

0

CONFIDENTIAL

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

OD(81) 5th Meeting

COPY NO 46

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at
10 Downing Street on
THURSDAY 12 MARCH 1981 at 9.30 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the
Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Lord Carrington
Secretary of State for Foreign
and Commonwealth Affairs

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Chancellor of the Duchy of Lancaster
and Paymaster General

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Biffen
Secretary of State for Trade

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Peter Walker MP
Minister of Agriculture,
Fisheries and Food
(Item 1)

The Rt Hon George Younger MP
Secretary of State for Scotland
(Item 1)

The Rt Hon Nicholas Edwards MP
Secretary of State for Wales
(Item 1)

The Rt Hon Humphrey Atkins MP
Secretary of State for
Northern Ireland
(Item 1)

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin
Mr D M Elliott

CONFIDENTIAL

CONTENTS

Item No	Subject	Page
1	COMMON AGRICULTURAL POLICY PRICES 1981	1
2	PASSPORTS	7

1. COMMON AGRICULTURAL POLICY PRICES 1981

Previous Reference: OD(80) 22nd Meeting

The Committee considered a Memorandum by the Minister of Agriculture, Fisheries and Food (OD(81) 16) and a Note by the Chancellor of the Exchequer (OD(81) 18) discussing the main issues confronting the United Kingdom in the forthcoming negotiations on the 1981 Common Agricultural Policy (CAP) price fixing and proposing alternative approaches to those negotiations.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that as a result of United Kingdom pressure for price restraint farm incomes throughout the Community had fallen over the last two years and there was now strong political pressure for substantial price increases. The Commission had nevertheless proposed an average price increase of $7\frac{1}{2}$ per cent, as against the 15 per cent increase that would be required to maintain incomes at the previous year's level. All member states other than the United Kingdom wanted more than $7\frac{1}{2}$ per cent. The French and Germans had agreed to work for a settlement around 10 per cent, at which level the Germans would be ready to accept a $2\frac{1}{2}$ per cent revaluation of the Deutschemark. It was therefore unrealistic to expect a final settlement below 10 per cent. In the United Kingdom farm incomes had fallen faster than in any other member state except Ireland, and the 1981 Annual Review had shown that British farmers had suffered in 1980 the biggest reduction in incomes since the war. While support for the Government in the farming community had held up to date it would not do so much longer if the Government accepted a price settlement which left United Kingdom producers with the lowest increases in the Community. Valid comparisons could not be made with the situation in manufacturing industry where, among other differences, production had fallen by 10 per cent as against an increase in agricultural production by 8 per cent. Even if a parallel could be drawn, it would still be nonsense for the Government to bring about a further fall in United Kingdom farm incomes simply to match a decline in manufacturing profits. Against this background he proposed that in the forthcoming Agriculture Council negotiations he should argue against any price increases higher than the Commission's proposals and press for lower increases for cereals, oil

seeds and Mediterranean products; resist the proposal for a revaluation of the green pound; support the supplementary levy on milk, though this was unlikely to be acceptable to the other member states; press for price restraint on cereals in preference to the Commission's co-responsibility proposals for this sector; and insist on the continuance of the beef premium scheme, if possible with some improvement. As to a financial ceiling, he agreed that the United Kingdom should argue for the rate of growth of agricultural expenditure in 1982 and beyond to be lower than the rate of growth of own resources, but he did not believe that most other member states would accept a more restrictive formulation.

THE CHANCELLOR OF THE EXCHEQUER said that he acknowledged that domestic farm incomes had fallen and that this had provoked strong pressure for price increases from the farming industry. But they were not alone in suffering hardship, and the evidence set out in his paper showed that net trading profits in the manufacturing sector had fallen more steeply than net farm incomes during the current recession. The approach to the forthcoming price fixing negotiations should be based not only on the position of British farmers but also on the need to safeguard the interests of consumers, and on United Kingdom objectives for reform of the CAP and restructuring of the Community Budget. Surpluses of milk products and cereals were still growing. To get the right outcome on prices it would be necessary to start low. The starting point should be an average price increase no higher than 5 per cent, a cutback on price increases for Mediterranean products, and a near standstill on support levels for cereals. The Government should also support the economy measures proposed by the Commission, especially the super-levy, be ready to limit the inflationary effect of any settlement above 5 per cent through a corresponding revaluation of the green pound, and press for a financial ceiling in line with the Federal Chancellor's suggestion that from 1982 onwards the rate of growth in agricultural spending should not exceed half the rate of growth in the own resources base. This was essential to protect British budget refunds and to avoid undermining the budget restructuring exercise. As to the beef premium scheme, it would be cheaper in the long run to go along with its discontinuance, since it at present cost £48 million per annum in public expenditure against a likely cost of £20 million per annum for intervention.

In discussion the following points were made -

a. State of the United Kingdom Industry

There was general concern at the political implications for the Government of the declining trend of farm incomes, especially in the grassland areas. There were signs of a movement out of farming which could have serious consequences for the future of British agriculture. Borrowing in Scotland had more than doubled in the last $2\frac{1}{2}$ years and there had been a marked reduction in the beef herd. In Northern Ireland there was a risk that an increasingly disaffected farming community would cease to provide a vital element of stability in the life of the province. In Wales the abolition of the beef premium would come as a grievous blow to a sector that was already in rapid decline.

b. The negotiating context

Since there was no realistic prospect of a price settlement at less than an average increase of 9 or 10 per cent, little would be gained by holding out for lower increases. Moreover if the United Kingdom delayed the price fixing, she would be accused of breaching those provisions of the 30 May 1980 budget agreement which had called for fisheries to be settled by the end of 1980 and CAP prices by the beginning of the 1981 marketing year. This in turn might endanger British budget refunds and sour the atmosphere for the restructuring exercise during the British Presidency. It could also damage President Giscard's electoral prospects. The objective should therefore be to secure agreement on something less than a 10 per cent average price increase, and to use a readiness to acquiesce in that outcome to extract concessions of value to the United Kingdom.

c. Common price level

Although it would not be profitable to argue for an average increase as low as 5 per cent, it would be necessary to counter the strong pressure from other member states for prices higher than those proposed by the Commission. The United Kingdom should therefore

defend the average level proposed by the Commission, while pressing strongly for lower prices on surplus commodities, notably cereals. But some tactical advantage could still be gained out of moving towards the Commission's proposals.

d. Economy proposals

While most other member states would oppose a super-levy on milk, it was agreed that the United Kingdom should press hard for it and only be ready to let it go in exchange for a worthwhile concession elsewhere. It was argued that the Commission's proposals for introducing co-responsibility in the cereals sector should be backed, despite their technical weaknesses, which might be further discussed between the Departments concerned. Domestically the beef premium scheme could not be allowed to lapse; its continuance should therefore be one of the United Kingdom's objectives, though the public expenditure implications should be explored further between the Treasury and the Ministry of Agriculture, Fisheries and Food.

e. Green pound revaluation

In considering what level of domestic price increase to aim at, the effects which the petrol and other price increases flowing from the Budget would have on the rural community should not be overlooked. Nor could the Government easily justify to farmers any revaluation higher than that ultimately accepted by the Germans. It would nevertheless be necessary to reconcile the interests of United Kingdom farmers and consumers by offsetting to some extent the impact at home of any common price increase above the average level proposed by the Commission.

f. Financial guidelines

Since even the Germans would not accept a formula requiring agricultural spending to be kept below one half of the rate of growth of own resources, and to call for expenditure merely to be lower than the growth of own resources was too weak and imprecise, the United Kingdom might suggest the expression "markedly lower than".

g. Linkage

Public opinion would not understand it if an eventual price settlement as high as 9 or 10 per cent was accepted even though the Government's objectives on a revised Common Fisheries Policy had not yet been secured. The Committee should therefore consider urgently whether it would be advantageous to use the CAP price fixing to get a satisfactory settlement on fish or other issues.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that in the forthcoming CAP price fixing negotiations the only realistic general objective would be to hold the average price level as near as possible to the $7\frac{1}{2}$ per cent proposed by the Commission. We should probably need at the end of the day to accept something slightly higher in which case it would be necessary to consider how much should be offset domestically through a green pound revaluation. Within these broad guidelines, the United Kingdom should press for lower price increases for products in surplus, notably cereals, oilseeds and Mediterranean products; and argue strongly for effective economy measures, including the super levy on milk and only give way on this in exchange for a worth while concession elsewhere. It would also be necessary to insist on the continuance of the beef premium but its public expenditure implications should be discussed further by the Treasury and the Ministry of Agriculture, Fisheries and Food. In principle, the co-responsibility proposals for cereals deserved support but other methods might be more effective and should be explored by officials. The Committee also agreed that it was essential for the outcome of the price fixing to be consistent with the policy for reforming the CAP and restructuring the Community budget. To this end, the United Kingdom should work in concert with the Germans for acceptance by the Council of a formula calling for the growth in agricultural expenditure from 1982 onwards to be markedly lower than the rate of growth in the own resources base. The Foreign and Commonwealth Secretary, in consultation with the Minister of Agriculture, Fisheries and Food, should arrange for a paper assessing the scope for linking fisheries and other issues to the price fixing to be circulated for urgent consideration by the Committee. In the meantime no decisions which would prejudice the possibility of linkage should be taken.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Minister of Agriculture, Fisheries and Food to be guided accordingly in discussions in forthcoming Agriculture Councils of the Commission's 1981 price fixing proposals.
3. Invited the Chancellor of the Exchequer to be guided accordingly in discussion in forthcoming Finance Councils of the question of financial guidelines for future agricultural expenditure.
4. Invited the Foreign and Commonwealth Secretary, in consultation with the Minister of Agriculture, Fisheries and Food, to arrange for the circulation of a paper on possible linkages between the price fixing negotiations and fisheries or other issues for urgent consideration by the Committee.
5. Instructed officials to consider further the co-responsibility proposals for cereals and the public expenditure implications of the continuance of the beef premium scheme.

2. PASSPORTS

The Committee considered a joint Memorandum by the Secretary of State for Foreign and Commonwealth Affairs and the Home Secretary (OD(81) 17) proposing that the Government should announce a decision in principle to adopt the International Civil Aviation Organisation (ICAO) recommendations for a machine-readable passport, making clear that further work was needed before a date could be set for the change; and agree in Brussels on a common format passport, on condition that its introduction in the United Kingdom could be delayed until the changeover to the ICAO format.

THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS said that the previous Government had entered into a commitment to introduce a common format passport for the European Community. He had employed various tactics for delaying a decision, but it was now necessary to decide whether or not to accept the proposals which were agreeable to all other member states. The proposals provided for the common format to be introduced by 1985 but there was a let-out clause for member states which would probably include the United Kingdom if there were practical reasons for later implementation. Provided the common format passport could be introduced at the same time as the machine-readable passport as proposed by ICAO, it would be just possible to present the change as being of benefit. In any event, the introduction of machine readability required a new passport which would be issued at the time of renewal of existing passports. There would be no commitment to make a change during the lifetime of the present Parliament.

In discussion the following points were made -

- a. The common passport would still be a British passport although with a common format. While it would be preferable to retain the existing colour, it had already been agreed that all member states would use the same colour and one which was not in current use by any of the member states.
- b. In the opinion of the experts, the introduction of machine readability would reduce the scope for fraudulent passports.

c. Before decisions were taken in Brussels, it would be desirable to inform Parliament through an arranged Parliamentary Question of the Government's position that a common European Community (EC) format must take full account of the ICAO recommendations and that a passport in such a common format would be introduced at the same time as the United Kingdom adopted the ICAO recommendations. The reply should also stress that the commitment was entered into by the previous Government. A decision to introduce the common EC format would be particularly welcome to the Dutch Prime Minister, Mr van Agt, who was facing an election.

THE PRIME MINISTER, summing up the discussion said that the Committee agreed to the proposals put forward by the Foreign and Commonwealth Secretary and the Home Secretary on the understanding that the decision on the date of implementation would rest with the British Government.

The Committee -

1. Agreed to the proposals set out in OD(81) 17.
2. Invited the Lord Privy Seal to arrange for Parliament to be informed.

Cabinet Office

13 March 1981