Prime Minister[1]

Mr Williamson advises that it could be a mistake to support the Germans against the French on the revaluation of the Green Mark (see last para).

Agree I write on your behalf as at Flag B?

DMB 3/2

Yes md

Qz.035666

MR BARCLAY

1984/85 AGRICULTURAL PRICES AND RELATED ISSUES

(attached at A)

We spoke briefly about the letter of 2 February from the Minister of Agriculture, Fisheries and Food to the Foreign and Commonwealth Secretary, resulting from the discussion in Cabinet this week. I have ensured that a copy has also gone to the Lord President of the Council.

2. The Minister of Agriculture, Fisheries and Food's letter follows generally the line which has been taken during the autumn on most of these issues when they have arisen in the post-Stuttgart negotiations.

3. There are three points on which the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary may take a slightly different line from that taken by the Minister of Agriculture, Fisheries and Food -

(i) Consumer subsidy for butter. It may be argued that we should not defend this subsidy totally but should insist that the net result of the various measures must be no increase in the butter price. My advice is that the Minister of Agriculture, Fisheries and Food's position is reasonable as an opening position in the sort of second reading debate which will take place in the Council of Ministers (Agriculture) on 6-7 February. The Minister has been careful to make clear to his colleagues in his letter that we may need to reconsider our line later.

(ii) Variable premium for beef. Again it seems reasonable to defend this scheme in the opening rounds in Brussels. It is, however, expensive for the United Kingdom exchequer because it is only partially financed by the Community and it will be necessary to decide before the end of the

/agriculture

agriculture price negotiations in Brussels whether the high public expenditure cost of the scheme is justified.

(iii) Green rates and monetary compensatory amounts. The Minister of Agriculture, Fisheries and Food wishes to oppose the Commission's proposal for a revaluation of the green pound, which would reduce support prices for United Kingdom farmers and also reduce consumer prices. United Kingdom Ministers will be invited to decide before the end of the agriculture price negotiations whether they wish to maintain this line in the light of the other elements in any final package.

While it is to be expected that in the opening round of price negotiations a member state would oppose a proposal which gives rise to an actual reduction in support prices for its producers, it is not normally necessary at this stage to comment directly on proposals affecting the green rates and monetary compensatory amounts of other member states. The Minister of Agriculture, Fisheries and Food's letter (paragraph 8) implies that he might be publicly supporting German resistance to a revaluation of the green mark. In the post-Stuttgart negotiations we have tried to avoid entering into the line of fire between the French and the Germans on this point. The French are determined to obtain some concessions from the Germans on the green mark and it would be a mistake to line up now with the Germans in defence of their support prices which are at above Community levels. This is the only point in the Minister of Agriculture, Fisheries and Food's letter which in my view could cause some prejudice to our chances in the post-Stuttgart negotiations.

I am sending a copy to Sir Robert Armstrong.

D F Williamson

D F WILLIAMSON

3 February 1984

10 DOWNING STREET

M/AFF to CST

1/2

Mr. ~~Gotley~~.

Could you pl. let the P.M. have a note for the weekend box clarifying the issue and its implications?

A.J.C. 2/2.

CF

Minute requested from Mr Williamson.

DMW

2/2

CONFIDENTIAL

file

cc NO

Bol

10 DOWNING STREET

From the Private Secretary

6 February 1984

Dear Ivor,

1984/85 Agricultural Prices and Related Issues

The Prime Minister has seen a copy of your Minister's letter of 2 February to the Foreign and Commonwealth Secretary. She has asked me to make clear that, although she fully understands why your Minister wishes to oppose at this stage the Commission's proposal for a revaluation of the green pound, she hopes that your Minister will not have to intervene directly on the Commission's proposals on the German positive monetary compensatory amounts. This issue has assumed great importance in the post-Stuttgart negotiations and it has been our policy to keep out of the firing line between the French and the Germans, at least until we are clearer whether an agreement between Chancellor Kohl and President Mitterrand is likely. Since this is the first substantive discussion of the Commission's price proposals in the Council of Ministers (Agriculture), the Prime Minister assumes that it will be possible for your Minister to concentrate mainly on the United Kingdom interests and to leave the French and Germans to fight their own battle for the present.

I am copying this letter to Roger Bone (Foreign and Commonwealth Office), John Kerr (HM Treasury) and Richard Hatfield (Cabinet Office).

Yours ever

John Coles.

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

CONFIDENTIAL

Draft letter from the Private Secretary to the Prime Minister to the Private Secretary to the Minister of Agriculture, Fisheries and Food

1984/85 AGRICULTURAL PRICES AND RELATED ISSUES

The Prime Minister has seen a copy of your Minister's letter of 2 February to the Foreign and Commonwealth Secretary. She has asked me to make clear that, although she fully understands why your Minister wishes to oppose at this stage the Commission's proposal for a revaluation of the green pound, she hopes that your Minister will not have to intervene directly on the Commission's proposals on the German positive monetary compensatory amounts. This issue has assumed great importance in the post-Stuttgart negotiations and it has been our policy to keep out of the firing line between the French and the Germans, at least until we are clearer whether an agreement between Chancellor Kohl and President Mitterrand is likely. Since this is the first substantive discussion of the Commission's price proposals in the Council of Ministers (Agriculture), the Prime Minister assumes that it will be possible for your Minister to concentrate mainly on the United Kingdom interests and to leave the French and Germans to fight their own battle for the present.

I am copying this letter to Roger Bone, John Kerr and Richard Hatfield.

CONFIDENTIAL

VCC - NO?!

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

From the Minister

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

2 February 1984

Dear Geoffrey

1984/85 AGRICULTURAL PRICES AND RELATED ISSUES

1. The Commission have recently produced their agricultural price proposals for 1984/85 and have confirmed the proposals for changes in the Common Agricultural Policy as set out in their post-Stuttgart document COM(83)500. The Agriculture Council will have its first discussion of this year's agriculture package on 6/7 February. I am writing to set out the line I propose to take on the major issues which I had the opportunity of outlining at Cabinet this morning.

2. My general approach will be to press for an early agreement in March. We shall need to feel our way on what agricultural issues should go to the European Council at its March Meeting. I shall make it clear that we see the financial guideline as an essential element in the budget settlement and, therefore, not for detailed negotiation in the Agriculture Council.

3. The financial background is that, following the increase of about 30% in expenditure in 1983, the FEOGA Guarantee Section budget has been set at some 16.5 billion ecu for 1984, (an increase of 4½% over 1983 provisional outturn). It is clear that it will be very difficult, if not impossible, for the Community to stay within this figure. This figure is based on the assumption that all the Commission's proposals are adopted within the envisaged timetable. This clearly is unlikely to happen. There are certain other assumptions underlying the Budget figures which now seem too optimistic.

/On the ...

4. On the financial guideline, the Commission acknowledge that "the intention" (ie their intention) of a growth rate of FEOGA Guarantee expenditure lower than the growth of own resources assessed using a three year moving average will not be met for 1983-85, since the predicted growth of expenditure is 11.1% against 6.8% for own resources. It would be virtually impossible to meet the Commission's objective given the growth in expenditure in 1983.

5. I shall argue strongly against increases in common prices and in the various premiums. Where market circumstances warrant it, we should argue for reductions in the common levels of prices and premiums. We shall need to take a clear position on this at next week's Council in order to counter the strong pressure which will undoubtedly come from some member states for larger increases than the Commission propose.

6. Another general point I shall emphasise is the need for decisions which are non-discriminatory between Member States. We must continue, for example, to resist any special concessions to the Irish, Italians and Greeks on milk. We shall also need to line up with the other Northern Member States in insisting that the negotiations should be concerned with Mediterranean products as well as milk and cereals. It will be politically essential that the final package is seen to be a fair and balanced one.

7. One of the main issues in this year's price fixing will be MCAs. Several member states want rules to be adopted for dismantling MCAs automatically. We should continue to argue against any approach which would base Community prices on the "strongest" currency, on the grounds that this would be inflationary and very costly in the medium term when the associated devaluations of the resulting extra negative MCAs work through the system. It seems likely, however, that the Germans and French will do some deal on this basis. If we have to give on this point later in the negotiations, we shall need to insist on the firmest rules we can get for regulating green rate devaluations.

8. On the related green rate proposals, the principal focus of negotiations will be the level of the "green" mark. The French and the Italians will strongly support the Commission's proposal that this should be substantially revalued, while the Germans have already indicated that they will vigorously oppose any revaluation. It is in our interests that the Germans should not be forced to revalue, since they would only do so if either or both of two conditions were met. The first would be that the change should be balanced by equivalent increases in common prices so as to avoid a decrease in farm prices in Germany in money terms; and the second that there should be provision for a system of offsetting national aids at least partly reimbursed by FEOGA. The Germans have successfully insisted on the first condition

/at recent ...

at recent price fixings. The possibility of the second was referred to in Commission's document COM(83)500, and we know the Germans have not wholly ruled this out. We must obviously avoid taking a line which would give the Germans an excuse for seeking increases in common prices; while the national aids approach would set an undesirable further precedent (there was a limited precedent in 1973/74), which could prove costly to FEOGA and would put pressure on us to provide similar aids when and if we decided to revalue. These disadvantages greatly outweigh the small savings to FEOGA from a German revaluation.

The rate for the "green" pound is of course important to us and especially to the farming industry. The 1984 White Paper on the outcome of the Annual Review of agriculture, which Ihave just circulated, shows a decline in farm income of 15% in money (19% in real) terms in 1983 to a level 10% (in real terms) below that obtaining when we came to office in 1979. Farmers face a further difficult year in 1984 given the need for painful adjustments to the CAP especially in the milk sector. A revaluation of the green pound by 4.2% as proposed by the Commission, would reduce producers' returns by £260m (in a full year) compared to total farm income of about £1540m in 1983. My department estimates that a revaluation by this amount would reduce farm income by about 10% from what it would otherwise have been. Taking account of the other economic decisions already taken* this year, it is clear that, with a revaluation of 4.2%, UK farmers would almost certainly face a further major decline in income in 1984. I believe that, both economically and politically, the problems with which this would present us would far outweigh any benefit that would be gained from the associated reduction in the retail price index of under 0.2% that would result from revaluation. Revaluation of the "green" pound is roughly neutral in terms of our contribution to the EC budget.

If we were to indicate a readiness to revalue, this would be bound to put extra pressure on the Germans to do so also, with the inevitable undesirable consequences I mention above. For all these reasons I am sure that our firm stance should be to oppose any revaluation of the green pound. This is essential domestically if I am to press for maximum restraint on common prices. I would use in the Council, if it seems helpful, the argument that it is wrong to treat floating currencies like sterling in the same way as those with fixed exchange rates. Only last year we had a negative MCA and could clearly do so again. Since it is essential that where "green" rates differ from market rates, MCAs should properly reflect different institutional price levels in the member states, we should continue to oppose the changes to the detailed rules put forward by the Commission post-Stuttgart which remain on the table.

On commodities we must ensure effective action to check the costs of the milk regime. We must continue to insist that any superlevy/quota scheme is fair, effective and non-discriminatory if it is to be acceptable to us; and that there should be no exemptions. In the context

/of a quota ...

* or likely to be taken

of a quota scheme, we should continue to insist on a restrictive price policy. If, as I fear, price reductions are not negotiable, I should want to argue for a 3 year price freeze. This would depend on how effective any quota scheme was likely to prove to be. There is clearly a difficult negotiation ahead on this and we shall need to consider where we go if an acceptable on-farm supplementary levy is unattainable.

12. The other issue in the milk sector of political importance is the consumer subsidy for butter. Here the position is complicated by the Commission proposal to adjust the relationship between the support prices for the butter fat and skim components of the product. Although the Commission have proposed the abolition of the subsidy currently worth 14p/1b in the UK, the net effect on the consumer price of butter in the UK would (without revaluation) be an increase of about $3\frac{1}{2}$p/1b. However, the subsidy is widely regarded as one of the few benefits the UK gains from the CAP and we cannot lightly give it up. Nor can we be certain that the shift in the butter/skim ratio will be agreed; there are substantial objections from the viewpoint of the increased costs of skim. I propose to take the line that any reduction in the butter subsidy would be an inappropriate response to the current market situation for butter. At a later stage, we may need to reconsider our line on this.

13. On cereals, we must press for the firmest possible commitment by the Council to a progressive narrowing of the gap between Community prices and prices in the main producer countries, together with at most a price freeze for 1984/85. We shall need to make it very clear that we see agreement on this (and on milk) as linked to any mandate for further discussions with the US on cereal substitutes. This will clearly be another difficult area of negotiation where the French will be pressing for early decisions. On the oils and fats tax, we must continue to take a very firm line (particularly as some of our Northern allies may be none too sound when we reach the later stages in the negotiations).

14. On beef, the Commission has proposed the abolition of the variable premium scheme (BVPS). This is preferred by producers to intervention as a means of support, and also provides considerable benefit to consumers. Although somewhat more expensive to the Exchequer than intervention, the benefit to consumers is much greater than the Exchequer costs. Moreover it has helped to keep beef out of the political arena. Our purchases into intervention in 1983 were under 20,000 tonnes; without BVPS, we estimate purchases would have amounted to nearly 100,000 tonnes. The substantial stocks implied by purchases of this order could only be disposed of to eastern Europe with the inevitable furore that such sales would cause. At the meeting on 6/7 February I shall, therefore, argue for the continuation of BVPS without changes such as clawback, drawing heavily on the argument that switching from BVPS to intervention would substantially increase the cost to FEOGA and therefore run counter to what we and the Commission are seeking to achieve.

/On sheepmeat, the ...

15. On sheepmeat, the Commission have put forward some changes to the market regime. Our line must be to insist that producers in the UK should be supported to the same extent as producers elsewhere in the Community. This does not mean that we need resist changes in the regime. Indeed, we would like to secure some modification which would help our exports to other member states. I shall need to investigate what changes may be possible; but the French will be very difficult. At the same time, we should ensure that any changes to the Community's trading arrangements with New Zealand and other third countries are fully negotiated with the suppliers concerned.

16. On more general issues, I shall be guided by the agreed line taken before and at the Athens Summit. There are many other technical proposals which I suggest officials should look at.

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

Also: Prime Minister
Lord President

Yours Ever
Michael

MICHAEL JOPLING