

Prime Minister.

MR. COLES

CAP

1. I have of course kept Mr. Jopling informed of the progress of the negotiations. It is clear that the present Presidency text is unacceptable in a number of respects. We have briefed the Prime Minister on them. Fundamentally, it represents an inadequate response to the excesses of the CAP. But there are some domestic considerations which I should also set out.

2. The chief problems are, of course, on milk, about which Mr. Jopling wrote to the Prime Minister in detail recently. The NFU and the MMB are both opposed to the super levy, and they had strong support especially on the Government side of the House in last week's debate. The suggestion that Ireland might get special treatment was widely attacked. The co-responsibility levy has always been very unpopular with the industry and one of the arguments we have used with its leaders to persuade them to accept the super levy has been that, otherwise, we shall not be able to resist an increase in the co-responsibility levy, still less get rid of it. There is therefore bound to be a very strong reaction from the industry and in the House if, besides being asked to accept a 5 per cent reduction in output (the effect of avoiding a super levy costing about £60 million a year) at a time when incomes have already dropped (net margin per cow £167 in 1982/3 and an estimated £109 in 1983/4) they are faced with:

- (a) Ireland being allowed to expand by 2 per cent
- (b) a 50 per cent increase in the co-responsibility levy costing about £30 million.

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3. The UK milk industry knows and accepts that something painful has to be done to deal with the Community's milk surplus. But they will feel that we have been forced to accept methods which are especially prejudicial to UK interests. The Minister is prepared to see the Irish offered financial assistance to develop their farm structure worth at least as much as the immediate impact of the super levy. But Mr. Jopling does not see how we can defend even a partial exemption.

4. He has advised against an agreement which contains these two elements. It has already been agreed that we should not settle on agriculture unless there is a satisfactory overall package. I think he would want an opportunity to be consulted again if, unexpectedly, the rest of the agriculture text fell into place and there was the prospect of a satisfactory settlement on the budget imbalances and the financial guideline.

5 December 1983


M D M FRANKLIN