



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

PRIME MINISTER

COMMON AGRICULTURAL POLICY : 1983/4 PRICE FIXING AND THE GREEN POUND

I have seen a copy of Peter Walker's letter to you of 15 December about the CAP price fixing.

2. I am afraid that I must strongly disagree with his proposal that we should take a decision now not to revalue the green pound.

3. First, let me say that I do not think that we should be unduly influenced in our discussion by the recent fall in sterling. The reduction in our positive MCA to 5.1 per cent (about the level obtaining in the Netherlands) has not changed the level of the green pound itself or the prices received by our farmers, which remain higher than those in all other Member States except Germany and the Netherlands.

4. Second, I cannot see how we can separate the question of the green pound from the outcome of next year's negotiations on CAP price levels themselves. It is surely essential that in the period we are talking about we do all we reasonably can to keep down the rate of inflation, particularly for the most sensitive items in the shopping basket, such as food. We must go into this year's CAP price fixing with that objective uppermost in mind. I understand that, despite MAFF's representations and the pressures from the USA, the Commission are still expected to propose price increases around 5.5 per cent, though with somewhat lower figures (3-4 per cent) for milk and cereals. Obviously we must fight hard for lower figures. But all the evidence of the past - particularly of the last 2 years - is that the eventual outcome could well be 1 per cent or 2 per cent higher than the Commission propose.



5. My view is that, if the final outcome of the price fixing leads to excessive increases in CAP prices, we should revalue the green pound to the extent necessary to reduce the impact on UK domestic farm prices to less than 5 per cent.

6. Peter Walker argues that the effect of even a 2 per cent revaluation on the RPI is too small to be worth bothering about. I do not accept that. The fact of the matter is that most of the price increases in the individual items making up the RPI shopping basket are in themselves pretty small. But their cumulative effect can have a significant impact on the rate of inflation. It is worth noting that the Germans, who are as committed to eradicating inflation as we are (but who have a larger farm population), have regularly been prepared to revalue by 1 - 2 per cent and may be expected to do so again next year after their Election.

7. Similarly, I do not accept Peter Walker's suggestion that the housewife will not feel the benefits of a green pound revaluation; all the evidence is that the competitive pressures in the retailing chain will make sure that the effects are passed on to the consumer.

8. In addition to the effect on food prices, we also need to consider the impact of the present level of the green pound on our food manufacturers and processors. They have made strong representations to us for a revaluation of the green pound for well over a year. They are just as large a source of employment as the farming sector, but have had to shed 9 per cent of their labour force over the past three years. They have been losing sales on the domestic markets because our high food prices have kept food consumption static; and our exporters of such foods as biscuits and chocolates lose out because they have to pay higher prices for their inputs, but are not entitled to the export refunds which are available to farmers.

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9. I recognise that a revaluation will be unpopular with our farmers. But the farm sector has done exceptionally well in comparison with the rest of the economy over the last 2 years (not just 1982 as Peter Walker implies). Net farm income will be up by nearly 33 per cent in real terms this year after a rise of 11 per cent in 1981. And a good deal of last year's 10½ per cent CAP price increase has still to work through to the farmer. So to limit our farmers to a 5 per cent rise in 1983 - which is what we recently agreed for liquid milk - should be defensible. Their political support is certainly important, and I do not take it for granted, but so is that of the consumer and the housewife.

10. As the Cabinet Office paper recognises, we cannot reach a final decision on the green pound until it becomes clearer from the negotiations in Brussels what level of CAP price increases other Member States are prepared to settle for; and we shall, of course, need to take account of any developments in the sterling exchange rate. But I hope that we can agree on Monday that our firm objective is to limit the effect of this year's CAP settlement to below 5 per cent on domestic farm prices and that we should be prepared to revalue to the extent needed to achieve that.

11. We can discuss in more detail on Monday precisely how to play the negotiating hand in Brussels. The adoption of the objective I have proposed does not, of course, mean that we should immediately accept the Commission's proposal for a revaluation. But the negotiating tactics we use in the opening phases in Brussels must be compatible with the eventual 5 per cent outcome.

12. I am sending copies of this minute to those who received Peter Walker's.

Jolley

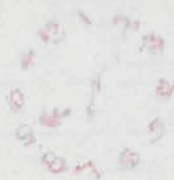
PP G.H.

(Approved by
Mr Chancellor,
now in Brussels.)

17 December 1982



17 DEC 1952



CONTRACTS

1272



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

Prime Minister

To note, pending next
week's meeting.

From the Minister

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PRIME MINISTER

15 December 1982

A. J. C. 16/12

COMMON AGRICULTURAL POLICY: 1983/84 PRICE FIXING

I have read the paper which the Cabinet Office have prepared as background for the discussion we are to have next week on the green pound. It may be helpful if I add one or two comments before we meet.

First, it is quite clear that our public stance at the outset of the negotiations must be that there should be no revaluation of the green pound. No other stance would be reconcilable with our insisting that there should be no increase in common prices for the products in structural surplus (cereals, milk, sugar and wine). The combination of a price freeze and a green pound revaluation would mean a reduction in support prices here, and no one would believe we seriously contemplated this (to say nothing of the impossibility of presenting it to our own industry). No one would therefore regard our posture on common prices as seriously intended if we showed at the same time any willingness to revalue.

Secondly, the case against a revaluation is in any case so overwhelming that in my view we should decide here and now that there should be none. Agriculture is pulling itself out of the recession, though real net income, despite a year of superlative weather, has still not reached the levels it attained under the Labour Government. To impose a handicap on the industry just as it began to prosper again would be indefensible in either economic or political terms. The only conceivable argument for doing so would presumably lie in the effect on food prices. But there would in my view be no visible benefits for the consumer. The rate of increase of food prices is already well below that of the RPI, and any effect of revaluation on

/the farmer's returns would ...

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the farmer's returns would be far more likely to go into the pockets of processors and retailers than to the housewife. And even if the whole of the benefit went to the housewife a 2% revaluation would affect the Retail Price Index by only about one tenth of one percent.

There is no way in which so small an effect on prices would be worth what a revaluation would cost us. Even a small revaluation would be a massive blow to the industry's confidence, which we have managed to sustain, with much difficulty, through the years of recession. It would further discriminate against our farmers by comparison with their main competitors, the French, who have scope to add 3.8% to the full common price increase by further green franc devaluation (on top of the devaluation increase of 2.8% already decided for them for the next marketing year). It would imperil the political support we can otherwise expect from the agricultural community in a general election. And it would be impossible to explain at a time when our MCA has already been halved by the fall in sterling (from 10.7% to 5.1%: at some of this week's rates for sterling the MCA would be as low as 3.5%) and when the rate for a floating pound remains unpredictable.

I hope therefore that we can take a firm decision next week against any revaluation of the green pound in the 1983 price fixing. We shall then have a clean and clear negotiating position which will enable us to bid credibly for a price standstill for the main surplus commodities and so strengthen our hand in the critically important negotiation on the Community budget.

✓ I am sending copies of this minute to the other Ministers invited to the meeting (the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and the Secretaries of State for Trade, Industry and Employment); and also to the Secretaries of State for Scotland, Wales and Northern Ireland and the Chief Whip.

Peter Walker

for PETER WALKER

Approved by the Minister
and signed this abstract

Enso. Pol : CAP R410

5 DEC 1982

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10 11 12

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NORTHERN IRELAND OFFICE
GREAT GEORGE STREET,
LONDON SW1P 3AJ

PRIME MINISTER

N. B. P. R.

COMMON AGRICULTURAL POLICY : 1983/84 PRICE FIXING

ML 21/12

I understand you are considering with colleagues the possibility of accepting Commission proposals for the revaluation of the Green Pound in the context of 1983/84 EC agricultural price fixing. In my view, there would be little tactical advantage in accepting such proposals. It would not be of any real value in persuading the other Member States to accept a lower average price increase in the negotiations. The Germans and the Dutch did not accept any automatic reduction of their "old" positive Monetary Compensatory Amounts when they signed the "Gentleman's Agreement" on Agri-monetary affairs.

We must also be careful not to inflict unnecessary damage on our agricultural industry. 1982 certainly appeared a good year in comparison with 1981, but it has not made up for 1980, which was a disastrous year in Northern Ireland. In real terms returns are lower than the mid-1970's. Indeed recent relatively improved results were largely due to the good fortune of better than average weather conditions.

While I would hope that future fluctuations in the value of sterling would not be as violent as occurred at the beginning of the month, a fall of the same magnitude would put us in a position where monetary compensatory amounts would no longer apply. A revaluation could, in such circumstances, have the effect of reintroducing negative MCA's which we abolished soon after taking office and which act as an incentive to our competitors to export to us.

Any hint that we were adopting a revaluation of the Green Pound when our farmers would have a very low, or perhaps even negative, increase in the basic agricultural support price would be likely to choke very quickly the increased investment which it appears has been taking place recently. The value of such works for the rest of the economy, of maintaining stability in agriculture and, if possible, improving our use of home grown products and exports must surely more than balance the very marginal effect there might be on the retail price index from a revaluation.

I am copying this Minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretaries of State for Trade, Industry and Employment, the Minister of Agriculture, the Secretaries of State for Scotland and Wales and the Chief Whip.



SCOTTISH OFFICE
WHITEHALL, LONDON SW1A 2AU

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PRIME MINISTER

GREEN POUND

I gather you are to discuss Green Pound policy next Monday. For my part, I believe strongly that our negotiating hands on the EEC price-fixing should not be tied in advance by a commitment to revalue the Green Pound. It seems to me essential that our opening position should be a determined demand for a freeze on prices for products in structural surplus. In my view it is naive to suppose that a self-denying ordinance by the UK would have the slightest affect in persuading our Community partners to exercise any greater degree of restraint on prices.

A revaluation of the Green Pound would cause domestic political difficulties not just because it would cut price increases to our own farmers. We should also have to defend a position in which the UK taxpayer might be made to pay, through the Budget, for more support to French and German farmers than to our own.

In any event, it is surely too early to decide on whether to agree to a Green Pound revaluation. UK mcas have more than halved (from 10.7 per cent to 5.1 per cent) in the last three months, and there is more than three months to go before there is any likelihood of a decision on the price-fixing. Much could happen to international exchange rates, and to our negotiating position vis-a-vis our Community partners, before then.

I suggest, therefore, we stick firmly at present to the no price increase stance, and only consider even a token revaluation of the Green Pound - if at all - in the very last stages of the price-fixing, when we know how international exchange rates stand and what level of price increase the rest of our partners seem willing to settle for.

I am copying this minute to the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, the Secretaries of State for Trade, Industry, Employment, Northern Ireland and Wales, and to the Minister of Agriculture, Fisheries and Food.

G.Y.

G.Y.

17 December 1982



Government Chief Whip

12 Downing Street, London SW1

PRIVATE AND CONFIDENTIAL

The Prime Minister

MS

1. WK
2. ABC
3. MES.

This underlines the advantage
of having the Ministerial meeting

F.R.B.

10.12.

I have heard that there is shortly to be a small Ministerial meeting to discuss the possibility of de-valuing the Green Pound.

You should know that Peter Walker has been very active among our back-benchers about this and has stirred up Peter Mills, who is likely to put down an Early Day Motion in the near future deploring the possibility of this de-valuation. I gather he already has eighty signatures.

9th December 1982



10 DOWNING STREET

From the Principal Private Secretary

13 December, 1982

The Prime Minister has seen and noted the Chief Whip's private and confidential minute of 9 December about the Early Day Motion deploring the possible devaluation of the Green Pound. She is grateful to the Chief Whip for drawing this to her attention.

E. E. R. BUTLER...

Murdo Maclean, Esq.,
Chief Whip's Office

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bc. C.S.
cf N10

10 DOWNING STREET

From the Private Secretary

7 December 1982

Dear Robert,

Common Agricultural Policy: 1983/84 Price Fixing

The Prime Minister understands that the Commission are likely to present their 1983 farm price proposals to Agriculture Ministers later this month and that these can be expected to call for at least a partial revaluation of the green pound. She would therefore like to discuss with the Minister for Agriculture, the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, and the Secretaries of State for Trade, Industry and Employment the policy we should adopt on the green pound in the 1983 price-fixing negotiations. We shall be in touch separately to arrange a time for the meeting.

I enclose, as a basis for the discussion, a factual paper by the Cabinet Office listing the policy options.

I am copying this letter to the Private Secretaries of the Ministers listed above.

Yours ever

John Gollan

Robert Lowson, Esq.,
Ministry of Agriculture, Fisheries and Food.

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John



10 DOWNING STREET

Please now type the
letter behind this page.

AD $\frac{7.}{12}$

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CC CAROLINE STEPHENS -
TO ARRANGE MEETING

10 DOWNING STREET

2 no

From the Private Secretary

7 December 1982

Common Agricultural Policy: 1983/84 Price Fixing

The Prime Minister understands that the Commission are likely to present their 1983 farm price proposals to Agriculture Ministers later this month and that these can be expected to call for at least a partial revaluation of the green pound. She would therefore like to discuss with the Minister for Agriculture, the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, and the Secretaries of State for Trade, Industry and Employment the policy we should adopt on the green pound in the 1983 price-fixing negotiations. We shall be in touch separately to arrange a time for the meeting.

I enclose, as a basis for the discussion, a factual paper by the Cabinet Office listing the policy options.

I am copying this letter to the Private Secretaries of the Ministers listed above.

A. J. COLES

AJC

*11.30 on
Tuesday 14 Dec.
CS.*

8/12.

Robert Lowson, Esq.,
Ministry of Agriculture, Fisheries and Food.

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COMMON AGRICULTURAL POLICY (CAP) PRICES 1983/84 AND THE GREEN POUND

Note by the European Secretariat of the Cabinet Office

BACKGROUND

1. The Commission have started serious work on their 1983 price proposals and hope to present them to the Agriculture Council on 13 December. Current information is that they are thinking in terms of a general norm of 5.5 per cent price increases - though only 4 per cent for cereals - with guarantee threshold adjustments of 2.2 per cent for milk and 1 per cent for cereals, making a net increase of 3.2 per cent for milk and 3 per cent for cereals, and green rate revaluations resulting in reductions in positive monetary compensatory amounts (MCAs) of 2.8 percentage points for Germany, the Netherlands and the UK. This would mean revaluations of approximately 3 per cent. The price increases for milk and cereals would be set at the minimum necessary to avoid a price reduction after taking account of the guarantee threshold adjustments and green rate changes, and these would be regarded as effective zero increases.

2. After discussion between the Minister of Agriculture, Fisheries and Food, the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary, UKREP were instructed to take the following general line when lobbying the British Commissioners in preparation for the relevant Commission meetings. We advocated an effective standstill on institutional prices for the main surplus commodities - cereals, sugar, milk and wine - and only the most modest increases, not exceeding 5 per cent, for other commodities, as well as effective guarantee thresholds and a rate of growth in expenditure markedly lower than the budgeted rate of growth in own resources.

3. Ministers agreed that the United Kingdom's policy for the future of the green pound needed further consideration. Pending a decision, UKREP were instructed to tell the Commission that the United Kingdom's view was that individual member states should be free themselves to decide whether any adjustment in their green rate was acceptable.

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QUESTION FOR DECISION

4. Ministers need to decide what our approach should be on the green pound, at least for the opening stages of the negotiations that will begin when the Commission publish their proposals. The remainder of the paper falls into three parts:-

- (i) An analysis of the impact of green rate changes.
- (ii) A reminder of what happened about the green pound in the 1982 negotiations.
- (iii) An analysis of the four main options from which a choice needs to be made.

THE IMPACT OF GREEN RATE CHANGES

5. Two main factors determine the impact of CAP prices in this country:

- (i) the level of common prices agreed by Agriculture Ministers in the annual price-fixing;
- (ii) the green pound rate by which these common prices are converted into national currency.

There are also two further factors which are relevant to the Government's approach to these issues:

- a. developments in UK farm incomes;
- b. the competitiveness of UK food manufacturing and processing.

The green pound is currently undervalued by just over 6 per cent, giving the UK a positive monetary compensatory amount (MCA) of 5.1 per cent (for the week beginning 6 December), though until recently the undervaluation was nearly 12 per cent and our MCA 10.7 per cent. The German and Netherlands positive MCAs are 8.4 and 5.4 per cent respectively. At last year's price fixing these countries accepted a Gentleman's Agreement under which they would eliminate their positive MCAs over a period of two years; this would require the MCAs to be reduced in 1983/84 by 3.6 and 3.7 per cent,



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as compared to the 2.8 per cent which the Commission appear to have in mind. A revaluation of the green pound would reduce the effective support price increases in the UK and so reduce the impact of the prices settlement both on farming income and on food prices. It has been calculated that each 1 per cent revaluation would be equivalent to around 0.04 per cent off the Retail Prices Index (RPI), and that it would reduce producers receipts in the UK in a full year by about £60 million. The revaluation currently envisaged by the Commission would reduce the effect of the prices settlement on the RPI by about 0.1 per cent and producers receipts by about £160 million.

6. France and Belgium have already secured green rate devaluations, worth 2.8 per cent and 4.6 per cent respectively in terms of increased support prices, which do not come into effect for most commodities until next year. France in addition has scope for a further green franc devaluation bringing the total price effect up to 6.8 per cent. On the basis of the present market value of the lira, Italy too could obtain a price increase of 3.8 per cent through devaluing the green lira. If the Commission's current thinking were carried through into a price settlement, with all countries in a position to devalue their green currencies doing so to the fullest possible extent, this would damp down the RPI impact by 0.1 per cent but produce an average price increase for the UK well below those in the majority of other Member States. The following table illustrates the resulting pattern of farm price increases in national terms and compares these with the Commission's estimate of 1983 inflation rates:



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	(Assumed average increase in common prices 5.5 per cent) Approximate per cent Increase in National Currencies	Commission's Estimates of 1983 Inflation Rates
Belgium	10.4*	8.5
Denmark	5.5	7.0
France	12.7*	9.0
Germany	2.5+	3.6
Greece	5.5	21.0
Ireland	5.5	13.0
Italy	9.5	15.0
Netherlands	2.5+	4.5
UK	2.5	6.9

*Including effect of green rate changes agreed in October 1982 but not yet in effect for most commodities

+If the Gentleman's Agreement were fully implemented the increase for Germany and the Netherlands would be 1.7 per cent.

THE 1982 NEGOTIATIONS

7. In the 1982 price negotiations, Ministers agreed that the UK should resist revaluation of the green pound in the context of our pressure for lower price increases than those proposed by the Commission, but leave the possibility of some revaluation open for further Ministerial consideration when the level of the likely final settlement on prices was clearer. In the event the Presidency package which formed the basis of the final settlement did not contain a proposal for the revaluation of the green pound and Ministers decided not to seek a revaluation.

THE CURRENT OPTIONS

8. The following seem to be the main options at this stage:
- a. to maintain the present line, at least until the position becomes clearer;
 - b. to accept the Commission's apparent objective of a 2.8 per cent revaluation;

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- c. to decide now on a target level of effective price increase in the UK, and agree if the common price increase exceeds this level to reduce the effect in the UK by a corresponding green rate revaluation. For instance, if our objective were that support prices in the UK should rise by no more than 5 per cent in sterling terms, then if a 7 per cent increase were eventually agreed in common prices, we would revalue the green pound by the amount required to offset the additional 2 per cent;
- d. to decide now that there should be no revaluation.

9. Although holding the present line would be designed to preserve the UK's domestic freedom of manoeuvre, it would not prove easy to maintain a convincing case for low increases in common prices once the Commission's formal proposals had been tabled unless we were prepared to take up a position on the green pound. Since green rates inevitably become bound up in the price-fixing negotiations as the various participants seek to form compromise packages embracing different aspects of the proposals, a failure to stake out a position on the green pound would tend to weaken the UK's negotiating posture, particularly when both we and the Commission are looking for zero effective increases for surplus commodities and our differing interpretations of what constitutes a zero effective increase depends upon whether or not allowance is made for green rate revaluations. And since the Commission and other member states would be tempted to fill the vacuum by assuming that we were saying obliquely that we were opposed to any revaluation, there would be strong pressures to make our position known.


10. Accepting the Commission's proposed revaluation would simplify the price negotiations and limit the inflationary impact of the eventual package while at the same time reducing the benefit to UK farm incomes. But it might be difficult to combine this position with effective deployment of the argument that the Commission's 5.5 per cent norm was too high and that there should be nil increases on a number of major commodities, since this would imply nominal price reductions for UK milk and cereal producers. Our action

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would therefore make it more likely that a price settlement could be reached relatively quickly, and the Government might be criticized for failing to put up a fight for British interests.

11. Deciding now on a target level of effective price increases and achieving this if necessary by an appropriate revaluation in the UK would be a developed version of the maintenance of the present line as in option (a). It would also limit the inflationary effects of the settlement as well as the benefit to farm incomes. It would enable our negotiators to operate on a basis of confidence about the way in which the price settlement would affect the United Kingdom, and would ensure that neither farmers nor consumers were unduly benefitted or penalised, whatever its outcome. We could not, however, directly deploy in the negotiations a policy line of this sort without undermining our objective of seeking the lowest possible price increases. We should need in fact to be arguing for no revaluation up to the point at which we were ready to concede a level of price increase in excess of the agreed target. Ministers would also be deciding now what a fair settlement would be for farmers and consumers in the UK without knowing the details of the eventual package and its timing, or the other circumstances which might be relevant at the time, including exchange rate relativities.

12. Deciding now that there will be no revaluation has the advantage that it enables us to take a clear line on the need for very low price increases. It maintains our stand of principle on the determination of the green rate and gives us an additional negotiating lever. On the other hand, other member states will argue that our farmers will be cushioned from the full impact of low price increases by the existence of our positive MCA. Moreover, if we do not in the end achieve our objective of very low price increases and we had left ourselves with no room for manoeuvre on revaluation, that option could have become politically more difficult - though it is perhaps unlikely that any objections would be raised in



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Brussels to a UK request to revalue at the last stages in the negotiations, if Ministers so decided.

13. Not all these options are necessarily mutually exclusive.

In order to reinforce the credibility of our case for zero or very low price increases, there seem to be clear advantages in resisting any revaluation of the green pound during the opening phase of the negotiations. Provided that we do not close the door entirely, Ministers would be able, when the settlement began to take shape, to choose between confirming their stance or accepting some revaluation to achieve an average price increase which Ministers judged to be acceptable for the UK. The shape of the eventual package is unlikely to become clear until after the German Elections in March. Postponing a decision on the above choice until then would enable Ministers to take into account the likely final settlement (including the price increases for other member states) and the value of sterling at the time.

CONCLUSION

14. Ministers are therefore invited to decide on the approach which should be taken on the green pound when the negotiations on the price fixing open in Brussels.

EL 10 Pol : CAP
A 10



ASC
to deal

Prime Minister

Content that I should:-

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- (a) circulate this paper?
- (b) convene a meeting attended by those listed in para. 2?

Tg 01523

MR COLES

A.S.C. 6/12

COMMON AGRICULTURAL POLICY: 1983/84 PRICE FIXING

1. I understand that the Prime Minister had it in mind to arrange a meeting to discuss policy on the green pound for the 1983 price fixing. We thought it might be helpful, as a matter of procedure, for the European Secretariat to prepare a factual paper listing policy options to provide the basis for the discussion. This procedural suggestion has been welcomed by both the Chancellor and the Minister of Agriculture.

2. Our paper is attached, together with a draft Private Secretary letter calling the meeting. Clearly, the Chancellor, the Foreign Secretary and Mr Walker should be present. The Prime Minister might wish other Ministers to attend as well. The Secretaries of State for Trade, Industry and Employment seem to us to have an interest.

gs

GUY STAPLETON

3 December 1982

Yes.
ml

Cabinet Office

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DRAFT PRIVATE SECRETARY LETTER to Robert Lawson

COMMON AGRICULTURAL POLICY: 1983/84 PRICE FIXING

The Prime Minister understands that the Commission are likely to present their 1983 farm price proposals to Agriculture Ministers later this month and that these can be expected to call for at least a partial revaluation of the green pound. She would therefore like to discuss with ~~colleagues on []~~ the policy we should adopt on the green pound in the 1983 price-fixing negotiations. We shall be in touch again to arrange a time for the meeting.

I enclose, as a basis for the discussion, a factual paper by the Cabinet Office listing the policy options.

the Ministers of Agriculture, the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary, and the Secretary of State for Trade, Industry and Employment

I am copying this letter to the Private Secretaries of the Ministers listed above.

MR 2.12

[blind copy to Sir Stephen 24 - 15 - 1983 meeting].

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

23 November 1982

A J Coles Esq.
10 Downing Street
LONDON
SW1

Mr 2/6

h.a.

Dear John.

CAP PRICE FIXING AND THE GREEN POUND

..... You might like to see the attached two letters, which are relevant to the proposal, on which the Prime Minister and the Chancellor agreed on 18 November, for an early meeting of a small Ministerial group at No.10 to consider policy on the green pound.

Yours ever,
J O Kerr

J O KERR
Principal Private Secretary



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

23 November 1982

B J P Fall Esq.
Principal Private Secretary
Foreign and Commonwealth Office

Dear Brian,

COMMON AGRICULTURAL POLICY: 1983/84 PRICE FIXING

The Chancellor has seen the note enclosed with Robert Lowson's letter of 22 November to you, and is content that it should be used as the basis for briefing of the Cabinets in Brussels today on the UK approach to the new CAP price fixing.

The Chancellor has noted, and warmly welcomes, the proposal for an early Ministerial discussion on policy in relation to the green pound.

Copies of this letter go to Robert Lowson (MAFF) and David Hancock (Cabinet Office).

*Yours ever,
J O Kerr*

J O KERR
Principal Private Secretary



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

From the Minister's Private Office

B J P Fall Esq
Private Secretary to the
Secretary of State
Foreign and Commonwealth Office
Downing Street
London SW1

CABINET OFFICE
QZ 0092
23 NOV 1982
FILING INSTRUCTIONS
FILE No.

22 November 1982

Dear Brian

COMMON AGRICULTURAL POLICY: 1983/84 PRICE FIXING

As you will probably be aware, the Commission will soon begin considering their approach to next year's CAP price fixing. I enclose some material which, if the Chancellor of the Exchequer agrees, my Minister would be grateful if you could transmit immediately to UKREP in Brussels with the request that they pass it to the Cabinets of the British Commissioners.

My Minister understands that a meeting will be arranged shortly to discuss the issue of our policy in relation to the green pound on the basis of a paper to be prepared by the Cabinet Office.

I am sending copies of this letter and enclosure to John Kerr (Chancellor of the Exchequer's Office) and to David Hancock (Cabinet Office).

Yours sincerely

Robert Lawson

EG

cc

Mr. Coles (No. 10) *RL 6/12*

Mr. Hatfield

Mr. Stapleton

Mr. Davis

Mr. Keay

R LOWSON
Private Secretary

D.H. 23/11

COMMON AGRICULTURAL POLICY: PRICE FIXING FOR 1983/84

UNITED KINGDOM VIEWS ON THE CONTENT OF THE PROPOSALS

GENERAL

1. Farm incomes have improved throughout the Community in 1982. The imbalances of production and consumption, however, have worsened in a number of important sectors. World markets are oversupplied and prices weaker, thus increasing the cost of exports and the risk of conflict with other exporting countries. It is now fairly clear that the draft budget provision for 1983 will be insufficient. There is a very real danger that expenditure will increase at too fast a rate and will before long absorb the remaining resources available to the budget, thus jeopardising the viability of the Common Agricultural Policy itself.

2. Against this background, effective policy action is essential at the 1983 price fixing. The Commission should propose an effective standstill on common institutional prices for products in structural surplus, namely all cereals, sugar, milk and wine. Since the problems are similar in each sector, there must be parallel treatment on prices. No increases should be proposed for olive oil, processed fruit and vegetables and dried fruit unless substantive changes are made in the regimes for these commodities to bring increases in production and costs under greater control. For other products, only the most modest increases in common prices should be contemplated ie no more than 5 per cent in any case, taking into account circumstances in each sector. There should be a significant further shift in the cereals/livestock balance in favour of the livestock sector (other than milk).

3. Consistently with our view that increases in common prices should be as low as possible and in the case of certain major commodities effectively zero, it is the UK Government's view that individual Member States should be free themselves to decide whether any adjustment in their green rate is acceptable in the light of their national circumstances.

4. The guarantee thresholds need to be effectively applied at levels which will give producers clear signals towards a better balance of supply and demand in the short and medium term. This requires clear decisions to be taken about the methods for implementing thresholds in 1984 and beyond.

5. The UK Government continues to attach importance to observance by the Commission and the Council of an overall financial guideline designed to improve the balance of expenditure within the Community budget. Our view remains that the rate of growth of agricultural guarantee expenditure, compared with the level provided for in the previous year, should be markedly lower than the budgeted rate of growth in the Own Resources base. The Commission should provide the Council with full information on the financial implications of their proposals on a basis which allows the effects of the proposals to be assessed separately from those of assumed changes in world market conditions.

6. The following paragraphs deal with main points on individual commodities.

MILK
co-responsibilities levies

7. In order to tackle effectively the increasing surpluses of milk, some form of super levy mechanism biting on the increase in production needs to be introduced. There is no evidence that the present co-responsibility levy discourages milk production and the UK Government considers that it should be abolished. This would benefit producers returns without affecting prices and consumption.

Price

8. In determining the price proposal for milk, account should be taken of the threshold mechanism and of the abolition of the co-responsibility levy so that the net effect is a zero increase in the returns of milk producers.

Threshold

9. The Council should take a clear decision on the method of implementation of the threshold in 1984 which should be designed to cover the full additional cost imposed by the excess production. There is no justification for any increase in the level of the threshold.

Small producers

10. The special aid to small producers should not be extended beyond the current year. It is contrary to the objectives in the Treaty and there is no reliable evidence to support any clear relationship between herd size and the need for income support which is, in any case, a matter for social policy.

Consumption

11. The UK butter subsidy should be maintained at least at its present level; and the rates under the school milk subsidy scheme should be increased.

CEREALS

12. The zero increase should apply to cereals after taking account of any reduction required by the production threshold.

13. In fixing arrangements for operating the threshold in 1984, there is no justification for any increase in the present level of the threshold. But the present arrangement under which the threshold mechanism applies only in the intervention and reference prices is unfair to consumers. The threshold prices should also be reduced when production exceeds the threshold level.

14. We understand that the Commission Services are contemplating proposing that export refunds should be paid only on grain meeting certain minimum standards. There is no justification for this since refunds are based on market, not support, prices; and quality is reflected in the selling price. Hence there is no way in which the budget is being defrauded by the present system. Moreover, a limitation on the payment of export refunds based on quality would discriminate against exporters since producers who

cannot sell into intervention can sell low quality grain on the Community market at a price related to the intervention level.

SUGAR

15. As well as a zero increase in price, an increase in the B levy would be justified in order to make B sugar less attractive and to bring this regime back towards the intention of being financially self balancing.

16. An increase in the A levy however would not be wise since it would lead to pressure for an increase in the price.

BEEF

Variable Premium

17. It will be essential to continue the variable premium scheme as the main form of support in the UK. Any proposal to limit the coverage of the scheme, for example to male animals only, would be completely unacceptable. This would undermine the overall level of support provided to UK producers' returns by disqualifying about a third of the current eligible production.

Other beef premia

18. We do not know what proposals will be put to the Commission as a result of the review of various beef premia. In our view it will be important to retain measures on the lines of the present suckler cow subsidy to encourage the specialist beef herd while not harming consumption or indirectly aiding dairy production (as the existing calf subsidy does). We understand that consideration has been given to the possibility of also introducing a more generalised headage payment on cattle. It is impossible to take a view on such a scheme without details. But there could be substantial difficulties in administering it and in preventing fraud.

19. Any notion of discriminating against larger farms to the benefit of small ones, either in a revised suckler cow subsidy or in a new headage scheme, would in our view be contrary to the Treaty objective of promoting efficiency in production.

Carcase classification grid

20. At the 1982 price fixing the Council agreed to introduce on an experimental basis from 28 June 1982 a new form of cattle price reporting on a deadweight price basis based on the new Community carcass classification grid. Experience since then has thrown up a number of problems.

21. It would clearly be dangerous to rely solely on the new deadweight form of price reporting from the start of 1983/4 for the operation of intervention and import levy mechanisms. Even to propose that the carcass classification grid should be used for intervention from the start of the next marketing year would in our view be ill-advised.

Ireland

22. Any special subsidies for Ireland, particularly in the beef sector, raise major difficulties for the United Kingdom, not only in relation to Northern Ireland, but for GB too: UK cattle numbers have also fallen substantially and beef profitability has been adversely affected. The point would be particularly valid if any further special assistance for Ireland were to be proposed.

SHEEPMEAT

23. The price increase should follow that for beef, in order to maintain relativities in the meat sector and to improve the balance between livestock and cereals.

24. It will be essential to continue the exemption from claw-back for exports to third countries and ships' stores and allied supplies. Otherwise this trade will be lost to third country suppliers.

25. Exports of sheepmeat from the UK to other Member States continues to be disrupted by the operation of the regime. The Commission declared an intention in October 1980 to keep the trends in the UK export trade under review taking account of the fact that the clawback arrangements were not intended to hinder the development of this trade. The UK will continue to press the

Commission to produce a solution to this particular problem which is seriously prejudicing the interests of our exporters.

WINE

26. In addition to no increase in the price, it will be essential to resist pressures for changes in the new regime which was recently agreed.

RICE

27. Substantial improvements are required to the regime for rice. We have put detailed suggestions to the Commission Services in writing.

OLIVE OIL

28. Quite apart from the problem of enlargement in this sector, there is an imminent problem of surplus and an acute problem of financial control. With Community prices already about 80% above Spanish prices, there should be no further increase until:-

- a. the production aid has been converted onto a flat rate aid per hectare or per tree: this would improve financial control as well as lessening the risks of an explosion in production following enlargement;
- b. a clear and adequately restrictive interpretative regulation clarifying the existing rules on the areas which qualify for aid has been agreed.

RAPE SEED AND SUNFLOWER SEED

29. The threshold arrangement should be effectively applied in this sector and extended to 1984. The Commission should propose the extension of the production threshold to cover sunflower seed. There is no justification for the present distinction between rape seed and sunflower seed.

PROCESSED FRUIT AND VEGETABLES

30. The threshold for 1982/3 must be effectively implemented. A much firmer and more effective arrangement is needed if the escalating cost in this sector is to be checked.

DRIED FRUIT

31. A number of changes are required in this regime:-

- a. the quantities of dried grapes eligible for aid should be limited at all stages from grower through storage agency to processor, so that Community support will not be attracted to ever increasing quantities;
- b. more rigorous quality standards and effective enforcement are needed to improve saleability of dried grapes;
- c. currants should be excluded from the regime or receive a more restricted form of aid.

Until changes along these lines have been agreed the minimum prices for growers should be held at present levels.