



FCS/84/18

CC NO
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Prime Minister.

A. & C. 21/

MINISTER FOR AGRICULTURE, FISHERIES AND FOOD

Milk Marketing Arrangements and the Threatened Feoga Disallowance

1. Thank you for sending me a copy of your minute of 13 January to the Prime Minister. I have now also seen Nigel Lawson's minute of 17 January.
2. I entirely agree with the line you propose, and with all Nigel Lawson's points, including his last on the need for a fundamental look at the present organisation of the Milk Marketing Boards (MMB). I gather that E(A) has now decided on this.
3. I particularly welcome your suggestion that you have urgent discussions with the milk industry to persuade them to discontinue the pricing arrangements complained of, indicating if necessary that the Government would be prepared to legislate urgently if the industry are unwilling to make the changes voluntarily. As Ray Whitney said in his letter of 11 July last year to John MacGregor, while we cannot (short of legislation) require the Marketing Boards to show greater flexibility over pricing we can press them very hard on the consequences for British policy of rigidity (which could be grave indeed). I am pleased you now propose to do that. I understand that you met representatives of the MMB on 17 January, and look forward to hearing how your discussions went.
4. You note that we are facing very substantial financial risks 'that could not previously have been foreseen'. I feel bound to observe that when EQO discussed all this in June last year FEOGA disallowance was discussed as a real possibility: 'If the course followed by the United Kingdom resulted in a confrontation with the Commission this would heighten the risk of a substantial disallowance' (EQO(83)39, 29 June 1983).
5. As to how best to proceed with the Commission, I am sure the key, as you say, is to indicate our willingness to do a deal under



which the MMB's objectionable practices would be reformed and the disallowance issue would be dropped. I think we need to begin discussions with them without delay. I noted from the record of your recent meeting with Christopher Tugendhat that you said you were not prepared to enter into a negotiation with DG VI over possible changes by the MMB. I can see that it may have been necessary to take this line in advance of Ministerial consideration here but now that we have cleared our lines we should surely tell him promptly that we are accepting his advice. That should encourage him to deal expeditiously and helpfully with the 1978 and 1979 disallowance cases and as slowly as possible with the later years.

6. I am copying this minute to members of E(A), the Attorney-General and the Secretary to the Cabinet.

A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

GEOFFREY HOWE

Foreign and Commonwealth Office

20 January, 1984

Agriculture = Milk Prices
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