



10 DOWNING STREET

From the Private Secretary

20 December 1982

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c. Scott's office

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Dear Robert,

COMMON AGRICULTURAL POLICY: 1983/84 PRICE FIXING

The Prime Minister held a meeting at No. 10 Downing Street today to discuss the price fixing and the green pound. In addition to the Minister of Agriculture, Fisheries and Food, the following were present: the Chancellor of the Exchequer, the Secretaries of State for Foreign and Commonwealth Affairs, Industry, Employment and Trade, Sir Robert Armstrong and Mr. Hancock of the Cabinet Office.

The meeting had before it the Cabinet Office paper attached to my letter to you of 7 December; your Minister's minute to the Prime Minister of 15 December; and the Chancellor of the Exchequer's minute to the Prime Minister of 17 December.

The Minister of Agriculture reported that the Commission were still discussing their farm price proposals. Present expectations were that they would recommend a price increase of between 2 and 3 per cent for milk; about 4 per cent for cereals; and 5 to 6 per cent for the rest. The French Commissioners were pressing for special concessions for small farmers and the representatives of the Mediterranean interests were pressing for much more for Mediterranean agriculture. It was probable that the Commission would formally put their proposals to the Council in January. In the Council discussions, Italy, Ireland and Greece could be expected to press hard for much higher price increases. The French Government were unlikely to go for high average increases but would instead concentrate on getting special concessions for sensitive sectors of French agriculture. The German Government would control the timetable, being in the Presidency, and they were unlikely to want any sharp public conflict to emerge until after their General Election. The negotiations would therefore be unlikely to enter their decisive phase until mid-March.

When the Commission proposals were put forward the Minister proposed to oppose them strongly on the grounds that they were excessive. It was essential for tactical reasons that he should also say that there should be no revaluation of the green pound. He was content to agree that Ministers should consider policy for the green pound when the nature of the settlement could be predicted; but he would be surprised if the increases for milk and cereals, the two key commodities for the UK, came out at over 5 per cent so that there would be no call for a revaluation on the basis of the suggestion in the Chancellor of the Exchequer's minute of 17 December.

/ The Chancellor

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The Chancellor of the Exchequer said that the size of the United Kingdom's MCA and the consequent scope for revaluation could not be predicted. If last week's weakening of the pound persisted, the MCA would be reduced from 5 per cent to about 3½ per cent. His preferred course would be a firm Ministerial decision to revalue the green pound if necessary and if possible so as to limit the effect of the price settlement on domestic farm prices to below 5 per cent. But he would accept a decision to leave the matter open until the outcome of the negotiations could be predicted, provided that the UK's negotiating hand was played in such a way as to be compatible with a decision to revalue the green pound at that stage.

The Secretary of State for Employment said that there was a real risk that the monthly pattern of RPI figures would change direction in the course of 1983 and start going up again. Such a change of trend would attract public notice and could have a decisive influence on wage negotiations. The Government's priority must therefore be to prevent food prices going up by any more than was essential.

In discussion, it was pointed out that the international situation would provide the Community with a new and powerful incentive to agree to only modest price increases and to curb surpluses. In his visit to London the previous week, Secretary of State Shultz had made it quite clear that, if the Community carried on as before, the United States would deliberately launch a campaign of competitive subsidisation of agricultural exports and would be determined to win.

It was further suggested that the farm price and green pound decisions would be important for the food manufacturing industry, whose interest had to be considered as well as those of British farmers. On the other hand, it was argued that most of the firms in the British food manufacturing industry were making healthy profits.

Summing up the discussion, the Prime Minister said that the meeting agreed that for tactical reasons the United Kingdom's public position at the outset of the negotiations should be that there should be no revaluation of the green pound. Equally, the option of revaluing, if circumstances made that appropriate at a later stage, should not be foreclosed. It followed that nothing should be done in the negotiations or at home which would make it difficult for the Government to take such a decision at the appropriate time, if that were considered to be the right decision to take.

I am copying this letter to the Private Secretaries of the Ministers listed in paragraph 1, and to Richard Hatfield.

John ...
file ...

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

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10 DOWNING STREET

From the Private Secretary

21 December 1982

Common Agricultural Policy: 1983/84 Price Fixing

With reference to your Secretary of State's minute of 20 December to the Prime Minister on the above subject, you may like to have a copy of the record of the meeting held here yesterday which discussed our tactics towards the next round of CAP price fixing.

A. J. COLES

John Lyon Esq
Northern Ireland Office

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