



From the Minister

CONFIDENTIAL

PRIME MINISTER

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

~~NO~~ NO
Can a note be prepared for the meeting at X
which is on Thursday, 1 December.

AT
25/11

COMMON AGRICULTURAL POLICY: MILK

The most important element in any agricultural package in Athens will be the text on milk. It is clearly essential for some radical action to be taken to deal with the increasingly alarming imbalance in this sector and the mounting expenditure to which this is giving rise. We have argued that a really tough prices policy is economically the best way of tackling this. But the Commission have stuck to their supplementary levy proposal, which most other member states favour, mainly because they see it as a way of avoiding a tough price policy. While I recognise that we shall have to be prepared to accept the supplementary levy in Athens if an otherwise acceptable package emerges, I do want you and Geoffrey Howe to understand the implications of this policy for our own industry and for the Agricultural Departments.

Milk represents some 22.5% of agricultural output in the UK and it provides the major proportion of calves and cattle reared for beef. If you add in the value of the beef coming from the dairy herd, we are talking about some 32.5% of agricultural output. In Northern Ireland, Wales and South-west, the concentration on dairying is much higher, with a large number of smaller and less prosperous producers. The alternatives to milk in these areas are very limited.

1983 Applied at a total production level of 97.2 million tonnes as the Commission have proposed and using 1983 as the base from which the calculations are done as we would want, the final 6% or so of milk produced on each holding would be totally uneconomic. A medium sized producer with, say, a 65 cow herd would have to pay over a levy of £4,500 per annum or get rid of five or more of his lowest yielding cows. The rational thing in most cases would be to reduce the size of herd. This would throw up major problems on the beef market. And for a large number of producers - particularly the more enterprising who have recently gone in for an expansion programme on the basis of borrowed money - there could be a disastrous effect on the profitability of the milk enterprise as a whole and on the ability to meet interest payments on loans.

/At the dairy ...

At the dairy level, we would be faced with a cutback in milk supplies across the year. This would throw up spare processing capacity. The industry would be faced with either closing certain creameries or continuing to run them at a less efficient level. The industry has made great efforts to improve its product range and marketing impact over the last few years, admittedly under the stimulus of increasing milk production. In particular they have sought to expand our market for home produced cheese and for higher value milk products. There will be great resentment around the industry if this effort and the resources committed to it are now seen to have been wasted. They will point to our continuing substantial imports, notably of cheese and also of New Zealand butter coming into the UK market alone. And these adjustments may be taking place against the background of growing imports of liquid milk from other member states which would further reduce our own market share.

The other big problem will be over the administration of the supplementary levy. It will be necessary to make some arrangements for transfer of levy-free quotas. But this could create quite horrifying administrative problems. It is still not clear whether we should go for transfers only with the land or for a free market in milk quotas. In either case, there are problems about landlord-tenant relationships and I am concerned about setting up a system where richer producers could find it worthwhile to go out and buy-in quota from poorer farmers in Wales or the Southwest of England with damaging social consequences. We shall also have to build in to any supplementary levy system a degree of flexibility to deal with hard cases, but the definition of these will be very difficult indeed. All this will involve burdensome and complicated administrative problems with manpower implications, which we cannot attempt to assess, for the four Agricultural Departments.

→ If we do go down the supplementary levy route, it is essential that the arrangements are seen to be fair and non-discriminatory, both between member states and individual producers. We must continue to resist special exemptions and derogations, beyond a limited degree of flexibility to deal with the hard individual cases. As you know, the Irish are refusing to accept the supplementary levy - or indeed any other proposition - which would inhibit their freedom to continue to expand milk production, and the Greeks also want a special exclusion to deal with their liquid milk needs. The Greek issue is not important in itself. But I do not see how we could defend allowing the Irish a license to go ahead expanding when our own industry was being called upon to cut back.

If it comes to a deal in Athens, the Irish will stick out for special treatment and others may be inclined to look for some way of satisfying them, possibly as in the current Presidency text by giving them different or a later base date for the calculations. Any let-out of this sort would cause a major row with our own industry. We could be faced in Athens with a text which, by letting the Irish off the hook in some way, was seen to be discriminatory and especially damaging to our own industry with which the Irish are in most direct competition. I do not see how we could defend the Irish being treated more favourably than our own producers. I hope that we can discuss this point at your pre-Summit meeting.

/I am copying ...

I am copying this minute to the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretaries of State for Northern Ireland, Scotland and Wales and Sir Robert Armstrong.

Cl Hurdyn

for

MICHAEL JOPLING
(Approved by the Minister and
signed in his absence)

25 NOV 1983

