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10 DOWNING STREET

From the Private Secretary

19 March 1986

Dear Colin,

**EUROPEAN COMMUNITY: THE COMMON AGRICULTURAL POLICY**

The Prime Minister discussed this morning with the Foreign and Commonwealth Secretary, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food, the Chief Secretary, Treasury and the Minister for Trade a longer term strategy for reforming the operation of the Common Agricultural Policy. Mr. D.F. Williamson was also present.

The Prime Minister said that some elements of the future strategy were clear. Restraint on support prices was necessary but could not be the sole answer to the problem. Other measures had also to be considered. Such measures must not discriminate against United Kingdom farmers.

The Minister of Agriculture, Fisheries and Food said that farmers themselves recognised that price restraint was necessary and the recent debate in the House of Commons had shown a wide measure of support for the Government's approach. He considered that the present problems in the operation of the Common Agricultural Policy would not be overcome by price policy alone. It was necessary to have a three-pronged attack on the problem. First, the United Kingdom must not accept discrimination against its own producers. Secondly, there was some scope for "price cuts by stealth" (to which Mr. Williamson's minute of 17 March referred) and, in particular, for some lightening of the intervention system, but severe changes would run up against the opposition of the Federal Republic of Germany and other member states. Thirdly, some more direct action on production control would be necessary: quotas were not in the United Kingdom's interest and we should concentrate attention on possible schemes for taking land out of agricultural production ("set-aside"), in particular by encouraging more woodland planting. He thought that any "set-aside" scheme should be voluntary and that it could be framed in such a way as to take out some cereal-producing

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land which was not best suited to that type of production. The best cereal land was a national competitive asset.

In discussion the following points were made -

(a) of the possible ways of correcting imbalances in the Common Agricultural Policy, the price route was certainly preferable. But other measures were also now required. It would be worth considering whether there should be no subsidies for new land brought into cultivation and how far other small businesses could be encouraged rather than discouraged in the countryside. The attitude to planning applications played an important role;

(b) within the Community concentration by the United Kingdom on price cuts alone was not a sustainable policy. The possible proposals on "set-aside" now had to be worked on urgently. The budgetary implications could not be decided until there had been a proper examination. It was open to question whether the best land should be excluded. In addition to the possible transfer of some land from agricultural production to woodland, there was also attraction in transfer to other environmental uses;

(c) it was important to put across to farming and other opinion that surpluses were not just a Community phenomenon. The growth in farming productivity and in crop and animal yields was having a world-wide impact. The policies to be adopted within the Community must not be discriminatory against United Kingdom farmers but opposition to discrimination must not mean opposition to change;

(d) as price restraint continued and ideas on "set-aside" were developed, the fall in land prices could accelerate. This phenomenon had led to extreme difficulties in the United States and, although the percentage of British farmers at risk might be lower than in the United States, it was important that this should not get out of hand;

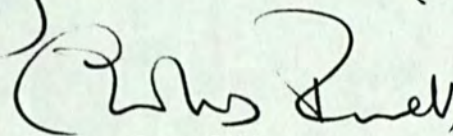
(e) it was possible that there would be further realignments of currencies within the European Monetary System, with an effect on green currencies. This could make it more necessary to look, at a later stage in the present price package negotiations, at a possible adjustment of the green pound.

Summing up the discussion, the Prime Minister said that there was broad agreement that price restraint was an essential element of our strategy for the Common



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Agricultural Policy but that it would not be sufficient in itself to achieve the necessary objectives. The United Kingdom opposed unfair discrimination in the operation of agricultural support but supported measures to weaken too rigid intervention and to bring a greater market element into the disposal of agricultural production. It was also now necessary to look at alternative uses of some agricultural land, in particular possible ideas on "set-aside" and the encouragement of alternative employment in the countryside. The Minister of Agriculture, Fisheries and Food should consolidate proposals on these points into a paper for colleagues.

I am sending copies to Joan MacNaughton (Lord President's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Ivor Llewelyn (MAFF), Jill Rutter (Treasury), Matthew Cocks (Department of Trade and Industry) and to Sir Robert Armstrong.

Yours sincerely,  
  
(C.D. Powell)

Colin Budd, Esq.,  
Foreign and Commonwealth Office.