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Euro Pol

c.c. Mr. Hoskyns
Mr. Wolfson
Mr. Ingham
Mr. Alexander

CC Master Set
Euro Pol : Pt 2
CAP

10 DOWNING STREET

From the Private Secretary

27 November, 1979.

Dear Garth,

Mr. Richard Butler, the President of the National Farmers Union, called on the Prime Minister at 1100 hours today. Your Minister was also present. The discussion ranged widely over domestic agriculture and the Common Agricultural Policy. The following are the main points which came up.

Mr. Butler said that farm incomes had fallen sharply. The figures were given in the paper which he had sent under cover of his letter of 15 November. There was likely to be a 17% fall in 1979, and further contraction in 1980 if existing policies continued. Comparisons with non-farm occupations also showed that farmers had fared very badly (Mr. Butler handed over the enclosed table to demonstrate this point). Unless the Government took action to ameliorate the farmers' position, agricultural production was bound to decline. This would be harmful to the balance of payments and would reduce our national income. It would also be politically damaging: the farming community had supported the government at the General Election, and they would not understand if their plight were ignored. The NFU accepted that no industry could be immune from a squeeze on profits and incomes in present circumstances; but the current pressure on agriculture, and on small farmers in particular, was quite disproportionate. In contrast to manufacturing industry, farmers were not able to recoup their costs by raising their prices; they had to rely on the Government for this. The recently announced increase in payments for hill-sheep and cattle was a step in the right direction· but more needed to be done. The immediate priorities were a further devaluation in the green pound and a substantial increase in the retail price of milk.

The Prime Minister said that the position of farmers was not as bad as the income figures suggested. These figures did not take into account the appreciation of land values, and thus ignored the fact that the bulk of farmers were enjoying rising real wealth. It was hard in these circumstances to justify measures which would add to the RPI or to public expenditure. On the other hand, she accepted that any fall in

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production capacity would be damaging - not least for security of supply reasons; indeed, we should be aiming to produce more food from our own resources rather than become dependent on increased imports from the EEC. Further measures to improve farm incomes would therefore no doubt be needed, though it was unlikely that the Government would be able to go as far as the NFU would like.

The Prime Minister went on to say that she was concerned that we might be artifically encouraging the production and consumption of milk and dairy products. Milk produced in Britain already appeared to be going into intervention; if a reduction in milk output led to a smaller surplus, that would be beneficial. Furthermore, the door-to-door delivery system appeared to give an artificial and unnecessary boost to consumption. Other advanced countries managed without it, and so could we. If milk consumption were to fall, the case for an increase in the price to the producer would be considerably weakened.

Mr. Walker commented that the amount of UK milk going into intervention was in fact very small. A fall in milk production would essentially mean increased imports of dairy products. Moreover, he could not accept that the present distribution system artificially boosted consumption. The demise of the door-to-door system would be very unpopular, and consumption would fall very substantially with disastrous effects for milk producers.

There was also a general discussion of the inadequacies of the CAP. The Prime Minister said that reform of the CAP was essential, but the Commission's latest proposals were very unhelpful: they would damage our interests. She wondered whether other members of the Community would agree to a further green pound devaluation.

Mr. Walker responded that if we were to postpone a further devaluation until next year's price fixing, and if we were to oppose any increase in common prices, then the French might well object. But a devaluation in January or February would probably be acceptable. If we did decide to devalue, it would be important to give as little forewarning as possible to avoid a sudden inflow of imports.

The Prime Minister said that President Giscard had told her that if a sheep-meat regime had been in place, the French Government would not be stopping imports of lamb. He also tended to argue that UK agriculture was only low cost because of the high level of subsidies paid to our farmers.

Mr. Walker commented that current proposals for a sheep-meat regime were totally unacceptable: they would involve the

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UK financing premium payments to French and Irish farmers. As for the question of subsidies, President Giscard's position was totally without foundation. The French agricultural budget for this year amounted to £2.5 bn, compared with the MAFF budget of £460 m. Even though French farm output was larger than the UK's, the implied level of subsidy was far greater. French subsidies on interest rates alone amounted to more than the MAFF budget.

I am sending copies of this letter to Tony Battishill (HM Treasury), Paul Lever (Foreign and Commonwealth Office), Stuart Hampson (Department of Trade), Godfrey Robson (Scottish Office), George Craig (Welsh Office), Roy Harrington (Northern Ireland Office), Gerry Spence (CPRS), and Martin Vile (Cabinet Office).

Yours ever,

Tim Lankester.

G.R. Waters, Esq.,
Ministry of Agriculture, Fisheries and Food.