESIDENCY'S PROPOSALS TO ADJUST COEFFICIENTS WAS ADOPTED. FOR POULTRY AND EGG MCAS HE TABLED A DRAFT REGULATION EXTENDING PARTIAL SUSPENSIONS FOR ONE MONTH. O'KENNEDY AND MRS HOLBERG (DENMARK) VOTED AGAINST THE POULTRY MCA REGULATION AND THE CHAIR CONCLUDED THAT THE COMMISSION'S PROPOSALS HAD BEEN ADOPTED.

HANNAY

ADVANCE

HARRISON FCO

MCADAM CAB

HADLEY MAFF

R THOMAS MAFF

ANDREWS MAFF

FRANKLIN MAFF

BONNEY TSY

UCLNAN 8532

FRAME AGRICULTURE

ECD (1)

(ADVANCED AS REQUESTED)

CONFIDENTIAL

3294/054

cc BG.

nbpm -

CHIEF SECRETARY TO THE TREASURY

Treasury Chambers, Parliament Street, SW1P 3AG

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

22 May 1987

Dear Minister,

— will request if req'd

CEREALS LAND DIVERSION SCHEME

Thank you for your letter of 18 May.

I am grateful for your reassurance that your ideas of a Community wide scheme for cereals land diversion do not include any increase in the level of Community funding beyond the 25 per cent allowed under the extensification provisions of the Socio-Structures Regulation. As I said in my letter of 6 May any higher contribution - or indeed any significant increase in the net cost - would be inconsistent with our position in the ex novo review of the Community's finances and would clearly conflict with our overall national interest in reducing our net contribution to EC agricultural expenditure.

Although I take your point that the extensification provisions of the Socio-Structures Regulation may not achieve the necessary substantial reduction in cereals production, we will need to ensure that any Community wide cereals land diversion scheme is cost effective. The US experience has highlighted the dangers of simple set aside schemes: not only do farmers naturally set aside their least productive land but they are likely to use the compensation payments to improve the yield on the rest. As the Prime Minister and Nicholas Ridley have said, we need to ensure that as many safeguards as possible against such intensification are built into any such scheme.

Nicholas has suggested that agreed farm plans might be one possible solution and my officials have already written to yours seeking early discussion about the ways in which you hope to control these aspects of the schemes to be introduced under the Socio-Structures Regulation. Any progress we can make there would be a useful input to the Commission's thinking on a Community wide scheme for cereals land diversion.

You suggest the Price Fixing settlement might include a commitment from the Commission to come forward with a proposal for a Community wide scheme. I hope that you will agree that it would be right for us to be feeding in our ideas along these lines now so that they influence the Commission's thinking at the formative stage.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Malcolm Rifkind, Nicholas Ridley, David Young, Paul Channon, Norman Tebbit, William Waldegrave and to Sir Robert Armstrong.

Yours sincerely,

Jim Ruth

pp JOHN MacGREGOR

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

CDB

CONFIDENTIAL

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

DW

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

20 May 1987

NBPM

Dear Michael,

FARM WOODLAND SCHEME AND CAPITAL GRANTS

I have read with interest your exchange of letters with John Macgregor and also the Prime Minister's view as expressed in her Private Secretary's letter to your Private Secretary of 7 May.

I recognise the difficulties that this issue raises but in the context of the Farm Woodland Scheme I am bound to say that I agree with you that with the sort of annual payment we propose any restriction on normal access to grants or other payments in respect of the rest of the holding is very likely to scupper the Scheme from the start. Not only would this leave us looking rather foolish; it would condemn to failure from the outset one of the more promising avenues for alternative land use that we have identified. I am of course very happy that officials (including my own officials) should consider the question further but I hope that we shall not lose sight of the importance of the Farm Woodland Scheme being attractive enough for farmers to take seriously. It will be, for most of them, a radical new departure, and if it is to succeed it will need to get off to a good start.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Nicholas Ridley, David Young, Paul Channon, Norman Tebbitt, William Waldegrave and to Sir Robert Armstrong.

Yours ever,

Malcolm

MALCOLM RIFKIND

B04139A2

CONFIDENTIAL

Euro POL:CAP PT 17.

CCBS

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

From the Minister

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

18 May 1987

NBPM

Dear Chief Secretary,

CEREALS LAND DIVERSION SCHEME

Thank you for your letter of 6 May about the Farm Woodlands Scheme and Capital Grants. The Prime Minister has also commented in her Private Secretary's letter of 7 May. I will be replying separately to the points on the Farm Woodlands Scheme, but I should respond now to what you say on Cereal Land Diversion since this issue is relevant to this week's price fixing negotiations.

Although the Community has agreed the Socio-Structures Regulation and all Member States should now proceed with the introduction of extensification schemes, I do not think that we can delude ourselves that this will lead to effective cereals land diversion schemes throughout the Community. It will be for Member States to decide whether to try to make extensification attractive to their farmers or whether to do the minimum required of them by the Regulation. I think that we have to expect that most Member States will tend towards the latter. In these circumstances, I am sure that it makes sense to continue to press for a Community-wide scheme that would concentrate on reducing cereals production on the lines discussed last year.

It is true, as your officials say, that the figures in the paper on cereals land diversion which was circulated last Autumn were illustrative of what the results might be. They could not, of course, be anything else though they went into some detail in indicating how such a diversion scheme could be highly cost effective. When we discussed this, I thought it was recognised that our initiative on land diversion was unlikely to elicit an immediate response and that sustained pressure over a period would be needed to move the Commission. When the Commission come forward with a proposal for a general

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cereals land diversion scheme, we shall, of course, need to examine all aspects of this, including the likely effects on overall production and the budgetary implications, with your officials. Meanwhile, I have been keeping up the pressure on the Commission to give serious thought to this approach as part of the package of actions needed on cereals. I can assure you that the ideas that I am continuing to press on the Commission are those that were outlined in our paper. They include in particular the continuing need for a restrictive price policy and a Community financial contribution limited to 25%. The most we might get in the price fixing package would be some form of commitment by the Commission to come forward with a proposal.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Malcolm Rifkind, Nicholas Ridley, David Young, Paul Channon, Norman Tebbit, William Waldegrave and to Sir Robert Armstrong.

Yours sincerely,

Elizabeth Morris

for MICHAEL JOPLING
(Approved by the Minister and
Signed in his absence)

CONFIDENTIAL

CCBG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:
Your ref:

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

15 May 1987

NBPM

Dear Minister

FARM WOODLANDS SCHEME

I have seen John MacGregor's letter to you of 6 May and also the Prime Minister's comments recorded in David Norgrove's letter of 7 May.

As you know from the comments I made in my letter of 3 March, I share the concern expressed that the payment of grant to take some land out of agricultural production should not lead to intensification elsewhere. I agree with John MacGregor that officials should consider whether practical means for discouraging intensification - such as the adoption of agreed farm plans - can be found and would certainly wish my officials to be involved.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, John MacGregor, Tom King, Malcolm Rifkind, David Young, Paul Channon, Norman Tebbit, and to Sir Robert Armstrong.

Yours sincerely

Isobel R. Ogilvie (Private Secretary)

NICHOLAS RIDLEY

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

EURO POL – CAP Pt 17.

Secretary of State for Trade and Industry

DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET
Telephone (Direct dialling) 01-215) 5422
GTN 215)
(Switchboard) 01-215 7877

15 May 1987

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

Dear Michael,

NBM.

ALURE : FARM DIVERSIFICATION

Thank you for copying to me your letter of 12 May to John MacGregor. I am content for you to issue the consultation paper on diversification grants as proposed.

I am copying this to the Prime Minister, Lord Whitelaw, Geoffrey Howe, Nicholas Edwards, Tom King, Malcolm Rifkind, Nicholas Ridley, Lord Young, Norman Tebbit, John MacGregor, William Waldegrave and Robert Armstrong.

Yours,

Paul

PAUL CHANNON

DW4CEQ

999-1

EURO POL: C.A.P. pt II

CC/BG?

SECRETARY OF STATE FOR EMPLOYMENT

Caxton House Tothill Street London SW1H 9NF
Telephone Direct Line 01-213 6460
Switchboard 01-213 3000 GTN Code 213
Facsimile 01-213 5465 Telex 915564

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

~~14~~ 12 May 1987

Dear Michael,

NBPM.

ALURE : FARM DIVERSIFICATION

Thank you for copying to me your letter of 12 May to John MacGregor about the consultation paper on farm diversification grants which you wish to publish on Friday.

I am content with the terms of the draft paper and have no objection to its being issued as you have proposed.

I should be grateful if you could ensure that my officials are kept closely in touch with the developments of these proposals over the next few weeks. It is clearly important that the new scheme meshes in as effectively as possible with the various activities of my Department and the Tourist Boards which are also directed at the encouragement of enterprise in the countryside.

I am copying this to the Prime Minister, John MacGregor, Lord Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Malcolm Rifkind, Nicholas Ridley, Paul Channon, Norman Tebbit, William Waldegrave and Sir Robert Armstrong.

Ever,

David

EUROPOL: CAP pt17

cc BG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

14 May 1987

NBM

Dear Minister

Thank you for sending me a copy of your letter of 12 May to John MacGregor seeking urgent comments on your draft consultation paper on the proposed new scheme for farm diversification grants. There has been very little time to consider the draft, though I understand there were some preliminary discussions at official level. Others may want to comment on the timing of an announcement on Friday.

I was glad to see the reference in the consultation paper to the fact that the new grants were intended to complement existing assistance, and were being developed in close consultation with the other agencies concerned. However, it seems inevitable that in some cases the grants would duplicate rather than complement schemes operated by others, particularly those operated by the Development Commission. There must be a danger that these grants, which are necessarily focused exclusively on farmers, could create a situation where farmers were encouraged to develop subsidised enterprises, to the detriment of existing schemes in the area. Although it may make the processing of grants somewhat cumbersome, I therefore think it important that those responsible for the grants should consult fully with other relevant agencies before approvals. This would help ensure that one of the aims of the scheme is achieved, which is that the grants should be used on a pump priming basis to stimulate diversification which might not otherwise have taken place, against the background of a properly worked out investment programme.

Subject to that general point, I would be content with the publication of the consultation document going ahead, though I think it important the proposals be considered in much more detail during the consultation period to ensure that the new scheme meshes in effectively with existing arrangements.

I am copying this to the recipients of your letter.

Yours sincerely

Isobel R. Ogilvie (Private Secretary)

NICHOLAS RIDLEY

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

EURO POL
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PT17

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LCCBG

Treasury Chambers, Parliament Street, SW1P 3AG

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

14TH May 1987

Dear Michael,

NBPM.

ENVIRONMENTALLY SENSITIVE AREAS

Thank you for your letter of 13 May to Nicholas Ridley seeking agreement to the announcement of new environmentaly sensitive areas tomorrow in Parliament.

As you indicate, the announcement would not represent any commitment beyond the position established in February in the ALURE context. Expenditure on the new areas would not commence until 1988. I also take it from your letter that details of proposals willneed to be agreed with my Department (and other interested parties) before designating orders are laid.

On this basis, I agree with your request.

I am copying this letter to the Prime Minister, Willie Whitelaw, Nicholas Ridley, Norman Tebbit, Nick Edwards, Tom King, Malcolm Rifkind, John Wakeman and Sir Robert Armstrong.

Yours ever,

John

JOHN MacGREGOR

EURO POL: CAP
Pt. 17

CCBG

SECRETARY OF STATE FOR SCOTLAND

SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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

14 May 1987

Dear Minister

NBPM

ALURE: FARM DIVERSIFICATION

Thank you for copying to me your letter of 12 May to John Macgregor enclosing a copy of the consultation paper about farm diversification grants. I confirm that I am content with your proposal to issue the document following an announcement by Parliamentary Question on Friday 15 May.

I am copying this letter to the Prime Minister, John Macgregor, Lord Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Nicholas Ridley, Lord Young, Paul Channon, Norman Tebbit, William Waldegrave and Robert Armstrong.

Yours sincerely

Andy Cunning

pp MALCOLM RIFKIND

Approved by the Secretary of State
and signed in his absence

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nbpm

ccBG

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Oddi wrth Ysgrifennydd Gwladol Cymru

WELSH OFFICE
GWYDYR HOUSE
WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

14 May 1987

Dear Michael

ENVIRONMENTALLY SENSITIVE AREAS

WILL REQUEST IF REQUIRED

I have seen a copy of your letter to Malcolm Rifkind in which you suggest allocations for the new designations for England, Scotland, Northern Ireland and Wales. This is to confirm my oral agreement given earlier in the week.

Whilst I am naturally disappointed you have not accommodated our needs to the full extent, nevertheless, the extra money should enable us to fulfill a substantial part of our objectives regarding the Cambrian Mountains and the Lleyn. In these circumstances I would not wish to pursue the matter further at this time.

I share your view, expressed in your letter of 13 may to Nick Ridley, that we should make an early announcement in Parliament of the new designations, and I am proposing to take action accordingly.

... I am copying this to the Prime Minister, Willie Whitelaw, Norman Tebbit John MacGregor, John Wakeham, Tom King and Malcolm Rifkind.

Yours ever

Nick

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

1282/041

CCBG

CHIEF SECRETARY TO THE TREASURY

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

14th May 1987

Dear Michael,

NBPM.

ALURE: FARM DIVERSIFICATION

Thank you for your letter of 12 May seeking my agreement to a draft consultation paper on the new farm diversification scheme so that it can be issued following an announcement by Parliamentary Question on Friday.

I understand that my officials have made some detailed suggestions to yours, notably that:

(i) the criteria for the scheme should include tests for additionality of the investment and medium term viability of the enterprise without grant;

(ii) detailed proposals for evaluation should be agreed with the Treasury before the scheme is introduced; and

(iii) each holding should not normally qualify for more than one application during the first three years of the scheme.

Subject to agreement to these and to the incorporation into the consultation document of a number of drafting changes, which I understand have been agreed between our officials, I am content for you to issue the paper.

I would also wish to see before any new Statutory Instrument is finalised a technical examination carried out of the options for altering the Statutory Instrument in such a way as to give greater discretionary power in approving grants. As I mentioned to you in my letter of 6 May on farm woodlands and the question of discouraging intensification, we do not need to commit ourselves yet on this issue. However it is important that we be clear about the alternatives which might be available to us.

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PT 7

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Malcolm Rifkind, Nicholas Ridley, David Young, Paul Channon, Norman Tebbit, William Waldegrave and Sir Robert Armstrong.

Yours ever,

John

JOHN MacGREGOR

14. V. PM 87

CCBG

SECRETARY OF STATE FOR THE ENVIRONMENT

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

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

14 May 1987

NBPM

Dear Minister

ENVIRONMENTALLY SENSITIVE AREAS

Thank you for your letter of 13 May in which you seek my agreement to your announcing on 15 May the identity of new ESAs.

I am concerned that my agreement on the details of these ESAs is being sought at such a late stage, when the basic policy of extending the ESA series was agreed some months ago. My Department, as well as the conservation agencies, has a keen interest in the successful development of the ESA system and I would have wished my officials to have been more closely involved and to have had time to confirm that the Countryside Commission and NCC will lend their support to your announcement.

However, I accept that the areas which you propose constitute all - or nearly all - of those remaining on the shortlist drawn up by the Countryside Commission and NCC and I am content that you should make your announcement as planned.

There are two points I should like to add. First, although you say that the NCC support your decision to adhere to the original shortlist I understand that they would have preferred to see an extension of the Pennine Dales ESA to include the adjacent moorland pastures that are, for the most part, components of the same holdings as the dale bottom land already covered. I think they might give such an extension priority over some at least of the new areas in your list. I appreciate that there would be difficulties in this given the amount of common land that would be involved - common land legislation is something we will need to come back to after the election - and that there is some feeling that the ESA mechanism might not in any case be the most appropriate for these moors. I hope that further consideration can be given to this matter by our officials and the agencies.

Second, identification of the areas is only the first stage and careful thought will need to be given to the management prescriptions and rates of payment proposed for each. I should be grateful if my officials could be fully involved in discussion of these. I note, and of course welcome, your declaration of intent to consult interested organisations in the six areas, and trust that there will be continuing close co-ordination between our departments and with the statutory agencies. We must also co-operate in monitoring the effect of ESA designation, both in existing areas and those now proposed.

I am copying this letter to recipients of yours.

Yours sincerely

Isobel R. Ogilvie (Private Secretary)

NICHOLAS RIDLEY

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

Euro Pol

CAP

PTT

cc BG

Y SWYDDFA GYMREIG
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WELSH OFFICE
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WHITEHALL LONDON SW1A 2ER
Tel. 01-270 3000 (Switchboard)
01-270 0538 (Direct Line)

From The Secretary of State for Wales

The Rt Hon Nicholas Edwards MP

14 May 1987

Dear Michael

NBPM.

ALURE: FARM DIVERSIFICATION

I have seen your letter to John MacGregor dated ~~12~~ May at flap about the issue of a consultation paper on the kind of grant scheme we should like to introduce for assisting with farm diversification.

I fully share your view that we should issue the consultation paper as soon as possible. The draft enclosed with your letter follows very much our own thoughts on how the scheme might be shaped and administered to produce a worthwhile form of assistance to the farming industry at this time. I therefore hope John MacGregor will be able to go along with us on this.

I am copying this letter to the Prime Minister, Lord Whitelaw, John MacGregor, Geoffrey Howe, Tom King, Malcolm Rifkind, Nicholas Ridley, Lord Young, Paul Channon, Norman Tebbit, William Waldegrave and Robert Armstrong.

Yours ever

Nick

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

EURO POL: CAP PT17

14. V. PM 87

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

From the Minister

Prime Minister!
This could look like more electoral bribery. But the main decision was announced as part of the ALURE package. Content for this further announcement, of the areas to be designated, to be made on Friday? (Subject to colleagues.)
DRN
13/5.

The Rt Hon Nicholas Ridley MP
Secretary of State for the Environment
Department of the Environment
2 Marsham Street
LONDON SW1P 3EB

13 May 1987

Dear Secretary of State,

ENVIRONMENTALLY SENSITIVE AREAS

As you know, I announced on 9 February that the funding of environmentally sensitive areas would be doubled to allow the designation of new areas next year. I went on to tell Parliament that I hoped to announce the identity of the new areas within about three months.

I am sure that it would be right to announce the new areas in Parliament and I have therefore consulted the territorial Secretaries of State to establish whether an announcement can be made this week. They have agreed that my share of the funds should be set at a level which covers the cost of designating all of the remaining English areas on the shortlist that the Countryside Commission and Nature Conservancy Council submitted to me last year. Those areas are Breckland, Clun, the North Peak, the Suffolk River Valleys, the Test Valley and the western part of the South Downs.

Naturally in working up the proposals for these areas my officials will keep in close touch with your Department, the Treasury and other interested parties. I have already established that the Countryside Commission and NCC support my decision to adhere to their original shortlist.

Given the urgency of this matter I hope that you can agree to my decision. If it is to be announced in Parliament I shall need to be in a position to proceed on Friday morning. I attach a copy of the announcement I would propose to make. I should also be grateful for agreement from John MacGregor to whom I am copying this. I recognise that his agreement would not represent any commitment beyond the position that we established in February.

I am also copying this letter and enclosure to the Prime Minister, Willie Whitelaw, Norman Tebbit, John Wakeham, Nick Edwards, Tom King and Malcolm Rifkind.

Yours sincerely,

Elizabeth Evans

for MICHAEL JOPLING

(approved by the Minister
and signed in his absence)

DRAFT ARRANGED PQ

To ask the Minister of Agriculture, Fisheries and Food whether he is now able to announce the identity of the environmentally sensitive areas which will be designated in England next year.

DRAFT REPLY

Following the very promising response which farmers have made in the first set of areas, I have decided to designate all of the remaining areas on the shortlist which the Countryside Commission and Nature Conservancy Council submitted to me last year. This means that we shall be introducing new environmentally sensitive areas in Breckland, the North Peak, the Suffolk River Valleys, the Test Valley, the Shropshire Borders (Clun) and the western part of the South Downs. Interested organisations in these areas will be consulted before the designating orders are laid towards the end of this year.

CCB/T.

DF // Bring forward after the election CP

PM/87/026

PRIME MINISTER

Commission's Proposals for Income Aids to Farmers

at flap

1. I have seen a copy of the Minister of Agriculture's minute of 1 May.

2. I agree that the proposals for income aids put forward by the Commission are not acceptable as they stand. At the same time, we have to find a way to reduce prices radically, and this might well turn out to require some form of income aids. We would be wise, at the least, to avoid excluding this possibility.

3. Any scheme would have to be time limited, degressive, tightly ring-fenced and both linked to, and designed to maximise, price cuts. I recognise the difficulty of meeting all these criteria. But we have already had to accept that we cannot achieve a real reduction in CAP costs by price cuts alone. Our attitude to income aids should be governed by whether it would be possible to secure agreement to a scheme which delivers a net reduction in CAP support costs.

4. I am copying this minute to the Chancellor of the Exchequer, the Minister of Agriculture and Sir Robert Armstrong.

(GEOFFREY HOWE)

Foreign and Commonwealth Office
12 May 1987

EURO POL : CAP PT17

010 CCB/9

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

From the Minister

The Rt Hon John MacGregor OBE MP
HM Treasury
Parliament Street
London SW1P 3AE

12 May 1987

Dear John

NBPM

ALURE : FARM DIVERSIFICATION

My officials have been in touch with yours and with those in the other Departments with an interest in the new scheme of farm diversification grants which I have already announced as one of the measures following from ALURE.

I would now like to get the consultation paper out as soon possible and would welcome your agreement, and that of colleagues, to the issue of the enclosed draft. I should be grateful for a response by midday on Thursday with a view to issuing the document following an announcement by Parliamentary Question on Friday.

I am copying this letter and enclosure to the Prime Minister, Lord Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Malcolm Rifkind, Nicholas Ridley, Lord Young, Paul Channon, Norman Tebbit, William Waldergrave and Robert Armstrong.

Yours

Michael

MICHAEL JOPLING

FARM DIVERSIFICATION SCHEME CONSULTATION PAPER

INTRODUCTION

1. On 9 February 1987 the Minister of Agriculture, the Right Hon. Michael Jopling MP, made a statement to Parliament setting out the Government's plans for encouraging alternative land use and stimulating rural employment. This included the following:

"Diversification of enterprise on farms will be encouraged by the introduction of a scheme under Section 22 of the Agriculture Act 1986, providing for the grant-aiding of ancillary businesses on or adjacent to farms. This will include activities such as value-added food processing and the provision of recreational and amenity facilities. There will also be extra help for marketing of the products of diversified businesses. In working up these schemes it will be necessary to ensure that they are complementary to the activities of the existing agencies working in this field, particularly the Development Commission, COSIRA, the Small Firms Service, Local Enterprise Agencies and Tourist Boards".

2. This consultation paper sets out the details of the new diversification grants scheme which the Government plans to introduce later this year and invites comments on its coverage and the eligibility conditions attached to it. The new capital grants will be introduced under Statutory Instruments to be laid before Parliament. Primary legislation will be required before the associated grants for feasibility and marketing can be brought into operation. Subject to other pressures on the legislative programme this will be introduced in the next Parliamentary session and will then be followed by a Statutory Instrument setting out the details of the scheme.

Comments on the proposals outlined in this paper should be forwarded to one of the addressees listed in Annex 1 by [30 June]. It may not be possible to take account of replies received after that date.

AIMS OF SCHEME

3. The objective of the new scheme is:

(a) stimulating investment in the development of alternative enterprises on farms; and

(b) encouraging effective marketing of the products and services of diversified enterprises.

Within this framework -

(a) to target assistance on small to medium sized holdings (but without excluding larger holdings); and

(b) to ensure the careful planning of investment by giving grant for feasibility studies, offering the close involvement of the agricultural advisory services and requiring a farm improvement plan to show the effect of the investment

OUTLINE OF SCHEME

4. It is proposed that the scheme should be in two parts. Grants will be offered towards the cost of capital improvements. In addition new grants will be available to individuals and groups for feasibility studies, market research and the marketing of the goods and services of diversified enterprises.

Capital Grants

5. It is intended that grants should be offered to farmers planning to develop any of a wide range of diversification activities on their farm. Because investments of this kind can be both risky and expensive it is proposed that a farmer should have to prepare an improvement plan showing the impact of the intended investment on his own income or that of his workforce before qualifying for grant. The preparation of a carefully worked out investment programme of this kind is already required under the Agriculture Improvement Regulations as a condition of obtaining grant, including grants for craft and tourism projects. It is intended to continue this requirement under the new scheme but with some relaxation of conditions. (See paras 7, 9 and 11).

Feasibility and Marketing Grants

6. It is proposed to make grants to farmers and farming groups towards the cost of feasibility studies, market research and the marketing of the products of diversified businesses. Grants will be subject to prior approval.

AID PAYABLE

Capital Grants

7. A grant rate of 25% on a maximum investment ceiling of £24,000 is currently available for craft and tourism grants in the Less Favoured Areas. It is proposed that the same grant rate of 25% should apply under the new scheme both inside and outside the Less Favoured Area. The maximum investment ceiling will be raised in line with grant rate changes and will apply as a supplement to the current investment ceiling of £50,000 on a farm improvement plan. The ceiling per labour unit will remain £35,000.

The existing requirement that a farmer can only qualify for diversification grant if his farm improvement plan includes a minimum £1500 investment on purely agricultural items will be dropped. The grant rate of 25% follows from EC Regulation 797/85 and is intended as a pump-primer to stimulate diversification which might not otherwise take place. It is not, however, designed to promote uneconomic investment. The major financial responsibility will remain with the farmer who will want to consider carefully the viability of his proposed investment and assess the business risk involved. The availability of the new feasibility and marketing grants will assist him to do this.

Feasibility and Marketing Grants

8. The following grants are proposed for both individuals and groups of farmers:

(i) Approved feasibility studies and market research - 50% of the cost.

(ii) Marketing costs - 30% in each of three successive years payable annually in arrears of salaries or fees involved in employing a person either full or part-time, or an agent to market the products and services of the diversified business.

Grant under each category would be limited to £5,000 for groups and to £2,000 for individuals per annum. In order to minimise administrative costs, applications which would result in grant of less than £250 would not be approved, and no increase over approved costs would be accepted.

VIEWS ARE SOUGHT ON THESE PROPOSED RATES.

ELIGIBLE BUSINESSES

9. Farmers will be eligible for grants if at the time they submit their improvement plan they

(a) have been farming for at least 5 years <u>or</u> hold a suitable training certificate for farming;

(b) spend a minimum of 1100 hours a year working on the holding;

(c) earn at least half of their income from the holding;

(d) control the business of the holding (normally tenant, owner occupier or a partner);

(e) have an income per labour unit below the Reference Income operating under the Agriculture Improvement Regulations.

10. As far as individual applicants for non-capital grants are concerned, they will need to satisfy the conditions of (a) - (d) above. Farmers may however find it more cost-effective to develop marketing of diversified businesses on a collective basis. It is

p[illegible]osed, therefore, that groups of farmers, incorporated or not, should also be eligible for non-capital grants. Trading groups with a turnover in excess of £2m annually will not be eligible nor will large groups of existing food businesses, who may, however, qualify under the FFB scheme. (See paragraph 18).

VIEWS ARE SOUGHT ON THE SUGGESTED TERMS OF ELIGIBILITY.

ELIGIBLE ACTIVITIES

It is proposed that the following types of activity should be eligible for assistance.

__Capital Grants__

11. (i) All activities which are currently eligible under tourism and craft grants under the AIS (see Annex II). The new grants, however, will be available both in Less Favoured Areas (to which they are presently confined) and outside them. In addition their coverage will be broadened to include:

(a) new buildings;

(b) fixtures and fittings (in addition to the provision of water, gas and electricity which are already covered);

(c) general purpose areas eg "wet weather" games rooms for farm holiday makers;

(d) camping barns;

(e) visitor centres on farms including farm demonstration areas, interpretation centres and farm museums;

(f) recreation and amenity facilities for visitors;

(g) small-scale sporting facilities and associated clubhouse facilities;

(h) parking and access roads to (e) - (g) above.

(ii) Provision of or conversion of buildings for value-added processing of food and agricultural products, including timber.

(iii) Machinery and equipment for value-added processing.

(iv) Provision of farm shops and other marketing installations eg car parking and access roads associated with pick-your-own facilities.

(v) Pony trekking and livery.

Among the exclusions would be domestic animal accommodation (eg kennels and catteries); field and motor sports; service and light industry facilities not covered in (ii) above; on farm slaughterhouses; and milk bottling and pasteurisation plants. Buildings and facilities for commercial letting would also be excluded since the scheme is aimed at stimulating alternative activity by the farmer himself and his workforce.

Feasibility and Marketing Grants

12. Non-capital grants will be paid on expenditure on feasibility and marketing studies and marketing costs in connection with all the types of enterprise eligible for capital grants. Feasibility and marketing studies will be expected to give at least an estimate of any investment required, a three year cash flow forecast and estimates of additional farm income to be generated and the impact on employment.

Grants for marketing costs will only be paid on the salary of a person employed either full or part-time or on the fees of a marketing agent. The person or agent should not have been an employee of the applicant in the previous five years and they should have no family ties or business interests in common.

VIEWS ARE SOUGHT ON THE RANGE OF ELIGIBLE ACTIVITIES.

ADMINISTRATIVE ARRANGEMENTS

13. The new scheme will be administered by the four Agriculture Departments. An explanatory booklet will be produced designed to ensure that the terms on which grant is available are well understood by farmers. The agricultural advisory services and, in particular, the Socio Economic Advisory Service in England and Wales will continue to be closely involved in advising farmers on the scope for diversification. General advice on this will remain free of charge. Specific services such as the preparation of a plan or a feasibility or marketing study will be subject to charge. Charges incurred in plan preparation will, however, be grant-aided.

VIEWS ARE SOUGHT ON THESE PROCEDURES.

14. Capital grants will be available to all farmers satisfying the eligibility conditions of the scheme. However, grant will only be paid on work carried out under an improvement plan approved in advance by the relevant Agriculture Department and claims should only be submitted once the work to which it relates has been completed.

15. As expenditure on the feasibility and marketing grants is cash limited, prior approval from the appropriate Agriculture Department will be required before a farmer commits himself to expenditure on which he intends to claim grant. The approval procedure will be kept as simple as possible. For feasibility and market research studies an estimate of the cost, the scope of the study and the name of the consultant will be the minimum required. For marketing grants, applications will have to give an estimate of the cost and the name of the person or agent on whose salary or fee grant is to be claimed. All claims will have to be accompanied by a certificate signed by a qualified accountant or other evidence of expenditure incurred.

EVALUATION

16. It is intended that the operation of the scheme should be

reviewed after 3 years to assess how successfully it is meeting its stated objectives. This review should take particular account of the estimated impact on farm income and employment. It will measure:

- uptake of grant and overall level of investment generated

- the range of diversified projects encouraged

- the increase in the organised marketing of the output of diversified farm businesses

The benefits for the tourism and recreation will also be taken into account and the reactions of interested organisations and of the public will be invited.

RELATIONSHIP WITH OTHER SCHEMES

17. The new grants are concerned solely with on-farm activities and are specifically confined to farmers. A wide range of other grants and advice on rural diversification is also available from other Government agencies. The details are in the Development Commission for Rural England's booklet 'Action for Rural Enterprise' and the complementary booklets 'Action for Rural Enterprise in Wales' and 'Rural Scotland'. The new grants are intended to complement this existing assistance and are being developed in close consultation with the other agencies concerned.

18. Food from Britain is at present also developing proposals for grants for county or regional groups composed of enterprises engaged in the production and/or preparation, and marketing, of speciality food and drink. The enterprises concerned may or may not be farm based. Normally, the basis of such a group would be not less than 10 members. Feasibility studies and certain marketing costs will be assisted.

19. Although rates of grant are likely to be similar to those of the Agriculture Departments, the criteria are a matter for FFB. Government will finance these grants up to a specified cash limit. This funding will be additional to and separate from the Governments contribution to FFB's marketing budget.

CONCLUSION

20. The Government looks forward to receiving comments on the above arrangements from a very wide range of organisations and individuals many of whom have already expressed an interest in these grants.

Ministry of Agriculture, Fisheries and Food

Department of Agriculture and Fisheries for Scotland

Department of Agriculture for Northern Ireland

Welsh Office Agriculture Department

15 May 1987

ADDRESSES FOR REPLIES TO THE DIVERSIFICATION GRANTS CONSULTATION EXERCISE

B M Janes Esq
Rural Structures and Grants Division
Branch B
Ministry of Agriculture, Fisheries and Food
Great Westminster House
Horseferry Road
London
SW1P 2AE

G Thomson Esq
Department of Agriculture and Fisheries for Scotland
Chesser House
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Edinburgh
EH11 3AW

P Finnigan Esq
Subsidies and Lands Branch
Welsh Office Agriculture Department
Plas Crug
Aberystwyth
SY23 1NG

L Sinclair Esq
Department of Agriculture for Northern Ireland
Dundonald House
Upper Newtownards Road
Belfast
DT4 3SB

ANNEX II

SUMMARY OF ACTIVITIES CURRENTLY QUALIFYING FOR FARM TOURISM AND CRAFT GRANTS UNDER THE AGRICULTURE IMPROVEMENT SCHEME

Grant may be paid towards the alteration, enlargement, reconditioning or other improvement buildings, services and land to provide on-farm tourist accommodation and craft industry facilities. Ancillary works such as landscaping, access and parking facilities are also eligible as are Professional Fees incurred in connection with the project.

Farm tourist accommodation includes self catering and serviced accommodation to recognised standards. Grant can cover work on the structural fabric of the building and permanently installed fixtures and fittings for heating and hot water, lighting and baths, sinks, showers and toilets. For caravan and camping sites eligible work includes concrete hardstandings, permanent toilets and washrooms, provisions of water, gas, electricity and sewage, fencing, roads and paths.

Craft industry projects include the processing of traditional food products, and the manufacture of wood, metal, woollen textile, glass, pottery, straw or other craft products. Grants are also available on buildings used for non-residential catering eg provision of cream teas, and for farm machinery repair.

Fuller details of these grants are available in MAFF leaflet AIS 6 obtainable at any MAFF office.

GRS 800

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TO IMMEDIATE FCO
TEL NO 1555
OF 081650Z MAY 87
INFO ROUTINE EUROPEAN COMMUNITY POSTS, WASHINGTON

FRAME AGRICULTURE

CAP PRICE FIXING.

SUMMARY.

1. PRESIDENCY AND COMMISSION ENVISAGE AN ATTEMPT TO RESOLVE THE CAP PRICE FIXING IN THE TWO WEEKS BEGINNING 18 AND 25 MAY. IF AGREEMENT IS NOT REACHED IN THIS PERIOD THE NEXT ATTEMPT IS LIKELY TO BE IN THE WEEK BEGINNING 22 JUNE.

DETAIL.

2. SIR MICHAEL FRANKLIN AND ANDREWS (MAFF) HAD USEFUL DISCUSSIONS FIRST WITH VAN DER MOORTEL (PRESIDENCY) AND THEN WITH TROJAN (ANDRIESSEN'S CHEF DE CABINET) AND POOLEY (DG VI).

3. VAN DER MOORTEL SAID THAT THE COUNCIL BEGINNING 18 MAY WOULD HAVE BEFORE IT A PRESIDENCY PAPER INDICATING POSSIBLE WAYS FORWARD IN THE MAIN PROBLEM AREAS. THIS WOULD INVOLVE:

(A) FOR CEREALS, IN PLACE OF THE COMMISSION'S PROPOSALS, A SYSTEM BASED ON THE ONE ADOPTED FOR BEEF IN DECEMBER 1986 UNDER WHICH INTERVENTION WOULD BE SWITCHED OFF UNLESS PRICES FELL BELOW A CERTAIN PERCENTAGE OF THE FULL INTERVENTION PRICE (SOMEWHERE IN THE RANGE 90-93 PERCENT.)

(B) FOR OILS AND FATS, MAINTENANCE OF THE TAX AND OLIVE OIL PROPOSALS BUT THE INTRODUCTION, ON A TRANSITIONAL BASIS, OF A LIMIT ON THE MAXIMUM PRICE PENALTY FOR EXCEEDING THE GUARANTEE THRESHOLD.

(C) FOR MCAS THE ENDING OF THE STRONG CURRENCY SYSTEM AND THE INTRODUCTION OF RULES FOR REMOVING POSITIVE MCAS, HALF AUTOMATICALLY AND THE OTHER HALF DEPENDING ON COST DEVELOPMENTS.

(D) FOR MILK, A PACKAGE INVOLVING THE ADOPTION OF THE LABELLING RULES ON MILK SUBSTITUTES, TEMPORARY DEROGATIONS FOR THE FRENCH AND GERMANS TO MAINTAIN THEIR NATIONAL LIMITATIONS ON THESE PRODUCTS, PROVISION FOR MILK QUOTA LEASING AND CONTINUANCE OF INTERVENTION FOR SALTED BUTTER.

4. FOLLOWING DISCUSSION ON THIS PAPER A NEW PAPER WOULD BE PRODUCED ON 20 MAY AND THE COUNCIL WOULD SUSPEND ON 21 MAY, RESUMING ON 25 MAY FOR A SESSION POSSIBLY RUNNING UNTIL 30 MAY.

5. IF AGREEMENT WAS NOT REACHED THAT WEEK, ELECTORAL AND OTHER REASONS WOULD RULE OUT A FURTHER ATTEMPT BEING MADE UNTIL 22 JUNE. /THE

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THE MAIN CHANGES VAN DER MOORTEL ENVISAGED BEING INTRODUCED IN THE LATER STAGES OF THE NEGOTIATIONS WERE ACCEPTANCE OF THE GERMAN INSISTENCE ON MAINTAINING THE CURRENT MCAS AND INCREASES IN THE GREEN CURRENCY DEVALUATIONS FOR THE WEAK CURRENTY COUNTRIES.

6. TROJAN AND POOLEY CONFIRMED THAT THE COMMISSION EXPECTED A SIMILAR TIMETABLE BUT TROJAN, UNLIKE VAN DER MOORTEL, EXPECTED THE GERMANS TO CONTINUE RESISTING THE OILS AND FATS TAX. TAKING OUR CONTINUING RESISTENCE AND THAT OF AT LEAST ONE OF THE OTHER OPPONENTS OF THE TAX FOR GRANTED, THIS POINTED TO THE POSSIBILITY OF THE TAX GOING TO THE JUNE EUROPEAN COUNCIL FOR DISCUSSION ALONGSIDE THE PROBLEM OF COMMUNITY FINANCING IN 1987. ON GREEN CURRENCY DEVALUATIONS, HE WARNED THAT ANDRIESSEN WOULD FIND IT TOTALLY UNACCEPTABLE FOR THESE TO BE INCREASED TO THE POINT WHERE THEY OFFSET THE EFFECT, IN NATIONAL CURRENCY TERMS IN FRANCE AND THE UK, OF THE CEREALS REFORMS.

7. SIR MICHAEL FRANKLIN SAID THAT THE PRESIDENCY'S IDEAS ON THE AGRIMONETARY SYSTEM WERE QUITE SENSIBLE. HE ALSO FELT THAT THEIR CEREALS IDEAS MIGHT BE A SUITABLE BASIS FOR NEGOTIATIONS, PROVIDED THAT THE EFFECTIVE PRICE REDUCTION WAS BIG ENOUGH. WE WOULD REFLECT ON THE MILK PACKAGE, THOUGH WE HAD STRONG RESERVATIONS ABOUT ANYTHING WHICH SANCTIONED EVEN AS A TIME-LIMITED DEROGATION, CONTINUING FRENCH AND GERMAN RESTRICTIONS ON IMPORTS OF MILK SUBSTITUTES. HE STRONGLY CRITICISED THE COMMISSION'S POSITION ON GREEN CURRENCY DEVALUATIONS. HE ACCEPTED THE NEED FOR VERY SIGNIFICANT REDUCTIONS IN NOMINAL PRICES, BUT COULD NOT ACCEPT THAT THESE SHOULD BE GREATEST IN WEAK CURRENCY COUNTRIES WHERE COSTS WERE INCREASING FASTEST. HE REMINDED BOTH THE PRESIDENCY AND THE COMMISSION OF THE IMPORTANCE OT US IN THE FINAL PACKAGE OF REMOVING THE PROPOSED LIMIT ON THE NUMBER OF EWES ELIGIBLE FOR THE ANNUAL PREMIUM AND OF FINDING A SENSIBLE SOLUTION TO THE LONG RUNNING PROBLEM OF THE CANE SUGAR REFINING MARGIN.

HANNAY

YYYY
ADVANCE
HARRISON FCO
MC ADAM CAB
JOHNSON DTI
HADLEY MAFF
THOMAS MAFF
MYERS MAFF
WENTWORTH MAFF
BURNE MAFF
LLEWELYN MAFF
NASH MAFF
A TAYLOR MAFF

/MURPHY

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MURPHY MAFF
LOWSON MAFF
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AS ADVANCE ADDRESSEES.

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Lie JA ccbg

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

7 May 1987

Dear Shirley,

FARM WOODLANDS SCHEME AND CAPITAL GRANTS

The Prime Minister has seen the Chief Secretary's letter to your Minister of 6 May about the farm woodlands scheme. The Prime Minister agrees most strongly with the Chief Secretary that take-up under the scheme should not be regarded as the only measure of its success. Its effects in reducing agricultural production will be a key criterion. The Prime Minister also shares the Chief Secretary's view that officials should now consider further practical means for discouraging intensification, including changes in the use of capital grants. It will be most important to keep a close watch on intensification in any future land diversion or set aside schemes.

I am copying this letter to Mike Eland (Lord President's Office), Tony Galsworthy (Foreign and Commonwealth Office), John Shortridge (Welsh Office), David Watkins (Northern Ireland Office), Robert Gordon (Scottish Office), Robin Young (Department of the Environment), John Turner (Department of Employment), Tim Walker (Department of Trade and Industry), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Helen Ghosh (Minister of State's Office, Department of the Environment), Jill Rutter (Chief Secretary's Office) and to Trevor Woolley (Cabinet Office).

Yours,

David.

(DAVID NORGROVE)

Mrs. Shirley Stagg,
Ministry of Agriculture, Fisheries and Food.

JA

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cc BG

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CHIEF SECRETARY TO THE TREASURY

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

Prime Minister 1
The Chief Secretary is arguing for further work on ways to prevent further intensification of agriculture, for example as the farm woodlands scheme comes into operation. Agree to write strongly in his support?
DRN 6/6

Yes

6th May 1987

Dear Michael,

FARM WOODLANDS SCHEME AND CAPITAL GRANTS

Thank you for your letter of 23 April in reply to my letter of 4 March about the farm woodlands scheme.

I am grateful for your replies on the questions of administrative costs and compensation under the Wildlife and Countryside Act 1981. However, I am disappointed with your apparent refusal to recognise that there could be a problem in relation to intensification of production and to consider what steps could be taken to avoid it.

On the points you make in your letter I accept of course that the farm woodlands scheme has a number of objectives but in our previous discussions we have always given primacy to the reduction in agricultural production (and indeed this is crucial to your estimates of offsetting savings on CAP expenditure). You will recall that the Prime Minister's meeting on 14 January concluded that the achievement of CAP savings on which the proposal was predicated should be closely monitored during the three year trial period. In any event the avoidance of intensification of the remainder of the holding will also be relevant to the achievement of the scheme's environmental objectives. I cannot therefore accept that take-up under the scheme can be regarded as the only measure of its success.

My letter did not suggest that we should attempt to impose a blanket ban on participating farmers making use of any productivity improvements or indeed a ban on any future investment. What I did canvass was the rather more modest suggestion that we should try to avoid the situation where the Government is paying farmers to reduce production out of one pocket (in this case the farm woodlands scheme) and to increase it out of another (eg some capital grants). I do not accept that this suggestion is not worthy of further analysis by officials nor that without seeing that analysis procedures for making grant payments more discretionary in these circumstances need be excessively bureaucratic. As the grants in question would almost exclusively be within the AIS(EC) scheme, there is as you know already a requirement that an investment plan should be given prior approval by your Department.

I am of course well aware of the developments in the capital grant schemes in recent years but the fact remains that the bulk of expenditure on capital grants continues to relate to investment in farm buildings, roads and field works which can in some circumstances lead to more intensive production. My own view is that the time has now come to shift the emphasis further away from such investment support both on the Community and the national level and to concentrate the available resources on assistance which is unrelated to production or productive capacity. But I do not think that we can afford to wait for developments in the Community to move further in this direction before determining how we are to operate our own national schemes in a way which prevents public money being paid out for conflicting objectives.

Clearly we do not need to take immediate decisions on these issues. But I would be grateful if you could now invite your officials to co-operate with mine in considering the practical means for discouraging intensification so that a range of options is available for us to consider before instructions to Counsel on the Farm Woodlands Bill need to be finalised. In view of the environmental implications Nicholas Ridley may wish his officials to be associated in this work.

As I mentioned in my earlier letter similar issues are bound to arise in relation to any future land diversion or set aside schemes. There is already an obligation on us to introduce an extensification scheme for cereals and beef under the recently adopted EC socio-structures measures. And I see from the reports of your recent bilateral meetings that you are canvassing support for a "Community scheme" for cereals in the current Price Fixing. To the extent that this suggestion goes beyond the thought that the agreed extensification measures should be introduced by all Member States as expeditiously as possible, it would be helpful to have some more detailed analysis of what you have in mind for a Community scheme (including its financial implications). As my officials have already pointed out to yours we must make it absolutely clear that we do not envisage a higher level of Community financial contribution than the 25 per cent specified in the socio-structures Regulation: a higher EC contribution would be inconsistent with our position in the ex novo review on the Community's finances and would clearly conflict with the overall national interest in reducing our net contribution to EC agricultural expenditure. And, reverting back to my earlier point, an EC land diversion scheme which fails to deal with the problem of intensification on the area not set aside is likely to be both expensive and ineffective.

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I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Malcolm Rifkind, Nicholas Ridley, David Young, Paul Channon, Norman Tebbit, William Waldegrave and to Sir Robert Armstrong.

Yours ever,

John

JOHN MacGREGOR

06. V. PM 87

EUROPOL: CAP pe17

PRIME MINISTER

6 May 1987

FARM INCOME AIDS

See Jopling to PM 1.5.87

Mr Jopling's comments on the EEC Commission proposals reflects disappointing, but predictable MAFF attitudes towards any weakening of blanket farm subsidies.

The truth is we will never be able to negotiate major cutbacks in price levels and intervention support unless we provide some framework that allows Germany, France (and ourselves) to provide special support to smaller, family farms in disadvantaged regions - in the UK, for example, the West Country beef and hill farmers who would otherwise be driven off the land in large numbers. MAFF, however, consistently oppose anything that focusses farm subsidies more selectively on the grounds that this "disadvantages" the large, efficient UK farmers. On this basis we will never make any major savings in CAP, because we will be forced to continue paying out huge subsidies to relatively well off farm interests in order to ensure that sufficient support trickles through to the political and socially sensitive smaller farms.

There is a lot to be said for opening up this whole issue and having a broad review of the whole MAFF policy stance at the beginning of a new term. For now, however, it would be helpful to keep officials working on developing a more constructive response to the Commission that would allow the UK to take the lead in specifying how <u>we</u> think such a scheme should be formulated - in particular, ensuring special support measures are primarily funded at national level; linking any new expenditure clearly to the achievement of larger cut backs in general expenditure on CAP support; and considering alternatives to means tested income aids (eg support schemes targetted more specifically at geographic regions). This would at least provide some groundwork for a subsequent policy debate and curtail MAFF officials from taking too negative a line in the continuing discussions in EEC councils.

Norman Blackwell

NORMAN BLACKWELL

RESTRICTED

CCBG.

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

From the Minister

PRIME MINISTER

COMMISSION'S PROPOSALS FOR INCOME AIDS TO FARMERS at Flap.

1. Your Private Secretary's letter of 21 April asked for my first reactions to the Commission's proposals for direct income aid for farmers.

2. The proposals have only just appeared. They were, however, foreshadowed in the Commission's 1985 "green paper" on the CAP and again by Delors during his visit to London in February. On both occasions, we were discouraging. I have no evidence that other Member States were particularly favourable to the idea.

3. There are three separate proposals:

(1) The first provides for EC finance towards income aids for farmers whose incomes (including any non-farm income) are below the average farm income for the Member State concerned, or below 125% of that for the region in which they are situated. The aid, which must not be larger than needed to bring each farmer's income up to the level just mentioned, is to be given on a degressive basis for up to 5 years; and the farm must be such that, on completion of an action plan over this period, it is capable of yielding the average income without further aid. The EC contribution towards the cost varies according to the prosperity of the region concerned and the importance of agriculture to it. For the UK it would be 10% except for Northern Ireland where, by special derogation, it would be 70% to put it in line with the rate proposed for Ireland. The cost to the EC budget would depend entirely upon how many Member States chose to operate the aid and at what level: the Commission put it, very speculatively, at 1.8 billion ECU over 5 years.

(2) The second proposal would set a framework for nationally-financed aids to farm incomes. The apparent intention is to ensure that any national aids given by a Member State (except those authorised by other Community instruments) should go only to its less-prosperous farmers and should be related strictly to income and not production.

(3) The third is a revision of an earlier proposal. It would permit Member States to make an annual payment to farmers aged over 55, in return for <u>either</u> the complete abandonment of production on the land <u>or</u> the release of the land to increase the size of other farms. There would be a contribution from the budget of 50% in the former case and, in the latter case, 50%, 25% or zero depending on the region.

/4. The proposals ...

4. The proposals need further study and inter-Departmental discussion. But my initial comments are as follows.

5. The second proposal is welcome if it would really impose some constraints on the massive national aids which some Member States - particularly France - have been accustomed to give their farmers. But I suspect that, if they are really determined to do so, they would find some way of circumventing it.

6. The first element of the third proposal could help to reduce surpluses. But I would prefer a more systematic, though still voluntary, scheme to take out any land currently used for surplus crops, irrespective of the farmer's age. The second element is meant to benefit Southern Member States with poor farm structure. It would be likely to increase production capacity: there is nothing in it for us.

7. The first proposal, which we believe to be particularly the brain-child of Delors, is the most far-reaching. In theory it could result in over half the farmers in the Community receiving temporary income support, with consequent substantial cost.

8. It would set two major precedents, with potentially serious implications. First, the Community would be intervening in Member States' social security policies. Second, it would firmly establish the principle of radically different rates of EC contribution to national expenditures based, at least in part, on relative prosperity. The 70% contribution rate, for example would apply to Portugal, Greece, and parts of Italy and Spain as well as in Ireland and Northern Ireland. This is clearly part of Delors' plan for "cohesion".

9. Such a proposal might be acceptable if it bought a substantial measure of CAP reform. But I am sceptical whether it would do so. The Commission are not linking it to their proposals for this year's price-fixing which, as usual, most Member States consider to go much too far. In the absence of a specific link with current or future reform proposals, any beneficial impact of the measure would have to be taken entirely on trust. I am doubtful whether, even if other Member States welcome the proposal, it will affect their future attitudes. There is also the question of the "farm adjustment plans" which are an integral part of the measure and are designed to make the farms concerned viable without aid after 5 years. It is difficult to envisage that, in many cases, these plans will not involve increased output as well as substantial administrative problems and costs.

10. Another point of concern is that the payment of income aids to relatively poorer and smaller farms could in many cases delay the natural process of the amalgamation of such farms into larger and more efficient units. It would thus run directly counter not only to one of the stated aims of the CAP but also to the second leg of the third proposal. In fact the Community would be spending money under two different schemes for contradictory purposes.

/11. I am ...

... 11. I am copying this minute to the Foreign & Commonwealth Secretary, the Chancellor of the Exchequer and Sir Robert Armstrong.

E. M. Marc

for M J
1 May 1987
(approved by the Minister
and signed in his absence)

Euro Pol: CAP PT17.

CPBS

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

From the Minister

CONFIDENTIAL

NBPM.

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

23 April 1987

Dear Chief Secretary,

FARM WOODLAND SCHEME

at flap PT16.

Thank you for your letter of ~~4~~ March.

I agree that we shall need to give further consideration to the question of administrative costs before the Farm Woodland Scheme is finalised. However, I am afraid that I do not accept that there is a fundamental conflict between the Farm Woodland Scheme and our existing capital grant arrangements, as you seem to imply.

The scheme of course has a number of objectives - the enhancement of the environment, the encouragement of recreational use, support for farm income and employment and timber production - in addition to the diversion of land from agricultural production, but it can only achieve these objectives if farmers are persuaded to take it up. So whilst I entirely agree that it is important to include conditions that help us to realise savings in agricultural support costs, as we have done, we cannot use the scheme to freeze the normal improvement in productivity elsewhere on the holding, an underlying trend on which the ALURE assumptions were based.

The annual payments under the Farm Woodland Scheme compensate the farmer only for the likely income foregone on the more marginal areas likely to be planted to trees. No allowance has been made for income foregone on the rest of the holding as a result of any restrictive condition. To introduce such a condition without a significant increase in the payment would mean that the average farmer would be worse off on entering the scheme. It would therefore sabotage the chances of success.

/ Given that the ...

Given that the maximum annual payment would be £2500 in the lowlands and £1200 in the SDA, it would clearly be unattractive to many farmers to give up claims to capital grants which could well be larger. Farmers would also be very wary of accepting a restrictive condition the precise effect of which could not be foreseen, given the ways in which the capital grant schemes change.

Farmers outside the scheme will (other things being equal) tend to increase their production in one way or another. If they plant an area to trees, they give up both the current level of production and the potential growth on that area. To try at the same time to curtail investment and productivity growth on the rest of the holding would be most difficult, particularly for larger farmers for whom the woodland area might be only 5-10% of the holding. Yet these are the ones who might otherwise be interested in the scheme.

You have urged that administrative costs be kept down. I am most anxious to do this. But even if we could overcome the obvious legal drafting problems to allow selective rejection of applications, there would be significant administrative costs: even a limited proposal would require careful cross-checking between schemes over many years. You have recognised that eligibility for some grants would be unaffected but the elaboration you have suggested is to my mind a recipe for bureaucracy.

A further point I would like to emphasise is that we have done a good deal in recent years to steer capital grants away from expanding output and into other investment, such as energy saving pollution control and environmental improvements. Moreover, expenditure on capital grants has approximately halved over the last 5 years. Even the non-environmental grants do not necessarily increase capacity or lead to intensification: they may for example help farmers replace worn out facilities or convert from one line of production to another.

Furthermore, on your approach we could run into real difficulties under EC Regulation 797/85 which leaves it to the Council to determine those sectors in which grant should not be paid. So far the Commission have not made a proposal on this. I am sure we should await such action on a Community basis. In any event in the absence of Community action we could be legitimately criticised for discriminating against our farmers as compared with those in other Member States.

/ I have put ...

I have put forward a modest scheme. I am prepared to defend not having gone for more far-reaching measures. Your suggestion that the whole of the scheme's expenditure would be nugatory ignores the dynamic basis of the farming industry. In view of the points above I trust that you will be content that the issue has been thoroughly examined and we can now let it rest.

Finally, you asked for confirmation that refusal of an application for the Farm Woodland Scheme would not create a right to compensation under the Wildlife and Countryside Act in SSSIs or the National Parks. I confirm that this is our lawyers' view. The other designated areas which you mentioned are not covered by that Act but we see no parallel problem in these areas.

I am copying this letter to the Prime Minister, Willie Whitelaw, Geoffrey Howe, Nick Edwards, Tom King, Malcolm Rifkind, Nicholas Ridley, David Young, Paul Channon, Norman Tebbit, William Waldegrave and to Sir Robert Armstrong.

Yours sincerely,

Elizabeth Mant

for MICHAEL JOPLING
(approved by the Minister and signed in his absence)

EURO POL: CAP PT17

23. IV. PM 3

SUBJECT CC MASTER.

CONFIDENTIAL

ECL

bc PC

MTG Record

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 April 1987

Dear Shirley.

GREEN POUND

The Prime Minister held a meeting this afternoon with the Lord President of the Council, the Chancellor of the Exchequer, the Chancellor of the Duchy of Lancaster, the Chief Secretary, Treasury, the Chief Whip and your Minister in order to discuss the line which the United Kingdom should take on the green pound in the Commission's agricultural price proposals and in the presentation of our position in the parliamentary debate tomorrow. The meeting had before it the minutes to the Prime Minister of 15 April from your Minister, of 16 April from the Foreign and Commonwealth Secretary and of 21 April from the Chief Secretary, Treasury.

Your Minister said that substantive negotiation on the price proposals was expected to get under way in the Agriculture Council next week and the House of Commons would also expect to have a clear indication of the government's view in the forthcoming agricultural debate. The Government could no longer put off a decision on the size of the devaluation of the green pound and the consequent reduction in United Kingdom monetary compensatory amounts (mcas) which they should go for. The Commission's proposal of a 4 percentage point reduction in the mcas was not in any conceivable way adequate. He had proposed to his colleagues earlier a 13 percentage point cut and considered that the lowest defensible figure was a 10 percentage point reduction. A political decision was now required. There was very strong feeling on this issue in the countryside, as shown by the letter from the Oxfordshire branch of the National Farmers' Union to the Home Secretary which he had circulated. Farm incomes in the United Kingdom had fallen by more than in other member states. In real terms they were substantially lower than when the Government came to power. The forecast was even worse, and this applied just as strongly to incomes on cereal farms as to livestock farmers. Undertakings had been given in the manifesto and it was necessary to take substantive action now. The net public expenditure cost had been substantially revised downwards since the last OD(E) discussion to £13 million per percentage point reduction in the mca, so that the total cost of his proposal was not much higher than the earlier estimate for the mca change which colleagues had been prepared to accept.

ECL

In discussion the following points were made -

(i) since the Commission had made its proposal the United Kingdom mca had fallen by 6 percentage points because of currency movements, so that the present suggestion of a 10 percentage point cut in the mca was proportionately more far-reaching than the earlier suggestion of a 13 percentage point reduction. The negotiating situation had not changed since the last OD(E) discussion and we must not prejudice our important objectives in the Community both on agricultural reform and on financing. It remained true that, if the United Kingdom were to argue for such a large change, it would be seen to be arguing for support prices to rise, despite our stance on CAP reform, and would risk to breach the budget ceiling. It would be an incentive for other member states to seek bigger changes in their green currencies and thus to raise Community expenditure even more. The public expenditure costs were significant; even on the revised figures the 10 percentage point proposal would add £230 million a year to United Kingdom public expenditure on agriculture and the estimated offsetting reduction of £100 million in the United Kingdom's net contribution to the budget was not based on robust forecasting assumptions. The estimated increase on 0.25 per cent in the retail price index was also significant.

(ii) there were arguments in favour of skewing any change in favour of sectors with particular difficulties such as beef. It was not certain, however, that the Commission would agree to enlarge the existing differences between sectors, and the problems in the cereals sector were likely to increase markedly this year.

(iii) United Kingdom support prices had certainly fallen in real terms but no more than in the rest of the Community since 1983 and not greatly more than in the rest of the Community since 1979. Support prices did not, however, tell the whole story: the ratio of external liabilities to assets excluding land showed that we were storing up problems. Farm incomes were influenced by national aids and other factors and United Kingdom farm incomes had done badly by comparison with those elsewhere in the Community.

(iv) because of the competitive situation it was desirable to take into account the changes in green rates which other member states might seek or obtain. In particular, if the Republic of Ireland or France were to reduce their mcas by more than 4 percentage points, this would be a reason to look again at our position.

Summing up the discussion the Prime Minister said that it was essential not to prejudice a firm British position on the need for reform of the common agricultural policy and on continued respect for the 1.4 per cent VAT ceiling. Your Minister could make clear, however, that we would want to improve on the Commission's proposal for a 4 percentage point reduction in the United Kingdom mca; that we would certainly expect to make a bigger change than France or the Republic of Ireland, with possibly some special effort for beef; and that under no circumstances would we allow these changes to lead to a breach in the 1.4 per cent VAT ceiling or to the introduction of an oils and fats tax. Your Minister said that he could stand on this position for a time but he wished to make clear that in his view a 10 percentage point mca change was necessary and that he might need to come back to his colleagues.

I am sending copies to Mike Eland (Lord President's Office), Lyn Parker (Foreign and Commonwealth Office), Alex Allan and Jill Rutter (H.M. Treasury), Andrew Lansley (Office of the Chancellor of the Duchy of Lancaster), Murdo Maclean (Chief Whip's Office), John Shortridge (Welsh Office), David Watkins (Northern Ireland Office) and Robert Gordon (Scottish Office).

Yours sincerely,

Charles Powell

CHARLES POWELL

Mrs. Shirley Stagg,
Ministry of Agriculture, Fisheries and Food.

SUBJECT CC MASTER.

File CCL
CCPL
MTG CC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 April 1987

Dear Shirley.

PRIME MINISTER'S MEETING WITH OFFICERS OF THE CONSERVATIVE PARLIAMENTARY BACKBENCH COMMITTEE ON AGRICULTURE

The Prime Minister had a brief meeting this evening with officers of the Conservative Parliamentary Backbench Committee on Agriculture: Sir Peter Mills, Sir Hector Monro and Mr. Colin Shepherd. The Minister for Agriculture was also present together with Mr. Gummer, Lord Belstead and Mr. Donald Thompson, as was Mr. Richard Ryder.

Sir Peter Mills said that he and his colleagues had fully supported the Minister for Agriculture's efforts to secure effective action by the European Community on surpluses. They had taken the President of the National Farmers' Union to task for his criticism of the Government. Nonetheless, he had to report that the Government faced real political difficulties on agriculture. There was an unprecedentedly sour atmosphere, particularly in the South-West and the Celtic areas. This was translated into lack of practical support for the Conservative Party in agricultural constituencies. The main bone of contention was the Green Pound where farmers felt they were being put at real disadvantage in comparison with other European countries. There was strong demand for a significant devaluation of the order of 12 per cent. There was particular concern about the problems of the beef sector, and the flood of imports from the Irish Republic and from Germany. At the same time action by the Government was needed to help small farmers. The Liberals were making play with the Government's failure to provide effective help.

Sir Hector Monro said that there had been a warm welcome in Scotland for the Government's proposal for alternative land use. There were two main areas of criticism of the Government: the surrender of milk quotas to Northern Ireland and the Green Pound. The latter was the really serious problem. Mr. Shepherd added that the Government was widely perceived to be unhelpful towards livestock farmers with small farms. He had never known his supporters in the farming community so sour and antagonistic, and consequently vulnerable to simplistic and seductive propaganda from the Liberal Party. The Government needed to signal its determination to act decisively where British farmers were at a disadvantage. He echoed Sir Peter Mills' comments about the particular problems of beef. A devaluation of the Green Pound should be skewed in favour of beef.

The Prime Minister concentrated, in reply, on two aspects. She made clear the Government's concern with the problems facing smaller farms and farmers in disadvantaged areas. Help should be targetted on people whose need was greatest. But it could not be provided through the price mechanism. On the Green Pound, it had to be recognised that a devaluation would stimulate production and make it harder to secure the Government's aim of dealing with surpluses. Sir Peter Mills said that he recognised the latter problem. The Government's aim should be a Green Pound devaluation higher than that granted to other countries. This would provide a clear signal of the Government's determination to see British farmers treated fairly.

I am copying this letter to Alex Allan (H.M. Treasury), Murdo Maclean (Chief Whip's Office) and David Williamson (Cabinet Office).

yours sincerely,

Charles Powell

CHARLES POWELL

Mrs. Shirley Stagg,
Ministry of Agriculture, Fisheries and Food.

PRIME MINISTER 22 April 1987

GREEN POUND

Notwithstanding the maze of statistics, the Minister is basing his appeal primarily on political grounds.

But he then needs to address the questions:

- Is it politically imperative to boost the income of all farmers, regardless of their size, location or current profitability? Green pound devaluation is inevitably unfocussed, and most of the additional expenditure will go towards helping the minority of large farms.

- Or is the political imperative to help small, struggling farms in the West Country and hill areas - particularly those in beef? If so there are other schemes we could negotiate with the EEC which would be more cost effective - including some variant of the current Commission proposals for income aids.

You have already asked the Minister to explore the second route, and this seems by far the most productive approach - both economically and politically.

N.B.

NORMAN BLACKWELL 20 farmers - Oxfordshire.

Prime Minister ECPG

This explains the point in Mr. Jopling's letter which worried you

CDP 18/4.

Qz.05780

MR POWELL (10 Downing Street)

FILGON BIUP

Agricultural financing at the end of 1987

You asked about the reference in the minute of ~~13~~ 15 April from the Minister of Agriculture, Fisheries and Food to the Foreign and Commonwealth Secretary to difficulties in financing agricultural and agricultural trade payments in the United Kingdom at the end of 1987. It is important to distinguish between:

1) a change from agricultural advances to agricultural reimbursement. This proposal which we support will not cause difficulties for United Kingdom farmers, processors or traders. Payments will continue to be made by the United Kingdom Intervention Board in response to claims and at or about the present speed of payment. The proposal affects only the time at which funds are transferred from the Community budget to national accounts. At present the Commission makes a monthly payment in advance (ie it puts the national treasuries in funds) based on national estimates of the amount of money which will be needed for agricultural guarantee payments in the following month. Under the revised system, if agreed, the member states would submit statements of expenditure and would be reimbursed either in the month of payment or in the following month. There would be a one-off saving to the Community budget in 1987 and a corresponding loss effect on national accounts. We agree with the Treasury, however, that the revised system would be much better for budget discipline in the future. Member states now can - and some no doubt do - inflate their demands and thus get funds into their treasuries. Under the corrected system Community funds would be transferred only to meet real and certified payments;

2) the Community running out of money. We think that the proposal above plus genuine savings will see us through 1987. If, however, the proposal were not agreed or if, despite it, the Community ran out of money, there would then be the problem referred to by Mr Jopling. If the United Kingdom Intervention Board stopped paying, it is probable that United Kingdom processors and traders would look for supplies in member states which were making payments and more British production would go into intervention (unless the Intervention Board refused to accept it). The Cabinet Office intends to ask Departments to prepare a contingency plan - although we think that it ought to be avoidable in 1987 - which would be likely to show that some essential payments in relation to agricultural trade and processing would need to be made on national account, although others could no doubt be deferred until the Community had resources again available at the beginning of 1988.

D F Williamson

D F WILLIAMSON

22 April 1987

EURO POL : CAP PT17.

CCPC

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

From the Minister

Prime Minister 2.

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

MS

13 April 1987

See page 2

Dear Geoffrey

CAP PRICE FIXING: FINANCIAL ASPECTS

at flag PT16 at flag PT17

You had a copy of John MacGregor's letter of 26 March, and I have seen the note which Peter Brooke sent to you on 3 April. Both concern the need to make savings in this year's farm price fixing negotiations, with a view to achieving budgetary savings in 1987 and 1988.

At the Agriculture Council on 30/31 March Member States staked out their positions for the price fixing negotiations. The debate amply reinforced my view that we will do extremely well to achieve savings of the level proposed (disregarding the oils and fats tax). Only the UK and the Netherlands supported the Commission's proposed economy measures (leaving aside the oils and fats tax). All the other Member States argued that the package was too severe. There was much opposition to the proposed changes on cereals intervention and the guaranteed quantity system for oilseeds which, together with the oils and fats tax, make up the bulk of the savings in the overall package. As you know, the Germans, from Chancellor Kohl downwards, are totally opposed to the proposals as a whole and have said they are not a basis for negotiation. There is a widespread view that the December decisions on milk and beef were too tough and that farmers cannot be expected to swallow anything more.

Of course, it is possible to identify some savings that I can press for, in addition to those in the Commission's proposal. But as John MacGregor says in his letter, they have to be plausible.

/Otherwise ....

Otherwise we will simply be disregarded and a consensus will be built around the views of others. I fear that a general cut of 5.5% in prices or increase of 3.5% in co-responsibility levies, as suggested in the Annex to Peter Brooke's note, would fall by a long margin into the category of the implausible. Our best chance lies, as indeed OD(E) decided, in aligning ourselves with the Commission - except on the oils and fats tax - so as to strengthen their resolve in resisting demands for a weakening of the package.

The Annex to this letter represents the very limit of what I could sensibly suggest. The effects are shown both for 1987 and 1988. (The last two items, which would involve shifting costs from the budget onto Member States, are of course illustrative: in theory payments for technical and financing costs could be ended altogether, but I do not see any practical chance of achieving it.)

We could not hope to achieve more than one or two of the measures listed: and even those will merely serve as a counterweight to adverse modifications in the Commission's proposals. It will be extremely difficult to secure the level of savings in the proposals, minus the oils and fats tax, let alone anything more. To what extent Member States would be prepared to go further after the price fixing, in the context of the ex novo review, I find difficult to judge. But it is important not to deceive ourselves. As I see it, there is no realistic prospect of our achieving savings on agricultural expenditure which will significantly change the budget problems confronting the Community in 1987 and 1988 unless the fats tax is pushed through against our opposition.

We now know that the Commission are preparing their proposal to switch from advance payment to reimbursement of intervention agencies. Our officials are in touch about the size of the potential savings which could result. In theory, of course, delays in reimbursement could be stretched to accommodate any given shortfall. But the question is whether - and, if so, how soon - it will be agreed. If it is not agreed in 1987, FEOGA will run out of funds well before the end of the year.

We have faced small gaps in funding before. Up to two weeks is manageable but we cannot contemplate a long delay in payments. It is misleading for Peter Brooke's note to refer to "payments to farmers". Only some payments go to them. Large amounts go to exporters, processors, etc. If they believed their claims were not going to be met, they would turn to other sources of supply and more of our domestic production would get diverted into intervention, with potentially serious consequences for public expenditure. In addition, claims presented and not paid would be likely to result in immediate legal action by the traders and others involved. If this situation arises, therefore,

/it will be ....

it will be essential to make clear, at an early stage, that we will continue to make payments from national funds, as other Member States will inevitably do.

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

Yours ever

Michael

MICHAEL JOPLING

POSSIBLE SAVINGS IN GUARANTEE EXPENDITURE

	1987	(mecu) 1988
Cereals:		
No extra aid for durum	-7	-33
No premium for high quality bread making wheat	-2	-6
Rice:		
Cut support price (say 3%)	-1	-7
Olive Oil		
No increase in production aid for small producers	0	-3
Lower maximum guaranteed quantity (1.1mt)	0	-52
Introduce MDAs	0	-75
Oilseeds:		
Fix maximum guaranteed quantity for soya at 0.9m tonnes instead of 1.1m tonnes	-22	-58
Peas and beans:		
Abolish quality premia	-20	-28
Textiles:		
Cut guide price for cotton by 10%	-34	-68
Abolish aid for hemp	-1	-2
Fruit and Vegetables:		
Lower threshold for tomato withdrawals and within-year price reduction	-8	-8
5% price cut for cauliflowers	--	--
Wine:		
Reduction in quantity eligible for GDBF	0	-6
Tobacco:		
Larger cuts in premia	-3	-30

Beef:		
Reduce MCAs from 85% of the intervention price to 70%	-34	-45
Sub total	-132	-421
Intervention financing costs:		
Cut from 7% to 6% in standard rate for all member states except Germany and Netherlands (where 6% already applies)	-80	-80
Intervention technical costs:		
Each 10% cut on top of 25% reduction already applying	-85	-85

PRIME MINISTER

GREEN POUND

We have a small meeting tomorrow on the Green Pound. The Lord President, the Chancellor, Mr. Jopling, Mr. Tebbit, the Chief Whip and Mr. Williamson will be present.

As you know, Mr. Jopling is getting very exercised about the problem and describes himself as in an increasingly impossible position. He wants to be able to say at the Agriculture Council later this week that we need at least a ten per cent cut in our mcas, and to say in the Agriculture debate on Thursday that the four per cent cut proposed by the Commission is inadequate.

None of his main colleagues have accepted his case. They point out that our main objective is to contain Community expenditure and curb agricultural production. We cannot at the same time make costly requests on behalf of UK farmers. They want to continue to adopt a holding line. They acknowledge the difficulties for farmers, but point out that Mr. Jopling's proposals involve even more unacceptable burdens on consumers and taxpayers.

You have already seen Mr. Jopling's minute. There are new points:

- his bid has come down from a reduction of 13 points to a reduction of 10 points in our mcas
- the UK mca has already moved some points in our favour since Mr. Jopling first made his request
- the Treasury and MAFF have together recalculated the public expenditure cost of each percentage point reduction in the mca from £25 million a year down to £13 million (i.e., a green rate devaluation comes a bit

cheaper than we thought).

There is actually no particular reason, other than the political pressures on and from Mr. Jopling, for us to change our position at present. There is no likelihood that the forthcoming meeting of the Agriculture Council will prove definitive for this year's price-fixing. It is likely to drag on several more months and tactically we would do best to hold back.

But if you feel compelled to make some move towards Mr. Jopling, 6 percentage points off our mca would bring the mca back down to the level that the government inherited in 1979. That would take care of one of Mr. Jopling's main political arguments (although I would be very surprised if he settled for this). The public expenditure cost would be about £80 million (as opposed to the £130 million of Mr. Jopling's own proposal).

David Williamson has done a brief.

C.D.P.

CDP

21 April, 1987.

JD3AXZ

file KG
LOGAFP

cc dr PC

10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

21 April 1987

INCOME SUPPORT FOR FARMERS IN DISADVANTAGED AREAS

The Prime Minister has noted that the Commission have recently published their proposal for a Community framework for income support for farmers in disadvantaged areas. She would be grateful if your Minister would let her have a very early note commenting on the Commission's proposals, their relationship to wider reform of the CAP, and the scope which they offer (or could, if adapted, offer) for securing savings in the CAP. She would also like to know how it is intended that we should respond.

I should be grateful for at least a first reaction by 30 April.

I am copying this letter to Alex Allen (Treasury), Lyn Parker (Foreign and Commonwealth office) and David Williamson (Cabinet Office).

CHARLES POWELL

Mrs. Shirley Stagg,
Ministry of Agriculture, Fisheries and food.

BR.

010

COVERING CONFIDENTIAL

Prime Minister
CDP
21/4.

Qz.05777

MR POWELL (10 Downing Street)

Green Pound

I understand that the Prime Minister's small meeting of Ministers on the green pound has now been rearranged for 2.30 pm tomorrow, 22 April. I attach a brief for the Prime Minister. The relevant documents are:

- minute of 15 April from the Minister of Agriculture, Fisheries and Food to the Prime Minister, seeking authority to request a change in the green pound giving a 10 percentage point change in the United Kingdom monetary compensatory amount

- minute of 16 April from the Foreign and Commonwealth Secretary to the Prime Minister, arguing for standing on the position agreed in OD(E) on 24 March

Now arrived and below. - an (expected) minute from the Chief Secretary.

The Prime Minister may find it helpful to have available also the attached annotated copy of the agreed statistical data (OD(E)(87) 9) which we prepared for the Foreign and Commonwealth Secretary as Chairman of OD(E) and the latest OD(E) minutes (OD(E)(87) 4th Meeting).

I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

21 April 1987

COVERING CONFIDENTIAL

BRIEF FOR THE PRIME MINISTER

1987 AGRICULTURAL PRICE FIXING : GREEN POUND

PURPOSE OF DISCUSSION

As part of its proposals for agricultural prices the Commission has proposed, as usual, some changes in the rates of conversion between the ecu and national currencies for agricultural purposes - the "green" rates - to bring them nearer to the actual ecu rate. A change in the green pound would have two effects: it would raise United Kingdom farmers' support prices in sterling and it would reduce the monetary compensatory amounts (mcas) at our frontiers, which in our case are a tax on our exports and a subsidy on our imports. Proposals are usually expressed in terms of points off the mca, although a change is actually achieved by correcting the rate of the green pound. The Commission has proposed a reduction of 4 percentage points off our present level of monetary compensatory amounts, which vary with the value of sterling but currently stand at -16.4 to -24.1 according to commodity. Mr Jopling has since February been arguing that such a change is inadequate and that a reduction of 13 percentage points would be fully justified; but he has failed to convince his colleagues. He has now minuted you (15 April) proposing a reduction of 10 percentage points.

CONCLUSION

You may wish to conclude either

a. that it is not necessary, when negotiations on agricultural prices are likely to drag on into June, to move from the position agreed in the Defence and Oversea Policy Committee Sub-Committee on European Questions (OD(E)), ie that we should not go beyond 4 percentage points but that we are still weighing the issues; or

b. that Mr Jopling should be able to bid for something more than the Commission have proposed though not as much as he wants: for instance, a sufficient correction of the green pound to bring the mca back down to - or a little lower than - the level that the Government inherited on taking office in 1979. A round 5 per cent change in the green pound giving a reduction of 5.9 percentage points in the mca would do this comfortably.

If the question of some differentiation between products within the overall total ("skewing") is raised, you may wish to conclude that this should be left to Mr Jopling and the other agriculture Ministers, in conjunction with the Chancellor of the Exchequer, to decide. (The United Kingdom agriculture Ministers do not all take the same view.)

BACKGROUND

OD(E) has discussed on two occasions this year (26 February and 24 March) Mr Jopling's case for a substantial devaluation of the green pound. He has based his case on

(i) the need to give some boost to farm incomes in the United Kingdom which in real terms have not recovered from the disastrous year of 1985 and are below the levels of 1979 and 1983. We believe that farm incomes will be under greater pressure in 1987/88 but forecasting is very hazardous;

(ii) the need to maintain a fair competitive position for British producers compared with producers in other member states, particularly France, Germany and the Republic of Ireland.

He stresses in particular the undertaking given in the 1979 election manifesto:-

"We would aim to devalue the green pound, within the normal lifetime of a Parliament, to the point which would enable our producers to compete on level terms with those in the rest of the Community.".

Mr Jopling has failed to convince his colleagues of the case for a 13 percentage point devaluation. They have implicitly accepted that we could go along with the Commission's proposal for a 4 percentage point change and agreed a formula of non-commitment at this stage which Mr Jopling has used both in the Council of Agriculture Ministers and in bilateral contacts.

Mr Jopling's most recent minute re-emphasises the income and competition arguments. The main new factor which he introduces is the revision of the calculation of the public expenditure cost of each percentage point change which, on a basis provisionally agreed with the Treasury, comes down from £25 million per annum in a full year to £13 million.

DISCUSSION

To help Ministers work from a common base the Secretariat circulated in OD(E)(87)9 some key statistical data. This remains valid (in spite of some figures circulated by Mr Jopling in Annex 2 of his letter). The agreed statistical data confirm that

(i) there has been no increase in producer prices of agricultural products in the United Kingdom in the last 4 years (the whole of the increase in the retail price index for food has been due to increases beyond the farm gate or in imported foodstuffs)

(ii) farm incomes have declined in real terms compared both with 1979 and 1983 and the level of producer prices has fallen relative to the prices of other goods and services.

On the other hand, they also show

(iii) reductions in support prices in real terms for United Kingdom farmers have not been greatly out of line with the Community average since 1979 and exactly in line with the Community average since 1983;

(iv) if all the Commission's 1987 proposals, including their green currency proposals, are acted on, the reduction in United Kingdom support prices in real terms would be less than the Community average - though, as Mr Jopling's minute points out, all member states who have scope for a green rate devaluation are actually trying for more in order to improve their farmers' position.

COMPETITIVENESS AND FARM INCOMES

The issue of competitive position for British farmers compared with those of other member states is underlined by the negotiating positions taken up by other member states. In particular the Germans, with positive mcas, are resisting the Commission's proposal that these should be reduced to parity over two years because to do so would mean actually reducing the level of support prices in deutchsmark. By gaining a greater devaluation than that proposed by the Commission devaluing countries, particularly France and the Irish Republic, who rely heavily on agricultural exports, would improve their competitive position. The argument about competition has two aspects. First, support prices for each commodity in each member state do not fluctuate as currencies fluctuate: they are fixed during the annual price fixing in ecu terms which are then translated into national currency at the prevailing green rate. As currencies fluctuate during the year the level of monetary compensatory amount at the frontier fluctuates to the extent needed to protect the common support prices within a member state. Though technically the system operates in a neutral way our farmers see subsidised imports and charged exports as a penalty to their competitiveness. They argue with some force that they should not be deprived of the benefits of currency movements which already accrue automatically to other United Kingdom industries. Secondly, farmers in a country with negative mcas such as the United Kingdom now, want to use the scope for green rate changes in order to increase their support prices in national currency and hence their returns.

It should also be noted, however, that the United Kingdom mca has already moved some points in favour of United Kingdom farmers' competitive position since Mr Jopling first asked for a large green pound change. High United Kingdom negative mcas are a relatively recent phenomenon: for the greater part of the period since 1979 United Kingdom farmers have benefited from positive mcas, ie their support levels in national currency were above the Community objective.

TREASURY ARGUMENTS

Against Mr Jopling's arguments the Chancellor of the Exchequer and the Chief Secretary have made the following points

(i) there is a public expenditure cost of any green pound change: even at the new provisional cost and a 10 percentage point change the public expenditure cost in a full year would be at least £130 million;

(ii) there is an unwelcome effect on the RPI: a change of 10 percentage points would add about 0.25 percent;

(iii) a 10 percentage point change would mean a real increase in support prices for United Kingdom farmers: for the United Kingdom to ask for this at a time when the Commission is proposing real price cuts for all other member states would not only weaken our tactical negotiating position in this price fixing but undermine our general stance in arguing for realistic reform of the CAP and effective control of EC budget expenditure.

There has also been a technical but important argument that about 11 points of the current mca (-16.4 to -24.1) arise because the Community moved the goal posts in 1984 when it linked the mca system to the strongest currency. This system is supposed to come to an end this year. It is correct that, if the old mca system were still in force, it would need an 11 point smaller change in the United Kingdom mca to eliminate it and to bring us to the central point.

CONCLUSIONS

By pressing his case now Mr Jopling is clearly trying to take advantage of the recent substantial downward revision in the public expenditure costs from £25 million to £13 million per annum and wants to get himself into what he sees as a better negotiating position on green rates for the Agriculture Council's next discussion of the price proposals on 27-29 April. Moreover, it is clear that farmers feel strongly about the extent to which they believe that adequate amelioration of their income and competitive positions is being blocked. They will feel even more strongly about this if some of the Commission's proposed green rate changes for other member states, which are already slightly above that proposed for the United Kingdom, are increased further in the course of negotiation. On the other hand, even at the revised level, the public expenditure costs are very significant, as are the RPI effects when there are other upward pressures; and there is a clear risk of our general position on reform of the CAP being undermined. The choice seems to lie between standing on the present position or, if this were thought necessary, to allow Mr Jopling room to begin discussing with Commissioner Andriessen a maximum change in the green pound of 5 per cent (equivalent to a reduction of 5.9 percentage points), possibly with some differentiation between commodities.

Cabinet Office
21 April 1987

004/2767

CONFIDENTIAL

FROM: CHIEF SECRETARY

DATE: 21 April 1987

PRIME MINISTER

GREEN POUND

I have seen Michael Jopling's minute of 15 April, and , like Geoffrey Howe, I am concerned about changing our position on a green devaluation at this stage when there is still no sign of progress in the Price Fixing. As Geoffrey says this would go against the grain of our main objective, which must be to contain Community spending and to achieve substantial cuts in production and prices; and the arguments which have caused us not to request a substantial devaluation so far still apply.

2 The only significant development since we last discussed these issues has been the strengthening of sterling, with a consequential cut of just under 6 percentage points in our MCAs, yet Michael has only reduced his proposed MCA cut by 3 percentage points. So not only is it too soon to press the Commission for a greater green devaluation than that proposed by the Commission but the figure Michael proposes remains too high.

3 Although, if they can be verified, the lower figures now emerging from the Commission's ready reckoner for the cost of a green devaluation would be welcome, they do not really alter the substance of the argument. Although as Michael says, the Commission's figures suggest that the cost in terms of UK public expenditure has fallen from £25 million for each percentage point to £13 million, most of the apparent reduction arises on our net contribution to the Community Budget and has not yet been fully explained. The fall in world prices may account for some of it, so may changing trade patterns, but both these factors are erratic. The cost falling on the agricultural programme - £23 million for each percentage point cut in MCA - has changed relatively little, and Michael's proposal would cost some £230 million in a full year.

Offset £100m — doubtful

Further devaluation

CONFIDENTIAL

4 I am copying this minute to Willie Whitelaw members of OD(E), Nick Edwards, Tom King, Norman Tebbit, Malcolm Rifkind, John Wakeham and Sir Robert Armstrong.

JM

JOHN MacGREGOR

PRIME MINISTER

I discussed the attached minute with the Lord President this lunchtime. His personal view is that a slightly smaller meeting to start with would be desirable - followed a week or so later by a larger gathering after Mr. Jopling has had a chance to reflect. His guest list for the smaller meeting would be you in the chair, himself, Chancellor of the Exchequer, Chief Whip, possibly Chancellor of the Duchy - and of course Mr. Jopling.

Content with the smaller meeting first?

And Yes

If so, include Mr. Tebbit? Yes

MT

AB

ANDY BEARPARK

16 April 1987

CCB/YP

CCBG

CDP

CDP 22/4

PM/87/022

PRIME MINISTER

Green Pound

with AB?

1. I have seen a copy of Michael Jopling's minute to you of 15 April.

2. We face a budget deficit in the Community of 5 billion ecu this year with the prospect of a deficit of a further 5½ billion ecu next year. The savings proposed in the agricultural price fixing will not in themselves be sufficient to cover these deficits. Further steps will be needed including a move from advance payment to reimbursement of sums due to farmers and traders.

3. We have already agreed that our main objective this year must be to contain Community expenditure and to secure agreement on measures to curb agricultural production, and its costs, for the future. We cannot credibly argue against the Commission's case for a large increase in the own resources ceiling if we are at the same time making requests on behalf of UK farmers which would both add to the cost of the budget and encourage others to make similar costly demands.

/4.

4. OD(E) under my chairmanship has already discussed this at length. We have agreed that we should say that in considering the appropriateness of the Commission's proposal for the green pound we shall need to weigh the domestic consequences for farmers and traders as well as for public expenditure and the consumer. I do not believe we should depart from that line at present either in discussions in the Community or in the House. I recognise that this involves difficulty for farmers. But the converse proposition involves continuing and even more unacceptable burdens on consumers and taxpayers.

5. We have already agreed that we will review our position as the price fixing progresses. I see no reason to do so after only one, very preliminary round.

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

(GEOFFREY HOWE)

Foreign and Commonwealth Office

16 April 1987

cc PC

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

From the Minister's Private Office

David Norgrove Esq
Private Secretary
10 Downing Street
LONDON SW1

16 April 1987

Dear David,

WITH AVS?

My Minister wrote yesterday to the Prime Minister about the devaluation of the green pound. Further to that minute he has asked me, with the Home Secretary's agreement, to circulate the attached letter from Mr Hurd, as a recent example of the strength of feeling in the farming community on this issue.

I am copying this letter and the one from the Home Secretary to the Private Secretaries to the Foreign and Commonwealth Secretary, other members of OD(E), the Secretaries of State for Scotland, Wales and Northern Ireland, the Chief Secretary and Sir Robert Armstrong. I should be grateful if they would draw the letter to their Minister's attention.

Yours sincerely,

Liz Morris

MRS E M MORRIS
Private Secretary

240

From: THE RT. HON. DOUGLAS HURD, CBE, MP.

HOUSE OF COMMONS,
LONDON, SW1A 0AA

7th April, 1987.

Dear Michael.

On April 3rd I held one of my regular meetings with the NFU Parliamentary Committee for West Oxfordshire.

This was the most awkward meeting for a long time. The 20 farmers present were very steamed up about the Green Pound which, at its present level, they regarded as deeply damaging to British agriculture. Mr Thomas

As regards beef, they were particularly resentful of the advantage being given to the Irish. They sad that intervention took place at different grades in the UK and the Republic, to the advantage of the latter. They complained that recently only hind quarters were being taken into intervention. Mr Hunter

As regards milk quotas, they complained that the system made it virtually impossible for newcomers to enter dairying because of the extra capital cost required to buy the quota. One of them suggested that it should be possible, as with potatoes, for the new entrant to receive help in buying quota and then repay that help over several years. They criticised the way in which the division of quota between landlord and tenant was working out, and also the prohibition on the leasing of quota. They also hoped that it might be possible to alter the capital gains tax arrangements on quota, so as to allow roll-over. Mrs Silvester

The next complaint was about manioc. It was argued that manioc was imported cheap into Holland, but cost 25% more by the time it had been re-shipped into the UK. This gave the Dutch a wholly unfair advantage, on top of the advantage they already have vis a vis the Green Pound. Mr Llewellyn

There was some welcome for your recent £25 million package, and some interest in Set-Aside. They asked how quickly the different elements in your package could come into force, and I was able to deal with this question from your briefing. Mrs Dolphin

....

(11

Mr Walters

There was concern about new regulations on antibiotics in animals. Several present had received a recent letter from the Ministry requiring them to keep records of e.g. injections of calves. They felt that not enough information had been given about this and they did not know where the policy was leading. Was there going to be a change in the law introducing compulsion? Would they be charged for the visits by Divisional Vet Officers pursuing this policy?

One farmer complained that his licence for A.I. DIY would now cost him £24 and would have to be renewed anually instead of every five years. He did not understand the point of this change. Mr Walters

One farmer, the Chairman of the Committee, Edwin Stobart, had recently visited the National Institute of Agricultural Engineering and had been disturbed at the low morale there. He was particularly interested in the Waste Unit which he said had suffered cuts so that resources could be diverted to silage. He thought this was a great mistake as there was plenty of scope for useful projects on anaerobic digestion and aeration projects. Mr Such

As at previous meetings there was pressure that you should impose a unilateral ban on imports of diseased bacon.

There were a couple of points about the Budget, and a point about the recent court case expanding the definition of a highway. I am writing to the Chancellor of the Exchequer and the Secretary of State for Transport on these. Mr Newbam

The Chairman of the meeting summed up by saying that he felt British agriculture was being slowly strangled and that he hoped that individual measures which we might be considering would be judged against the background of the general anxiety in the industry.

I should be very grateful as usual for your comments, which get a wide circulation.

cc Mr King
Mr Cochrane

Yours,

Douglas,

The Rt. Hon. Michael Jopling, M.P.,
Minister for Agriculture,
Ministry of Agriculture, Fisheries and Foods.

WRO POL

CAP

PT 17

16. IV. PM

Prime Minister

Would you like us to ask for a note as proposed?

CDP
Over to you

Agreed - no

PRIME MINISTER 15 April 1987

EEC PROPOSALS FOR FARM INCOME AIDS

The Commission yesterday published its proposals for a framework of incomes support for farmers in disadvantaged areas as a mechanism for gaining greater acceptance of radical CAP reform. While the proposals are not yet in the the most acceptable form for the UK, their publication marks an important step forward.

A rapid and positive response from the UK will be critical, and it would be helpful for you to stimulate MAFF to come up with some constructive counter-proposals.

Significance of Proposals

To gain political acceptance of a harsh price regime in Europe, it will almost certainly be necessary to provide some form of national and/or Community schemes to protect weaker farmers in disadvantaged rural areas - both in the UK and elsewhere. Our own schemes of special support to Less Favoured Areas and Hill Farms (mostly in the West) already go some way in that direction. Such adjustment aid makes sense because, while small farmers are numerous and politically important, they account for only a small proportion of Community output. Special support can therefore be provided at relatively low cost while general farm price support is reduced; it therefore provides a cost effective way of making more radical CAP adjustment socially and politically acceptable.

However, it is also important that national aid is contained with in a Community framework to prevent the German and French Governments grossly outspending us.

The Commission's current proposals reflect their recognition of these arguments, but are not currently in the most favourable form for the UK. We need to consider alternatives, on a number of dimensions:

- critieria for aid: current proposals put the emphasis on supporting small, low-income farms. It might suit the UK better to remove the size criteria and simply direct aid to specific geographic areas where farming as a whole needs special support.

- form of aid: our current schemes subsidise per head of sheep/cattle. The Commission proposes means tested income support. Other alternatives would include paying by area or farm or giving grants in return for an agreement on environmentally sensitive farm practices.

- national/Community funding: the UK interest is likely to be served by gaining the maximum level of national funding.

- link to CAP reform: the greatest danger is that this scheme simply becomes an addition to the CAP budget. We should devise conditions that ensure payment is triggered only as a result of real CAP savings.

Various alternative schemes could be considered which would serve the Community objectives while better matching our own national objectives.

Seizing the Opportunity

It is essential to seize this opportunity to gain a consensus around an acceptable framework for supporting disadvantaged farming areas that would then allow the Commission to proceed more aggressively on general CAP reform. However, MAFF have so far been luke-warm at best in considering ideas of this nature - arguing against any scheme that does not give equal subsidies to all farmers on the grounds that any such scheme would disadvantage large, efficient UK farmers. This ignores the reality that every country - including the UK - will insist for social reasons on protecting disadvantaged rural areas.

To ensure these proposals get the right level of attention and consideration, it would therefore be helpful if you were to ask Mr Jopling for a note commenting on the Commission proposals and suggesting how the UK might respond - perhaps covering the areas above.

I have discussed this with David Williamson, who supports this approach.

Norman Blackwell

NORMAN BLACKWELL

EEC plan to top up farmers' incomes

By William Dawkins in Brussels

THE European Commission yesterday announced a radical three-part scheme which will allow member states to top up farmers' incomes for the first time since the introduction of the Common Agricultural Policy.

If agreed by member states, it would mark a highly controversial step towards restoring to national governments more control over their own agriculture policies, loosening the EEC's hold in the sector where its influence is greatest.

The plan includes farm aid from the EEC budget for poorer member states and Community early retirement incentives for farmers. It is estimated it would cost the Community Ecu 2.3bn (£1.6bn) over the next five years.

More prosperous member states like West Germany, France and the UK, which are keen to see farm policy devolved further to national governments, are expected to welcome the scheme. But officials consider the package will get a critical reception from the poorer EEC partners when farm ministers discuss it at their next meeting

Mr Frans Andriessen, the EEC Farm Commissioner, said yesterday the package should make it easier for member states to accept the Community's new restrictive policy limiting increases in guaranteed farm prices, while at the same time encouraging farmers to take land out of production. "It will make the reform of the Common Agricultural Policy—which we think absolutely necessary—more digestible," he said.

The most revolutionary part of the scheme would allow member states to subsidise farmers whose incomes were below average for farmers in their region. Governments would be allowed to bring those farmers' incomes up to a maximum of 80 per cent of the national average income.

This is designed to prevent large disparities in farm incomes between regions in the same member state. It is also in part an attempt to regulate at EEC level growing pressure from West Germany and France to be allowed to pay national farm aid—a trend which is causing much anxiety among smaller member states less able to prop up their own farmers.

However, the scheme aims to tackle their worries by creating alternative Community-financed aid. Under the proposal the EEC budget would contribute in four steps from 10 per cent to 70 per cent of total assistance, depending on the prosperity of the region. The Commission estimates that 318,000 farmers would use the Community aid scheme over the next five years.

The EEC aid would be paid to farmers in the poorer member states whose incomes fell below the overall national average or below 125 per cent of regional average farm incomes. Payments would be spread over five years and restricted to farmers able to satisfy the authorities that they would be profitable within that time.

The early retirement scheme, with EEC contributions up to 50 per cent of the total, is designed for farmers over 55 who want to take their land out of farming or can produce a plan to make their farms viable.

The Commission estimates that in this way it could take 480,000 hectares out of production over the next five years.

FT 15.4.87

L. Pres / CC / S Agric

cc S/YP

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

From the Minister

Yes

Prime Minister

Do you want me to arrange a meeting next Wed. with S/S Wales, N.I., Scot, Ch Ex, Chief Sec, L. Pres, CW, Ch Duchy?

15/4

CONFIDENTIAL

PRIME MINISTER

GREEN POUND

1. We need to decide the line which we should take in the price fixing negotiations on the devaluation of the Green Pound. OD(E) met on 24 March to discuss this on the basis of papers circulated by the Chief Secretary and us. We were unable to reach agreement and this is putting me in an increasingly impossible position.

2. The Agriculture Council will resume its negotiations on the Commission's price proposals on 27-29 April. The President, De Keersmaeker, is holding a series of bilateral consultations immediately before the Council meets. He has asked to see me on the afternoon of 27 April. Other Member States will be making their position clear to the Presidency and Andriessen. When I met Andriessen at London Airport on Monday to discuss the price fixing proposals generally, I had to avoid taking up a clear position on the size of a green pound devaluation. But he made it clear that he needs to know where we stand on this. When I meet De Keersmaeker and Andriessen I really must be in a position to tell them what we want. To say that we are still thinking about our position on the green pound will sound absurd and, increasingly, will lead to our view point being left out of account in the Commission's thinking.

3. We know that all Member States who have scope for a green rate devaluation have told Andriessen that his proposals on their own green rates are insufficient. This is despite the fact that, even though they all (except Greece) have much smaller negative MCAs than the UK, he has in several cases proposed bigger devaluations than the 4 point reduction that he has proposed for us: and each reduction of 1 point in a small negative MCA represents a bigger price increase than the same reduction in a larger one.

4. I should add that our present position on the green pound - that we shall decide our attitude to the 4 point proposal at a later stage of the negotiations - is getting increasingly difficult to defend publicly at home. The farmers are pressing for a devaluation of at least 15% and naturally find it outrageous that I am in effect telling them that we could conclude that the Commission's proposal is sufficient. The farming industry's strong feelings are reflected in growing concern among our own supporters. The farmers want to know what developments in the negotiations we are waiting for and there is no convincing reply that I can make. Our undertaking to them relates to their terms of competition with other Member States, and this could actually get worse as a result of the demands being made by other Member States already operating much higher prices. The difference between our

MCAs and those of the Irish could, for example, increase significantly as a result of the demands which the Irish Government are making.

5. The situation has changed since the last OD(E) discussion in one important respect. In discussions between Treasury and my officials and taking account of up-to-date information from the Commission on the budgetary effect, which is a major component of the public expenditure effect, it has been agreed that certain changes should be made in calculating the public expenditure costs of a green pound devaluation. The basis of the revised calculation is set out in Annex I attached. The result on a provisional basis is to reduce the estimated public expenditure cost significantly, from about £25 to about £13 million per point of MCA reduction.

6. I was invited by OD(E) to consider the possibility of differentiating the devaluation between sectors, to give more to beef and less to cereals. The income data for specialist cereal farms and cereal enterprises do not support the case for differentiating against cereals (Annex 2 attached). Moreover cereals has the highest MCA in the UK. To favour beef against cereals would, therefore, widen the spread of our MCAs. This runs directly counter to the Commission's declared policy of moving towards a single green rate for all commodities in each Member State. Their proposals for Italy, Spain, France, and Ireland go in this direction. On the basis of the current and present average net farm incomes, dairy and sheep would be the sectors for which rather lower devaluations might be justified. But in these sectors there are a significant number of individual farmers who are facing serious difficulties, particularly among smaller producers in areas like Wales and the South West. I conclude that we should press for a uniform green rate devaluation while bearing in mind the possibility of a little more for beef and rather less for dairy and sheep if this seems helpful in negotiation.

7. I set out the case for a substantial green pound devaluation in my papers to OD(E). The drop in real farm income has been very sharp, both absolutely and relative to other Member States. In my paper OD(E)(87)11, I gave from the data used by the EC Commission the fall in the net real income per farmer as at 1986. I repeat the figures here:-

Income & Support Prices

	Since 1974-79	Since 1979	Since 1983
UK	-44%	-25%	-14%
Rest of EC	-17%	-12%	- 2%

Compare our position with the Germans. While our farm incomes have declined by 14 per cent from 1983 to 1986, German farm incomes have risen by 17% over the same period. Several other Member States pay massive national aids and all but one of which operate far higher price levels. A devaluation of only 4 points would be utterly at variance with both our 1979 pledge to enable our farmers to compete on level terms and our 1983 claim to have reversed the Labour Government's disastrous green pound policy.

8. While the revised estimate of the public expenditure cost greatly changes the balance of the argument, I have considered the views which colleagues have expressed on the size of the devaluation, and I propose that I should tell De Keersmaeker and Andriessen that we need a cut across the board of at least 10 points in our MCAs. I would indicate a willingness to envisage some differentiation between commodities according to the circumstances in individual sectors.

9. The RPI effect of a devaluation of 10 points, not fully felt for 12 months, would be about 0.25%. The resulting improvement in farm income in real terms would still leave it about one fifth below what it was in 1979.

10. I hope that I can have your agreement to the course of action in paragraph 8. In the Agriculture Debate on 23 April, I would tell the House that the 4 per cent proposed by the Commission is inadequate and that I should be making our position clear in the negotiations.

11. I am copying this letter to the Foreign and Commonwealth Secretary, other members of OD(E), Malcolm Rifkind, Nicholas Edwards, Tom King, John MacGregor and Sir Robert Armstrong.

E. M. Maus

for MJ

15 April 1987

(approved by the Minister and signed in his absence)

ANNEX I

COSTING THE GREEN POUND DEVALUATION

(i) Effects on the Community Budget

1. Devaluations of the green pound increase both FEOGA expenditure and the own resources flowing from agricultural import levies. As part of the supporting material for the price fixing negotiations the Commission provide a Ready Reckoner of the effects of a 1 per cent cut in MCAs. The Ready Reckoner provided for the 1987 price fixing differs in the following ways from that provided last year:

	1986 (mecu)	1987 (mecu)
FEOGA		
Basic expenditure on Commodities	31.3	31.6
MCA expenditure	-9.0	-13.7
net	22.3	17.9
Own Resources	14.5	5.2
Net effect on Community Budget	7.8	12.7

2. The major differences are on MCA expenditure and own resources. Net MCA expenditure is a residual figure between the substantial sums expended on import MCAs and the sums received by way of export MCAs; it can be significantly affected by changes in trade flows, exchange rates etc and is very sensitive to the assumptions made about such factors. We do not know what assumptions the Commission have made, and are asking them if they can explain the revisions made.

3. The change in the own resources figures would appear largely due to the fact that import levies have increased substantially during the past year, and in some cases have exceeded the Community's intervention prices. When import levies are equal to the intervention price a devaluation has no effects on MCA expenditure, and the movement of levies towards this level has helped to reduce the additional own resources generated by a devaluation. The increase in UK MCAs from less than 10 per cent to more than 20 per cent, with the consequential effect that each one MCA point is now worth less, will also have had an effect.

(ii) Effects on UK Public Expenditure

4. Devaluations of the green pound have the following effects on UK public expenditure.

On Programme 3.1 (IBAP expenditure)

(i) Increased expenditure which is fully funded by the Community, eg export refunds, production aids etc.

(ii) Increased expenditure which is funded by the Exchequer, eg costs of intervention at increased intervention prices, national contribution to certain aids.

On Programme 2.7 (UK contribution to EC budget)

The net UK contribution to the Community is reduced with increased receipts from the Community to meet increased CAP expenditure in the UK being largely, but not wholly, offset by increases in our VAT contribution and own resource payments, and reductions in our Fontainbleau refund.

5. The methodology agreed between the Treasury and MAFF in 1986 assumed that the cost to programme 3.1 of fully funded expenditure was exactly the same as the extra receipts from the Community in programme 2.7. On the basis of the 1986 Ready Reckoner this methodology indicated that a 1 percentage point cut in UK MCAs cost £26.9 million in UK public expenditure, a figure which was rounded to £25 million to take account of minor refinements subsequently made to the methodology.

6. However, some IBAP receipts under programme 2.7 are not made to fund expenditure being immediately undertaken by IBAP, but in reimbursement of intervention expenditure already funded by the UK Exchequer (ie storage, technical and financing costs and losses on sales out of intervention). The proportion of such receipts has been rising in recent years and exceeded 30 per cent in 1986; this, however, was an exceptional year when substantial sales of intervention cereals were made possible because of the drought in Spain. The following figuring is done assuming that 20 per cent is a reasonable proportion, but this does need to be more carefully examined in consultation between Treasury and MAFF.

7. The changes to the Commission's Ready Reckoner, and the revision to the PES methodology, would have the following impact on the estimated cost of a 1 percentage point cut in MCA on UK public expenditure:

	1986 Original Estimate	1986 Revised Method	1987 Ready Reckoner Revised Method
Programme 3.1	29.4	23.0	23.0
Programme 2.7	-2.5	-2.5	-10.0
net PES	26.9	20.5	13.0

8. Further work needs to be done on these costings, and particularly the reasons for the reduction in the programme 2.7 effect. On this basis Treasury and MAFF officials have agreed the figures in the third column above as a provisonal estimate of the cost of a green pound devaluation.

15 April 1987

ANNEX II

INCOMES OF CEREAL PRODUCERS

I Specialist Cereals Farms (UK)

	1982/3	1983/4	1984/5	1985/6	1986/7 (prov)	1987/8 Fc (1)
Index of Net Income						
a) current prices	100	105	130	14	75	10
b) real prices	100	100	118	12	65	about 10

For these cereal farms, data is collected under the Farm Business Survey. Cereals output accounts for two-thirds of output, other crops and livestock accounting for the rest.

II Cereals (combined wheat and barley) Enterprise Income (E & W)

Harvest year	1982/3	1983/4	1984/5	1985/6	1986/7 (prov)	1987/8 Fc (1)
INDEX						
current prices	100	107	138	49	82	20
real prices	100	102	125	42	69	15

(1) forecast based on Commission's price proposals including 4% MCA cut

NOTES

This series relates to cereals enterprises only, ie a combination of wheat and barley. Average enterprise size is about 70 hectares.

The index for this second series does not fall to so low a level in 1985/6 because the cereals farm income series above includes also the effect of very low potato prices in 1985.

It should also be noted that the income indices for 1986/87 were inflated somewhat as a result of unusually firm cereal prices due to the effects of drought in France and Spain.

15 April 1987

CW3AAN

CC/C

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

Prime Minister [2].

CONFIDENTIAL

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
 Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1A 2AL

13 April 1987

Dear Geoffrey

CAP PRICE FIXING: FINANCIAL ASPECTS

at flag PT16 at flag PT17

You had a copy of John MacGregor's letter of 26 March, and I have seen the note which Peter Brooke sent to you on 3 April. Both concern the need to make savings in this year's farm price fixing negotiations, with a view to achieving budgetary savings in 1987 and 1988.

At the Agriculture Council on 30/31 March Member States staked out their positions for the price fixing negotiations. The debate amply reinforced my view that we will do extremely well to achieve savings of the level proposed (disregarding the oils and fats tax). Only the UK and the Netherlands supported the Commission's proposed economy measures (leaving aside the oils and fats tax). All the other Member States argued that the package was too severe. There was much opposition to the proposed changes on cereals intervention and the guaranteed quantity system for oilseeds which, together with the oils and fats tax, make up the bulk of the savings in the overall package. As you know, the Germans, from Chancellor Kohl downwards, are totally opposed to the proposals as a whole and have said they are not a basis for negotiation. There is a widespread view that the December decisions on milk and beef were too tough and that farmers cannot be expected to swallow anything more.

Of course, it is possible to identify some savings that I can press for, in addition to those in the Commission's proposal. But as John MacGregor says in his letter, they have to be plausible.

/Otherwise ....

Otherwise we will simply be disregarded and a consensus will be built around the views of others. I fear that a general cut of 5.5% in prices or increase of 3.5% in co-responsibility levies, as suggested in the Annex to Peter Brooke's note, would fall by a long margin into the category of the implausible. Our best chance lies, as indeed OD(E) decided, in aligning ourselves with the Commission - except on the oils and fats tax - so as to strengthen their resolve in resisting demands for a weakening of the package.

The Annex to this letter represents the very limit of what I could sensibly suggest. The effects are shown both for 1987 and 1988. (The last two items, which would involve shifting costs from the budget onto Member States, are of course illustrative: in theory payments for technical and financing costs could be ended altogether, but I do not see any practical chance of achieving it.)

We could not hope to achieve more than one or two of the measures listed: and even those will merely serve as a counterweight to adverse modifications in the Commission's proposals. It will be extremely difficult to secure the level of savings in the proposals, minus the oils and fats tax, let alone anything more. To what extent Member States would be prepared to go further after the price fixing, in the context of the ex novo review, I find difficult to judge. But it is important not to deceive ourselves. As I see it, there is no realistic prospect of our achieving savings on agricultural expenditure which will significantly change the budget problems confronting the Community in 1987 and 1988 unless the fats tax is pushed through against our opposition.

We now know that the Commission are preparing their proposal to switch from advance payment to reimbursement of intervention agencies. Our officials are in touch about the size of the potential savings which could result. In theory, of course, delays in reimbursement could be stretched to accommodate any given shortfall. But the question is whether - and, if so, how soon - it will be agreed. If it is not agreed in 1987, FEOGA will run out of funds well before the end of the year.

We have faced small gaps in funding before. Up to two weeks is manageable but we cannot contemplate a long delay in payments. It is misleading for Peter Brooke's note to refer to "payments to farmers". Only some payments go to them. Large amounts go to exporters, processors, etc. If they believed their claims were not going to be met, they would turn to other sources of supply and more of our domestic production would get diverted into intervention, with potentially serious consequences for public expenditure. In addition, claims presented and not paid would be likely to result in immediate legal action by the traders and others involved. If this situation arises, therefore,

/it will be ....

it will be essential to make clear, at an early stage, that we will continue to make payments from national funds, as other Member States will inevitably do.

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

Yours Ever

Michael

MICHAEL JOPLING

POSSIBLE SAVINGS IN GUARANTEE EXPENDITURE

	1987	(mecu) 1988
Cereals:		
No extra aid for durum	-7	-33
No premium for high quality bread making wheat	-2	-6
Rice:		
Cut support price (say 3%)	-1	-7
Olive Oil		
No increase in production aid for small producers	0	-3
Lower maximum guaranteed quantity (1.1mt)	0	-52
Introduce MDAs	0	-75
Oilseeds:		
Fix maximum guaranteed quantity for soya at 0.9m tonnes instead of 1.1m tonnes	-22	-58
Peas and beans:		
Abolish quality premia	-20	-28
Textiles:		
Cut guide price for cotton by 10%	-34	-68
Abolish aid for hemp	-1	-2
Fruit and Vegetables:		
Lower threshold for tomato withdrawals and within-year price reduction	-8	-8
5% price cut for cauliflowers	--	--
Wine:		
Reduction in quantity eligible for GDBF	0	-6
Tobacco:		
Larger cuts in premia	-3	-30

<u>Beef</u>:		
Reduce MCAs from 85% of the intervention price to 70%	-34	-45
<u>Sub total</u>	-132	-421
<u>Intervention financing costs</u>:		
Cut from 7% to 6% in standard rate for all member states except Germany and Netherlands (where 6% already applies)	-80	-80
<u>Intervention technical costs</u>:		
Each 10% cut on top of 25% reduction already applying	-85	-85

EURO POL : CAP PT17

GRS 1400

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MO

FRAME AGRICULTURE

CAP PRICE FIXING: FORTHCOMING MEETING BETWEEN MR JOPLING AND MR ANDRIESSEN

SUMMARY

1. MAIN ISSUES FOR DISCUSSION BETWEEN MR JOPLING AND ANDRIESSEN LIKELY TO BE THE GREEN POUND AND THE OILS AND FATS TAX, WHICH ANDRIESSEN STILL REGARDS AS A KEY ELEMENT IN HIS PROPOSALS AND ON WHICH WE ARE REGARDED AS THE MAIN OBSTACLE. COMMISSION SEES LITTLE PROSPECT OF SIGNIFICANT PROGRESS IN THE PRICE FIXING NEGOTIATIONS AT THE APRIL COUNCIL AND ARE NERVOUS THAT DE KEERSMAEKER'S ANXIETY TO MAKE PROGRESS WILL LEAD TO PREMATURE TABLING OF A PRESIDENCY COMPROMISE.

DETAIL

2. MINISTER (AGRICULTURE) MET TROJAN (CHEF DE CABINET TO ADRIESSEN) TODAY AND HEARD THE IMPRESSIONS HE HAD OF THE MAIN CONCERNS OF THE OTHER MAJOR COUNTRIES AND THE PROSPECTS FOR THE APRIL AGRICULTURE COUNCIL, IN PREPARATION FOR MR ANDRIESSEN'S MEETING WITH MR JOPLING.

3. TROJAN'S ASSESSMENT OF THE GERMAN POSITION WAS THAT THEIR ANGRY PUBLIC RESPONSE TO THE PRICE PROPOSALS AROSE FROM NERVOUSNESS AT HAVING TO FIGHT ON SEVERAL FRONTS AT ONCE. RECENT MEETINGS HAVE SOMEWHAT EASED THE TENSION. HE ANTICIPATED THAT THE COMMISSION WOULD MOVE SOME WAY TO MEET THEIR CONCERNS BY GIVING UP THE ATTEMPT TO GET THE GREEN D MARK REVALUED THIS YEAR. HE ALSO EXPECTED THAT THEY WOULD HAVE TO BE GIVEN PREMISSION TO EXTEND THEIR VAT SUBSIDY. IN RETURN HE EXPECTED THEM TO TAKE A LESS RIGID ATTITUDE ON THE PROPOSAL TO WIDEN FRANCHISES. HE DID NOT EXPECT KIECHLE TO FIGHT HARD ON THE OILS AND FATS TAX. INDEED HE PERSONALLY FAVOURED IT.

4. FOR THE FRENCH, HE SAW THE MAIN PROBLEM AS BEING THE PROPOSAL

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TO CUT MONTHLY INCREMENTS FOR CEREALS BECAUSE OF THEIR IMPORTANCE AS A MEANS OF FINANCING COOPERATIVES. THEY, AND IN PARTICULAR CHIRAC, WERE VERY DETERMINED TO GET THE OILS AND FATS TAX ACCEPTED. GUILLAUME WAS ALSO DETERMINED TO GET THE GREEN D MARK REVALUED AND GERMAN VAT COMPENSATION ENDED BUT HE DID NOT HAVE THE BACKING OF CHIRAC ON THIS BECAUSE HE RECOGNISED THE NEED TO ACCOMMODATE THE GERMANS.

5. PROVIDING PANDOLFI REMAINED IN GOVERNMENT, HE SAW THE ITALIANS AS BEING IN A POSITION TO PLAY A KEY MEDIATING ROLE IN THE PRICE FIXING. THEY ACCEPTED THE COMMISSION'S AGRIMONETARY PROPOSALS BUT DOUBTED WHETHER THEY WERE NEGOTIABLE WITH THE GERMANS AND WOULD BE FLEXIBLE ABOUT ALTERNATIVE SOLUTIONS. THEY COULD GO ALONG WITH THE CEREAL PROPOSALS PROVIDED THEY GOT SOME CONCESSIONS ON DURUM, A BIGGER DEVALUATION OF THE GREEN LIRA AND A LESS STRICT PROPOSAL ON SOYA. THEY FULLY UNDERSTOOD THE IMPORTANCE OF THE OILS AND FATS TAX. THE ONLY SPECIAL CONCESSION THEY WERE SEEKING WAS LEGAL COVER FOR AN ILLEGAL AID TO THEIR BEEF INDUSTRY.

6. ON THE FORTHCOMING MEETING WITH MR JOPLING, HIS FIRST QUESTION WAS ABOUT OUR POSITION ON THE GREEN POUND. HE WENT ON TO WARN THAT ANDRIESSEN WOULD PRESS US TO RECOGNISE THE CRUCIAL IMPORTANCE OF THE OILS AND FATS TAX NOT ONLY BECAUSE OF THE TWO BECU WHICH IT WOULD BRING IN BUT BECAUSE WITHOUT IT THE OTHER OILS AND FATS REFORMS WOULD FALL. HE ASSUMED THAT MR JOPLING WOULD RAISE DETAILED MILK QUOTA ISSUES, LIKE QUOTA LEASING, ON WHICH HE SAID THAT THE COMMISSION REGARDED OUR CURRENT PRACTICE AS CLEARLY ILLEGAL BUT WHICH HE THOUGHT THEY MIGHT BE PREPARED TO COVER IN THE CONTEXT OF A MINOR PACKAGE OF SIMILAR QUOTA ISSUES. HE FORESAW THAT WE MIGHT REMAIN ADAMANT ON THE OILS AND FATS TAX AND SPECULATED ON THE POSSIBILITY OF THIS ISSUE BEING REFERRED TO THE EUROPEAN COUNCIL, ALONG WITH A SWITCH FROM PRE TO POST FINANCING AND OTHER EX NOVO ISSUES.

7. ROBERTS SAID THAT HE DOUBTED WHETHER MR JOPLING WOULD TAKE UP A FINAL POSITION ON THE GREEN POUND AT THIS STAGE SO THIS PART OF THE DISCUSSION MIGHT HAVE TO CONCENTRATE ON TECHNICAL ISSUES LIKE THE QUESTION OF WHETHER ANY DEVALUATION SHOULD BE UNIFORM FOR ALL COMMODITIES. ON THE OILS AND FATS TAX, HE SAID THAT WE GENUINELY DID NOT THINK THAT THE PROPOSAL WOULD HELP TO SOLVE THE FINANCING PROBLEM GIVEN THE LIKELY COST OF DEALING WITH RETALIATION BY THE US AND POSSIBLY OTHER TRADE PARTNERS. NOR DID HE SEE WHY THE OTHER OILS

/AND

AND FATS REFORMS DEPENDED ON AGREEING THE TAX. HE PICKED UP TROJAN'S PASSING REFERENCE TO SOYA AS THOUGH IT WAS A MINOR ISSUE, BY REMINDING HIM THAT IN A FEW YEARS THIS PRODUCT HAD MOVED FROM COSTING 7 MECU TO 400 MECU AND THAT THE COMMISSION'S PROPOSALS ALREADY MADE PROVISION FOR A FURTHER 22 PER CENT INCREASE. HE WONDERED HOW, IF THE TAX WAS IMBEDDED IN THE PRICE FIXING, IT WOULD BE POSSIBLE TO REFER IT TO THE EUROPEAN COUNCIL IN ISOLATION FROM OTHER MAJOR ISSUES INCLUDING THE AGRI-MONETARY COMPLEX. HE AGREED THAT IT WAS LIKELY THAT MR JOPLING MIGHT RAISE MILK QUOTA ISSUES AND REMINDED TROJAN OF ANDRIESSEN'S PROMISE TO HELP DISPOSE OF THE QUESTION OF THE NORTHERN IRISH RESERVE. OTHER POINTS OF DETAIL WHICH WERE LIKELY TO BE MENTIONED WERE INTERVENTION FOR SALTED BUTTER, THE LIMITATION ON THE NUMBER OF EWES ELIGIBLE FOR PREMIUM, WHICH HE SAID WAS A MATTER OF PRINCIPLE FOR US, AND THE CANE SUGAR REFINING MARGIN.

8. TROJAN SAID THAT LOGICALLY THE US SHOULD ACCEPT THE OILS AND FATS TAX IF THEY WERE GIVEN AN ASSURANCE THAT THE EXPANSION OF COMMUNITY PRODUCTION WOULD BE HALTED BUT HE ACCEPTED THAT THEIR REACTION MIGHT NOT BE LOGICAL. IN THE END THE JUDGEMENT WENT BEYOND AGRICULTURE WHICH WAS WHY HE HAD THOUGHT OF A REFERENCE TO THE EUROPEAN COUNCIL BUT IT WOULD BE DISASTROUS IF THE AGRIMONETARY PROPOSALS WERE SIMILARLY REFERRED GIVEN THEIR TECHNICAL COMPLEXITY. OF COURSE, SOME COUNTRIES, IN PARTICULAR FRANCE BECAUSE OF COHABITATION, WOULD HATE ANY REFERENCE TO THE EUROPEAN COUNCIL AND THIS MIGHT BE A SPUR TO PROGRESS IN THE NEGOTIATIONS.

9. ON THE DETAIL ISSUES, HE SAID THAT THE EWE PREMIUM WAS A MATTER OF PRINCIPLE, NOT MONEY, FOR THE COMMISSION TOO. THE CANE REFINING MARGIN WAS AN OLD CHESTNUT (ROBERTS WARNED THAT, PARTICULARLY IN THE LIGHT OF THE M.M.C REPORT AND THE DECISION OF THE COUNCIL LAST YEAR TO SET UP A STUDY THIS WAS A FAR MORE HIGH PROFILE ISSUE THAN IN THE PAST.

10. TURNING TO THE PROSPECTS FOR THE APRIL COUNCIL, TROJAN SAID THAT HE SAW NO CHANCE OF A SERIOUS NEGOTIATION BEGINNING THERE. DE KEERSMAEKER, HOWEVER, WAS VERY ANXIOUS TO MAKE PROGRESS AND WAS THINKING OF TABLING A PRESIDENCY COMPROMISE AFTER THE BILATERALS. PERSONALLY, HE THOUGHT THAT UNLESS THE COMPROMISE WAS VIRTUALLY IDENTICAL TO THE COMMISSION'S PROPOSALS THIS WOULD BE PREMATURE AND DANGEROUS. IF POSSIBLE, THEREFORE, HE WOULD TRY TO CONFINE ANY PRESIDENCY COMPROMISE (WHICH HE EXPECTED WOULD BE EFFECTIVELY

/DRAFTED

DRAFTED BY THE COMMISSION SERVICES) TO SET OF ''ELEMENTS CAPABLE OF FIGURING IN A FINAL COMPROMISE'' IE AN ATTEMPT TO SINGLE OUT THE MAJOR POINTS FROM ALL THE MINOR TECHNICAL ISSUES.

11. THESE FINAL COMMENTS FIT IN WITH WHAT WE HAVE HEARD FROM CHIOCCIOLI (DIRECTOR GENERAL, COUNCIL SECRETARIAT) WHO DESCRIBED THE PRESIDENCY AS DETERMINED TO MAKE PROGRESS BUT WITH NO IDEA OF HOW TO GET THE NEGOTIATIONS STARTED.

HANNAY

YYYY
ADVANCE
WALL FCO
HARRISON FCO (ADVANCED AS REQUESTED)
MCADAM CAB
PS/MINISTER MAFF
PS/MR GUMMER MAFF
PS/SIR M FRANKLIN MAFF
ANDREWS MAFF
HADLEY MAFF
THOMAS MAFF
MYERS MAFF
WENTWORTH MAFF
BONNEY TSY
MAIN
FRAME AGRICULTURE

UCLNAN 7807

FRAME AGRICULTURE

ECD(I)

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ADVANCE ADDRESSEES

(1)

Informed Mr. Williamson
no meeting
CDP 6/4.

PRIME MINISTER

GREEN POUND

Mr. Jopling is pressing hard for a meeting under your Chairmanship to discuss the Green Pound following failure to agree in OD(E). I see no advantage in an early meeting but think we probably ought to have one shortly before the next Agriculture Council on 27/28 April. It will inevitably be a difficult meeting. I suggest you should have the Lord President, the Chancellor, the Foreign Secretary, the Minister of Agriculture, the Chief Secretary, the Secretary of State for Wales (if there are two Treasury Ministers you better have two Agriculture Ministers), the Chancellor of the Duchy and the Chief Whip.

Agree to a meeting after Easter?

I see no reason to have one under my chairmanship, except the relevant Cabinet Committee OD? or Cabinet, no

CDP

CHARLES POWELL

3 April 1987

VC4ANA

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CC PC

Prime Minister
You should see
this gloomy
assessment.
CDP 3/4.

Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

3 April 1987

Dear Geoffrey.

As promised in John MacGregor's letter of 26 March to Michael Jopling concerning the financial aspects of this year's agricultural price fixing, I enclose a note setting out in more detail the outlook for European Community finances at the end of this year and in 1988.

at flap

As John has pointed out, the trends in Community expenditure in 1988, particularly in agriculture, are very worrying. Unless offsetting savings are found we could face in 1988 an overspend of around 5 becu beyond resources available within the 1.4 per cent ceiling. ECOFIN are due to discuss the 1988 reference framework in May and this will offer an opportunity to examine the 1988 figure more closely. We need to maximise the agricultural savings resulting from the current price fixing negotiations in order to maintain the credibility of our agreed position that no case has been made for any increase in Community revenue in 1988 or subsequently.

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

Yours ever

Peter

PETER BROOKE

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MINISTER OF STATE TREASURY

OUTLOOK FOR EUROPEAN COMMUNITY FINANCES IN 1988

In accordance with the December 1984 budget discipline conclusions, the Council will soon be considering the reference framework for Community expenditure in 1988. The Commission's proposals for the 1988 budget should be available shortly. The 1987 agricultural price fixing currently underway offers the major opportunity outside the annual budget procedure to influence expenditure in 1988, since most of the changes to agricultural market regimes only have their full effect in that year. As background to these negotiations, this note sets out current financial prospects for the Community. It considers:

i. the likely outturn at the end of 1987;

ii. the expected composition of spending in 1988; and

iii. the timetable and political background against which decisions on 1988 savings must be taken in order to ensure continued respect of the 1.4 per cent VAT ceiling.

I. 1987 outturn

2. Although the 1987 adopted budget leaves some headroom within the 1.4 per cent VAT ceiling, when the 1986 deficit is included spending is already effectively at the 1987 own resources ceiling. There are two additional deficit elements which will need to be covered:

i. an expected revenue shortfall in 1987 of perhaps 1700 mecu due to a decline in traditional own resources receipts (levies and duties) compared with the forecast;

ii. an agricultural overspend of over 3500 mecu, before allowing for savings agreed at the 1987 price fixing.

The Commission's agricultural price proposals, if adopted in full, would yield some 1100 mecu of which 500 mecu relates to the proposed oils and fats tax that is unacceptable to the UK. Even assuming that all the other savings proposed by the Commission are agreed, there is likely to be an agricultural overrun of some 3000 mecu. The recent fall in the dollar, if maintained, could add a further 400 mecu to the 1987 overrun. The total deficit in 1987 could therefore be around 5000 mecu.

Possible savings

3. There is little scope for savings in non-obligatory expenditure. Although there is usually an underspend of some 200-300 mecu at the end of the year, this will not be large enough to make a significant difference; and 90 mecu of it will be required to offset the negative payments reserve agreed at the February Budget Council to keep the 1987 budget within the maximum rate. The priority must therefore be the search for further economies in CAP spending, which makes up over 60 per cent of the 1987 budget. MAFF have so far identified possible additional options totalling some 320 mecu, including some further reduction in reimbursement of storage costs.

4. In order to supplement whatever other economies can be found, the major part of the 1987 financing gap will need to be covered by a change from advance to reimbursement of agricultural guarantee spending. The one-off delay of two months in payments implied by this change would save some 4000 mecu if applied only to payments currently made in advance, or some 4500 mecu if all payments were made two months later than at present - including those already paid in arrears. This change will be difficult to agree, as it probably requires unanimity within the Council. If it can be agreed, the Community should be able to end 1987 at or near broad balance, barring further unforeseen developments. If it cannot be agreed, then there will be pressure from some member states for additional finance to be found during 1987. We have already made clear that there is no question of additional money being provided in 1987 through an IGA or in any other way; we will need to continue our efforts to ensure that others support this position and waive their opposition to the switch to

reimbursement. We also need to consider the implications for payments to UK farmers if Community advances cease at the end of 1987 due to lack of funds, without formal agreement having been reached on a changed payments system. Any de facto delay in advance payments, without the agreement of member states, would have to be unwound at the beginning of 1988, immediately worsening the problems in that year.

II. 1988 budget figures

5. The Commission are not due to produce their 1988 budget proposals until May. Nonetheless we now have a broad idea of likely spending trends next year. The main elements are as follows:

	mecu
Total revenue within 1.4% ceiling	39000
Minus UK abatement	3500
Net revenue available	35500
Expenditure:	
Agricultural guarantee	27000
Non-obligatory spending	10000
Other obligatory spending	4000
Total expenditure	41000
Net deficit to be covered	5500

Compared with 1987, revenue available is slightly lower due to a fall in customs duties and agricultural levies; and the UK abatement is likely to be some 1000 mecu higher in expenditure equivalent terms. Annex A sets out the figures in more detail.

6. Agricultural spending is clearly the key element in the 1988 budget. The projected 1987 outturn depends on decisions taken during this year's price fixing, but is likely to be around 25-26000 mecu; the Commission currently forecast a 2400 mecu overrun of the 1987 budget total, giving 25400 mecu before any change from advances to reimbursement. Spending next year will be dependent on conjunctural factors including trends in production and world prices, and on the outcome of the 1987 price fixing.

The 27000 mecu agricultural total is inevitably a rough indication of the possible spending outturn. The Commission themselves have not yet produced a forecast. On present trends, unless major decisions are taken in the 1987 price fixing, the outturn could be even higher.

7. Non-obligatory spending in 1988 assumes a maximum rate spending increase of 7 per cent; the Commission proposal will undoubtedly be much higher. Other obligatory spending is largely automatic, including the 10 per cent own resources refund to member states and Spanish and Portuguese transitional VAT refunds.

III. Savings required and timetable

8. Annex B sets out possible savings in 1988. None will be easy to achieve; and there is always the possibility of further deterioration in the external environment of the CAP leading to additional spending pressures in 1988. Until work begins on the structure of the 1988 budget in June and July, the only source of substantive savings will be the current price fixing negotiations.

9. The Commission estimate that their price fixing proposals would save around 3500 mecu in 1988, but - in the absence of a genuine forecast - it is not clear from what baseline figure these savings should be deducted. In any case, 2100 mecu of these relate to the oils and fats tax which we (with several other member states) oppose. To achieve the necessary substantial reductions in agricultural expenditure in 1988 and offset the Commission's oils and fats tax receipts, additional price cuts or equivalent measures will be needed. However, given the current attitude of other member states, even achieving the modest savings target set by the Commission will be a considerable achievement. Unless the Commission can be encouraged to bring forward further proposals later this year, perhaps in the context of improved automatic stabilisers for individual product regimes, we will be forced to consider less satisfactory options, such as higher coresponsibility levies or further deferral of reimbursement, in the 1988 price fixing. These will be no easier to agree next

year than planned economies now; and the option of simply providing more money will be correspondingly more attractive to some other member states. We need to make clear that the Community has no alternative to finding real savings now if it is to avoid financial chaos in 1988, of which farmers would be the main victims.

10. The 1988 budget reference framework is now under discussion at official level and will be considered by Ministers at the May ECOFIN Council. The 1988 agricultural guideline figure, calculated on the same basis as in previous years, is approximately 23000 mecu -some 4000 mecu below the likely outturn on current trends. The Commission have sought to change the agreed method of calculating the guideline, to allow them to spend up to the 27000 mecu figure. Their proposal involves accepting the projected overrun on the 1987 guideline, without taking any credit for savings in the 1987 price fixing, and building it into the new base from which 1988 spending limits should be calculated. As such it greatly weakens the guideline's effectiveness as a restraint and is incompatible with the Commission's claim to be respecting budget discipline. To maintain the credibility of our position that we must respect the more rigorous guideline and to remain within the 1.4 per cent ceiling in 1988 we need to be able to show that agricultural savings can realistically be made to offset this overspend.

11. Respect of the 1988 reference framework calculated on rigorous assumptions would leave the Community a target of a further 1000 mecu of savings to find in order to respect the 1.4 per cent ceiling. It is unlikely that there will be a qualified majority for agreement on the reference framework on this basis; but our priority must be to ensure that all aspects of the Fontainebleau system - budget discipline, the 1.4 per cent VAT ceiling and the UK abatement mechanism - continue to be respected unless and until they are changed by unanimous agreement in the Council.

12. The pressure on resources is such that agreement between Council and Parliament on a 1988 budget within the 1.4 per cent

ceiling will be very difficult to achieve. Maintenance of agricultural expenditure will be a priority for France, Germany, Denmark, Belgium and, above all, Ireland. Non-obligatory expenditure levels will be critical for the southern member states and the Parliament, preempting some 800-1000 mecu more of expenditure in 1988 than in 1987. The UK abatement may appear a tempting source of savings to both these groups.

13. In this situation, a delay in agreement on a 1988 budget may well prove the best outcome for the United Kingdom. If the Community has to go on to provisional twelfths at the beginning of 1988, this would exert some further pressure for economy on non-obligatory spending, but would not affect the underlying level of agricultural spending. Under the provisional twelfths regime the UK would receive substantially less abatement (some 70 mecu a month) than we would be entitled to if a budget containing the full abatement were being implemented. The difference would be paid as soon as a budget containing the 1988 abatement total was finally adopted.

Conclusion

14. The decisions required to hold Community expenditure within the 1.4 per cent VAT ceiling in 1988 will clearly be very difficult. We must combine a defence of our position that a case for more resources for the Community has not been made out with an acknowledgement that substantial additional economies remain to be found to balance the budget in 1988. Achieving these savings must now be the primary financial objective for the rest of this budgetary year. Our negotiating position on all Community policies with expenditure implications must take full account of this priority.

1 April 1987

HM Treasury

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ANNEX A

OUTLOOK FOR 1988 BUDGET

AVAILABLE OWN RESOURCES

	1988 Estimates (Provisional)	1987 Budget Figures	Difference (Rounded)
VAT (1.4%)	26600	26011	+600
Customs duties	9200	9762	-550
agricultural levies (including sugar)	2900	3297	-400
TOTAL	38700	39070	-350

ACTUAL OR EXPECTED EXPENDITURE

	1988 Estimates (Provisional)	1987 Budget Figures	Difference (Rounded)
Agricultural Guarantee Expenditure:	27000	22961	+4050
UK abatement: (expenditure equivalent)	3500	2367	+1150
Other Obligatory Spending (10% OR refunds etc)	3900	3850	+50
Non-Obligatory Spending: (assuming 7% maximum rate)	9900	9228	+650
TOTAL	44300	38405	+5900
Estimated excess over available resources remaining to be covered:	+5600	-665	

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ANNEX B

mecu

Illustrative list of savings	Effect during 1988
a. Agriculture	
Commission 1987 price proposals (excluding oils and fats tax)	1400-1500
Equivalent savings to oils and fats tax receipts eg 5.5% cut in 1987 prices or 3.5% increase in 1987 co-responsibility levies	2100
Savings from 1988 price fixing, say	1000
CAP budget stabilisers	?
b. Other	
Non reimbursement of 10% traditional own resources refund to cover collection costs to member states	1200
Freeze in non-obligatory spending	650
Non reimbursement of 1984 IGA	250

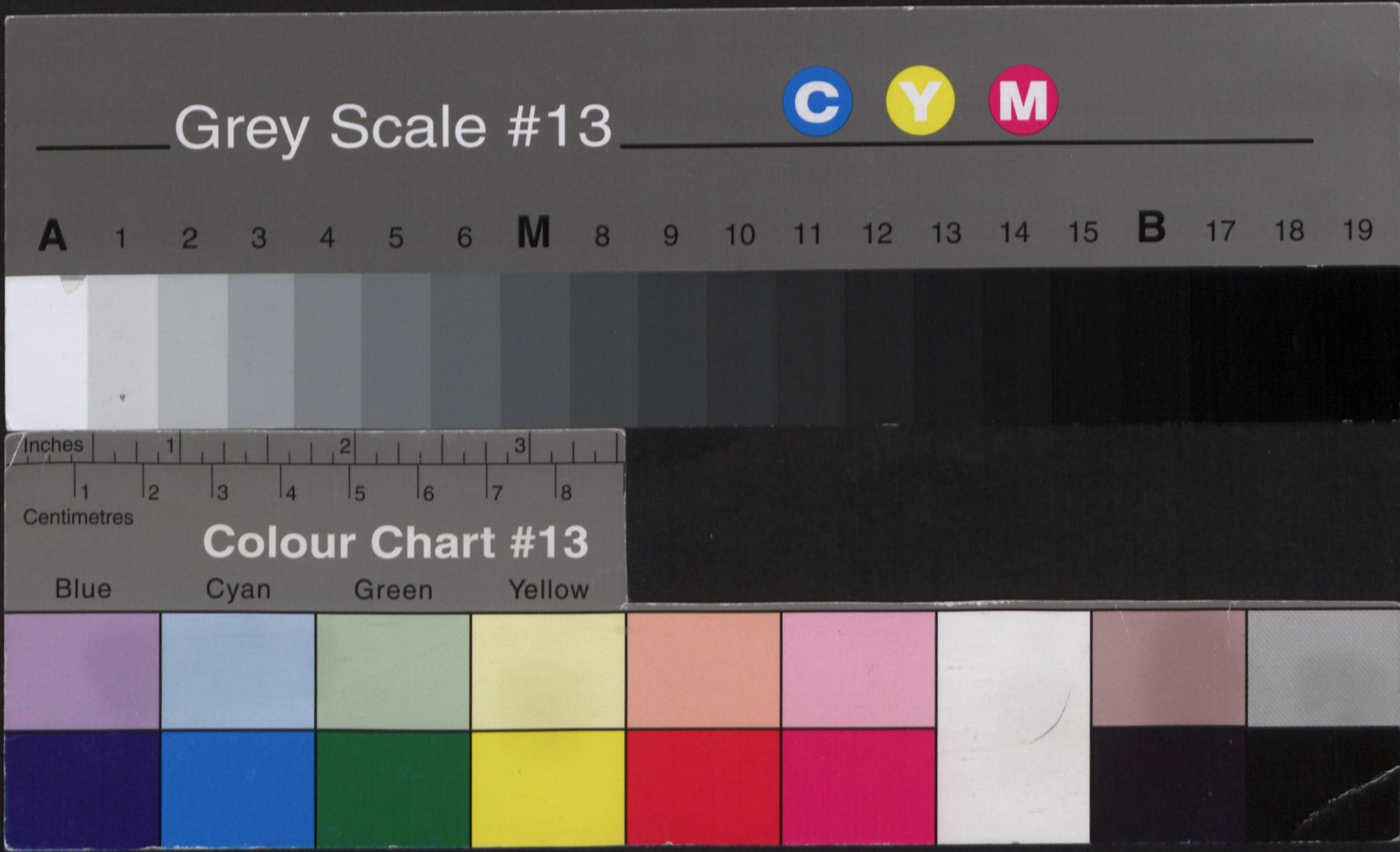
NB: Savings shown are orders of magnitude only and require further policy decisions.

PART 16. ends:-

CST to SS/Agric - ? Mar 87

PART 17 begins:-

Min/HMT to FCS - 3.4.87


Grey Scale #13
C Y M
A 1 2 3 4 5 6 M 8 9 10 11 12 13 14 15 B 17 18 19
Inches 1 2 3
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Centimetres
Colour Chart #13
Blue Cyan Green Yellow