



CDND ②
Prime Minister
C.D.P.

Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

PRIME MINISTER

C.A.P. →

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with DN/NW

I have seen Michael Jopling's minute to you of 30 September, your Private Secretary's reply and the comments of Norman Tebbit and Willie Whitelaw.

I agree that it is necessary to be aware of the structural adjustment which an effective reform of the CAP would entail but, like you, I believe that at this stage our efforts should be concentrated on securing reform rather than on detailed contingency planning for dealing with the consequences.

The analysis in the MAFF paper assumes substantial progress towards reducing surpluses over the next few years. This must be our aim but the attitude of the Germans during this year's price fixing negotiations shows how difficult this will be to achieve. The adjustment which British agriculture has to face may therefore be slower than Michael assumes. The exodus of labour from the industry would probably be less than in the late 1960s.

Even if Michael's analysis were borne out by events I cannot accept his view that the Government should assume a significant amount of responsibility for facilitating the necessary structural adjustment. I agree very much with Norman Tebbit's views on this. We should not underestimate the adaptability of British agriculture on the one hand or the potential for change in rural economies on the other. Moreover, the adjustment required is likely to be both slower and much less geographically concentrated than many parts of manufacturing industry have had to face. To the extent that there is a role for the public sector in the transition we already have a wide range of agencies and programmes operating in this area and we should think primarily in terms of maximising their combined impact.

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Norman is also right to stress the gains to the economy at large from reductions in agricultural prices and expenditure on the CAP. Any savings would not 'belong' to agriculture; rather they would represent a reduction in the burden which the CAP imposes upon the non-agricultural economy. And it is surely an overstatement to argue that a move to less intensive agriculture would cause difficulties for landscape and wildlife in the countryside; many would argue the contrary and I would expect such changes to make it possible to achieve some of our environmental objectives more easily and with less resort to financial inducements.

Among the measures which Michael considers is a "major strengthening of support measures ... building on the foundation of present HLCAs". HLCAs are already very costly (some £100 million a year) and I would be strongly opposed to Michael's suggestion on public expenditure grounds. Moreover income support, insofar as it is needed, should be provided through the social security system and should not differentiate between economic sectors; and the payments Michael proposes would tend to offset the disincentive effects of any CAP price cuts on production.

I agree with Willie Whitelaw that the speculation in these papers about the future course of British agriculture and rural communities should not be aired in public. On the other hand we cannot shirk telling the farming community that adjustments will be needed. It is to Michael's credit that this message is beginning to be well understood.

I am sending copies of this minute to Geoffrey Howe, Nick Edwards, Tom King, Norman Tebbit, George Younger and Sir Robert Armstrong.

N.L.

14 October 1985

Agriculture 9/83

Expenditure

