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MINISTRY OF AGRICULTURE, FISHERIES AND FOOD *16/4*  
 WHITEHALL PLACE, LONDON SW1A 2HH

From the Minister

CONFIDENTIAL

The Rt Hon Sir Ian Gilmour Bt MP  
 Lord Privy Seal  
 Foreign and Commonwealth Office  
 Downing Street  
 London SW1

*f.a.*  
*Prime Minister*  
*The franchise argument becomes ever more obscure. But you may like to glance at the last two paras of the Walker's letter.*  
 18 April 1980

*I can't see why we are making such a fuss*

*16/4*

Dear Lord Privy Seal

13. Thank you for your letter of 17 April about the franchise for positive MCAs.

I do not agree with the implication in your letter that it would be a concession on the part of other member states to reduce the franchise for variable positive MCAs from 1½% to 1%. The advice I have been given is that the Commission are on very dubious legal ground in continuing to apply the 1½% franchise after the Regulation providing for it expired on 31 March. An alternative way of proceeding would therefore be to bring a case against the Commission under Article 173 of the Treaty. Indeed it is likely that action by traders here to secure the payment of MCAs which they consider legally due to them will in any case result in the issue coming before the Court as a result of a reference under Article 177. It therefore follows that agreement to any further Regulation on the subject would be a concession on my part to extricate the Commission out of the legally difficult situation into which they have got themselves with the connivance of the other member states.

However, subject to the Prime Minister's views, I would be prepared to try to work towards a compromise at the next Council under which the franchise for variable positive MCAs would be set at 1% for a period of, say, 2 months and the rules about the application of small fixed negative MCAs should also be made applicable to positive MCAs. There would need to be an undertaking that the whole franchise problem would be studied at working level meanwhile and looked at again by the Council before the expiry of this period.

On the rest of your letter I of course agree that if sterling were to go on rising, there could come a point where we might need to consider a revaluation of the green pound. But I would be totally opposed to this being done at the moment, before even the effect of the December devaluation has worked through to all commodities.

/Sterling is .....



Sterling is clearly volatile at the moment and has fallen by about 1½% from the rate which justified the introduction of the positive MCA of 2.1% on 7 April. In fact, this has led to the removal of the MCA from the beginning of next week. Your statement that Community philosophy is to avoid the creation of new MCAs omits an important word: the decision of the European Council of December 1978 was that no new permanent MCAs were to be created, and it remains to be seen whether our MCAs will be permanent.

As for food prices, even a 5% rise in CAP common prices could add barely 0.25% to the RPI. Against this, our farmers' incomes have already been reduced to the lowest level in real terms for very many years and, unless sterling should fall again to the point where a further green pound devaluation is possible, farmers face a severe cost-price squeeze over the coming year.

I am copying this letter to the Prime Minister, other members of UD(E) and to Sir Robert Armstrong.

Yours sincerely

David Jones

for PETER WALKER

Approved by the Minister  
and signed in his absence