



HOUSE OF COMMONS
LONDON SW1A 0AA

15th March 1979

I was asked at the last meeting to prepare a note on my proposal for a Green Pound devaluation of 6 per cent.

I enclose this together with a brief explanation of how the Green Pound works.

JOHN PEYTON

Sally.

SECRET

COPY NO ...

Farm earnings in the United Kingdom are estimated to have dropped last year in real terms by 11% - (the figure for Scotland is said to be 33%). The winter has been long, hard and expensive. Costs during 1978/79 are expected to rise; wages by 16%, fertilizers 15%, chemicals 18% and machinery 25%. Borrowings have now reached £2000 million and brought with them a high interest burden. Rents have also increased very sharply indeed.

The difference between the real pound and the green one is now about 28%; the difference between the green mark and the real one is 12%. The function of the so called MCA is to eliminate this gap and to give the exporter his full price in his own real currency. As a result, German butter which costs about £1000 a tonne more to produce than ours is still able to compete in our market. The same thing occurs in other products, particularly pigmeat from Denmark and beef from Ireland.

Until last year, member countries were permitted to adjust the value of their green currencies more or less at will. Last year, however, when the House of Commons passed the motion calling for an immediate devaluation of 7%, difficulties arose and objections were made by those countries who saw their opportunities in our market being reduced.

Silkin is now prepared to accept the 5% devaluation proposed by the Commission, the Liberals want 10%, the SNP 10%. The NFU in asking for 15% believe that nothing short of that will repair the damage that the industry has suffered.

The undertaking, which I have given with the authority of the Shadow Cabinet, that we would within the normal lifetime of a Parliament put our own producers in a position which would enable them to compete on level terms with imports from the Community has the defects as well as the merits of vagueness. It has led many to think that like Silkin we worry only about today's prices and not at all about the soundness of our food industries or the prosperity of the countryside. If now we stand aside, the worth of our undertaking and indeed our underlying good faith will be even more widely questioned.

I may well be wrong in proposing 8% rather than 10% but it has at least the merit of being sufficiently close to the 5% which Silkin supports for it to be difficult for him to make much capital on the food price issue. This is one which in any event we will have to handle with some care in view of the fact that food prices have more than doubled while this Government have been in office.

The minor parties having plumped for more, would, I think, find themselves obliged, as they did last year, to support us.

Since we have no supply days available in the near future, I see little point in an Early Day Motion, signed by ~~any~~ any member of the Front Bench, though some back benchers may well propose one. I would like the agreement of my colleagues to my saying at some convenient time that we do not think 5% enough and that we would wish to make more progress, by making it say 8%.

I also suggest that when in due course the Government moves to take note of the Price Review documents, we should move an appropriate amendment of 8%

I attach a note on the working of green currencies and a table showing how devaluations of 5%, 8%, 10% and 15% would affect the food price index and the RPI.

The Green Currencies

An intervention price is fixed in 'Units of Account' for those products that are subject to a Common Market regime. It is converted not into the real value of a currency but into that of the so-called green one.

If the green currency is low in relation to the real one, as in Germany, the prices received by producers will be artificially raised as a result. Conversely, if the value of the green currency is kept high in relation to the real one (as in our own case), the price received by the producers will be lower.

An exporter is paid in the real currency of the country to which he is sending his produce. He is entitled, however, to receive from the Commission by means of an MCA, the difference between the value of that currency and its green equivalent.

For example, a German producer can sell produce in Germany for the equivalent of 100p. He can export the same amount to the United Kingdom and receives 70p in sterling from the wholesaler. On his way home he calls in to the Commission in Brussels to collect the MCA of 30p in D-Marks, thus receiving in total the 100p equivalent that he could have in his home market. If, as often happens, the 30p MCA from the Commission is in fact 35p or more, as a result of sudden change in exchange rates, the German exporter is then able to undercut our home producers without any loss to himself.

Green Pound Devaluations

<u>Devaluations</u>	<u>Food Price Index</u>	<u>RPI</u>
5% EEC Commission and Government proposal	1% (1p in £)	0.2%
8% our proposal	1.6% (1.6p in £)	0.32%
10% Liberal and SNP proposal	2% (2p in £)	0.4%
15% NFU proposal	3% (3p in £)	0.6%

NB. These figures are derived from a written answer by Silkin on 29th January 1979 and the fact that consumer expenditure on food as a percentage of total spending was 22.4% in 1977.

It takes time for the results of devaluations to work through to prices in the shops.