CAO

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

From the Minister's
Private Office

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Dear Roger

I enclose a copy of the opening speech that my Minister will make in the debate on the CAP this evening.

I am copying this letter and the enclosure to John Cole (No. 10), John Kerr (Treasury,) Richard Hatfield (Cabinet Office), John Graham (Scottish Office), Colin Jones (Welsh Office) and John Lyon (Northern Ireland Office).

Yours ever
Ivor

C I LLEWELYN
Private Secretary

1. I beg to move.

2. I welcome this opportunity for a debate on agricultural policy, especially on the Commission's proposals for adjusting the CAP following the decisions of Heads of Government at Stuttgart in June.

3. My RHF, the Foreign and Commonwealth Secretary, explained to the House on 14 November the Government's overall objectives in these negotiations.

He has just explained in more detail some of the budgetary aspects.

We believe a prime need is to secure more effective control of CAP expenditure. This strict financial guideline would be designed effectively to control agricultural spending in relation to the growth of Community revenue.

My RHF has just dealt with this aspect and I propose in this part of the evening to concentrate on the Commission's proposals on agriculture.

4. The fundamental problem is that CAP prices have been set at levels that are too high.

Production has increased faster than consumption.

The inevitable result has been that the consequent surpluses have become increasingly expensive to store and to dispose of.

The tragedy is that the Council, over many years, decided to override the advice of my 2 predecessors who both consistently argued for restrictive price policies.

Surpluses of many products, including grains and milk products but also some Mediterranean commodities, continue to increase.

5. Recently there have been some signs of a more realistic attitude at large.

For example, the increases in farm prices agreed earlier this year were the lowest for many years.

But this action has come too late to provide a solution.

This was shown a few weeks ago when the Commission had to suspend certain advance payments so that the CAP could keep within the 1983 budget.

Fundamental improvements are now called for.

6.

In mid-November there were 8.5 million tonnes of grain in Community public intervention stocks.

At the same time there was just over a million tonnes of skimmed milk powder in store and nearly 900,000 tonnes of butter.

On the basis of present Community policies the situation must be expected to get worse.

6. The most important and urgent problem on the Common Agricultural Policy is the growing milk surplus and the financial burden this represents.

In 1983, the milk sector will cost some £3 billion - this represents almost one-third of expenditure on the CAP and about one-fifth of the total EC budget.

7. I believe that there is now a general recognition of the problem and acceptance that some really hard decisions have got to be taken.

8.

8. Many Hon Members will have seen the statements by the England and Wales Milk Marketing Board and the National Farmers' Union, and I want to spend a few minutes now commenting on the thinking of these two organisations because this will, I believe, take us to the very heart of the problem with which we are concerned.

9. The Milk Marketing Board argue for a policy based on a firm commitment to price restraint with no increase in support prices for two or three years in all member states and with a small immediate reduction in the overall milk price.

We too believe that in action on the price level would be the best way of bringing production and consumption in the Community more into balance.

Indeed, I have been saying this for several months.

10.

10. But there is no evidence that member states as a whole will be ready, in Athens, to endorse a price policy sufficiently rigorous on its own to tackle the problems.

As the MMB's document acknowledges, it would require more than a price freeze to bring the milk surplus under control over the next 12 months , let alone produce any movement towards a reduction in that surplus.

11. It is worth noting that the price policy solution does not attract universal support from the various milk interest in the UK.

The NFU's document is notably silent on price policy of the milk sector, and the Scottish milk producer interests, as well as those in Northern Ireland, are not advocating rigorous price policy as the way forward.

12. I would now like to turn briefly to the Commission's idea for a tax on oils and fats as this forms an integal part of the MMB's preferred solution.

The MMB want to see margarine taxed by an amount equivalent to the reduction in the butter price.

In other words, they want part of the solution to the butter problem to be a regressive tax on margarine.

Let me say first that the impact of the Commission's proposal for a tax on oils and fats would not be limited to margarine it would have wide ranging effects in the food industries.

It would also raise very serious international problems not only in the Community's relations with the United States but also in our trading relations with many developing countries.

The Government has firmly rejected the view that the problems of the dairy sector should be corrected by imposing additional burdens on producers and consumers of other products, and by transferring the problem of adjustment to third country trading partners, including, as in this case, many developing countries who are heavily dependent on the Community market.

We have therefore consistently opposed the introduction of an oils and fats tax.

13. The NFU's approach is that a system of levies should be based on national standard quantities of production with each member state free to choose, within agreed criteria, the method by which to apply the levy to its own producers.

Let us be clear what precisely that would mean.

14. First, it implies that the levy reflecting the cost of increased milk production would be applied nationally not to individual producer who had expanded over the base quantity but to all producers, irrespective of whether their own production had increased.

So an individual producer would not be able to protect himself against the levy by adopting a strategy of producing at a threshold level related to his own enterprise.

He would be liable to a charge which would be determined by the production of all other producers - and he would not, of course, know until after the event what charge he was going to be faced with.

I am not sure that that would be a very attractive proposition to many milk producers.

15. But the second point on the NFU approach is more fundamental.

The levy based on a national standard quantity would really amount to a national co-responsibility charge.

The milk industry has always been opposed to the co-responsibility levy approach, and for good reasons.

It is fundamentally wrong to deal with the problems of the CAP by in effect taxing consumers which is what co-responsibility levies amount to.

And as experience has shown they open the door to exceptions which act against our national interest.

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16. The NFUs ideas clearly imply the possibility of different arrangements in different member states.

We could, for example, have effective levels of support in France or Italy different to those in the UK.

I think all of us would be concerned about an arrangement which might appear not to be operating even-handedly.

17. Both the English MMB and the NFU reject the Commission's proposal for supplementary levy.

I can tell the House that we also reject the Commission's proposal as it stands.

It would not meet our requirement for action which is effective and fair across the Community.

One particular criticism relates to the base period.

There are significant difficulties about using 1981, since very many producer not only in the UK but also throughout the Community have expanded production significantly since then, sometimes with Community financial support.

Basing farm quotas on 1981 deliveries would therefore be unfair to many of them.

These difficulties would be greatly diminished if the base was derived from 1983 production with a reduction to bring the total quota down to the agreed level on a Community wide basis.

Another problem concerns producer retailers.

We are worried that there might be scope for producers who do not sell all their milk to dairies to avoid paying the levy.

This point has been firmly registered and the Presidency have now proposed that it should be covered.

It would also be essential to provide for some flexibility in the implementation of a supplementary levy, both to allow scope for some degree of transferability and the handling of special problems.

18. However, given the serious objections to the alternatives, and given the need to find some means of tackling the milk problem effectively, we have to be prepared to consider the Commission's proposals for a supplementary levy and see whether what they have proposed, together with a restrictive price policy, can be turned into something which would be - if not our favoured solution - at least an acceptable second best.

But, as I havesaid, the Commission's proposals as they stand will not do.

19. The Commission has also proposed a special levy on the so called <u>intensive production of milk</u>.

I have firmly opposed this proposal.

It would unjustifiably discriminate against a particular type of milk production.

It would also be extremely difficult and costly to administer.

20. The Commission have also proposed the phasing out of the consumer butter subsidy on the grounds that it is not cost-effective.

I much regret this short-sighted proposal.

Butter is the main outlet for milk in the Community.

Clearly it is unwise, in the circumstances of the milk market, to take measures which will reduce butter consumption.

I believe consumers would find it difficult to understand that they should not secure any benefit from the surpluses available.

21. The Commission has also made proposals to increase the <u>fat content of drinking milk</u>.

These would, however, only affect us in the UK so far as semi-skimmed milk is concerned.

Whole milk is sold here direct from the cow and skimmed milk is also unaffected by the proposal.

The overall effect on our drinking milk would therefore be very slight.

We shall nevertheless be considering carefully the views of those affected by the proposals.

22. Still on milk products - though, in our view, not related to the post-Stuttgart negotiations - The Commission has submitted a report on New Zealand butter.

It proposes import figures for the five years from 1984.

The proposal is that imports should be fixed at 83,000 tonnes for 1984.

Thereafter they would be reduced annually by 2,000 tonnes over the five year period.

23. I have welcomed the Commission's proposal in so far as it provides a demonstration of the Community's commitments to New Zealand.

I shall continue to press for an agreement that is fair to New Zealand, and consistent with the Community's Dublin obligations not to deprive New Zealand of outlets essential to her.

24. On cereals, the principal problem is again one of every increasing production against a background of static consumption.

The cost of disposing of the resulting surpluses on third country markets reflects the wide gap between Community support prices and those on the world market.

High cereals prices have also upset the arable/livestock balance.

The Commission's proposals place a welcome emphasis on the need for price restraint by maintaining the guarantee threshold scheme for wheat, barley and maize and by introducing such arrangements for durum.

I also welcome their proposal to accelerate the narrowing of the gap between Community support prices for cereals and the prices received by producers in other major exporting countries.

25. The Commission also suggest the new controls should be imposed on certain so-called cereals substitutes notably maize gluten feed and citrus pult.

The tariffs on both of these are bound in GATT.

In our view the simplest method of stabilising or reducing imports of these substitues would be to bring cereals prices down to more realistic levels, which would reduce the incentive to import.

26. I know from discussions I have had recently with members of the US administration that they feel very strongly about this proposal.

Clearly it would be to the advantage of no-one if the Community and United States were to become embroiled in a sterile row on the subject.

27. I apologise to the House for having to deal with the esoteric subject of MCA's.

HMG certainly does not regard their removal as in any sense a priority for the post-Stuttgart discussions.

Nevertheless, we have to recognise that some member states see this as a very important matter.

28. It is already clear that the Commission's present proposals for elimination are not likely to form the basis of agreement.

This is due primarily to strong German opposition.

We will judge any other proposals primarily according to whether they are consistent with the Government's objective of containing CAP expenditure.

We have also made it clear that any new arrangements must take properly into account the special problems of countries with freely floating currencies.

29. So far discussion in the post-Stuttgart framework has concentrated on the milk and cereals sector on MCA's and on the proposed oils and fats tax.

However, economies are also possible and necessary in virtually all other sectors.

I hope that an acceptable package will emerge at the European Council in a few days time.

If it does, we will be looking for a commitment in the package that measures will also be taken to restrain expenditure in other sectors, particularly those concerning Mediterranean products where in recent years it has increased dramatically.

The Commission has explained in general terms how they envisage economies being made in other sectors.

It might help the House if I dealt briefly with the more significant of them for our farmers.

30. In the beef sector expenditure is rising sharply.

Over 80% of it stems from intervention or from export refunds.

Accordingly savings should in our view be achieved primarily in those areas.

31. Therefore, we support in principle the Commission's ideas for a toughter policy on intervnetion purchasing.

However, the Commission also propose that the Variable Premium Scheme should not be renewed after the end of the current marketing year.

I believe the scheme has served UK producers and consumers well.

Its abolition would lead to a reduction in beef consumption, an increase in the Community's beef surplus and therefore to an increase in FEOGA expenditure.

I have made it clear to the Commission that we see no justification for the inclusion of this proposal amongst measures designed to effect economies in the CAP.

32. The Commission has now reported on the operation of the sheepmeat regime and expanded on its proposals for changes.

The United Kingdom is the Community's largest producer and consumer of sheepmeat.

We believe the regime should continue to take account of that fact.

The regime should also operate without discrimination between member states.

It should provide for the Community to honour its international obligations on imports, particularly as this affects New Zealand.

We shall judge the Commission's ideas against these criteria.

33. I turn now briefly to <u>structures</u>, where the Commission has put forward proposals for a new policy.

Although we need much more clarification is is apparent that the proposed new policy would in many respects be similar to the present one.

There is a continuing provision of investment aid to agricultural holdings though there is a general move in favour of the smaller farm.

The Commission propose, for example, lower financial limits and a simplification of the development plan arrangements.

There is a significant tightening of restrictions on aid to products in surplus.

Hill Livestock payments would continue with enhanced rates of capital grants in the Less Favourd Areas.

New Measures are proposed to promote farm forestry.

There is much work to be done before I am able to take a final view on this proposal, though I am concerned at the bias towards smaller farms and also have reservations about the proposals on promoting farm forestry.

Most importantly I think the suggested increase in Guidance Section expenditure by a considerable amount would be very difficult to justify.

34. In conclusion ......