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Michael
Prime Minister

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

7 October 1980

The Rt. Hon. Peter Walker MBE MP
Minister of Agriculture

Handwritten notes: "Hand 8/10"

Handwritten initials: "mt."

Handwritten signature: "Peter"

Handwritten initials: "TW 8/10"

Handwritten note: "See Part 5"

THE GREEN POUND

Following your letter of 27 May the Prime Minister agreed to rule out a revaluation of the green pound for the time being. We did not, at the time, discuss in any detail the circumstances in which a green pound revaluation would be appropriate, but my understanding, based on your original letter of this subject of 18 April was that you would envisage such a change being made if the green rate diverged from the market rate by a significant amount and for a reasonable period. In the meantime, in view of the current and prospective income situation for UK farmers, you opposed the suggestion that there should be a revaluation in the context of the price fixing to remove a gap of only 2½ per cent between the market and green rate.

As you know, the market rate for sterling has remained above the green rate since the price fixing. The gap has now been about 5 per cent for some weeks. This means that UK support prices, measured at market exchange rates, have been almost the highest in the Community, second only to those in Germany. In my view the German reluctance to revalue the green DM is unjustified and difficult to reconcile with their declared commitment to permanent reform of the CAP. In any event I see no reason why German policy on this issue should be regarded as a model for this country to pursue.

In short I do not believe that we should allow the present divergence between the green pound and market rates to continue indefinitely. While other sectors of industry all feeling the effects of the strong pound, I do not see how we can justify sheltering agriculture alone, and at the same time denying the benefits to British consumers. And it underlines our criticisms of the CAP for us voluntarily to apply higher food prices than the common price level.

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As I see it therefore the choice lies between making an immediate revaluation or revaluing in the context of the next CAP price fixing, unless, of course, the market exchange rate has fallen by then.

I am sending copies of this letter to the Prime Minister, the other member of OD(E) and Sir Robert Armstrong.

GEOFFREY HOWE

A handwritten signature in black ink, appearing to be "G. Howe", with a horizontal line underneath.