

Prime Minister*A.J.C. 16.
2**[Handwritten signature]*FCS/83/34MINISTER FOR AGRICULTURE, FISHERIES AND FOODEC/US Agriculture

1. I am increasingly concerned about the threat of a competitive escalation of agricultural subsidies between the US and the EC, both because of the financial cost and because of the potential damage to wider US-European realtions.
2. Last October (your letter of 22 October) you offered to go to Washington to discuss the whole food export business with the Americans. As you will recall, I thought then that such a visit would be premature, but I think the situation has now changed. Butter sales to the Soviet Union are no longer the salient issue and there is now, if not a Community, at least a moderate Commission position which we can generally support. The Commission and the Americans have had two rounds of talks, following the meeting of George Shultz and other American Ministers with the Commission in Brussels in December. Despite the moderate and friendly atmosphere of these talks, they are clearly not leading to practical results and the feeling on both sides is that things will have to get worse before they get better. Elements in USDA and Congress seem set on having a subsidy war, or at least a battle or two before agreeing to an armistice.
3. It is in our interest to head this off if we can, or at least to ensure there is an armistice before things get out of hand. My officials are consulting yours about getting

/the German



the Germany Presidency to reinforce the Commission's efforts in Washington. But, with their minds on the hustings, a message is probably the most we can expect of them. I shall see President Reagan and other senior members of the Administration, and shall have a meeting with George Shultz, when I accompany The Queen to the West Coast in early March. I shall certainly take the opportunity to raise the issue then. But I think an early visit by you to Washington, where you could go over the ground with Block and other members of the Administration and perhaps also - subject to the advice of Sir Oliver Wright - leading people on the Hill, could do a lot of good. What is needed is some powerful political advocacy, in a firm but conciliatory way, of the need for an accommodation before rather than after a subsidy war which will be costly in every sense. A statement of the European view on this will come even more effectively from a representative of a major Member State, and from you personally, than from the Commission. We should need to consult Sir Oliver Wright, who will be on the West Coast accompanying The Queen between 24 February and 8 March, about timing.

4. What do you think?

5. I am copying this minute to the Prime Minister, members of OD(E) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to be 'FP', written in a cursive style.

(FRANCIS PYM)

Foreign and Commonwealth Office
16 February 1983

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FROM WASHINGTON 012345Z MAR 83.
TO PRIORITY F C O
TELEGRAM NUMBER 496 OF 1 MARCH
AND TO UKREP BRUSSELS.
INFO EC POSTS, UKMIS GENEVA.

Read in full.

FOLLOWING FROM THOMAS IN SIR O. WRIGHT'S ABSENCE ON WEST COAST.

mt

MR WALKER'S VISIT TO WASHINGTON: 9-10 MARCH.

1. MR WALKER COMES AT A TIME WHEN THE ADMINISTRATION ARE WONDERING WHAT TO DO NEXT AFTER THE EGYPTIAN WHEAT FLOUR SALE AND THE INCONCLUSIVE END TO THE LAST ROUND OF EC-US TALKS. A NUMBER OF NEW MEASURES OF EXPORT SUPPORT ARE UNDER CONTEMPLATION (WE WILL REPORT SEPARATELY), AND CONGRESSIONAL OPINION INCREASINGLY FAVOURS ACTION. THE STATE DEPARTMENT AND THE TREASURY STILL FAVOUR MODERATION. IT IS NOT AT ALL CLEAR WHICH WILL PREVAIL. IT IS THUS AN OPPORTUNE MOMENT FOR MR WALKER TO TRY TO INDUCE GREATER POLITICAL REALITY INTO AMERICAN THINKING, AND TO HELP BREATHE NEW LIFE INTO THE TALKS.

2. AMERICANS TEND TO BE LECTURED AT BY VISITING COMMUNITY OFFICIALS. THEIR MOST RECENT EXPERIENCE WITH A MINISTER (IF ONE DISCOUNTS THE BRIEF VISIT BY MR KOFOED IN OCTOBER) WAS WITH MME CRESSON LAST JULY AND THEY RESENTED THE VEHEMENCE AS WELL AS THE SUBSTANCE OF HER ARGUMENTS. THEY WILL BE EXPECTING A RATHER DIFFERENT MESSAGE FROM MR WALKER. THEY KNOW OF OUR LONG STANDING CRITICISMS OF THE C.A.P. THOSE WHO FOLLOW SUCH MATTERS CLOSELY KNOW OF OUR CONTINUED PRESSURE IN BRUSSELS TO HOLD DOWN PRICE INCREASES CONTROL SURPLUS PRODUCTION AND OPPOSE AGRICULTURAL PROTECTIONISM. THEY HAVE NOTED MR WALKER'S OWN OPPOSITION TO THE COMMISSION'S OVER-GENEROUS PRICE PROPOSALS THIS YEAR. THEY CONCLUDE THAT OUR INTERESTS CONVERGE WITH THEIRS, THAT WE ARE NOT UNHAPPY AT SEEING THE FRENCH DISCOMFITED AND THAT WE PRIVATELY WELCOME THE PRESSURE THEY ARE PLACING ON THE C.A.P. FROM OUTSIDE TO FORCE CHANGES WHICH WE HAVE BEEN UNABLE TO ENGINEER FROM WITHIN. AMERICANS GENERALLY DO NOT PERCEIVE THE POLITICAL REALITIES WHICH UNDERLIE THE C.A.P. NOR THE EXTENT TO WHICH THEIR RHETORIC AND THEIR RELIATORY MEASURES RISK ENTRENCHING THE COMMUNITY'S HARD-LINERS AND FORCING THE MODERATES INCLUDING OURSELVES TO SUPPORT A SOLID COMMUNITY FRONT.

3. AMERICAN POLICY-MAKING ON THIS IS SOMEWHAT CONFUSED. BUT MOST AMERICAN OFFICIAL THINKING NOW CONTAINS THE FOLLOWING ELEMENTS. THEY WANT COMMITMENTS FROM THE COMMUNITY TO RESTRAIN EXPORTS AND KEEP OUT OF CERTAIN MARKETS IN THE SHORT TERM; AND IN THE MEDIUM TERM TO CUT BACK PRODUCTION AND ELIMINATE SURPLUSES.

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/ THEY ARE

THEY ARE UNCLEAR ABOUT THE RESPECTIVE POWERS OF THE COMMISSION AND THE MEMBER STATES: AND THEY DO NOT APPRECIATE THAT - IN EUROPE AS IN AMERICA - IT IS EASIER TO STOP NEW THINGS HAPPENING (EG THE PROPOSED OIL AND FATS TAX) THAN TO CHANGE INGRAINED POLICIES (EG PHASING OUT DAIRY REFUNDS). THEY THEREFORE BELIEVE THAT THE COMMUNITY IS UNWILLING, RATHER THAN UNABLE, TO CHANGE BASIC POLICIES: AND THAT THIS CAN BE REMEDIED BY GETTING TOUGH. THE FAILURE, AS THEY SEE IT OF THE GATT SUBSIDIES CODE TO RESTRAIN THE COMMUNITY (THEY ARE PARTICULARLY UPSET BY THE PRELIMINARY WHEAT FLOUR RULING) HAS ENCOURAGED THEM TO THINK THAT IF OTHERS CAN GET AWAY WITH SUBSIDIES, THEY SHOULD FOLLOW SUIT.

4. AGAINST THIS BACKGROUND, TOO MANY AMERICANS STILL BELIEVE THAT THEY CAN GET THE EUROPEANS TO ABANDON ELEMENTS OF THE C.A.P. WHICH (WHETHER THE AMERICANS REALISE IT OR NOT) ARE CENTRAL TO THE POLICY: AND THAT THERE IS THEREFORE NO NEED TO CONCENTRATE ON REACHING A PRACTICAL ACCOMMODATION WITH THE COMMUNITY WHICH WILL ALLOW FOR SOME RECOVERY IN US EXPORTS.

IN PARTICULAR:

(A) THEY FEEL STRONGLY THAT THE EUROPEANS HAVE MADE NO REAL EFFORT TO SHARE WITH THE AMERICANS ANY OF THE BURDEN OF PRODUCTION ADJUSTMENT IN RESPONDING TO AN OVER-SUPPLIED WORLD MARKET:

(B) THEY DO NOT APPRECIATE THE EXTENT TO WHICH US PROVOCATION RISKS COMMUNITY RETALIATION AND TRADE WAR COULD PUT THEIR LUCRATIVE AGRICULTURAL MARKET IN EUROPE AT RISK:

(C) THE HARD-LINERS, SUCH AS SENATOR HELMS, DO NOT ACCEPT THAT THE GATT MECHANISMS, FOR ALL THEIR IMPERFECTION, ARE THE ONLY INTERNATIONAL DISCIPLINES AVAILABLE, AND THAT TO ABANDON THEM WOULD DAMAGE THE US POSITION IN GENERAL AS MUCH AS OUR OWN.

(D) PARTLY BECAUSE OF THEIR DISTRUST FOR VILLIAN, THEY DO NOT REALISE WHAT A LONG WAY THEY HAVE ALREADY BROUGHT THE COMMUNITY TO NEGOTIATE, ESPECIALLY SINCE THE GATT MEETING. INSTEAD OF BUILDING ON THIS, THE AMERICANS HAVE MOVED TOWARDS MEASURES (LIKE THE WHEAT FLOUR SALE) WHICH ARE LIKELY SIMPLY TO MAKE THE COMMUNITY REFUSE TO NEGOTIATE UNDER PRESSURE:

(E) AMERICANS EXAGGERATE THE CONTRIBUTION OF THE C.A.P. TO THE CURRENT DECLINE IN US EXPORTS. THEY PREFER TO BLAME THIS, RATHER THAN THE OVER-VALUED DOLLAR, DECLINING WORLDWIDE DEMAND, THE INDEBTEDNESS OF SOME OF THEIR PRINCIPAL CUSTOMERS, AND THE CONTINUING EFFECTS OF EARLIER TRADE EMBARGOES. THEY ATTRIBUTE THE COMMUNITY'S SUCCESS IN WORLD MARKETS TO 'UNFAIR SUBSIDIES', WHILE FAILING TO RECOGNISE THAT THE AGRICULTURAL REVOLUTION HAS TAKEN PLACE IN EUROPE TOO, AND THAT THEY THEMSELVES HAVE EXPENSIVE SYSTEMS OF AGRICULTURAL SUPPORT:

(F) FINALLY, SOME AMERICANS COME CLOSE TO DENYING THAT THE EUROPEANS HAVE A LEGITIMATE PLACE ON WORLD AGRICULTURAL

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/ MARKETS,

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MARKETS, AND TO ARGUING THAT AMERICA ALONE BECAUSE OF ITS ASSUMED COMPARATIVE ADVANTAGE HAS A VOCATION TO EXPORT. THEY DO NOT YET RECOGNISE THAT WITH THE GROWTH OF AGRICULTURAL PRODUCTION THROUGHOUT THE WORLD, THEY WILL NEVER AGAIN HAVE THE NEAR MONOPOLY OF EXPANDING MARKETS WHICH THEY ONCE ENJOYED.

5. IN ALL THESE WAYS THE ATTITUDES OF AMY AMERICANS TO PROBLEMS OF WORLD AGRICULTURAL TRADE ARE UNREALISTIC. THEY FIND IT DIFFICULT TO ACCEPT THAT THEY THEMSELVES ARE VULNERABLE ON A NUMBER OF CONCRETE POINTS. FOR EXAMPLE DESPITE THEIR CLAIMED COMPARATIVE ADVANTAGE, THEY ARE HAVING TO PAY SUBSIDIES AS LARGE OR LARGER THAN THE COMMUNITY TO PICK UP THIRD COUNTRY MARKETS (LOOK FOR EXAMPLE AT THE FIGURES FOR THE EGYPTIAN WHEAT FLOUR DEAL AND THE MILK POWDER SALE TO MEXICO). IN ADDITION THEY HAVE NO TRADITIONAL ROLE ON THE WORLD DAIRY MARKET, AND THEY WOULD THEREFORE RISK BREAKING THE GATT RULES IF THEY WERE NOW TO USE SUBSIDIES TO DISPOSE OF THEIR SURPLUS DAIRY PRODUCTS. THEY WOULD ALSO BE HURTING THE NEW ZEALANDERS, AND THEY KNOW THAT ANY SIZEABLE QUANTITY OF BUTTER THEY DISPOSE OF CHEAPLY IS LIKELY TO END UP IN RUSSIA.

6. ALL THIS SUGGESTS THAT THE AMERICANS ARE LIKELY TO RESPOND BEST TO A CAREFUL APPROACH WHICH PUTS THE C.A.P. INTO BETTER PERSPECTIVE FOR THEM, BUT AT THE SAME TIME EMPHASISES THAT WE HAVE A COMMON PROBLEM WHICH IN OUR VIEW IS BEST TACKLED THROUGH A CONSTRUCTIVE CONTINUATION OF THE TALKS STARTED LAST DECEMBER, ALWAYS WITHIN THE CONSTRAINTS IMPOSED BY POLITICAL REALITY ON BOTH SIDES OF THE ATLANTIC.

WRIGHT

FCO/WHITEHALL
NAD

THIS TELEGRAM
WAS NOT
ADVANCED

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

From the Minister's Private Office

A J Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
London
SW1

31 March 1983

Dear John

A.S.C. 31/3

h-a.

EC/US RELATIONS: AGRICULTURE

Thank you for your letter of 21 March in which you reported that the Prime Minister did not want to send Mr Reagan the draft message enclosed with my letter of 17 March, and asked for a fresh draft to be submitted in the light of the conclusions of the European Council.

Mr Walker feels on reflection that it would not be advisable for such a message to be sent at present. We will of course be in touch again should circumstances change.

I am copying this letter to the Private Secretaries of other members of OD(E) and of Sir Robert Armstrong.

Yours sincerely

Robert Lawson

ROBERT LOWSON
Private Secretary

The President

April 28, 1983

Dear Prime Minister,

Thank you for your letter of April 15 dealing with the rate of growth of agricultural expenditure.

The Commission shares your concern that agricultural expenditure is again growing more quickly than the Community's own resources - an important guideline for the Commission but one which Heads of Government could not agree to endorse at Lancaster House.

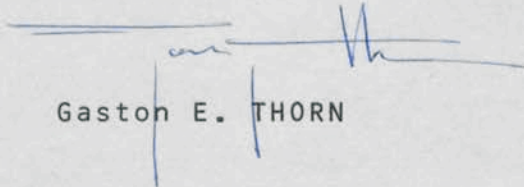
The current level of agricultural production - of milk and cereals especially - is at the root of the problem. It is considerably in excess of what is justified by market conditions and farmers must come to realise this.

The Commission considers it essential, therefore, that the Council accepts the Commission's present proposal for only modest price increases, coupled with guarantee thresholds and associated mechanisms. We made this clear to Agriculture Ministers last week.

The ensemble of measures we have proposed is capable of sending a very severe warning to producers. If it proves necessary to build further measures on this foundation, the Commission will not hesitate to make the necessary proposals.

I must point out, however, that the Commission's position that agricultural price increases should be kept to a minimum in both ECU and national currencies does not receive the unconditional support of all Member States. Even those Member States which urge the closest control of agricultural expenditure appear ready to approve extra price increases in national currencies despite the fact that these lead to higher production and expenditure in the future.

Yours sincerely,


Gaston E. THORN

The Right Honourable
Mrs. Margaret THATCHER,
Prime Minister,
10 Downing Street,
LONDON S.W. 1

Brussels, April 28, 1983

Office of the President

Chef de Cabinet

*The Prime Minister saw
the teletyped version.*

A.J.C. 4/5.

*Mr. Gordon
Received today
Lynch*

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Tel sent.

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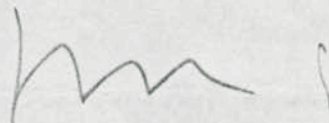
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Dear Mr. Gordon,

Please find enclosed President Thorn's
reply to the Prime Minister's message
of April 15.

I should be grateful if you would
transmit the letter to London at your
earliest convenience.

Yours sincerely,



Jean DURIEUX

Mr. J. Gordon
Acting Head of Chancery
Office of the United Kingdom
Permanent Representative to
the European Communities
Rond-Point Robert Schuman 6
1040 Brussels

Europe Pol,
CAP, Pt 11

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C.A.P.

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10 DOWNING STREET

From the Private Secretary

21 March 1983

EC/US Relations: Agriculture

The Prime Minister has seen your letter of 17 March enclosing a draft message which Mr. Walker recommends that she sends to President Reagan.

The Prime Minister is concerned that she may be sending too many messages to President Reagan and that the currency is therefore becoming devalued. She would propose not to send the present one yet but would be prepared to look at the possibility again after this week's European Council. I should be grateful if a fresh draft could be submitted in the light of the conclusions of the Council.

I am copying this letter to the Private Secretaries to the other members of OD(E) and Sir Robert Armstrong.

A. J. COLES

Robert Lawson, Esq.,
Ministry of Agriculture, Fisheries & Food

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PRIME MINISTER

EC/US relations: Agriculture

Mr. Walker is very keen that you should send the attached message to President Reagan this weekend. I am not sure why he thinks it so urgent.

Other Whitehall Departments (and David Hancock) think it would be much more sensible to wait until the European Council is over. We shall then know how Commissioners Haferkamp and Dalsager got on in Washington yesterday and shall be able to take account of whatever happens at the Council. If you send the message this weekend the Americans will do nothing with it but simply await results of the European Council.

Agree to consider sending message after the Council?

A. J. C.

18 March 1983

I fear we are sending too many messages to Reagan - 3 or 4 in a week and if the currency is becoming devalued, I fear that one will have to wait. not

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①

Prime Minister

Agree message to President
Reagan?

A.J.C. 12/3



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

From the Minister's Private Office

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A J Coles Esq
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

17 March 1983

Dear John

EC/US RELATIONS: AGRICULTURE

Following my Minister's visit to Washington on 9/10 March, he has agreed with Mr Pym the enclosed message which the Prime Minister could send to President Reagan if she is content, and which I hope is self-explanatory.

I am sending copies of this letter and enclosure to the Private Secretaries of the other members of OD(E) and Sir Robert Armstrong.

Yours sincerely

Robert Lawson

ROBERT LAWSON
Private Secretary

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DRAFT MESSAGE TO PRESIDENT REAGAN

~~US/EC RELATIONS~~

1. Peter Walker, ^{our} ~~the British~~ Minister of Agriculture, has just returned from two days of talks in Washington about the problems which the UK and the Community have over agricultural trade. He has told me of his satisfaction with the reception he had from members of your Administration, ^{He} ~~and~~ was encouraged by the general agreement among those to whom he spoke that an export subsidy war between the US and the Community must be avoided. It would seriously damage both the US and the Community, and serve no-one's interests but those of the purchasers of food dumped on world markets - not least the Soviet Union.

2. I know, however, that there are strong feelings in the US on this subject and that there are many Americans who believe that the right answer would be ^{to} get rid of the bulk of the US surpluses quickly on the world market, and that this could be done without too serious a risk of effective Community retaliation. ^{Walker heard} Peter ~~picked up~~ reports during his visit suggesting that there may be some in the Administration too (though not among those he met) who believe that this is the right course for you to follow.

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We have
52 ~~Peter had~~ no way of knowing how much weight to attach to these reports, and it may be that they ~~were~~ ^{are} unfounded. But the situation is too serious to allow any possibility of misunderstanding, and I must tell you that any assessment that the Community would not retaliate in the face of aggressive export subsidisation by the US would in my judgement be seriously mistaken. Such action on the part of the US would place those of us in the Community who want to avoid direct retaliation in export markets in a minority. In an escalating trade war, the hand of those in the Community who believe that it should use up its own produce in preference to imports would be greatly strengthened; I have no doubt that their aim would be to achieve a very large reduction in the £9 billion of US agriculture produce which the Community now imports annually. We need your help to stop this happening.

53 You will know that I am far from being an uncritical advocate of the way in which the Community's Common Agricultural Policy works. But in political terms I am sure you will understand that an agricultural trade war would make it more, not less, difficult to get agreement in Europe to the changes that are needed to make it work better. I am convinced

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that the right way forward is for all of us to maintain restraint and concentrate on working out in detail what needs to be done, product by product. I very much hope that the talks the Commissioners concerned are to have in Washington this week will carry that process forward.

§. I would not be writing to you if I did not think that a great deal is at stake. There has never been a greater need for unity between Europe and the US in our approach to world economic problems, ~~and~~ ^{and} it seems to me essential that nothing should be done to jeopardise the increased co-operation we must develop if we are to achieve the kind of results that you and I would both like to see at Williamsburg. I have asked Peter ^{Waller} to keep in close touch with Mr Block and Mr Brock over the coming weeks and months. We for our part will do all we can to help find practical solutions to these very difficult problems, and we want to work as closely as possible with you to that end.

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