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P.01352

PRIME MINISTER

UK Domestic Support for Agriculture

You persuaded the Minister of Agriculture to agree to a review by a group of officials of United Kingdom domestic support for agriculture to be completed in time for the 1984 Ministerial discussions on public expenditure. The report by the Official Group (MISC 100) under my chairmanship was submitted to you and other Ministers under cover of Sir Robert Armstrong's minute of 3 July. The purpose of your meeting is to have a general discussion of the issues raised by the report so as to condition the Chief Secretary's bilateral discussions on public expenditure with the Minister of Agriculture and the three territorial Ministers.

A

2. Expenditure on domestic support for agriculture (which, unlike that under the Common Agricultural Policy (CAP) is at our own discretion) amounts in 1984-85 to some £830 million, of which the main elements are:

Capital Grants	(£167 million)
Drainage	(£ 66 million)
Research and Development	(£170 million)
Agricultural Development and Advisory Service (ADAS)	(£ 42 million)
Animal Health	(£ 52 million)
Less Favoured Areas	(£154 million).

B

3. You will recall that in his paper for the Cabinet on the 1984 Public Expenditure Survey (C(84)18) the Chief Secretary has explained that he is faced with additional public expenditure bids rising from £5 billion in 1985-86 to £8½ billion in 1987-88 and that some of these bids cannot be resisted (eg local authority

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current expenditure, pay review body awards, and the EC budget contribution). As you know the Treasury is looking for substantial savings in expenditure on domestic agricultural support as a contribution to meeting the planning totals approved by the Cabinet on 5 July.

MAIN ISSUES

4. The main issues are:

i. should there be a substantial reduction in the overall level of domestic support for agriculture?

ii. if so: in which of the specific areas of support should reductions be pursued?

Overall level of support

5. It is agreed in the Officials' report (paragraph 8.2) that support given to agriculture is seven to ten times that given to manufacturing measured in relation to their respective contributions to GDP, but that it is comparable to the levels of support for agriculture given by many other developed countries.

6. The arguments about whether there should be a substantial reduction are summarised in paragraphs 8.6 to 8.10 in the Officials' report. It would be consistent with the whole thrust of UK domestic economic policy and with our efforts to reform the CAP to reduce UK domestic support. But the agricultural departments think that it would be politically difficult to make substantial cuts, because the farmers consider that they are being badly treated already. It is argued that the first priority should be to reduce CAP support costs and that it would be more difficult to get UK farmers to acquiesce in those changes if we try to tackle UK domestic support at the same time. Much turns on whether the UK should aim to maintain its share of Community agricultural production. The economic argument is that we should not seek to do so and that if other countries choose to misallocate resources by subsidising agriculture, we should be

happy to receive the benefit of the subsidised food. The political argument is that the burden of bringing Community production into a better balance with demand should not fall disproportionately on UK producers. The meeting needs to provide some steer as to which of these two views should be given the greater weight.

7. After discussing the general issue, it may be convenient to go through the specific areas of support working from the summary in paragraphs 8.11 to 8.26 of the report where various options are identified. The issues can be summarised as follows:

Capital grants (£167 million excluding the less favoured area supplements)
The economic case for such grants is weak; arguably they are either ineffective or encourage surplus production. Ignoring the higher rates in less favoured areas, the rates of grant are in the range 20-32½ per cent. Should they be generally reduced to around 10 per cent, as favoured by the Treasury?

Land drainage (£66 million)
No need to discuss. It is agreed that expenditure is to be reduced in the light of reactions to a consultative document.

Agricultural Training Board (£8 million)
Not worth discussing at length because the amount involved is small. The Treasury's favoured option of trying to make the ATB self-financing, while admirable in principle, could create controversy disproportionate to the savings achievable.

R & D (£170 million)
The unusual extent of public funding of public sector R & D, by comparison with R & D in manufacturing and support for R & D for agriculture in France and Germany, has been commented on by ACARD. Should the expenditure be halved (or at any rate substantially reduced) as recommended by the Treasury?

ADAS (£120 million)
Should a decision of principle be taken now to end free advisory services, or should we wait for Professor Bell's report, as the agricultural departments would prefer?

Animal health (£50 million)
No need to discuss. It is agreed that we should wait for Professor Bell's report.

Less favoured areas (£154 million)
There is no dispute that some support for the less favoured areas is justified. But the level of present support is very high. Paragraph 6.12 of the report says that, if both CAP support and UK domestic support are taken into account, ".... public expenditure on agriculture in the LFAs is comparable to the total net farming income in these areas". Should we therefore pursue the Treasury option of reducing capital grant rates in these areas and also the rates of the Hill-Livestock Compensatory Allowances?

Tax reliefs (£25 million)
This does not arise in the public expenditure bilaterals and can be pursued by the Treasury with the agricultural departments as a fiscal matter in due course.

8. In looking at the specific areas of support it should be borne in mind that no substantial reduction in UK domestic agricultural expenditure will be possible unless there are considerable cuts in at least two of the three largest areas of expenditure (capital grants, R & D and the less favoured areas).

HANDLING

9. You may first wish to have a general discussion about the case for a substantial reduction in UK agricultural support. This might be opened by the Minister of Agriculture, and contributions

might then follow from the Chief Secretary, Treasury, the territorial Ministers and then from the "neutral" Ministers (the Lord President and the Secretaries of State for Trade and Industry and Education and Science) in that order.

10. When you turn to the specific areas of support it may be best to ask the Chief Secretary, Treasury to make his bid for a reduction and then invite the Minister of Agriculture to reply. On less favoured areas the reply should come from the territorial Ministers.

CONCLUSIONS

11. You will wish to reach conclusions on the issues set out in paragraph 8.27 of the Official's report, ie:

i. to decide whether, in addition to continuing to exert the maximum effort to reduce the level and cost of CAP market support, they wish to make a substantial reduction in UK domestic support for agriculture;

ii. if so,

a. to indicate in which of the following areas of support options for reductions should be pursued:

- capital grants
- drainage
- Agricultural Training Board
- Research and Development
- Agricultural Development and Advisory Service (ADAS)
- animal health
- Less Favoured Areas
- taxation;

b. in the light of these indiscations, to instruct officials to pursue the options for reductions in detail in the course of this year's Public Expenditure Survey, taking into account as necessary policy reviews in progress.

PLG

P L GREGSON

25 July 1984