OD(80) 22nd Meeting

COPY NO 44

CABINET

DEFENCE AND OVERSEA POLICY COMMITTEE

MINUTES of a Meeting held at 10 Downing Street on MONDAY 3 NOVEMBER 1980 at 10.00 am

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon William Whitelaw MP
Secretary of State for the Home Department

The Rt Hon Lord Hailsham
Lord Chancellor

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon Francis Pym MP
Secretary of State for Defence

The Rt Hon Lord Soames
Lord President of the Council

The Rt Hon Sir Ian Gilmour MP
Lord Privy Seal

The Rt Hon John Nott MP
Secretary of State for Trade

ALSO PRESENT

The Rt Hon Peter Walker MP
Minister of Agriculture, Fisheries and Food

SECRETARIAT

Sir Robert Armstrong
Mr M D M Franklin
Mr D M Elliot

SUBJECT

CAP PRICE FIXING 1981

CAP PRICE FIXING 1981 CONFIDENTIAL

Previous Reference: OD(80) 20th Meeting

The Committee considered a Memorandum by the Minister of Agriculture, Fisheries and Food (OD(80) 62), covering a Note by Officials, recommending the approach the United Kingdom should adopt towards the 1981 agricultural price fixing negotiations in the context of the budget restructuring review, together with a Note by the Chancellor of the Exchequer (OD(80) 63) relating the price policy for agriculture to the Government's general economic strategy.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that in discussing the broad approach to budget restructuring the Committee had accepted that the United Kingdom should retain price restraint as a weapon. For the 1981 Common Agricultural Policy (CAP) price fixing negotiations it would be necessary to take account of the influence of the French Presidential election in April, the likely attitudes of other member states, the Commission's objectives and the interests of the United Kingdom farming industry. His private soundings at a recent Agriculture Council meeting had shown that, with the exception of the Netherlands - who would want a 7-8 per cent price increase - all the other member states would be looking for increases of 10 per cent or more. The German State Secretary for Agriculture had told him that the Germans felt they had to go along with a French demand for price increases of about 10 per cent because of the impending French elections. Commissioner Gundelach had referred to a settlement in double figures; if he retained the agriculture portfolio in the new Commission, it seemed likely that the Commission's proposals, which on past form would constitute a minimum that others would seek to bid up, would not go against French wishes. With the exception of Ireland and Italy, farmers throughout the Community had suffered a fall in real income per head over the period 1973-1979 and the situation was likely to be worse for all of them in 1980. So far as the United Kingdom farming industry was concerned, although the basis of the calculations had yet to be agreed with the Treasury, it seemed clear that aggregate net income would decline in real terms by some 15 per cent this year and that over a four year period there would have been a fall of nearly 50 per cent. Borrowings, excluding advances for land purchases, were at unprecedented levels, and there was evidence to show that the trend of farm incomes had fallen more steeply than manufacturing profits and incomes elsewhere in the economy. Against this background, he recommended that the United Kingdom's approach in the forthcoming bilateral discussions with member states and the Commission should be to argue for severe price restraint, acknowledging that some increases would be necessary but pressing for them to be contained below the rate of inflation; avoid any commitment on the revaluation of the green pound; to press the Commission to come forward with an effective supplementary levy proposal on milk, together with other measures designed to begin the process of reforming the CAP and cutting surpluses in the context of the prices package; and to explore with the Germans in the first instance what sort of ceiling might be imposed as an instrument for budget restructuring. It would be particularly important to establish in the November Anglo-German summit how far the Germans could be relied on to join the United Kingdom in pressing the Commission to present only moderate price proposals.

THE CHANCELLOR OF THE EXCHEQUER said that his Note started from the same diagnosis as the Minister of Agriculture but sought to place it in a wider and more fundamental context. The mechanisms of the CAP had the effect of insulating farmers from price competition and the discipline of the market. This meant that agricultural prices and incomes tended to be determined on a cost plus basis and that surpluses resulted from the unconstrained rise in farm output. While the Government could not ignore the effect of CAP pricing policies on the incomes of British farmers, all this reinforced the case for exposing agriculture to pressures encouraging cost production and improved efficiency. The United Kingdom should therefore seek to keep the 1981 CAP price increase down to an average of 4-5 per cent, as part of the process of moving prices gradually to market clearing levels; should also seek the support of the Germans for keeping FEOGA expenditure in 1981 down to the limits agreed in the 1981 draft Budget; and should not exclude the possibility of a green pound revaluation at the time of the price fixing.

In discussion it was suggested on the one hand that any price increase above 4-5 per cent would be ill received by consumer and parliamentary opinion at a time when most non-agricultural sectors of the economy were suffering economic hardship, and that acquiescence in increases of the order desired by

the other member states would defer once again the prospect of achieving fundamental reforms in the CAP. On the other hand it was suggested that the Government had fought the election in part on a promise to reverse the unfavourable treatment given to British farmers by the last administration, that if the banks called in their loans many farmers would be forced into bankruptcy, and that the agricultural industry in the United Kingdom had already shown evidence of its efficiency in cutting costs and improving productivity, to the benefit of the Government's fight against inflation.

In further discussion, it was generally agreed that the pressures for price increases from farming lobbies in all nine member states, together with a desire not to mar President Giscard's electoral prospects, would make it difficult for the United Kingdom to pursue her restructuring objectives in a direct form in the 1981 CAP price fixing. It would be important to probe the German position, in the light of the Federal Chancellor's professed desire to cut the cost of the CAP and the German Cabinet statement of June 1980 in the same sense, to see how far they would be prepared to go in urging price restraint and in imposing a budgetary ceiling for this purpose. Since there was a serious risk that advocacy of a 4-5 per cent average increase would simply put the United Kingdom in an 8:1 situation, with little chance of success at the end of it, it might be better to operate on a commodity by commodity basis. This would allow the United Kingdom to press for tough measures on the main surplus products, including an effective supplementary levy on milk, a standard quantity scheme for cereals, proposals to reduce the level and cost of beef intervention, and proposals to cut the costs of the Mediterranean regimes. At the same time it would be necessary to keep a sharp look out for economy measures urged on the Commission by other member states with the aim of protecting their own interests at the cost of those of other ~~workers:~~ countries at the cost (for example of the total or partial withdrawal of the United Kingdom butter subsidy.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that in the forthcoming bilateral contacts with other member states and the Commission the United Kingdom should argue for a policy of severe price restraint in the 1981 CAP price fixing, especially for commodities in structural surplus such as milk and cereals. As to a financial ceiling, the United Kingdom should seek to reach agreement with the Germans in particular that the 1981 price settlement should not increase the proportion of the Community Budget spent on agriculture, whilst aiming to safeguard the United Kingdom's present net FEOGA benefits. The United Kingdom should keep open the possibility of revaluing the green pound along with the price settlement, but should avoid commitment to it in the meantime.

The Committee -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.

2. Instructed officials to be guided accordingly in exploratory bilateral contacts and in preparing briefing for the Anglo-German summit on 16/17 November and other bilateral Ministerial exchanges.

Cabinet Office

3 November 1980