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DEFENCE AND OVERSEA POLICY COMMITTEE

COMMON AGRICULTURAL POLICY

PRICE FIXING 1981

Memorandum by the Minister of Agriculture, Fisheries and Food

INTRODUCTION

1. The Agriculture Council is to have its first serious discussion of the price proposals at a meeting on 16/17 March. There will be strong pressures not only from the French for a settlement at the meeting on 30 March to 1 April. This memorandum discusses the main issues confronting us and the line we should take in the negotiations.

COMMISSION'S PROPOSALS

2. The Commission's proposals are summarised in Annex I. The net effect of the price and green rate changes proposed would be to increase the level of support in the UK by no more than 1.4 per cent (Annex II explains how revaluation of the green pound would act to reduce the common price increases agreed). Producers in those Member States who are not faced with revaluation would benefit by the full amount of the common price increases. The implementation of the proposals as they stand would result in a fall in real support prices in the UK by some 9.9 per cent. As the last column of Annex III shows, this is much worse than the position in any other Member State.

APPROACH TO NEGOTIATIONS

3. The price proposals as they stand are unbalanced and unacceptable to us. We need to pursue a continuing policy of price restraint, but, in seeking to secure reforms in the CAP, we must avoid doing long-term damage to our own industry and its ability to compete effectively in the community market.

4. The 1981 Annual Review clearly showed the very severe difficulties the industry is facing, particularly in parts of the livestock sector. Although a record cereals harvest was mainly responsible for the 11 per cent increase in the volume of production, farmers have had to meet a 46 per cent rise in interest payments on commercial borrowings from Banks and a 17 per cent rise in the labour bill. Farming income declined in money terms by 10 per cent and in real terms by 24 per cent. Over the last 4 years, the cumulative decline in real terms has been over 50 per

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cent. Using an alternative definition of income under which interest charges are not treated as a cost, the decline was 14 per cent in 1980 and 38 per cent over the last four years. Farming incomes are not, however, the equivalent of ordinary salaries of employment; as well as meeting living costs of farmers' families, they have to provide a return on the management and generate new capital for investment from within the business. The pressures on the industry are reflected in the 30 per cent increase in bank borrowings in 1980 and the 25 per cent volume reduction in investment in plant and machinery.

5. The aggregate figures in the Annual Review conceal marked and significant regional differences, as the following indices show:-

	Indices of farming incomes in real terms		
	UK	Scotland	Northern Ireland
1975	100	100	100
1976	111	132	129
1977	94	94	150
1978	85	60	128
1979	69	32	81
1980 (estimate)	53	13	38
1981 (forecast) (1)	45	7	negligible

Note: (1) The forecast for 1981 does not take account of any CAP price settlement in 1981/82.

One reason for these differences is the relatively high dependence of Scotland and Northern Ireland on beef and milk, the two sectors which are facing the most serious problems throughout the UK.

EFFECT OF COMMISSION PROPOSALS ON UK PRODUCERS AND CONSUMERS

6. Since they relate to support prices for the 1981/82 marketing years, the price changes proposed would not have a significant effect on farmers' returns until the second half of the 1981 calendar year and the main impact would not be felt until into 1982.

7. The price proposals as a whole, including the effect of the revaluation of the Green Pound, would in this period actually reduce producers' revenue by some £40 million. If the proposed Green Pound revaluation is omitted from the calculation, producers' revenue would be raised by some £240 million. Between 1980 and the end of the 1981/82 marketing year (a period of some 18 months), farm costs are expected, assuming a much reduced rate of inflation and a cut-back in volume of inputs purchased, to rise by some £650m or 8 per cent. Output prices over this same period are

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expected to rise by some £450 million as a result partly of earlier support price increases and partly of rises in market prices. The full Commission proposals would, therefore, impose another severe cost/price squeeze on the industry in 1981/82. Even if the effect of the Green Pound revaluation is excluded, higher farm revenue while covering the projected increase in costs would leave farming income substantially lower in real terms as the following figures show:-

	1975	1976	1977	1978	1979	1980	1981	Full year effect in 1981/82 crop year
Farming Income (£ million)	995	1283	1256	1243	1145	1025	a) 960 b) 1070	785 1065
Index in Real terms (1975 = 100)	100	111	94	85	69	53	a) 44 b) 49	35 47

- a) Assume CAP price, Green Pound and co-responsibility proposals
 b) As for a) but excluding the Green Pound proposal.

8. The effect on the food price index of the full Commission proposals would be negligible. If the Green Pound proposal is excluded, there would be a rise of 1.1 per cent on the Food Price Index, equivalent to 0.25 per cent on the RPI.

NET MARGINS

9. The best detailed view of the present state of the industry in England and Wales can be derived from the data on net margins for individual commodities. This is a measure of the return to the farmer for his management and the capital employed - the nearest approximation available of the profitability of individual cropping and livestock enterprises. Annex IV attached provides estimates of the increase in producers' revenues that would be required in order to maintain the net margins in 1981/82 at the 1980/81 levels in real terms. The estimates for 1981/82 have been discussed with the Treasury and reflect Treasury forecasts of inflation. Annex V shows how the 1980/81 real net margins compared with those in earlier years.

10. The forecasts of net margins point to the need for an average increase in the support prices of the 'northern' commodities of over 12 per cent if the real net margins are to be maintained in 1981/82 at the estimated 1980/81 level. Milk and beef are shown to be the main problem sectors. For milk, the real net margin in 1980/81 was lower than in any previous year. To maintain even this low level in real terms would require a 17.0 per cent increase in common prices (compared with the Commission's proposal of 8 per cent in two stages). The net margin on beef has fallen severely and is estimated to have been negative in 1980/81. A modest level of net margin would be £20 per head. In order to achieve this a firming up of producers' returns by about 12 per cent would be required.

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And to maintain the margin in real terms in 1981/82 a 12 per cent increase in the support level (compared with the Commission's proposal of 9 per cent in two stages) would be needed.

STATE OF THE INDUSTRY

11. It is clear that UK agriculture is in urgent need of an improvement in profitability if we are to avoid longer term damage, particularly to parts of the livestock sector. Farmers have faced a price squeeze greater than that in the economy generally. Last year, farm output prices increased by some 6.0 per cent. Retail food prices in January were 8.9 per cent higher than a year earlier. The retail price index for all items had, however, increased by 13 per cent over this period. This covers, for example, price increases for the nationalised industries averaging over 25 per cent compared with a year earlier, as well as the lower increases for food and certain consumer durables.

12. A reduction in MLR, while clearly helpful, would not bring a significant relief. Net commercial borrowings in 1981 are forecast to rise again but by much less than in 1980. However, even a 4 point reduction in MLR during the year would reduce the interest bill by only some £45 million (from the 1980 level of £460 million). Nor does the strength of sterling greatly help the industry since only some 20 per cent of total inputs are linked directly to the value of sterling and the cost of other inputs are primarily influenced by domestic factors.

13. The conclusion from all the figures on the state of the industry is that, even without the proposed revaluation, the Commission's price proposals would result in a further erosion of the industry's financial base. We could certainly not justify to the industry a settlement which disadvantaged UK producers in comparison with those in other Member States.

STATE OF FARMING IN THE COMMUNITY

14. In presenting their proposals, the Commission point out that real incomes in agriculture in the Community (measured on the Commission's basis of net value added) rose until 1976, were steady in 1976-1978 and have fallen in real terms by 1.8 per cent in 1979 and 8.9 per cent in 1980. At the same time, real incomes in the Community economy generally have continued to increase. The average figures cover marked differences between countries. But against the background of the squeeze which Community farmers have experienced over the last 3 years, the Commission's proposals do not look excessive.

NATIONAL AIDS

15. There has been a growing tendency in this situation to resort to national aids, both to respond to political pressures and as a part of an economic strategy for the development of agriculture. In France, for example, the ordinary budget of the Ministry of Agriculture has been raised to 25,734 million francs (£2,237 million) in 1981 of which 5,340 million francs (£464 million) relates to subsidised credit. This compares with the total estimates (excluding the Thames barrier) for the UK agricultural departments for 1980/81 of some £518 million. The recently announced additional package of aids, designed to maintain the purchasing power of farmers in France,

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amounts to about \$360 million and about half of this is direct income aid. French milk production in 1980 increased by some 5 per cent with the Community having to pick up the bill for its disposal. The policy of the French government is to increase its food production and processing by taking a larger share of the Community market and by expanding exports at the cost of the Community budget. We cannot afford to pursue a policy in Europe which results in a weakening of our own industry in the face of such severe competition.

ATTITUDE OF OTHER MEMBER STATES

16. The main policy aims which other Member States are expected to pursue are summarised in Annex VI attached. All the indications are that the French will want at least 10 per cent on common prices; in a major speech to the Congress of French Farmers' Unions, the French Minister has said that he would do his best to secure increases as close as possible to their figure of 15.3 per cent. Although the Germans might be ready to take a lower increase, they are not expected seriously to resist a French demand for a 10 per cent price increase. Neither the French nor the Germans seem ready to accept the supplementary levy or the cereals variable intervention price. They are likely to rally behind ideas for increasing the linear co-responsibility levy on milk, with differentiation of the rate to favour smaller producers.

17. The other main factor in the negotiations is likely to be an alliance between Italy and Greece to oppose co-responsibility on the Mediterranean products and to press for higher price increases on these products.

NEGOTIATING STANCE

18. Against this background, I would propose to take the following line on the main issues in the Council negotiations:-

- a) on institutional prices, argue against any increases in the Commission's proposals and press for lower increases for all cereals, oilseeds and Mediterranean products;
- b) resist the proposal for revaluation of the Green Pound;
- c) continue to support the supplementary levy on milk while arguing for changes which would make it more effective.
- d) not take the lead in opposing the Commission's proposals on co-responsibility for cereals although I do not regard them as satisfactory. Press for price restraint as in (a) as an alternative.
- e) on beef, support Commission in search for economies in management of market support, but call for comprehensive review paying attention also to scope for savings on export refunds.

19. As to other elements, we must resist attempts to remove the butter subsidy, school milk subsidy or other payments from which we derive a net benefit. It is essential for us to get the Beef Premium Scheme continued. This is now an accepted and proven method of support for our market. There would be a strong reaction from producers if the scheme were to close. Moreover, without it there could be substantial increases in prices to consumers along with much heavier intervention buying in our market: all this would attract widespread criticism both in Parliament and elsewhere that these consequences were the direct result of the Government not insisting on the continuation of premiums. Two worthwhile improvements in the scheme, for which we can make a good case, would be an increase in the maximum payment and also in the FEOGA contribution. If the scheme is continued on the basis of the Commission's price and monetary proposals, expenditure on premiums in 1981-82 would be minimal. With no revaluation in the Green E net public expenditure on premiums is estimated to be about £38 million, which is substantially less than in 1980-81. The financial implications are discussed further in Annex VIII.

20. I attach at Annex VII a fuller summary of our negotiating aims on individual commodities.

FINANCIAL IMPLICATIONS

21. The financial effects of the Commission's proposals are summarised in Annex VIII. On present prospects the cost of the 1981 price fixing decisions, even with price increases somewhat in excess of the Commission's proposals, should be containable within the budget provision for the current year. The position in 1982 is much less clear. The Commission estimate that the effect of their 1981 proposals, with an allowance for the part year effects of a 1982 price settlement, could be contained within a 1982 budget provision for FEOGA increased by the rate of increase in own resources in 1982 over the current year. But the budgetary estimate for 1982 depends on a number of assumptions which could, in the event, prove optimistic.

22. In the discussion at ECOFIN on 16 March, I am ready to agree that we should argue for a firm commitment that the rate of growth of agricultural expenditure in 1982 and beyond should be lower than the rate of growth of own resources. I do not, however, believe that it would be realistic to expect most other Member States to accept a more restrictive formulation than this. Moreover, the consequences of an unrealistically low ceiling could be to inhibit us from arguing against the types of co-responsibility levies and economies which would be to our disadvantage.

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THE FINAL SETTLEMENT

23. I cannot, of course, judge how the negotiations will develop. We shall face difficulties in containing the level of common price increases while, at the same time, avoiding measures which would be against our interests in the budget restructuring context (eg new linear co-responsibility levies) or damaging to us economically (eg measures disadvantaging larger as against smaller producers, or loss of measures such as the butter subsidy from which we benefit). I think that we must be ready to work seriously for a settlement at the end of March. But given the limited time and the attitude of other Member States, it is going to be very difficult to put together a package which covers price increases and the co-responsibility mechanisms.

CONCLUSIONS

24. I invite my colleagues:-

- a) to note that the Commission's price proposals would have an adverse and discriminatory impact on UK interests;
- b) to note the data on the income prospects for UK agriculture over the period to the end of the 1981/82 marketing year;
- c) to agree the negotiating stance set out in paragraphs 18 and 19 and Annex VII.
- d) to agree the line for ECOFIN as set out in paragraph 22.

P W

Ministry of Agriculture, Fisheries and Food
5 March 1981

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SUMMARY OF COMMISSION'S CAP PROPOSALS FOR MAIN COMMODITIES

PRICE PROPOSALS

COMMODITIES	INCREASE IN TARGET/GUIDE/ NORM/BASIC PRICE	INCREASE IN SUPPORT PRICE	CHANGE IN UNITED KINGDOM SUPPORT PRICE AFTER PROPOSED GREEN POUND REVALUATION
	%	%	%
<u>Milk and Milk Products</u>	(a) <u>at the beginning of the marketing year</u>		
Milk	6	-	-
Butter	-	6	+ 1.0
Skimmed milk powder	-	6	+ 1.0
	(b) <u>on 16 September 1981</u>		
Milk	8 *	-	-
Butter	-	7.8 *	+ 1.6
Skimmed milk powder	-	7.7 *	+ 1.4
	* including price increase at the start of marketing year		
<u>Beef and Veal</u>	(a) <u>at the beginning of the marketing year</u>		
	6	6	+ 1.0
	(b) <u>on 7 December 1981</u>		
	9 *	9 *	+ 2.6
	* including price increase at the start of marketing year		
<u>Sheepmeat</u>	-	6	- 0.2
<u>Pigmeat</u>	9	-	+ 2.6
<u>Cereals</u>			
Feed wheat	8	6	- 0.2
Bread wheat (min quality)	8	4	- 2.1
Barley	9	6	- 0.2
Maize	9	6	- 0.2
Durum wheat	5.8*	4.1*	- 1.9
	* The same absolute amount as for common wheat.		

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COMMODITIES	INCREASE IN TARGET/GUIDE/NORM/BASIC PRICE	INCREASE IN SUPPORT PRICE	CHANGE IN UNITED KINGDOM SUPPORT PRICE AFTER PROPOSED GREEN POUND REVALUATION
<u>Sugar</u>	%	%	%
* Effective support price taking into account increase in storage levy.			
<u>Olive oil</u>	10	6	-
<u>Wine</u> All types except AI	10	-	-
Type AI	7.5	-	-
<u>Fresh fruit and Vegetables</u>		8 to 10	+ 1.7 to + 3.6
<u>Oilseeds</u>			
Colza and rape seed	10	8	+ 1.7
Sunflower seed	12	10	+ 3.6
<u>Tobacco</u>	8 (average)	2 (average)	-

OTHER PROPOSALS

Milk and Milk Products

- Butter subsidy to continue at unchanged level although technical changes are proposed, as in the case of the school milk scheme.
- Milk coresponsibility levy fixed at 2% would continue to apply to deliveries of milk in 1981/82 (subject to the same exemptions as at present).
- Basic levy would be charged at 6% in respect of milk from farms from which deliveries exceed 15000 kg of milk per hectare of forage area.
- Supplementary levy of 8.8% ECU/kg (37.3% of the target price at the start of the new marketing year) proposed if deliveries to dairies in 1981/82 exceed the average of 1979/80 and 1980/81. The existing exemptions applying to the basic levy continue and exemptions for certain areas from the supplementary levy for liquid milk and certain fresh milk products would apply.

Beef and Veal

- Commission proposes to administer intervention buying so as to reduce the quantity of beef taken off the market. Implementation of Community grading scale for carcasses proposed.
- Suckler cow premium would increase by 8%.
- Italian calf subsidy would be phased out over 3 years.
- Continuation of UK beef premium scheme not proposed.

Cereals

- Coresponsibility to be introduced by reducing the intervention price by 1% (subject to a maximum of 5%) for every 1% by which Community production exceeds a base quantity equal to the average of the last three years of production.
- Some changes proposed to quality standards defining bread wheat which are used when wheat is sold into intervention.

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Olive Oil

- Increase in production aid of 7.5%.
- Coresponsibility penalty for production over 700,000 tonnes.

Fresh Fruit and Vegetables

- Marketing premiums for oranges, mandarines, clementines would be increased by 9%; those for lemons extended for a further year and increased by 10%.

Processed Fruit and Vegetables

- Restrictions on quantities eligible for precessing aid, eg for tomatoes, where output of processed products has grown rapidly in recent years.

Oilseeds

- Coresponsibility would be introduced for colza/rapeseed.

Tobacco

- Producer coresponsibility envisaged for certain varieties.

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NOTE ON THE EFFECTS OF THE GREEN POUND

1. CAP farm support prices are fixed in European Currency Units (ECUs) and converted into national currencies at fixed rates of exchange which are known as the green rates. Thus, CAP prices in the UK change only when:-

- a) the ECU amounts are altered at the annual Community price negotiations; or
- b) the green pound is changed.

They are not affected at all by the existence of, or changes in the amount of, a positive or negative MCA.

2. When the market rate for sterling rises against the other Community currencies, UK farm support prices remain unchanged in sterling terms. But, in terms of other currencies, they appear to rise just as other wages and costs which remain constant in sterling terms appear to increase when expressed in other currencies. A positive MCA acting as a charge on our food imports is then necessary to prevent quantities of foodstuffs from other Member States entering the UK simply in order to benefit from our higher price levels due to the strength of sterling. Conversely, the positive MCA acts as a subsidy on our exports, thus enabling UK exporters to continue exporting competitively.

3. These effects may be illustrated by taking butter as an example. The intervention price for butter of 291.60 ECU/100kg converted at the green pound rate of $\text{£}1=1.61641$ ECU, gives an intervention price in the UK of $\text{£}180.40$ per 100kg. This intervention price has remained unchanged since the implementation of the last price fixing on 1 June 1980. In the meantime, however, the market rate of sterling against the ECU used in agriculture increased from $\text{£}1=1.66099$ ECU to a level of $\text{£}1=2.00159$ ECU on 9 February. As a result, the positive UK MCA increased from 1.7 per cent to 18.2 per cent. However sterling has weakened over the last week and the UK MCA applicable from 2 March will be +15.7%, the underlying market rate being $\text{£}1=1.93941$ ECU.

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4. When the pound falls on the foreign exchange markets, the positive UK MCA is reduced. This does not, however, reduce farm support prices in sterling, just as a positive MCA increase does not raise them. On the other hand, a revaluation of the green pound would reduce both the support prices expressed in sterling and the UK MCA.
5. Since the Government came into office, the green pound has been devalued three times, by a total of 10.7 per cent, resulting in a combined increase in UK support prices of 12.0 per cent. A revaluation of the green pound of 20.0 per cent would be required to abolish MCAs and bring it to the market rate underlying the MCA in the week commencing 2 March. This would reduce UK support prices by 16.7 per cent. The overall effect of such a revaluation would therefore not only offset completely the three green pound changes that have been made since May 1979 but also leave UK support prices 1.0 per cent lower in money terms than they were when the Government came into office.
6. Farming income has fallen over the last four years by a total of 20 per cent in money terms and by 52 per cent in real terms. In 1980, it is estimated to have been £1,025m. Assuming unchanged production and over a full year, a green pound revaluation of 20.0 per cent would, if fully reflected in farm gate prices, reduce farming income by some £750-800 million; a revaluation to cut the UK MCA by 5 percentage points would reduce farming income by approximately £280 million. These estimates assume no changes in producers' prices or costs other than those directly resulting from the green pound change.
7. The Commission's proposal on the Green Pound is based upon a 5 percentage point reduction on a UK MCA of 18.2 per cent, the rate at the time the proposals were presented. The reduction in the MCA percentage is expressed as a revaluation in the Green Pound of 6.2 per cent. This is larger than the proposed revaluation of about 5.5 per cent in the German green mark. With a smaller positive MCA, a given green rate revaluation produces a larger MCA percentage point reduction. Thus, the Commission's proposal would reduce the current UK MCA by 5.2 percentage points. The MCA at the present time which would result from the Commission's proposals is 10.5 per cent, 7.7 percentage points below the rate prevailing when the proposals were made.

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TABLE RELATIVE REAL IMPACT OF THE COMMISSION'S PRICE AND GREEN CURRENCY PROPOSALS ON MEMBER STATES

	Average support price increases (1) %	Average price change due to Green Rate change %	Combined price change %	Inflation 1981 over 1980 (2) %	Combined price change deflated %
Germany	+8.1	-5.6	+2.1	+ 4.2	-2.0
France	+7.8	0	+7.8	+11.1	-3.0
Italy	+7.9	0	+7.9	+15.1	-6.3
Netherlands	+8.4	-2.0	+6.2	+ 6.2	0
Belgium	+8.3	-1.9	+6.2	+ 5.6	+0.6
Luxembourg	+8.2	-2.0	+6.0	+ 6.0	0
United Kingdom	+7.7	-5.8	+1.4	+12.5	-9.9
Ireland	+8.2	0	+8.2	+11.9	-3.3
Denmark	+8.1	0	+8.1	+ 9.6	-1.4
EEC (9)	+8.0	-2.1	+5.7	+ 9.3	-3.2

(1) Effects for each member state, weighted by relative commodity output, and including second stage price increases. Prices referred to here are intervention price increases.

(2) Commission forecasts of GDP deflators except for the UK.

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NET MARGINS. REQUIRED MARGINS. 1980/81 MARGINS IN REAL TERMS IN 1981/82

	Unit	Margin 1980 1980/81 £	1981/82					
			Gain or loss to margin arising from productivity at 1980/81 prices (1) £	Effect of higher input prices on margins £	Effect of higher output prices in pipeline. No CAP price change £	Extra CAP price increase required to achieve in 1981/82, the 1980/81 margin in real terms % change £	Net margin £	
Wheat	£ ha	218	-10.0	-43	+ 8	12.5 + 71	244	
Barley	£ ha	132	- 5.0	-36	+24	7.5 + 33	148	
Av. cereal	£ ha	170	- 7	-39	+14	9.5 + 50	190	
Sugar beet	£ ha	212	-26 ⁽³⁾	-83	+10	14.5 ⁽³⁾ +110	237	
Oilseed rape ⁽⁵⁾	£ ha	333	-27	-48	+19	13.0 + 96	373	
Milk	£/cow	69	+13	-56	0	17.0 ⁽⁴⁾ + 51	77	
Beef 2 yr old ⁽²⁾	£ head	-16	+ 1	-45	+29	11.0 + 51	20	
Lowland sheep	£100 ewes	772	-145	-356	+468	Trans step +3% (6)	865	

- (1) The productivity gains and losses reflect in large measure differences in yields compared with 1980. In the case of crops, yields are forecast for 1981 at slightly lower levels than the records achieved in 1980.
- (2) Beef. Net margin 1980/81 includes allowance of £5.28/head from the suckler cow premium. A price increase of an additional 11.4% over and above the forecast market price is required to achieve a margin of £20/head in 1981/82. This means a total increase of 18.80% without any cut off in the variable premium.
- (3) Sugar beet. Due to a fall in sugar content, 16.9% down to 16.5% in 1981/82. 14.5% represents change required in minimum beet price.
- (4) Milk. The 17.0 per cent rise relates to manufacturing milk prices. It assumes continuation of the present retail price through 1981/2.
- (5) Oilseed rape. The 1980 yield was some 20% higher than in 1979, which itself was a record yield. If the 1981 yield was similar to 1980, then an extra CAP price increase of only 10% would be necessary to achieve the 1980/81 margin in real terms.
- (6) Assumes all increase is on ewe premium, 50% advance payment and sterling guide price unchanged.

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TRENDS OF INDICES OF NET MARGINS (IN REAL TERMS) INCLUDING 1981/82 FORECASTS
INCLUDING CAP PRICE AND GREEN PROPOSALS (ENGLAND AND WALES)

	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81(F)	1981/82(F)
Wheat (per hectare)	100	94	112	116	100	94	66
Barley " "	100	137	109	117	111	99	76
Oilseed rape " "	100	235	360	311	425	524	407
Sugar beet " "	100	51	211	273	367	196	94(1)
Lowland lamb (per 100 ewes)	100	203	210	236	93	136	126(2)
Milk (per cow) (1976/77 = 100)		100	173	149	99	80	30(4)
2 Yr old beef from dairy herd	100	281	123	165	127	-(3)	-(3)

- (1) Although the "Britton Price" for beet is £22.52/tonne, a zero sterling CAP price change would reduce this to £21.99 (ie 1980 MBP of £21.45 + $\frac{1}{2}$ (22.52 - 21.45)).
- (2) Assumes transitional step is part of the CAP price proposal
- (3) (-) sign indicates a negative margin
- (4) Assumes no increase in the retail price of milk in 1981/82

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MAIN POLICY AIMS OF THE OTHER MEMBER STATES

FRANCE

1. Seeks average price increase of around 10% and rapid abolition of positive MCAs. Coresponsibility and Community preference should be discussed in the context of the future of the CAP after the price fixing. Cannot accept supplementary levy on milk: favours progressive linear coresponsibility levy. Seeks ceilings on aids and subsidies and the abolition of premia. Seeks more aggressive export policy including long term contracts with third countries.

GERMANY

2. Will aim for a settlement below 10 per cent. Will resist Commission's proposal on MCAs but likely to accept some reduction. Could accept principle of co-responsibility directed against surplus production. But opposed to supplementary milk levy and the variable intervention price for cereals. Opposed to more restrictive import policy and may be resistant to development of export policy.

ITALY

3. Seeks average increase of around 13% and abolition of MCAs. Coresponsibility should be examined in the context of the future of the CAP and linked with aim of increasing support to Mediterranean producers. Will resist coresponsibility for products not in surplus.

NETHERLANDS

4. Accepts main line of proposals. Attitude to cutting positive MCAs would depend upon level of common price rise. Could accept principle of coresponsibility but not progressive milk levy or levy on intensive dairying. Livestock products should not receive more favourable price increases than cereals.

BELGIUM

5. Considers proposed price rises too low, particularly for beef and milk. Proposals on coresponsibility would have to be considered in context of Community's policy towards third countries. Opposed to milk supplementary levy but could accept progressive levy. Follows Netherlands line on MCAs.

LUXEMBOURG

6. Seeks higher prices. Accepts principle of coresponsibility but not milk supplementary levy. Follows Netherlands line on MCAs.

DENMARK

7. Seeks higher increases for some products, in particular pigmeat. Livestock products should receive more favourable treatment than cereals. Accepts principle of coresponsibility. Seeks more rapid abolition of positive MCAs. Concerned that price increases should be sufficient to discourage national aids.

IRELAND

8. Seeks higher prices than in proposals. Seeks more rapid reduction of positive MCAs. Seeks strengthening of Community preference, particularly for cereals. Opposes milk supplementary levy but could accept levy on intensive milk production. (Commission are known to be working on a special package of assistance for Irish livestock farmers which could emerge in the negotiations).

GREECE

9. Seeks higher prices (possibly up to 15%) for Mediterranean products. Cannot accept general principle of coresponsibility but might agree to application to specific products for limited periods. Coresponsibility not justified for Mediterranean products not in surplus.

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SUMMARY OF NEGOTIATING LINE FOR INDIVIDUAL COMMODITY SECTORS

GENERAL

1. The following paragraphs summarise the main elements in the proposed negotiating line for individual commodity sectors. The references to the line on institutional prices are on the assumption that we shall be resisting in the negotiations any revaluation of the green pound and that coresponsibility measures adopted will not reduce the effective support level in the UK resulting from the institutional price change ultimately agreed. It will be necessary to consider the overall impact on producers of the package of measures emerging on each individual commodity sector.

CEREALS AND RICE

2. Seek maximum restraint on support prices so as to hold down budgetary cost, relieve position of livestock sector and keep down prices of essential imports of North American grain. Direct action on prices preferable to Commission's coresponsibility scheme for reducing support prices if production exceeds target quantity: the latter would only reduce intervention prices, not threshold prices and it could encourage traders to sell into intervention in the hope of a bonus payment if the crop turned out to be smaller than expected. Support Commission proposals to reduce current advantages for breadmaking wheat, durum wheat and rye. Support steeper seasonal scale of support prices to discourage sales into intervention. Press for lower support price increases for rice.

MILK

3. Accept the two-stage price increase and resist any increase above the Commission's proposal. Oppose any increase in or other extension of the existing linear co-responsibility levy and argue initially for a cut in the rate. Oppose as unacceptable in principle, and impracticable, the proposed tripling of the levy on farms producing more than 15,000 kg of milk per hectare of forage area. Support the supplementary levy proposal so long as it provides an effective disincentive to additional production above the 1979/80 level and involves no discriminatory exceptions. Argue that it should apply at the dairy level on a regional basis. Resist 1980/81 base period and oppose the exclusion of liquid milk and fresh products and the exceptions proposed.

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4. Resist any attempt to remove the special UK butter subsidy and, if possible, seek an increase in the rate; support extension of school milk subsidy; resist any increase in the bracket in which aid for skimmed milk powder for calf feed is set; resist any undue increase in export refunds; and oppose the proposed increased commitment to butteroil in food aid.

BEEF

5. Accept two-stage guide price increase and resist any increase above the Commission's proposal. Demand the continuation of the beef premium scheme. Press for a higher level of FEOGA financing of the scheme. Agree with Commission that economies should be sought in the operation of market support, but press for a comprehensive review of export refunds as well as intervention mechanisms in order to make savings in a manner consistent with stable market management. Oppose adoption of the proposed carcass classification scheme until the arrangements negotiated remove any possible disadvantage to the UK beef industry relative to the support given to producers on the Continent. Accept increase in suckler cow subsidy but continue to seek improvements in administrative arrangements.

SHEEPMEAT

6. Need to consider the proposed first alignment step towards common prices and the increases in guide and reference levels in relation to progress in discussions on clawback on exports. Unless there is early progress in Commission's export review, it will be necessary to seek improvement in the clawback arrangements for intra-Community trade (preferably by securing some abatement of the rate) and permanent exemption for exports to third countries in the prices package.

PIGMEAT

7. Commission's proposed increase of 9 per cent in basic price is acceptable since there is no intervention and basic price for pigs is notional. Pig production costs are related to feed costs and restraint on cereal prices would be beneficial.

SUGAR

8. Aim to minimise increase in support price. Seek to improve the margin available to Tate and Lyle for refining cane sugar.

WINE

9. Price rises should be well below the average since wine enjoys an unlimited guarantee with no real co-responsibility. Press for introduction of annual early season compulsory distillation of low quality wine, which depresses the market and triggers other more costly support measures.

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OLIVE OIL

10. Basic aim is to make arrangements to limit the budgetary cost of the olive oil regime, in preparation for Spanish accession. Have argued in discussions on enlargement for limiting production aid to regions which have no alternative to olive growing, by paying aid on a hectare or number of tree basis and by reducing the attractiveness of intervention. While it may not be possible to move far in this direction before the Commission present their ideas for modifying the 'acquis' in the context of enlargement, the proposal to reduce the unit rate of aid if a given ceiling is exceeded should be supported, while pressing for a lower ceiling than the 700,000 tonnes proposed. Seek the lowest possible price increases (the increases proposed of 10% on the production target price and 7½% on aid would lead to a big increase in consumption aid) and advocate the exclusive use of standard yields as a step towards a more production-neutral type of aid.

OILSEEDS

(a) Rapeseed and sunflowerseed

11. Seek the lowest possible increase in the target and intervention prices for both rapeseed and sunflower seed so as to limit budgetary cost. Commission's proposal that prices should be reduced if a given production ceiling is exceeded needs to be probed in detail before a decision to support can be taken (the ceiling of 2,200,000 tonnes is too high and the mechanism suggested appears impracticable).

(b) Other oilseeds (castorseed, cottonseed, linseed, soya)

12. In the longer term these aids should be abolished, while there is no prospect of achieving this aim this year, should seek the lowest possible increase in prices and aids; they should be no higher than any increase agreed for rapeseed/sunflowerseed.

FRESH FRUIT AND VEGETABLES

13. Press for the abolition of the compensation for withdrawals. Failing this, press for maximum restraint on price increases especially for products likely to be in surplus, eg apples and citrus fruit. Support proposed review of the system of preventive withdrawal of apples and aim to abolish it at review. Oppose the extension of lemon marketing premiums.

HONEY (AID TO BEEKEEPERS)

14. Support removal of aid from the sugar regime. Oppose any increase in expenditure above 1980/81 level.

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PROCESSED FRUIT AND VEGETABLES

15. Primary aim is to reduce the cost of the production aid scheme. Support in principle the Commission's proposal for ceilings on quantities of products eligible for aid but press for the base period to be adjusted to reduce the quantity; press for changes in method of calculating aid in order to eliminate present over-compensation.

FIELD BEANS/SEEDS

16. Aim for abolition of seed aid on field beans and field peas which currently creates a resource-expensive demand for seed certification far in excess of sowing requirements.

TOBACCO

17. Primary aim is to limit budgetary expenditure.

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FINANCIAL IMPLICATIONS

1. The Commission estimate that their proposals will add 282m ECU to Guarantee spending within the 1981 budget. They argue that this would be covered by the Guarantee Section special reserve of 254.5m ECU: that they have made management economies worth 398m ECU: and that the strength of sterling and firm world markets for cereals and sugar should yield further savings. For a full year the proposals are estimated to cost an extra 825m ECU (this takes in 231m ECU for the full cost of the existing butter subsidy although this subsidy is simply being extended at an unchanged rate).
2. The Commission tentatively conclude that for 1982 the increase in Guarantee spending should, after allowing for next year's price fixing, be equal to or less than the growth of own resources. On the revenue side the proposals are estimated to add 65m ECU to levies collected in 1981 and 335m ECU in a full year.
3. As regards Guarantee spending in 1981, while the Commission's assessment may be optimistic, the cost of the proposals on present prospects could be accommodated within the existing Guarantee budget for 1981.
4. For 1982, the full year estimated extra cost of 825m ECU is about 6½% of 1981 Guarantee spending. The part year affect of next year's price fixing might add 2% or so, while own resources are expected to increase by about 10% a year. The Commission's conclusion that the implications of their proposals for Guarantee spending in 1982 plus next year's price fixing should not exceed the growth of own resources could nevertheless prove optimistic.
5. Attached is a provisional assessment of the financial implications of the proposals for the UK: this is based on the Commission's estimates, the only major variation being the

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exclusion of the cost of the butter subsidy for the reasons given above. The figures are provisional and likely to have to be revised in the light of a more detailed breakdown of the Commission's figures when this is available.

Beef

6. Expenditure on premiums next year if the scheme is continued on the basis of the Commission's price and monetary proposals would be minimal. With no revaluation of the Green £, the gross cost of premiums in 1981-82 is estimated at about £48 million leading to net public expenditure of £38 million after taking account of our net receipts from FEOGA. This is substantially less than the cost in the current year. It represents an estimating increase of £17 million in net public expenditure as compared with the present provision in Estimates. With no premiums, gross expenditure on intervention in the UK next year would increase very substantially above the £10 million now provided for in Estimates. Intervention buying is funded by national authorities until the stocks are re-sold when any loss is reimbursed by FEOGA which also meets technical and financial costs. Since it could well prove difficult to dispose of substantially increased intervention stocks of beef within the year, reliance solely on equivalent intervention support could mean that in 1981/82, though not in the longer term, public expenditure would be higher than with a continuation of present arrangements.

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CAP PRICES 1981/82: FINANCIAL IMPLICATIONS

	Community Budget		Net UK contribution		Gross UK spending		Net PE		PSBR	
	mecu 1981	full year	£m 1981/2	full year	£m 1981/2	full year	£m 1981/2	full year	£m 1981/2	full year
<u>Price proposals and related measures</u>										
FEOGA expenditure	+ 282	+603.7	- 15	- 60	+ 65	+ 130	+ 45	+ 70	+ 45	+ 70
Own resources (net of 10% reimbursement)	- 58.5	-301.5	- 10	- 20	-	-	- 10	- 25	- 15	- 35
Net effect of price proposals	+ 223.5	+302.2	- 25	- 80	+ 65	+ 130	+ 35	+ 45	+ 30	+ 35
<u>Market developments</u>	- 398.0	-	- 25	-	- 10	-	- 30	-	- 35	-
TOTAL	-174.5	+302.2	- 50	- 80	+ 55	+ 130	+ 5	+ 45	- 5	+ 35

Notes: (a) The "full year" effect relates to 1982 for the EC Budget and the 1982/83 financial year for other purposes.

(b) The following assumptions have been taken:

£ECU rate	1981	1982	1983
	1.766	1.680	1.558

(c) Figures are provisional

UK marginal contribution rate	19.65%	19.03%	17.94%
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(d) Expenditure figures estimate additional cost above base line of existing schemes and the cost of continuing existing schemes, notably the butter subsidy, are therefore excluded.

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