



Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

MINISTER OF AGRICULTURE

Prime Minister
Content that we should
not propose a
reevaluation of the
green pound?

A.J.C. $\frac{4}{5}$

ms

k.a. $\frac{2}{5}$

CAP PRICE FIXING ; GREEN POUND

Thank you for your minute of 28 April, in which you record that you would under continued pressure from the Commission reluctantly be prepared to accept some reevaluation of the green pound, but argue that you could not volunteer a reevaluation if this is not pressed on you in the negotiation.

2. You raise a number of points as to why the reevaluation I proposed in my earlier minute would cause you difficulties. While I recognise that it is modest I regard it as nonetheless worth having for all that. As I said in my earlier minute even fractional improvements in the RPI are important, and a small reevaluation would at least be indicative of our continued commitment to bring down inflation. I understand that the latest Presidency proposals on prices now average over 10.5 per cent; this further strengthens the case for a reevaluation.

3. Second, as I have said before, I do not accept that our attitude to a green pound reevaluation should be solely determined by the price increases in prospect for other member states; we must judge the case on our own circumstances.

4. I understand, however, that the Presidency have now included in their compromise package a proposal that there should be no change in the UK green rate. You have of course placed considerable emphasis on the right of individual member states to determine



their own green rates, and in principle this should allow us to volunteer a revaluation as well as resist one. Nevertheless, I recognise that, if the present Presidency proposal remains unchallenged as the price fixing negotiations are completed, you would find it politically difficult to propose a revaluation which others were not pressing us to accept. Very reluctantly, I am prepared to accept that you should go along with this aspect of the package, unless it is reopened by the Commission or other member states.

5. This turn of events has prevented us from having a collective discussion of our policy on the UK green rate in the way OD(E) originally envisaged. I attach considerable importance to taking a considered look at this issue well in advance of the next price fixing in the light of the information about this year's developments in UK farm incomes, which should be available before the end of 1982.

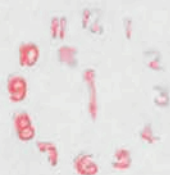
6. I am sending copies of this minute to the other recipients of yours.

A handwritten signature in black ink, appearing to be 'G.H.' with a stylized flourish.

G.H.

5 May 1982

5 MAY 1982



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



From the Minister
CONFIDENTIAL

Prime Minister

We may need a ministerial
meeting in due course.

MR 29/4

28 April 1982

CHANCELLOR OF THE EXCHEQUER

CAP PRICE FIXING: GREEN POUND

TPM

Thank you for your minute of 26 April. We have, as you say, done well to avoid being isolated at the last two Agriculture Councils. I very much hope that we shall be able to continue to do so at the meeting today in Luxembourg although in the light of Francis Pym's experience in the Foreign Affairs Council this may well be more difficult. In any case I shall certainly ensure that we block any settlement in line with our agreed tactics on the budget issue.

On the green pound, what you are asking for is a 1% revaluation, sufficient to bring the Commission's compromise package down from an average of 10.1% in the UK to an average of 9%. The effect of this on inflation, which is your main argument, would be so small as to be hardly worth measuring: my economists have calculated the effect on the RPI as 0.04%.

On the other side you are asking me to defend giving our agricultural industry a price increase lower than in the great majority of other Member States. The French, Belgians, Danes, Italians, Greeks, Irish and Luxembourg will indeed all be getting increases above the price settlement because of their green rate devaluations.

You will recognise the political unpopularity involved in defending the situation whereby the Commission figures show that United Kingdom farm incomes in real terms have during the period we have been in power fallen by a greater amount than in virtually every other Member State. We now go to a price fixing where we volunteer to lower our farm incomes below what the Commission is proposing whilst virtually everybody else is increasing theirs above what the Commission is proposing.

I must warn that the unpopularity of doing this in our own Parliamentary Party would be considerable, and for a minute amount we will have done much to tarnish our reputation with the rural voter.

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28 APR 1982

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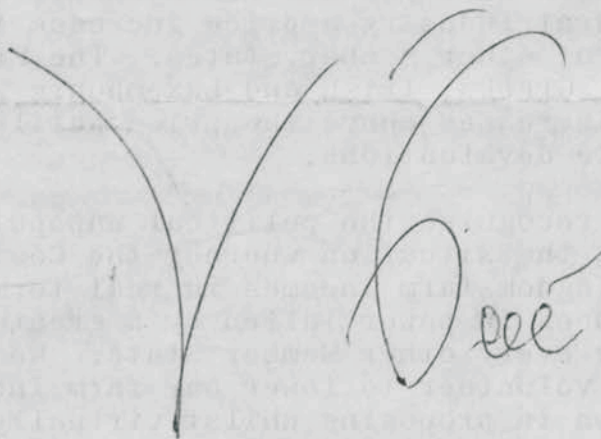
To follow the income squeeze of recent years with such a green pound change, at a time when producer costs continue to rise and before this year's crops are barely in the ground, would not in my view square with the Government's commitments to the industry.

As to consumers and processors, I would rebut any criticism that we have sacrificed their interests. In fact I have been negotiating and will continue to negotiate hard to protect their interests, for example on the butter subsidy and the beef premium as well as on starch refunds and on safeguards for the alcohol market. In any case the suggestion that we might be sacrificing consumers' interests in the agricultural prices package in order to get a settlement on our budget refunds seems to me quite misconceived. As we have agreed I have been negotiating on the prices package on purely agricultural policy grounds and will only need to involve the budget linkage if a prices settlement emerges before a settlement on the budget.

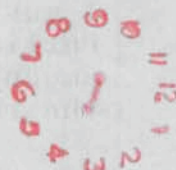
I must also remind you that I have formed an important alliance (important for both the budget and the farm price increases) with the Germans, Dutch and Danes. We have remained united on green currency policy as well as other items on the principle that each member country should be free to decide what movement to make.

It may be that at the end of the day the Commission will persist with some revaluation of the green pound, and if they do I will demand some other benefit to the United Kingdom in order to reluctantly accept such a demand. But to go along and to volunteer something which is to the advantage of every other Member State in Europe and to our disadvantage would be seen as a remarkably weak negotiating posture which would undermine my negotiating position in the whole negotiation.

I am copying this to the Prime Minister, Francis Pym, the Chief Whip and Sir Robert Armstrong.



PETER WALKER



28 APR 1982

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Evans
CAP
TAM



Prime Minister

You may wish to await
Mr. Wallis's reply.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

A.J.C. $\frac{27}{4}$

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

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h.c.

CAP PRICE FIXING: THE GREEN POUND

I understand that the Agriculture Council will probably meet again on Wednesday next week. I have seen your minute to Francis Pym about the tactics to be employed then. If I may say so, I think it has been a remarkable achievement on your part and that of Alick Buchanan Smith to have avoided our being isolated at the last two Agriculture Councils. Obviously, the longer you can continue to sustain this the better, but unless an agreement on the budget emerges at Tuesday's Foreign Affairs Council, it will, as agreed, be necessary for us to block any compromise package on agriculture until a satisfactory budget settlement emerges.

2. Your letter to Francis Pym refers to our negotiating objective on the green pound. Since we last corresponded about this subject at the end of March, it seems to have become reasonably clear what level of price increases we shall have to accept in the agricultural settlement. As I understand it, although there are some pressures for still higher prices, there is a good prospect that a consensus will be found for the Commission's latest proposals, averaging 10.2 per cent. The time has therefore come when we can and should take our own decisions on the level of the green pound. In my letter of 26 March I proposed that we should offset any excess above a 9 per cent increase in common prices by a one-for-one revaluation of the green pound. I believe that we should now agree on this as our policy in advance of Wednesday's Council and should so inform the Presidency and the Commission at the appropriate moment.

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3. I have set out the case for a revaluation of the green pound in our earlier discussions. I will therefore simply repeat my view that the Government should not forego the opportunity open to it to achieve smaller rather than larger increases in food prices, where those increases are not justified on economic grounds. Reductions of even fractions of a percentage increase in the RPI, if they can be achieved in a way that is consistent with our other objectives, are important and worth securing.

4. Against this criterion my proposal to limit the increase in prices to 9 per cent is, from the consumers' point of view, a modest one. On the other side of the coin our farmers would get an increase of nearly twice the percentage which would have resulted from the Commission's original proposals. Your officials' estimates earlier this year suggested that a price increase of 6-7 per cent would suffice to maintain UK farmers' incomes. A 9 per cent increase should therefore be defensible as giving a fair deal to our producers, while reinforcing the downward trend in inflation and demonstrating that the interests of consumers and food processors have been brought into the balance as well. A further advantage is that a revaluation will make it easier for us to answer the criticism that we have sacrificed the consumers' interest in order to get a settlement on our budget refunds. I trust therefore that you will be able to agree to my proposal.

5. I am sending copies of this minute to the Prime Minister, the Foreign Secretary and Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'G.H.'.

(G.H.)

26 April 1982