

7 March 1984CAP: MONETARY COMPENSATION AMOUNTS

The UK position on this item is unconvincing and negative. We urge price reductions for the Community but contrive an artificially high food price for ourselves by means of an undervalued green Pound. We also insist on time limits for the MCA system the Germans propose but seek a permanent solution for the Budget.

We do not believe that MCAs can be eliminated quickly and without some budgetary cost. But it is important that we do eliminate them since they exempt agriculture from any share of the adjustments to changes in exchange rates, and throw them all on other trading sectors, principally manufacturing. MCAs destroy the Common Market for agricultural products; they protect high-cost German farmers and deny lower-cost farmers opportunities to export. If MCAs were abolished, food would become cheaper, the pressure on wage increases would be lower, and efficient British farmers could export more to Germany.

Our intransigent stance on MCAs has a useful tactical point in that it forces the discussion into the European Council and secures the maximum price from its French for our agreement. We now have to respond in the Council, urging the minimisation of budgetary costs of dealing with the MCAs. We suggest that we should:

(i) declare that we are prepared to see some revaluation of the green Pound, such that our MCA stays within a band of, say, $\pm 3\%$ ie no greater than half its current level of 6.2%. This might encourage the Germans to revalue the green DM; it would lower food prices here;

(ii) accept Stages I-III of the German proposals:

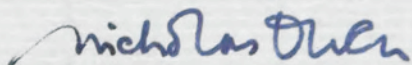
- Stage I recognises that it is politically more difficult to remove positive than negative MCAs and in effect gives the Germans less adjustment to do
- Stage II - a 5% revaluation of the green DM, largely paid for by the German Exchequer, is surely acceptable. We would, need to be prepared to resist similar pleas from British farmers.

- Stage III - phasing out of the remaining German MCA.

We should resist Stage IV, the provision that if there were further currency alignments, support prices would be linked to the strongest currency. This is potentially very costly since the Deutschmark is bound to appreciate against other Community currencies (there is speculation about a re-alignment at the moment). We should propose instead that in the event of re-alignment there should be no further increases in MCAs. We should contest the proviso that German support prices be maintained in DM terms. This is an unrealistic condition for the Germans to insist upon, as the need to constrain CAP expenditure growth to a rate "markedly below" the growth in own resources will probably force reductions in support prices.

However, we ought not, as MAFF have proposed, insist either

- that the system be time-limited to 3 or 4 years. We want to see an integrated agricultural market and this system takes us towards it, or
 - that variable MCAs be exempted from the arrangements.
- The banding arrangements for the green Pound could come into play at Stage II, when the Germans revalue by 5 percentage points.



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