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

From the Minister

*CDP
17/3.*

The Rt Hon Sir Geoffrey Howe QC MP
Secretary of State for Foreign and
Commonwealth Affairs
Foreign and Commonwealth Office
London SW1

17 March 1986

Handwritten signature of Sir Geoffrey Howe

1986 CAP Price Proposals

ATTACHED

We agreed at OD(E) on 6 March that you would write to the President of the Commission to emphasise that the discriminatory elements in the Commission's proposals were unacceptable to us and that, by including them, the Commission had made it hard for us to give them our usual support.

... I attach a draft which has been discussed at official level. I hope you will write in these terms in time for it to have had an impact before the next meeting of the Agriculture Council on 24 March. In addition to copying the letter to Vice President Andriessen, you will no doubt wish to make the British Commissioners aware of what you have written.

Copies of this letter and enclosure go to the Prime Minister, other members of OD(E), the Secretaries of State for Wales, Northern Ireland and Scotland and to Sir Robert Armstrong.

Handwritten signature of Michael Jopling

MICHAEL JOPLING

CONFIDENTIAL

DRAFT LETTER FOR THE FOREIGN AND COMMONWEALTH SECRETARY TO SEND TO M. DELORS

1986 Agricultural Price Proposals and Related Measures

As the discussions on the Commission's proposals for 1986 agricultural prices and related measures get under way, I thought that you should know of our strong support for the Commission's commitment to restore a better balance in the agricultural markets but our concern about one feature of some of the supporting measures.

The United Kingdom has shared common ground with the Commission over a number of years in seeking to use price restraint as the preferred choice for bringing agricultural production into better line with the requirements of the market. For this reason we welcome and support the fact that you have come forward with a tough package of proposals. We would be prepared for a more restrictive policy on common prices and believe that price cuts for some products would be justified. You know the importance we attach to the agreement on financial discipline to which the Council and the Commission are committed. We shall, therefore, be pressing for changes and further economies. Nonetheless, we recognise that a price package alone is unlikely to be sufficient to meet all the objectives this year and that other measures on intervention or on production control, such as the Community outgoers' scheme in the milk sector, are necessary.

The Commission has chosen to present this year, however, a number of proposals which introduce into the common agricultural market regimes a bias in favour of small or mixed farms and consequently against larger or specialist enterprises. We have also noted with concern the suggestion that further such measures might be proposed in future. The United Kingdom has always supported the view that as part of the agricultural guidance structural measures there is a case for helping certain categories of farms which on objective grounds might be subject to disadvantages, for example

because of unfavourable natural conditions. We consider, however, that the introduction into the market regimes of discrimination against production simply because it comes from a larger enterprise would be a breach of one of the basic principles of the common agricultural policy, by introducing distortion into the single market for agricultural products and frustrating the exercise of comparative advantage within the Community. We do not consider it right to move the common agricultural support system towards a system of agricultural support à la carte.

It is, of course, clear that these developments would be to the disadvantage of member states which have a more developed farm structure. For instance, under the Commission's proposal for a cereals coresponsibility levy, about 75% of production in the United Kingdom would be liable to levy but only about 20% of German production would be leviable. A levy of 3% would mean that, on average, the United Kingdom cereal grower would pay 3.75 ecu per tonne whereas the German grower would pay only 1 ecu per tonne. This disparity of 2.75 ecu per tonne is important in itself and would of course rise if the levy was to be raised to 6% as the Commission intends in 1987. We have always been opposed to coresponsibility levies because we consider that they are not effective in expanding the market and because they circumvent the proper discipline of the budget.

For both beef and sheep, the Commission's proposals involve limits on the number of animals qualifying for headage payments. We do not accept that there is any justification for biasing the market system against larger farmers. In effect, this has the consequence of differentiating the level of support in a way that is arbitrary and for which there is no objective justification. I should also mention the proposal for amalgamating Northern Ireland and the Republic of Ireland into a single region for the purpose of calculating the sheep annual premium. This would have an adverse effect on Northern Ireland's relatively small industry which is substantially different from that of the Republic and it would

present political difficulties. I hope it will not be pursued.

As to milk, we support fully the Commission's desire to reduce the surplus by a Community outgoers' scheme. But we could not tolerate a scheme which did not require all member states to cut back quotas by the agreed figure. The objective on milk outgoers must be to ensure that the scheme is effective throughout the Community so as to maximise the budgetary benefits.

I am writing to you at this stage so that you will be in no doubt about the strength of our opposition to these elements in proposals. I should add that the effect of the changes in your proposals I am advancing would be an additional budgetary saving, an important consideration in the present circumstances.

We are ready to require our farmers to accept a firm package of measures, provided that it is fair. We are not able to ask them to accept a settlement which introduces a permanent bias against them. The Commission's price proposals document shows that United Kingdom farmers suffered the greatest decline in incomes among member states - $17\frac{1}{2}\%$ in 1985 - compared with an average decline of 5.7% for the Ten. This is not a situation in which we could justify treating United Kingdom farmers more harshly than those in other member states.

Because of our similar perception of the threat which current problems pose to the effective operation of the common agricultural policy, it is important that we should find as much common ground as possible on the decisions to be taken this year. We believe that the Commission's approach, in its proposals on a cereals coresponsibility levy and on beef and sheep, of introducing a bias into the market regimes towards small farms and against the larger enterprises is misconceived. I have to tell you that it is an approach which the British Government does not accept. I must therefore ask you to reconsider this aspect of your proposals.

I am sending a copy of this letter to Frans Andriessen.

