



From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

A.G.

~~Prime Minister~~

(2)

26/11

26 November 1979

Dear Sir,

PRIME MINISTER

I have sent over a brief* on the Commission's proposals with regard to the CAP for, as you are aware, the Commission is hoping that the Summit will endorse the principles that they have laid down.

I can only say that both their proposals on milk and sugar are framed in such a way that the adverse effects are likely to hit the United Kingdom to a greater degree than any other country.

In the case of sugar the reduction in our production would be greater than any other nation, and in the case of milk their basic concept preserves all of the existing surpluses, to which we do not contribute, but takes action against future surpluses and therefore is a course that prevents us becoming more self-sufficient and, indeed, is certain to result in us having to import a greater proportion of our dairy products from Europe.

I point out these two factors because I think it will greatly strengthen you in your negotiations to be able to point out that with all of the existing injustice of our budget contributions, quite incredibly the Commission then design changes in policy that will do still further damage to Britain's relative position.

Peter Walker

PETER WALKER

copy attached

EUROPEAN COUNCIL, DUBLIN

29/30 NOVEMBER 1979

THE COMMON AGRICULTURAL POLICY

Brief by: Ministry of Agriculture, Fisheries and Food

OBJECTIVE

1. To avoid our budget objectives being prejudiced by discussion of the CAP and resist the argument that economies on the CAP could substitute for action on the budget.
2. To avoid being committed to the Commission's principles for changing the CAP; to the Commission proposals based on them, which for both milk and sugar discriminate damagingly against the UK; or (except in the context of a settlement on the budget) to further structural expenditure to benefit Italy and Ireland.

POINTS TO MAKE

Balance of the budget

3. Agree there should be a change in the balance of the budget. But any additional expenditure on structural measures must be found from savings on the CAP and within 1% ceiling.
4. Prepared to consider increased aid for Mediterranean agriculture and increased spending on farm structures, in context of solution to UK budget problem. But must be offset by genuine cuts in other CAP expenditure.

Commission's Four Principles (para 4 of CAP paper)

5. Agree CAP should be reformed, not attacked, and welcome Commission's objective of reducing expenditure. But surprised and alarmed that Commission paper makes no mention of prices. Holding down common support prices must be central feature of CAP strategy.

6. Commission's four principles partly acceptable, partly not. Could not endorse them as they stand, because some of their implications for policy unacceptable or in need of qualification:-

First principle. Agree that priority must be given to getting better balance for milk and sugar. But methods of restraining production must be fair (which Commission's sugar proposals are not) and economically sound (proposal for supplementary levy on dairies which increase milk purchases would penalise efficiency). Aim of increasing consumption outside Community sounds like increasing already excessive export subsidies.

Second principle. Only acceptable if levy to finance surplus disposal falls on all producers without discrimination, whether large or small and irrespective of whether increasing production; and if accompanied by price freeze.

Third principle. Special measures to help small and medium-sized producers would mean discriminating against larger and more efficient, and go against objective of reducing surpluses. Essentially social aid which should not be charge on Community funds.

Fourth principle. Concentration of structural aid on poorest farms and least developed regions would reduce still further UK's meagre receipts from budget. Aims and likely cost of structural policy need careful consideration.

Commission's Proposals (para 5 of CAP paper)

7. Milk package has grave defects. No mention of need to hold down price. Supplementary levy on dairies which increase purchases of milk risks penalising efficient and protecting inefficient.

New sugar regime would discriminate unacceptably against UK, whose production in base period for new quotas was held down by bad weather and previous Government's green pound policy.

Adaptations in other sectors need careful consideration by Agriculture Council. Commission proposals for structural measures (para 7) are costly and have not yet been discussed in Agriculture Council.

8. [If raised] Do not agree that imports of New Zealand butter should be cut further. Accepted from outset that UK accession should not wreck New Zealand's economy. New Zealand cannot export elsewhere in competition with low-priced Community exports.

Italian proposals

9. Agree there should be a change in the balance of the budget. But if there is to be additional expenditure on structural measures this must be found from savings on the CAP.

10. [If necessary] Prepared to consider increased aid on farm structures, but only if it is cost-effective and is accompanied by genuine cuts in other CAP expenditure. Need for caution on cost of structural schemes in view of enlargement.

increasing at the expense of the less efficient, and would
be unfair to UK producers who have been held back by the
previous Government's green pound policy. The co-responsibility
levy as proposed will bite more here than in other countries
because our system will enable it to be administered more
efficiently. This discrimination against the UK could well be
worsened as a result of negotiations in the Agriculture Council
where there will be strong pressure from most other Member States
for small producers to be exempted. For sugar the Commission plan
to cut the quotas by over 1 million tonnes has been worked out
in such a way that the UK would be required to take a proportionately
greater reduction than any other country.

13. Secondly, the discussion of Italian ideas for changing
the balance of the Community Budget and diverting more resources
to "structural" objectives will inevitably touch on the CAP.
We can support the Italian contention that the CAP share of
the total budget should be reduced, provided this is done
within the 1% ceiling. But great caution is needed on the
idea of a "better balance" within the CAP. The Italians are
adept at using the European Council to obtain vague commit-
ments to increased expenditure or protection for Mediterranean
products, which inevitably mean bigger UK payments into the budget
and/or higher consumer prices. A large package of measures
agreed last year, mainly for Italy's benefit, will cost the UK
about £250m. All experience shows that, while the increased
expenditure is real, the promised savings on "northern" products
never materialise. Moreover special schemes for Italy risk
having to be extended to the new Member States.

General Background

14. The worst aspect of the CAP for us is its effect on our net contribution to the budget. If we were to achieve broad balance, the need to reform the CAP would be reduced. But we would still want to reduce the trade costs which it imposes on us, to make the policy less protectionist, and to reduce the damage which the cheap export of surpluses does to the Community's trading relationships with other countries.

15. Expenditure on the CAP, which accounts for over 70% of the budget, has been rising by 17% per year on average: by 1980 it will have doubled since 1976 and trebled since 1973 in units of account (in terms of sterling the increase is a lot more).

Relevant figures are:

	<u>1978</u>	<u>1979*</u>	<u>1980^ø</u>	<u>1981[∕]</u>	
				<u>A</u>	<u>B</u>
Total budget	12.2	14.5	15.3	20.5	19.1
CAP	9.0	10.8	11.5	14.2	12.5
Increase in CAP cost over previous year	+ 27%	+ 20%	+ 7%	+ 24%	+ 9%
Rate of VAT required for whole budget	0.64%	0.82%	0.76%	1.19%	1.05%

* including supplementary budget at present before Parliament

ø based on draft budget but not including Parliament's amendments

∕ Commission projections, based on two different assumptions for CAP expenditure -

Ministry of Agriculture, Fisheries and Food

26 November 1979



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