



Agriculture

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Ref. A01940

PRIME MINISTER

Energy Subsidies to the Horticulture and Fishing Industries

(E(80) 35)

BACKGROUND

Mr. Walker wrote to you on 21st March proposing a subsidy to the Horticulture and Fishing Industry to combat 'unfair' competition from foreign (mainly EEC) competitors with access to cheaper energy supplies either directly - as in Holland where gas is cheap - or because their fuel is subsidised. You asked that the issue should be considered by E Committee after a preliminary run over the facts by officials of the Departments concerned. The CPRS paper summarises the information obtained from this latter discussion.

2. In his paper Mr. Walker comes close to suggesting that our pricing policy for North Sea oil is wrong and that we should sell it cheap in order to benefit our industry. He then goes on to argue that we should, in any case, further subsidise fuel to horticulture and the fishing fleet. If we were to try to sell our oil and gas at prices related to the cost of production rather than the OPEC-determined world market price, we should have - to make low prices stick - to introduce export controls and a massive apparatus of interference in the oil market; and we should lose much of the tax proceeds on which the economic strategy depends. It cannot be right to go this way about trying to protect horticulturists and fishermen, though they are having a bad time.

3. The CPRS paper (E(80) 35) sets out the facts as far as they are known. The essence of the CPRS view - set out in paragraph 30 of their paper - is that, rather than provide further special help to horticulture and fishing - with a good many other industries ready and waiting to jump on the bandwagon - we should seek to persuade other countries and the European Commission that cheap energy prices and subsidies to energy should be eliminated "as soon as possible". The paper on energy which the Commission has put to the European Council would provide an opening.



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4. Your colleagues may feel that the CPRS view, while attractive in theory, stands little chance of quick realisation. If this is so, the real choices before the Committee are:-

- (a) To offer no new help to horticulture and fishing.
- (b) To go for a minimum scheme as set out in paragraph 10 of Mr. Walker's paper - costing about £12½ million a year - which, as paragraph 21 of the CPRS paper shows, could be made consistent with the current European Commission guidelines; or
- (c) to accept Mr. Walker's "preferred solution" (paragraph 9 of his paper) which would cost about £25 million a year but would, again as the CPRS paper shows, be incompatible with the Commission's current guidelines.

HANDLING

5. Although this is in itself a relatively small issue, discussion could easily become confused - not least because of the number of Ministers with a legitimate interest in the outcome. (Mr. Walker, Mr. Younger, Mr. Atkins and Mr. Edwards as representing horticulture and fishing, Sir Keith Joseph for the implications for other industries, Mr. Howell for Energy policy, Sir Ian Gilmour for the EEC aspects and Mr. Biffen for the money). After allowing Mr. Walker and Mr. Ibbs to introduce their papers, therefore, you will need to guide the discussion yourself.

6. I think you will want to kill off at the beginning any lingering thoughts Mr. Walker might have that our North Sea oil pricing policy as a whole should be overturned. If there is to be a concession to the horticulture and fishing industries, it must be seen as a special exception from a general oil pricing policy rather than as a first step to a new oil policy; otherwise the potential costs and repercussions can easily get out of hand.

7. Next you might ask whether the Committee want to consider a level of subsidies going beyond the Commission's present guidelines. To do so might risk an unproductive row. If this view too is accepted by the Committee, the issue narrows down to whether the Government is prepared to contemplate the modified scheme of assistance in paragraph 10 of Mr. Walker's paper, or some variant of it. The relevant questions then are:-



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- (a) Would a further subsidy of around £12½ million a year to the two industries together do the trick for those industries? We already give both industries a good deal of help.
- (b) If we do give more help in the form of energy subsidies can we hold the line against other energy-using industries - e.g. man-made fibres - which are suffering at least as badly from low feed-stock prices to their competitors? Is there scope for dressing up any new aid in a non-energy form?
- (c) Where is the money to come from? Is Mr. Walker willing to find it from his own PESC allocation, or must it be a claim on the Contingency Reserve? In the latter event the Treasury could ask for the issue to go to Cabinet for final resolution.

CONCLUSION

8. The views of the Committee are unpredictable on this issue and some members may feel that, despite the efforts of the CPRS, they do not have enough information to judge whether a new subsidy would serve a useful purpose or indeed what level of subsidy would be needed to reverse present trends.

Nevertheless the Committee ought as a minimum to be able to agree:-

- (i) that it does not wish to reverse the present pricing policy for North Sea oil;
- (ii) that it does not wish any new subsidies for horticulture and fishing to go beyond the European Commission's guidelines, i.e. it does not wish to risk a new source of friction with the Commission in present circumstances.

In addition the Committee may be able to choose between:

- (iii) either giving no further help to horticulture and fishing at the present time;
or accepting that further help should be given.

In this latter event the Committee will also need to decide:

- (iv) either to accept Mr. Walker's modified scheme at a cost of up to £12½ million a year subject to a further look to see whether the subsidy can be less directly related to energy costs;



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or to ask Mr. Walker to produce a specific scheme for further consideration by the Committee, which both takes account of the limits set in discussion and provides an adequately costed justification for the expenditure.

- (v) If further help is to be given the Committee will also wish to come to a decision on whether the cost should be borne by Mr. Walker within his present PESC allocation or can be accepted as a claim on the Contingency Reserve.
- (vi) The Committee may also wish, irrespective of its main decisions, to support efforts within the Community to reduce the subsidies our competitors offer to these industries.

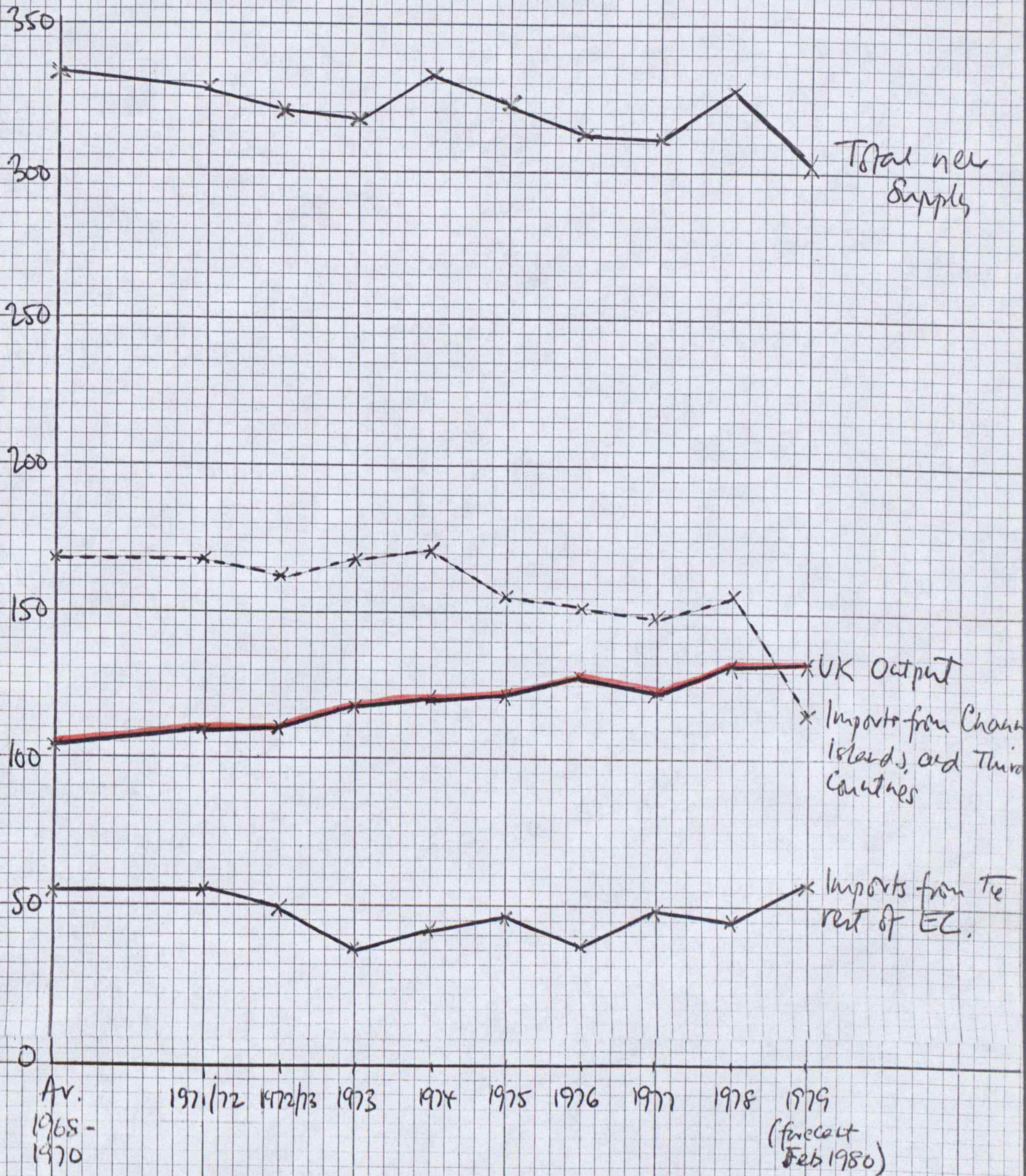
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(Robert Armstrong)

15th April, 1980

Supply of tomatoes 1968-1979 (thousand tonnes)

thousand tonnes



Source: Annual Reviews of Agriculture