

A/10

MT
JM

Confidential Filing

Hill Livestock (Compensatory Allowances) Regulations
1979.

AGRICULTURE

NOVEMBER 1979

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
21. 11. 79							
22. 11. 79							
28. 11. 80							
1. 11. 85							
1. 2. 91							
PREM				19 / 3605			



Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH
071-270 8668/8666

From the Minister's Private Office

Faxed
To the Private Secretary accompanying the
Prime Minister at his meeting with Mr Naish,
Mr Ross and Mr Mulvender this afternoon.

There has been a leak in the farming press today about
cuts in hill livestock compensatory allowances. My Minister
is answering a PP today: I attach the text (to be
released at 3.30). My Minister has spoken to Mr Naish:
I attach a record of the conversation.

David Rossing L

10/12/92

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

PARLIAMENTARY QUESTION

Question No: Written

Date:

Order paper:

Mr Elfyn Llwyd (Meirionnydd Nant Conwy): To ask the Minister of Agriculture, Fisheries and Food, if he will make a statement about the future of HLCA payments.

JOHN GUMMER

UK Agriculture Ministers have completed the Autumn Review of Economic Conditions in the Hills and Uplands.

The Review has shown that the average net farm income of livestock producers in the United Kingdom's hill and upland areas is forecast to show a significant rise for the second year running. Specialist sheep farmers in Great Britain are seeing a large increase in their incomes as a result of the strong market for store lambs and increased returns from the ewe premium and the special supplement payable on ewes kept in the Less Favoured Areas (LFA).

Hill sheep farmers' receipts will be further boosted by an increase in the annual ewe premium of about £1.70 per ewe under the 1992 scheme as a consequence of the green pound devaluations which have already taken place. Although this will be partly offset by higher input costs any further devaluations at the beginning of next year as a result of revised agrimonetary arrangements would provide an additional boost.

As a consequence of these favourable developments, the rates of Hill Livestock Compensatory Allowances (HLCA) paid on sheep in the Severely Disadvantaged Areas of the LFA are considered to be greater than is necessary to compensate for the permanent natural handicaps of farming in those areas. These rates will accordingly be reduced by £2.25 to £6.50 per eligible ewe for hardy breed ewes and by £1.30 to £3.60 per ewe for other breeds in the SDA for the 1993 scheme.

We will however be sustaining HLCA rates for breeding cows at their current levels of £63.30 per eligible cow in the SDA and £31.65 per cow in the Disadvantaged Areas (DA). The rate payable on eligible ewes in the DA will be adjusted upwards to bring it into line with the EC rules. The precise rate will depend upon the value of the green pound on 1 January 1993 and we will announce it shortly thereafter.

A Statutory Instrument giving effect to these new rates will be introduced early in the New Year. Payments of claims will commence as quickly as possible thereafter.

The environmental initiative for the LFA which I announced last February is being sustained. A new definition of overgrazing has been included in the HLCA regulations to enable problems of serious overgrazing to be tackled more effectively. We shall be seeking powers from Brussels during 1993 to apply similar rules to the ewe premium. All HLCA applicants have been sent a free copy of the Code of Good Upland Management. Thirteen new

upland ESAs in the UK have been announced, a focus of which will be the protection and enhancement of heather moorland. In addition, I secured in the CAP reform package provision for a livestock extensification scheme which we would expect to use primarily to deal with overgrazing in the LFA.

This series of measures is designed to tackle overgrazing in a cost-effective and equitable manner by focusing upon the areas where the problem occurs. The scaling of HLCAs remains a possible additional measure which we will keep under review.

Hill sheep men face body blow from MAFF cuts

by Richard Saunders

SHEEP producers face a savage cut in HLCA payments next year, just when they thought incomes were about to recover.

An announcement slashing HLCA payments in disadvantaged and severely disadvantaged areas by up to 27 per cent is expected before the end of the year — and was delayed simply because MAFF considered it too contentious to announce at the time of the Autumn Statement.

Leaked correspondence between minister John Gummer and chief secretary at the Treasury Michael Portillo reveals that in order to achieve the £20 million cut in spending demanded by the Treasury for 1993-94, the minister has proposed a cut in HLCAs for hardy sheep in severely disadvantaged areas from £8.75 to £6.50 (a 26 per cent drop) and for other sheep in SDAs a cut from £4.90 to £3.60 (a 27 per cent drop).

For sheep in disadvantaged areas the payment would actually increase from £2.45 to £2.67 because otherwise it would be below the lowest

level permitted by the EC.

The savings amount to £20 million, of which £5.3 million would come from England, £6.7 million from Wales, £1.3 million from Northern Ireland and £6.8 million from Scotland.

In his letter to Mr Portillo, Mr Gummer says he accepts there is merit in the farming unions' case that hill farm incomes remain at a low level but believes that recovery in specialist sheep incomes is moving in the right direction — helped by current and expected Green £ devaluations.

And he says that while he is anxious to announce good news on the suckler premium front "in view of the presentational difficulties which announcing HLCA reductions will pose, I would aim to delay an announcement until the end of the year when we can expect the countervailing good news for sheep farmers in the form of a devaluation of the Green £."

In his reply, Mr Portillo accepts the proposed cuts and states that the two departments will have to get together to discuss the details and announcement of the new

HLCA rates, including the impact of any further Green £ changes.

Told of the proposals by FARMING NEWS, National Sheep Association secretary John Thorley said: "This is an absolute disaster. It means that a Green £ devaluation will just mean we will be standing still — probably going backwards.

"Frankly we were looking forward to a devaluation to give us the confidence to go into the next year."

The Scottish NFU declined to comment but said it had been seeking an increase in HLCAs.

Postal risk countryside

ANY cuts in the rural post service could jeopardise the move of small businesses to the countryside, says the Country Landowners' Association.

The CLA has asked assurances from the Government that the 16,000 Office job losses over the five years announced last week will not lead to a breakdown of rural services.

"Any significant reduction in the level of postal services could put this welcome trend in jeopardy and make it more difficult for people who may find their local post office no longer there," said CLA.



Losses
gling

with staff
able of hand-

who farms
g 3000 acres,
s set-aside
he Newcastle
on September
eeks ahead of
Soon after,
nounced the
Newcastle
transfer of
"to produce a
d better ser-

eight months
his applica-
a letter from
itting it had
and request-
page 2

GATT deal is building up

l Greece now
h opposition
al.
sources say
er Ray Mac-
w acknow-
that a final
ent is now
re he steps
of the year.
mination to
ising both
reform was
Danish farm
Toernaess

who told ministers that when Denmark takes over the EC presidency in January he will open a debate on the renegotiation of CAP reform. This is certain to infuriate Britain's John Gummer, who during his six month council presidency blocked all attempts to discuss enhanced compensation for the CAP reform cuts.

Meanwhile the beef management committee has cleared the way for the new

year introduction of the beef special premium. For January and February the two month retention period will be reduced to one month, and for January only, the month can have been served in advance. From March the two month retention period is in force. Both special premium payments cannot be claimed at the same time. The maximum age for the first application is 20 months, and the minimum for the second 21 months.

Good silage comes from **silaflex**

Product Tested by ADAS

silaflex

HILL LIVESTOCK COMPENSATORY ALLOWANCES

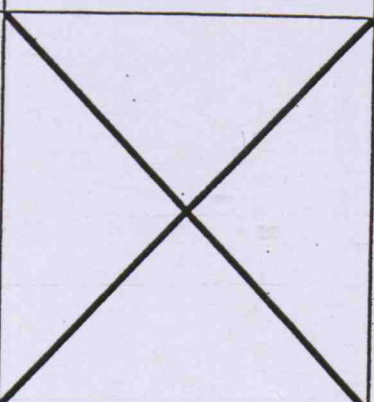
1. Mr Naish (NFU President) rang the Minister this morning about the reports in the farming press that HLCAs would be cut.
2. The Minister ran through the sense of the written reply that he was intending to give on this subject this afternoon. He emphasised that there would be no reduction in the payments for eligible cows.
3. Mr Naish indicated that he would have to react to the news, but would be careful to choose his words carefully. He pressed the Minister on whether we would seek a devaluation of the green pound in the sheepmeat sector before the beginning of the next marketing year in early January. The Minister said that he could make no promises on the outcome, but was obviously very sympathetic to Mr Naish's point.

DL

DAVID ROSSINGTON
PPS/Minister
10 December 1992

MR A J LEBRECHT +1

cc Private Offices
Mr K Adams
Mr R J Packer
Mr G A Hollis
Mr J R Cowan
Mr S H Dugdale
Miss A Evans (Parliamentary Clerk)

DEPARTMENT/SERIES <i>PREM 19</i> PIECE/ITEM <i>3605</i> (one piece/item number)	Date and sign
Extract details: <i>Portillo to Clarke dated 10 December 1992.</i>	
CLOSED UNDER FOI EXEMPTION	
RETAINED UNDER SECTION 3(4) OF THE PUBLIC RECORDS ACT 1958	
TEMPORARILY RETAINED	<i>1/7/2017</i> <i>G. Gray</i>
MISSING AT TRANSFER	
NUMBER NOT USED	
MISSING (TNA USE ONLY)	
DOCUMENT PUT IN PLACE (TNA USE ONLY)	

Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
Do not enter details of why the extract is sensitive.

If closed under the FOI Act, enter the FOI exemption numbers applying to the closure, eg. 27(1), 40(2).

Sign and date next to the reason why the record is not available to the public ie. Closed under FOI exemption; Retained under section 3(4) of the Public Records Act 1958; Temporarily retained; Missing at transfer or Number not used.



Treasury Chambers, Parliament Street, SW1P 3AG

Barry Potter Esq
10 Downing Street
London
SW1

February 1991

Dear Barry,

HILL LIVESTOCK COMPENSATORY ALLOWANCES

... I enclose copies of the correspondence between the Chief Secretary and the Minister of Agriculture. I will send you a personal copy of the Chief Secretary's reply to Mr Gummer's latest letter once it issues. He does not intend to move from his current offer of £17.5 million, and he expects that part of it falling in 1991-92 to be absorbed within existing provision.

yours sincerely

A handwritten signature in black ink that reads "Stephen Bowden".

STEPHEN BOWDEN
Assistant Private Secretary



Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

The Rt Hon David Mellor QC MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London
SW1P 3AG

CHIEF SECRETARY	
REC.	31 JAN 1991
ACTION	Miss Barber
COPIES TO	Mr Monck, Mr Wilson
	Mr Bostock, Mr Manger
	Mr ACS Allan, Mr Meyrick
	Mr A. White, Mr Pike

31 January 1991

Dear Chief Secretary

HILL LIVESTOCK COMPENSATORY ALLOWANCES

Thank you for your letter of 29 January.

I do understand your difficulties in financing an increase in HLCAs when there are such significant pressures on public expenditure; and you have tried hard to be helpful against the background of these constraints. But I have to say that we also took account of them and the bid we made for £35 million was very much less than I and my colleagues considered to be justifiable as a response to the desperate situation facing farmers in the less favoured areas.

You have questioned the policy which underlies HLCAs. We are committed to reviewing the HLCA arrangements to see how the environmental benefits which they deliver can be made more specific. But the present policy continues until we decide collectively to change it. Our commitment to support producers in the less favoured areas continues and we could not accept that in setting the rates for the present year we should anticipate future decisions.

The issue we face now is how to deal with the present crisis in the livestock sector. Although we regard £35 million as a limited response to the situation, I confirm that we could shave the figure to £31.5 million. Having discussed your letter with my colleagues, I must assure you that we all believe that this is the scale of response which we must ask you to agree.

We are at a key stage in negotiating further more fundamental reforms to the CAP. We are determined that the reforms will deliver savings. Farmers equally recognise the need for major readjustments. But we must conduct our own decisions and the negotiations in a way which will carry the industry with us. We cannot be seen apparently to abandon the need to defend producers in the less favoured areas.

You have suggested that we should make this increase for one year only. This would pose some major difficulties. It would give the impression, in advance of negotiations in Brussels, that we were already contemplating adjusting our level of support through HLCAs. This would undermine our position in resisting discriminatory measures in the livestock sector. It would enable Ray MacSharry to argue that if we were contemplating reducing support in the hills anyway, we ought to be able to accept his discriminatory reductions. Also, it is doubtful how the European Commission, which has to approve our arrangements, would react to a one-off payment.

We are taking a very thorough look at the HLCA system, particularly from the point of view of greening it. We shall certainly look at the idea of targeting, though we shall clearly have to have regard to the approach on discrimination which we are taking in Europe.

On financing, I would be ready to absorb MAFF's share of £3.5 million in 1991/92. My colleagues will want to confirm their own positions regarding their shares. The remainder, after taking account of the savings already offered by the Scottish and Northern Ireland Offices, would have to be met by claims on the Reserve in 1990/91 and 1991/92. The precise balance of expenditure would depend on the timing of payments. At this stage it is not possible to predict precisely how they would fall as between the two financial years.

I am copying this letter to Peter Brooke, Ian Lang and David Hunt.

Yours sincerely

A. Hebrecht

JP

JOHN GUMMER
(Approved by the Minister
and signed in his absence)

CONFIDENTIAL



cc:
 PS/Chancellor
 Sir Peter Middleton
 Mr Monck
 Mr R Wilson
 Mr A C S Allan
 Mr Bostock
 Mr Monger
 Mr Pike
 Mr Spackman
 Miss Barber
 Mr Meyrick
 Mr A White

Treasury Chambers, Parliament Street, SW1P

Andy Lebrecht Esq
 Private Secretary to the Minister
 for Agriculture Fisheries and Food
 Ministry for Agriculture Fisheries and Food
 Whitehall Place
 London
 SW1A 2HH

28 January 1991

Dear Andy

HILL LIVESTOCK COMPENSATORY ALLOWANCES (HLCAs)

Your Minister came to see the Chief Secretary today to discuss his bid for an increase in HLCAs. No officials were present.

2. Your Minister began by explaining the background to his request for a Supplementary Estimate to increase provision for demand-led expenditure on BSE compensation and the wool guarantee. He said that the increase in demand was £40 million, but he had found offsets totalling £23 million to reduce his bid. He argued that the Wool Guarantee Scheme could be eliminated entirely if he could secure a slot for the necessary legislation. He also noted in passing that he was looking for slots to wind up the Milk Marketing Board, which would not necessarily save money for the Exchequer but would benefit the consumer, and for the Covent Garden Market Bill, which would yield proceeds of around £170 million for the Consolidated Fund. Once the Wool Guarantee and the Milk Marketing Board were dispensed with, there would be very little domestic demand-led variable expenditure within his remit other than the BSE scheme, which would itself come to an end within about two years.

3. The Chief Secretary noted your Ministers' comments on legislative slots. On the demand-led programmes he pointed out that, whatever the nature of these schemes - statutory or otherwise - they still cost money. The only possible response to an increase in non-discretionary expenditure would be a reduction in discretionary expenditure.

CONFIDENTIAL

4. Turning to HLCAs, the Chief Secretary pointed out that there were massive demands on the Exchequer for the Gulf, for British Rail and elsewhere. Cabinet had repeatedly agreed that it was vital to keep control over public expenditure. It was hard to see how your Minister's bids could be preferred to others: agriculture already received twenty times the support given to industry - indeed hill farming only continued at all because of Government support. To put more money into the scheme would encourage further overstocking, and therefore further costs.

5. Your Minister agreed that hill farming was dependent on Government support, but argued that this reflected a Government decision that the hills should be farmed. He was not prepared to see that decision reversed. He had asked for £35 million because it was the minimum he considered necessary to allow hill farming to continue. The territorial departments had wanted him to press for more, but he had said he would not approach the Chief Secretary with more than he knew to be the minimum necessary. He recognised that the existing scheme was inadequate, but he could not bring forward better proposals until the EC had developed some new ideas; perhaps in the early Summer. The problem of further overstocking had in any case been addressed by the introduction of a headage limit.

6. The Chief Secretary noted your Minister's points. He did not, however, accept that the choice lay between farming the hills and not farming the hills. The issue was whether or not the government could justify pouring ever more resources into sustaining the current level of hill farming - and indeed at present encouraging even higher stocking levels. The Chief Secretary pointed out that in every other area of the economy it was necessary to relate the level of activity to the prevailing economic circumstances. The simple fact was that he could not justify an increase in public expenditure in this area on this scale. He could not afford £35 million. He asked your Minister to consider a lower level.

7. Your Minister replied that he would have to consult with the territorial Ministers. He himself was only responsible for 24 per cent of HLCA expenditure. He noted that the deadline for Estimates to be approved was 30 January and undertook to come back to the Chief Secretary before that.

yours sincerely

Stephen Bowden

STEPHEN BOWDEN
Assistant Private Secretary

UNCLASSIFIED



Treasury Chambers, Parliament Street, SW1P

cc:

Mr Monck
 Mr R Wilson
 Mr Bostock
 Mr Monger
 Mr A C S Allan
 Mr Barber
 Mr Meyrick
 Mr A White
 Mr Pike

The Rt Hon John Gummer MP
 Minister of Agriculture, Fisheries and Food
 Ministry of Agriculture, Fisheries and Food
 Whitehall Place
 London
 SW1A 2HH

29 January 1991

HILL LIVESTOCK COMPENSATORY ALLOWANCES (HLCAs)

Thank you for your letter of 19 December, which we have discussed at some length.

2. As I think I have already made clear, I see no economic justification for an increase in HLCAs. Hill farmers already receive massive help from the Government. As I said in my previous letter, raising production related subsidies where there is already surplus, and indeed increasing, production makes no sense at all.

3. Further, I have looked into HLCA changes in recent years, and it is clear that there is no particular formula whereby HLCAs are changed to compensate hill farmers for a proportion of the projected change in net farm income. Indeed, I could not help but notice that in years when income has been forecast to rise your predecessors have not offered an HLCA reduction.

4. You also know of the difficulties which the Government faces on public expenditure. You explained when we met the background to the increased provision you have sought on the wool guarantee and BSE. But the fact that these demand determined increases are unavoidable makes it all the more important that a discretionary increase in HLCAs should be minimised.

5. However, I appreciate that you and the other Agriculture Ministers are under political pressure from the farming lobby, and that you believe some gesture of Government support is necessary. I am therefore prepared to agree to an increase in payments, on the conditions set out below, of

UNCLASSIFIED

half the amount you have requested, that is £17.5 million for the year 1991. It would be up to you and the other agriculture Ministers as to how to allocate this as between the DA and SDA and the three livestock categories.

6. On financing, some £14 million of the cost would fall in 1990-91, and, taking account of the savings already offered by DAFS and DANI, would mean a claim on the Reserve of some £13 million. If other suitable savings could be found to reduce this claim further, so much the better. I expect the balance of £3.5 million, which would fall in 1991-92, to be absorbed within existing provisions, if necessary by transferring resources from cash limited provision.

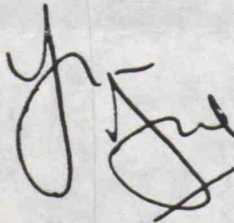
7. My other conditions are as follows.

8. First, it would have to be clearly understood that the increase is a special supplement for one year only, and the announcement would have to be in these terms.

9. Second, it is clear from the figures that not all LFA farms have low net farm incomes. I would therefore want you to examine the scope for targeting of HLCAs to inform future discussion on this subject. It would be necessary to have the results of this study in time for this year's PES discussions.

10. I hope that in the circumstances you and the other Agriculture Ministers will agree that my offer is an extremely generous one and accept it. I must make it absolutely clear that I can make no more money available for this purpose. It is as much as, if not more than, we can afford. If it does not do the trick, then we would have to consider whether it was worth spending anything at all in this area. It is also essential now that this matter is sorted out quickly, so that the necessary Estimates provision can be sought.

11. I am copying this letter to Peter Brooke, Ian Lang and David Hunt.



DAVID MELLOR



Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

Rt Hon D Mellor QC MP
Chief Secretary to the
Treasury
Parliament Street
London
SW1P 3AG

CHIEF SECRETARY	
REG	20 DEC 1990
ACTION	MR PIKE
COPIES TO	CX, MR MONCK
	MR WILSON, MR MONCK
	MRS BARBER, MR A. WHITE

19 December 1990

Dear Chief Secretary

HILL LIVESTOCK COMPENSATORY ALLOWANCES

X Thank you for your letter of 10 December about the review of HLCAs which I have discussed with my agriculture colleagues.

I have to say that we are extremely disappointed by what you have to say and there are a number of points you make which are not sustainable.

We provide HLCAs in recognition of the fact that producers in these areas face natural handicaps because of the difficult circumstances in which they farm, in order to sustain production with the economic, social and environmental benefits that go with it. At the same time we do recognise that hill farmers are running businesses. There is no question of insulating them from the effects of the market. The income data indicates all too clearly that they have not been insulated from the effects of the market. You accepted that the figures are "discouraging". They are in fact the worst figures for many years. If we take no action on HLCA rates this year, the producers concerned will reasonably ask in what circumstances we would ever again raise these rates. The blow to their confidence would not hit just a few inefficient farmers. The proposal we have put to you would alleviate their situation to no more than a moderate degree, but it would be an indication of the Government's continued support for farming in the LFAs.

The circumstances which hill producers face are very serious and over a period there is a real risk of decline and dereliction. In 1988/89 the average net farm income for livestock farms in the LFAs in the UK was £11,300. This had fallen to about £8,200 in

1989/90 and is ...

1989/90 and is expected to fall by a further 35 per cent in 1990/91. Results from the Farm Business Survey show that in 1988/89 nearly 14 per cent of these livestock farms had negative Net Farm Incomes. Complete figures for the UK are not available for subsequent years, but it is apparent that in 1989/90 a quarter of LFA livestock farms in England and 38 per cent in N. Ireland had negative net farm incomes. The position in the current year will be worse still.

You emphasised the economic aspect of hill farming, arguing that the only consequence of the present difficulties would be the take-over of some inefficiently run farms by more efficient farmers. We doubt whether there will be many farmers able and willing to invest additional resources in hill farming at the present time. To the extent that it did happen it would exacerbate the problem of depopulation in remote rural areas given that the opportunities for diversification in such areas are limited or non-existent.

It is true that income from beef and sheep farming is in some measure supplemented by income from other sources. But we cannot accept that it is on a scale which provides any significant reassurance. There are over 30 thousand farms in the UK classified as livestock farms which lie mainly within the LFA. Beef and sheep enterprises represent between 85 and 90 per cent of the total output of these farms. Given the conditions that exist in these regions there is little prospect of any significant transfer to alternative enterprises.

So far as non-agricultural incomes are concerned the latest complete figures for the UK on non-farm income relate to 1988/89. The average level of this income (which includes social security payments) on LFA livestock farms amounted to £2,400 per annum. The surveys on which these estimates are based also show that 42 per cent of these farms have no non-farm income and 19 per cent have less than £1,000.

So far as dairying is concerned, the HLCA system offers no support to milk production and, as the figures I quote above indicate, a very large number of farms have no significant dairy business. Nor could they plausibly go into dairying either because their land is unsuitable or because the cost of acquiring the necessary milk quota would be prohibitive.

You note that various actions have already been taken which in varying measures alleviate the position of hill farmers. To the extent that they affect incomes in 1990/91 these measures have been taken into account in the income figures which you have seen.

The prospects for 1991/92 are not good. In response to the difficult EC budgetary position and to any GATT agreement we are likely to have proposals for significant reductions in support. While the Commission may seek to limit the impact on farming in the less favoured areas, there are clear signs that prominent in their thinking will be the concept of reducing support for

/larger enterprises in ...

larger enterprises in order to sustain small ones. Our hill farming is generally based on larger enterprises than in the rest of the Community and we would be likely to suffer very severely as a result of such an approach. The one clear offsetting measure is the supplement to the ewe premium in the LFA. This is expected to be paid in instalments, however, and is likely to begin helping incomes only in the second half of 1991. You also mention the extra resources for greening HLCAs. These are unlikely to increase net farm incomes since they are envisaged as incentives, off setting the costs of new environmental requirements.

In brief we face two issues. Firstly, the income position of hill farmers is severely depressed and urgent action is required to alleviate the immediate problems they face. Secondly, the situation in 1991/92 is very likely to be equally difficult since some positive elements which can currently be identified may well be more than offset by market or policy changes which we cannot foresee precisely at this stage.

Against this background, having carefully reconsidered the position, we are clear that a substantial increase in HLCA payments is absolutely vital and the proposal we made in my letter of 13 November remains fully justified. We do therefore have to ask you to reconsider your position. The scheme is due to operate from 1 January 1991 and an early announcement of the rates to apply will be important.

This letter reflects the views also of Peter Brooke, Ian Lang and David Hunt to whom I am copying it.

Yours sincerely
M. Gummer

JOHN GUMMER
Approved by the Minister
and signed in his absence



CC:
 CHANCELLOR
 SIR PETER MIDDLETON
 MR MONCK
 MR R WILSON
 MR A C S ALLAN
 MR MONGER
 MISS BARBER
 MR PIKE
 MR LIGHTFOOT
 MR SPACKMAN
 MR MEYRICK

Treasury Chambers, Parliament Street, SW1P 3AC

The Rt Hon John Gummer MP
 Minister of Agriculture, Fisheries and Food
 Whitehall Place
 London
 SW1A 2HH

(5 December 1990)

Dear Minister,

HILL LIVESTOCK COMPENSATORY ALLOWANCES 1991

Thank you for your letter of 13 November 1990 to my predecessor about the review of HLCAs.

2. I am distressed at the size of the increase you are seeking, and so soon after the generous PES settlement. Surely we can't entirely forget that hill farmers are running businesses. Other businesses do not generally receive Government assistance to insulate them from the effects of the market. If we do not increase HLCAs, I very much doubt that there will be many who are unable to continue to farm. At the worst less efficient farms might be taken over by the more efficient, and I doubt that there would be significant dereliction in the hills. The NFI figures in your letter look discouraging, but large numbers of farmers in the LFA are not solely reliant on beef and sheep. LFA farmers' income from non farming sources which is becoming increasingly important is not included in your figures (I understand that 58 per cent of LFA livestock farmers have some off-farm income). And your comments on farm incomes do not take account of dairy farming which has fared much better than beef in the hills. The reduced profitability of hill livestock farming is a consequence of a serious imbalance of supply and demand which must in part be attributable to HLCAs and CAP support measures distorting the operation of free markets.

3. We have already done a lot for hill farmers this year, with the increase in the suckler cow premium for the LFA and the massive increase in beef intervention which benefits the beef market as a whole. The green pound devaluation agreed in the 1990 CAP price fixing has also helped. On top of this, in the 1991 marketing year there will be the new LFA ewe premium (worth £35 million a year) which has not been taken into account in the review, so the financial situation should improve towards the middle of 1991. And from 1992-93 there will be the additional

POLICY IN CONFIDENCE

money we agreed in the PES round for the greening of HLCAs. It therefore seems to me that there is little risk of farmers leaving the industry because prices are temporarily weak.

4. In recent years there has been an increase in animal numbers in the LFA and in 1991 sheep numbers are forecast to increase by 1.9 per cent and breeding cattle by 2.1 per cent compared with 1990. The near 30 per cent increase in HLCAs you are seeking would be likely to fuel the trend adding still further to public expenditure on HLCAs and CAP market support measures and exacerbating the economic and environmental problem of over grazing which you cited in the debate over HLCA greening. And it is difficult to see how such a large increase in a production related subsidy is consistent with the stance we have taken on the need for reductions in support and protection to be agreed in the GATT round.

5. You are fully aware of the public expenditure position in the current year. In the Autumn Statement we announced that the planning total was forecast to be overspent by some 1 per cent. Every claim for additional spending that is conceded lessens our chances of reducing the size of that overspend. You are already preparing another claim on BSE slaughter and compensation, wool guarantee and flood defence totalling some £30 million. A further claim of £35 million for HLCAs simply cannot be afforded.

6. In the circumstances I am afraid that I cannot accept your proposal or agree the corresponding claim on the Reserve. I suggest that you and other Agriculture Ministers take a firm line with the hill farmers, indicating that they will have to adjust to the new market conditions and that they will have the benefit of the new LFA ewe premium to look forward to in 1991.

7. I am copying this letter to Peter Brooke, Ian Lang and David Hunt.

yours sincerely
Steel Bowd

DAVID MELLOR

*[approved by the Chief Secretary
and signed in his absence]*



Ministry of Agriculture, Fisheries and Food
Whitehall Place, London SW1A 2HH

From the Minister

POLICY IN CONFIDENCE

The Rt Hon Norman Lamont MP
Chief Secretary to the Treasury
HM Treasury
Parliament Street
London
SW1P 3AG

CHIEF SECRETARY	
	13 NOV 1990
ACTION	<i>Miss J. Barber</i>
COPIES TO	<i>ex. Sir P Middleton</i>
	<i>Mr Monk, Mr Wilson,</i>
	<i>Mr Loxley, Mr Kengel,</i>
	<i>Mr Bostock, Mr Alexander,</i>
	<i>Mr Finlayson, Mr Lightfoot.</i>

13 November 1990

Norman

HILL LIVESTOCK COMPENSATORY ALLOWANCES: 1991

Each Autumn, the Agriculture Ministers review the economic conditions in the hills and uplands (the less favoured areas) and seek the views of the Farming Unions. This review serves as a basis for determining the rates of hill livestock compensatory allowances to apply for the following year. We have now concluded this year's review, and I am writing to let you know the outcome.

The enclosed note (Annex A) sets out the main elements emerging from the review. The major and serious issue is that after falling 32% last year, net farm incomes are forecast to fall a further 35% in 1990/91, even when account is taken of the advances of ewe premium and the recent increase in the suckler cow subsidy which we focused on the less favoured areas. In real terms the successive reductions are 37% and 41%

The factors underlying the reduction this year include a number of exceptional elements (the crisis of consumer confidence arising from BSE; the drought which has affected much of the country; and the impact of the Gulf crisis and BSE on exports from both the UK and other parts of the Community). The consequential higher costs and weak markets impose quite exceptional difficulties on the producers in the less favoured areas to which the normal support mechanisms cannot respond adequately.

The less favoured areas are the hill and upland parts of the country where agriculture is most difficult and where the alternatives are most limited. Extensive livestock production

mainly cattle and sheep - is the traditional and usually the only, realistic means of sustaining agriculture with the employment and economic impact on the rural economy that it brings with it. As we recognised in the recent Environment White Paper, there are also major environmental benefits from the compensatory allowances in terms of sustaining the traditional landscape not least because they enable farmers to have a cash flow sufficient to maintain environmental features on their land.

Because of the decline in incomes the farmers in these areas are desperate. Many are heavily dependent on the income from autumn sales of stock which this year has fallen sharply. Their cash flows are under extreme pressure with no early prospect of alleviation. In 1989/90 the compensatory allowances accounted for 61% of net farm income. This year the proportion will be higher and they are critical to survival. With high interest rates and the acknowledged problems in agriculture scope for increased borrowing is limited or effectively excluded. The deep concern in the livestock industry generally was reflected in the major demonstration by farmers in London on 25 October.

We face in the GATT round a need to cut back on support levels for agriculture generally - an objective I have pressed on my agricultural colleagues in Europe and presented equally clearly to our own farming industry. Our policies must be more focused on the aspects where agriculture has a particular role to play for example socially, economically or environmentally.

It is clear to me that farming in the less favoured areas is a prime example of the type of agriculture that we must aim to sustain. Some of the producers there may unavoidably be squeezed out, but the principle of securing the rural economy and the environmental benefits must be right for the future. Indeed, we are already committed in the Environment White Paper to examining whether the environmental benefits can be made more specific.

I have discussed the situation with my agriculture colleagues and we have concluded that we must respond to this situation by making a major increase in the rates for the hill livestock compensatory allowances. We envisage a total increase in expenditure of £35 million, raising the individual rates as set out in Annex B. About £28 million of this additional expenditure would fall in the 1990/91 financial year, the precise amount depending on the timing of payments in the first quarter of 1991. New money beyond existing provision would be required.

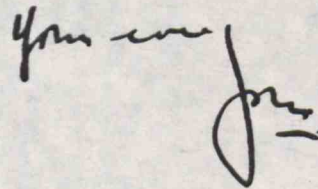
The increase we are proposing would make up for rather less than half of the £80 million decline in farm incomes experienced in the less favoured areas this year; and about one fifth of the £180 million decline over the past two years.

We are, of course, very conscious of the difficulties of adding to public expenditure at the present time, but we can see no other way of responding to the exceptionally difficult situation faced by this sector of agriculture which has such an important and continuing role to play in the rural economy and environment.

We as a party have always recognised the special needs of the hills, which is why we made specific reference to them in our last three election manifestos, with a particularly warm reference in the 1987 manifesto. Given the bleak income position described above, and the current desperation of hill livestock producers, now is the time to demonstrate our political commitment in full.

I hope you will be able to indicate your early agreement to our proposals.

I am copying this letter to Peter Brooke, Malcolm Rifkind and David Hunt who agree with the proposals in it.

A handwritten signature in dark ink, appearing to read 'John Gummer', written in a cursive style.

JOHN GUMMER

AUTUMN REVIEW OF THE HILLS AND UPLANDS: 1990

1. The purpose of this note is to report the circumstances of livestock farmers in the Less Favoured Areas (LFAs) and to summarise the economic and statistical data behind this situation.
2. The purpose of the Hill Livestock Compensatory Allowances (HLCAs) is to:
- (a) ensure the continuation of livestock farming in the hills and uplands;
 - (b) thereby help to maintain a viable population in these areas;
 - (c) help to conserve the countryside.
3. Currently some 65,000 farmers claim HLCAs with a total forecast expenditure for the 1990 scheme year of £126.8 million. The Community refunds 25% of expenditure (30% in Northern Ireland) and also lays down the broad conditions of the scheme including the maximum headage rates that may be paid. The current rates are:

	Severely Disadvantaged Area £	Disadvantaged Area £	Maximum wef 1.1.91 permitted by EC £
Cows	54.50	27.25	77.33
Hardy Breed Ewes	7.50	-	11.60
Other Ewes	4.50	2.25	11.60

Apart from an increase from £6.75 to £7.50 for hardy breed ewes in 1990 the rates shown above are unchanged since the 1986 scheme.

face immediate cash flow problems because of reduced returns and increased costs. Because of the pressures on the industry the scope for increasing borrowing may be limited, or even excluded for some farmers.

7. The prospects for 1991 are discouraging with the likelihood of pressure to contain support levels. Although the sheep sector will eventually benefit from the new 4 ECU per ewe payment, this, and the effects of the green rate devaluation on the annual premium will not begin to flow through until well into 1991 and will not be fully effective until 1992: meanwhile variable premium is being phased out and the stabiliser will reduce returns in 1991. The prospects for the beef sector are no less difficult with a continuing weak market expected.

8. Any significant decline in the livestock sector in the LFA would have serious social and economic consequences. There is limited scope for alternative employment and the viability of many rural communities in which agriculture plays a key role would be threatened. Currently some 175,000 are engaged in agriculture in the LFAs and significant numbers of people are also partially dependent on the industry for their livelihood. The stability which HLCAs have given to livestock farming in the hills has been an important factor in ensuring that the level of employment has been sustained. Equally, the policy has had substantial advantages in securing the attractive environment in the hills, as noted in the recent white paper.

9. It is not possible to quantify the social, economic and environmental consequences that would result if a significant number of LFA farmers were unable to continue. But the prospect of agricultural dereliction and loss of rural economic activity is very real.

HLCAs: PROPOSED RATES FOR 1991

	<u>Proposed new Rate</u>	<u>Increase</u>	<u>No of Animals</u>	<u>Additional Cost</u>
				£ m
<u>Cows</u>	£72 in SDA	£17.50(32%)	914,000	16.0
	£36 in DA	£ 8.75(32%)	149,000	1.3
<u>Ewes</u>	£10 per hardy breed in SDA	£ 2.50(33%)	7.147m	17.9
	£ 5.30 for other breeds in SDA	£ 0.80(18%)	3.409m	2.7
	£ 2.65 in DA	£ 0.40(18%)	1.726m	<u>0.7</u>
	Gross additional cost			38.6
	Estimated effects of ceilings/limits			<u>4.0</u>
	Net additional cost			34.6

Personnel



David BNW

We spoke. CBT
will deal with
this at the same
time as ~~the~~ Mr J's
proposals on bad
weather relief -
two values of the
same cost.
Letter from CBT
to Mr J shortly.

[Signature]
4/5

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH



From the Minister

The Rt Hon John McGregor
Chief Secretary
HM Treasury
Parliament Street
London SW1

CHIEF SECRETARY	
REC.	-1 NOV 1985
ACTION	Mr Butt
COPIES TO	CX FST MST EST
	Sir Peter Maddaloz
	Mr Bailey Mr Mack
	Mr Burgess Mr Pike

1 November 1985

Dear Chief Secretary

Mr Watson Mr Scholau
Mr Cropper Mr Lord.

HILL LIVESTOCK COMPENSATORY ALLOWANCE

As you are aware, this is the time of the year when we carry out our annual review of the economic conditions of the hill and upland areas which come within the Less Favoured Areas, as a prelude to determining the HLCAs for the coming year. We have just concluded this year's review and I am now in a position to tell you what changes I and my agricultural colleagues consider should be made in the rates for 1986.

We have already sought your agreement to a package of aids to give some help to farmers who face the most serious difficulties as a result of this year's disastrous weather. It is not of course the function of the HLCAs to make up to farmers on a year-to-year basis the effects on their businesses of such variable factors as the weather. In the case of these allowances we are concerned with the longer-term situation. On that score it is clear that there is an irrefutable case for major all-round increases.

The first point I should make is that, apart from a minor increase in the hill cow allowance in 1982, there have been no increases in the allowances since 1981, and their value in real terms has of course been eroding steadily ever since then. With some misgivings, and despite the fact that a good case existed, my colleagues and I agreed not to press for increases in the allowances over the past few years, given the financial constraints within which the Government has been working. But this makes it all the more imperative that, when the case for major increases is as compelling as it is this year, and the position of the farmers concerned is as serious as it is, we should stand ready to make the necessary money available. It is clear that the Farmers' Unions (who have shown some understanding of the reasons for the "standstill" on rates over the past few years, despite their disappointment) consider that our decisions this year will be the acid test of the Government's attitude towards this country's hill and upland farmers. There is also clear evidence

/that our

that our supporters, and the country generally, are very sympathetic to the serious plight these farmers are going to be in, not only this year but in the years ahead, and will be looking to use to do something substantial to help them.

I enclose a detailed memorandum summarising the background and setting out our proposals, which are for increases in allowances as follows:

<u>Old LFA</u>	Cows	+£15 to £59.50
	Higher-rate sheep	+ £1 to £7.25
	Lower-rate	+ 50p to £4.75
<u>New LFA</u>	Cows	+£10 to £32.25
	Sheep	+ 38p to £2.50

We estimate that this package, together with a marginal increase in the financial ceiling consistent with the change in the new EC Structure regulation, would cost approximately £19½m. I should stress that the package we are proposing is relatively modest in terms of the manifest seriousness of the present position of the hill and upland areas, and their likely situation over the next few years. I would draw your attention specifically to the startling figures on the collapse of income in the old LFA in paragraphs 7 and 9 of the attached memorandum. A good case could in fact be made out (as indeed the Farmers' Unions did) for much larger sums. But my colleagues and I are mindful of your public expenditure problems and have therefore decided to temper our bid to the minimum we consider could be presented as reasonable in the light of the circumstances.

In conclusion, I should stress the need for early decisions, both on the weather package and on the HLCAs. In order to facilitate this, my officials will of course be pleased come and discuss the situation with yours and to provide any further details they may wish to have.

I am copying this letter to George Younger, Nick Edwards and Tom King.

Yours Sincerely
Michael Jopling
for MICHAEL JOPLING
(Approved by the Minister
and signed in his absence)

HILL LIVESTOCK COMPENSATORY ALLOWANCES 1986

MEMORANDUM BY THE AGRICULTURE DEPARTMENTS

1. HLCA's are payable on suckler cows and breeding ewes held on eligible LFA farms on 1 January. Under the relevant EC provisions, the objectives of the allowances are to maintain a minimum population level, and to conserve the countryside, in areas of permanent natural handicap, by means of adding to the incomes of the farms concerned and thereby ensuring the continuation of agricultural activity in those areas.

2. HLCA rates were raised in 1980 and 1981 but, except for a very small increase in cattle rates in 1982, no further changes in rates have been made since then, owing to financial constraints (though half-rate allowances were introduced last year in the marginal areas). The current rates are:

<u>Rates</u>	<u>Original LFA</u>	<u>New LFA</u>
Cows	£44.50	£22.25
Higher-rate sheep	£6.25	-
Other eligible sheep	£4.25	£2.12

The current values of the allowances in the original LFA, expressed as percentages of their 1976 values, are as follows:

Cows	62%
Higher-rate sheep	70%
Other sheep	60%

The maximum rates under the EC Structures Regulation are £62.48 for cattle and £9.37 for sheep.

SPECIAL PROBLEMS OF 1985/86

3. Large parts of the UK experienced a quite exceptional period of sustained bad weather this summer and autumn, which has

seriously affected the livestock sector's winter fodder supplies. The problem is particularly acute in the LFAs and it is clear that this situation will affect the farms concerned, in a variety of ways, long after the end of the current financial year.

LIVESTOCK NUMBERS

4. The UK suckler cow beef herd has been falling for many years and is currently about 24% lower than in 1976, when HLCAs were first paid. The suckler herd in the LFA, which now represents some 71% of the total, has also been declining though at a rather slower rate (down by 11% since 1976). The decline is expected to continue and this winter's fodder problems will clearly exacerbate the trend.

5. The UK sheep breeding flock increased by 4% in the year to June 1985 and is expected to increase by a further 1% in the year to June 1986. The LFA accounts for some 63% of the ewes; numbers there continue to increase, being up by 3% in the year to June 1985 with a further rise of 2% forecast for June 1986. Since 1976, the breeding flock in the UK as a whole has increased by 23%, and that in the LFA by 33%.

LIVESTOCK MARKET PRICES

6. Hill farmers traditionally obtain the greater part of their income from the autumn sales. In the relatively few sales which have so far been held, the prices in 1985 (in the old LFA) against those for last year as a whole are as follows:

- (a) Suckler calves: prices 3% up in Wales, unchanged in England, 3½% down in Scotland and 19% down in NI;
- (b) Sheep: draft ewe prices up by 13% in England, by 11% in Wales and by 3% in Scotland, but down by 58% in NI; wether lamb prices up by 6% in Wales and by 4% in

England, but down by 2% in Scotland and by 24% in NI; ewe lamb prices up by 23% in Wales, unchanged in England, but down by 14% in Scotland and by 35% in NI.

While these results show that market price levels have so far shown a major fall only in NI, the Agriculture Departments consider that, for the reasons given by the Farmers' Unions (see para. 11(i) below), prices can be expected to deteriorate significantly as the season progresses.

NET FARM INCOME

7. It is usual to look at the economic position of LFA farms in terms of net farm income (which covers the return to the farmer and his spouse for their manual work and managerial skills; the servicing of any borrowings; and a return on capital invested in livestock etc). The provisional net income figures for the old LFA for 1984/85 are slightly better than was foreseen at this time last year, with an expected increase of 8% in real terms over 1983/84 for the UK as a whole. But the key figures when considering the 1986 HLCA rates are those for 1985/86* and these reveal an extremely serious situation. Overall (see table 1) incomes in the old LFA are expected to fall (in real terms) by 55%, with a reduction of 13% in Wales, 47% in England, 75% in NI and 99% in Scotland. This means that net farm incomes in Scotland are expected to be effectively nil on average while those in the rest of the UK will be very severely reduced. (The fact that the reduction in Wales is less severe than elsewhere is thought to be due to their relatively heavy involvement in the sheep sector.)

*The estimates for 1985/86 assume that the final payment of sheep annual premium for the marketing "year" May-December 1985 will not be paid until after the end of the farm account years concerned.

8. In the new LFA (table 2), the 1984/85 figures show a fall of 28% (excluding Scotland, where there is very little such land). In 1985/86*, the forecast indicates a reduction of 4% in Wales, 6% in England and 51% in NI, giving an overall reduction of 17%. The main reason for the apparently better situation of the new LFA against the old is that, in the former case, the 1985/86 figures include the bulk of the newly introduced compensatory allowances for the marginal areas.

9. The severity of the reduction in LFA incomes this year is illustrated by the following figures which show the trend of net farm income in real terms on UK LFA cattle and sheep farms over the last nine years:-

	<u>Old LFA</u>	<u>New LFA</u>	(1983/84 = 100)
1977/78	128		
1978/79	139		
1979/80	64		
1980/81	75		
1981/82	128		
1982/83	109		
1983/84	100	100	
1984/85 (provisional)	108	72	
1985/86 (forecast)	49	60	

Moreover, representative samples of hill and upland cattle and sheep farms show that, even in 1984/85, many farmers had very low net farm incomes, with a significant number actually running at a loss. For example, in the original LFA, 13-14% of farms in England, Wales and Scotland were not breaking even in 1984/85, with a further 18-22% of farmers having net incomes of less than £2,000. The position in 1985/86 will clearly be very much worse.

*see footnote to para. 7.

FINANCIAL CEILING PER HECTARE

10. The new EC Structures Regulation raises the present maximum financial ceiling per hectare from 97ecu (£60) to 101ecu (£62.48). The UK national ceiling has traditionally been kept in line with those in the EC legislation and there is clearly no justification for doing otherwise on this occasion. Any resulting additional cost is likely to be minimal (say in the region of £100,000).

VIEWS OF THE INDUSTRY

11. In accordance with normal practice, the economic data have been discussed with the Farmers' Unions. The latter have stressed their extreme concern about the future in the light of the income figures and consider that many farmers will be unable to continue in business unless there is a very substantial increase in HLCAs this year. They acknowledge that, in so far as the HLCAs are intended to compensate for the permanent natural handicaps suffered by farmers in the LFAs, it is not possible to take the full extent of this year's fall in income into account. But they point out that the bad weather will in practice affect the fortunes of the farms concerned for many years to come, for a number of reasons. In many cases, pastures have been badly damaged and it will not be possible to restore them without substantial investment, while the cut-backs in capital grants have reduced the help available towards funding such improvements. The same applies to damaged drainage works. Then there is the effect on the livestock: herd and flock numbers will be reduced by abnormally high losses (cow deaths due to magnesium deficiency are already proving a problem) and, in addition, the fertility of the remainder will suffer from the reduced feeding value of silage etc. The level of borrowings will inevitably be substantially increased, not only because of the extra expenditure on bought-in feedingstuffs and stock replacements but also because of higher over-wintering costs, the extra (and often

unproductive) expenditure which has been incurred on labour (e.g. hay-making gangs kept standing idle because of wet weather) and on additional usage of contractors.

12. Other factors to which the Unions drew particular attention were the following:—

(i) market prices for hill and upland livestock.

Although, as noted above, prices (except in NI) might appear to be keeping up well, this situation is highly unlikely to continue. Some farmers from those areas with relatively plentiful feed (e.g. areas of Yorkshire which have had good hay crops and farmers in the east of England who have a lot of poor quality cereals available for animal feed) have come into some markets and bid up prices: this is evident in the considerable variation in the prices between markets but is clearly not a factor which will be sustained throughout the autumn. Second, hill farmers tend to reduce their stock numbers as a matter of last resort and, partly because their confidence has been boosted by the Government's statement that some emergency assistance will be forthcoming, have increased their borrowings instead - but, as they reach their credit ceilings and/or are disappointed by the extent of the emergency help when an announcement is made, and decide in consequence to off-load stock, a major fall in market prices is likely to ensue. Thirdly, the animals that have so far been sold have been the better quality ones: as the winter progresses, the poorer and lighter animals will come forward and prices are likely to fall markedly as a result. Finally, it was pointed out that, even in the case of those animals for which market prices had so far been reasonable, the associated costs of production involved had been substantially higher;

(ii) as to sheep, three extra points were made: first, that the 1984 price-fixing decision to make SAP available

to ewe lambs tupped in their first year while denying it to untupped shearlings had very substantially - and permanently - adjusted the balance between lowland and upland sheep farmers w.e.f. 1985/86 onwards, and the HLCAs were the only route through which the hill and upland men could be compensated for this; second, that the changes which are going to be made in the SEC arrangements will inevitably depress the prices for ewes in GB and this will have major effects on the position of hill and upland farmers, not just by lowering their receipts from ewe sales but also because the lowered value of their flocks will wipe out a substantial proportion of the capital assets of the farmers concerned, thus adversely affect the amounts the banks will lend them; and, thirdly, that the tightening up of the grading standards for lambs which is due to be made in January 1986 will inevitably reduce farmers' receipts of obliging them to sell lighter lambs.

13. The Farmers' Unions consider therefore that there is a cast-iron case for a very substantial increase in the overall amount of aid paid to the hill and upland areas through the HLCAs. As to the individual species, the Unions consider that substantial increases are justified in all the various rates but that the top priority should be given to hill cows (the rate for which they consider should be increased to the maximum allowed by the EC regulation) and that, within the sheep sector, the hardy (higher-rate) sheep have an even better case than the "other" sheep. As to the new LFAs, the Unions made the additional point that surveys they have carried out show that many farmers there are in serious financial difficulties and badly need major all-round increases in HLCAs to enable them to improve their pasture land, which is in a very poor state; they also consider that a good case exists for introducing compensatory allowances for dairy cows to help these areas.

EFFECTS OF THE WEATHER

14. An attempt has been made to isolate that part of the current year's income decline which is due to the bad weather. This indicates that, in broad terms, between half and two-thirds of the income reduction can be attributed in one way or another to problems associated with the weather; but it should be noted (see para. 11 above) that many of these problems will remain with the industry well beyond 1985/86.

ASSESSMENT AND CONCLUSIONS

15. The Government has undertaken to take positive action to deal with the problems of those livestock farms seriously affected by the weather. The payments to be made under the special scheme will provide some measure of immediate assistance; but it is clear that the longer-term economic prospects of the areas concerned have also worsened to a considerable extent and that substantial increases are accordingly justified in the HLCA rates for 1986 and beyond. It is estimated that, of the £90m decline in LFA net incomes between 1984/85 and 1985/86, between a half and two-thirds has in one way or another been caused by the weather. That still leaves a very significant decline due to other factors; and, in any event, as para. 11 makes clear, this year's weather will have significant "carry-over" effects into later years. In forming proposals against this background, the Agricultural Departments consider that priority should be given to the suckler cow sector which is in very serious economic difficulties (although - whatever the state of the beef market - there is always a strong demand for its high quality product); and have also taken into account that there are particular difficulties in the new LFA, masked only by the fact that compensatory allowances have been paid to those farmers for the first time in 1985. It is accordingly considered that the following increases should be made:-

			(£m)
<u>Old LFA</u>	Cows	+£15 to £59.50	13.1
	Higher-rate sheep	+ £1 to £7.25	6.7
	Lower-rate	+ 50p to £4.75	1.4
<u>New LFA</u>	Cows	+£10 to £32.25	0.8
	Sheep	+ 38p to £2.50	0.4
			<u>£22.4</u>

The actual total extra expenditure involved would however be significantly less than this figure since in many cases farmers would not benefit to the full extent from the increases, owing to the operation of the various ceilings. It is estimated that this would bring the total cost down by at least £2.7m, leaving a maximum net additional cost of the order of £19½m.

PAYMENT ARRANGEMENTS

16. The cash flow position on LFA farms this winter will clearly be very difficult and the Unions have made it clear that, in addition to substantial increases in rates, it would be of great help if payment of the 1986 allowances could be made very early in the New Year to all farmers. Normally, some 80% of the claims are paid in the first quarter of the year, but they are paid out gradually over the three months as claims are processed and individual farm inspections are made. It should therefore be possible, with only a relatively minor adjustment in the rate of "spend" between the 1985/86 and 1986/87 financial years, to arrange to pay (say) 80% of the money by way of an advance, within a very few days of the receipt of the claim (and subject only to a simple check that the claim appeared to be in line with previous claims from the same holding), with the remaining 20%

being paid as soon as each claim had been processed. It is accordingly proposed to explore arrangements for proceeding in this way.

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD

DEPARTMENT OF AGRICULTURE AND FISHERIES FOR SCOTLAND

DEPARTMENT OF AGRICULTURE FOR NORTHERN IRELAND

WELSH OFFICE AGRICULTURE DEPARTMENT

31 OCTOBER 1985

1. MODBA 1/11/80

28/4

2. PRIME MINISTER

2

To see
MJS

Joint Announcement by the Agricultural Departments in the United Kingdom

November 28, 1980

MINISTER ANNOUNCES INCREASES IN HILL LIVESTOCK COMPENSATORY ALLOWANCES

In a Written Reply to a Question by Mr. David Myles, M.P., in the House of Commons today asking whether he has completed his review of hill livestock compensatory allowances and if he would make a statement, the Rt. Hon. Peter Walker, M.P., Minister of Agriculture, Fisheries and Food, said:

"My Rt. Hon. Friends and I have completed this Autumn's review of economic conditions in the hill livestock sector in conjunction with the Farmers' Unions. As a result of our review, hill farmers will receive an increase in hill livestock allowances which, together with the new suckler cow premium, will give them £100 million in 1981 compared with £57.4 million of hill livestock allowance in 1979, an increase of nearly 75 per cent.

"Last year (following the severe winter of 1978/79 and last Autumn's depressed store market prices), there was a considerable fall in hill farmers' incomes and we accordingly made the biggest ever increases in the hill cow and hill sheep allowances paid under the European Communities Less Favoured Areas Directive. This year's review has shown that, although hill farm incomes in some areas are rather higher than last year, others are lower. Further help is required in order to achieve the maintenance of the hill livestock industry, which is of vital importance to the social structure of our hill areas.

"We have therefore decided, subject to Parliamentary approval, to increase still further the rates for hill livestock in the allowances due at the beginning of 1981.

"For hill cows, the rate will be increased by £7.50, from £35 to £42.50 per cow. This, together with the new £12.37 suckler cow premium announced in August, will mean that the hill farmer obtaining both

allowances will be receiving £54.87 per cow compared with £29 in 1979, an increase of 89 per cent.

"So far as sheep are concerned, we believe that the new Community regime will bring increasing benefits to hill sheep producers but that meanwhile there is a need to increase the assistance given to those who raise the hardier breeds. We have therefore decided to increase the higher rate of hill sheep allowance by 75p, bringing the rate up from £5.50 to £6.25 per breeding ewe. The lower rate of hill sheep allowance will remain at £4.25 per breeding ewe. The higher rate of £6.25 compares with £4.10 in 1979, an increase of 52 per cent.

"We have also decided to take the opportunity of bringing into effect the increase (to 97 European Currency Units, or £60) in the maximum amount of assistance payable per hectare, which was recently authorised by the Council. This will help those who have previously had their rate of assistance limited by the former maximum of 65.60 European Currency Units (£40.58) per hectare.

"Draft Regulations to implement these increases, which will be worth an extra £12.4 million in 1981, will be laid before Parliament. The cost will be contained within the planned expenditure totals of the Agricultural Departments. Supplementary Estimates will be presented in due course.

NOTES FOR EDITORS

1. These increases are within the maximum allowance per livestock unit permitted by Directive 80/666 on Less Favoured Areas and have been notified to the Commission in the usual way.
2. These increases will be subject to the general rule under the Less Favoured Areas Directive which restricts payments to a maximum amount per hectare of eligible land; at present the maximum is £60 per hectare.
3. The qualifying day will be January 1, 1981 and the qualifying period will be the calendar year preceding that date.
4. The higher rate of sheep allowance is payable on each eligible ewe of an approved breed in a specially qualified flock.
5. Previous Press Notice: No. 393 of November 22, 1979.

Thursday 22 November 1979

**CROWN OFFICE CIRCULAR
NO. 1643**

30. **Mr. Douglas** asked the Solicitor-General for Scotland if he will place a copy of Crown Office circular No. 1643 in the Library.

The Solicitor-General for Scotland: My noble Friend the Lord Advocate has already placed a copy of Crown Office circular No. 1643 in the Library of each House.

PENMANSHIEL RAIL TUNNEL

Mr. John Home Robertson asked the Solicitor-General for Scotland if he will announce the date for the start of the fatal accident inquiry into the collapse of the Penmanshiel railway tunnel on 17 March 1979.

The Solicitor-General for Scotland: The full report by the Procurator Fiscal of his investigation into this incident has not yet been received but it is expected to arrive very shortly. My noble Friend the Lord Advocate will then decide what course of action to take.

OVERSEAS DEVELOPMENT

Kampuchea

Mr. Rowlands asked the Lord Privy Seal how much money to date the Government have provided to Oxfam for its relief work in Kampuchea.

Mr. Hurd: The Government have offered nearly £500,000 to the disaster emergency committee for use in Kampuchea. OXFAM is one of the five members of this committee and it will receive part of this money.

OXFAM has used the Government-financed RAF Hercules and the aircraft chartered by the Government last month to send relief supplies to Kampuchea.

OXFAM has also been allocated a total of 745,000 units of account by the European Community (approximately £462,000). The British contribution to the sum will be about £93,000.

Mr. Rowlands asked the Lord Privy Seal how many tons of supplies have so far been carried into Kampuchea by the RAF Hercules; how many more journeys it will make; and whether the aircraft will remain available until the urgent needs of the Kampuchean people have been met.

Mr. Hurd: I refer the hon. Member to the replies given to the hon. Member for Harlow (Mr. Newens) on Thursday 15 November.

The International Committee of the Red Cross has informed the Government that since the return of the RAF Hercules to the United Kingdom on 19 November it has sufficient aircraft available to it to meet its requirements for airlifting supplies into Phnom Penh for the next two months.

OVERSEAS DEVELOPMENT

Children (Departmental Responsibilities)

Mr. Peter Bottomley asked the Lord Privy Seal if he will list his Department's responsibilities relating to children and the statutes from which these arise showing which branch or division within his Department and which Minister deals with each of these responsibilities; who is responsible for co-ordinating the various responsibilities relating to children within his Department; and who is responsible for co-ordinating his responsibilities for children with those of other Departments.

Mr. Hurd: The Foreign and Commonwealth Office has no statutory responsibilities relating specifically to children. However, the Overseas Development Administration is concerned with the welfare of children in developing countries under its responsibilities for the overseas aid programme, which assists economic and social development generally and specifically medical services—especially mother and child health programmes—food production and education. The Minister immediately responsible is my hon. Friend the Minister of State, Foreign and Commonwealth Office and Minister for Overseas Development. The United Kingdom provides financial support to a number of

organisations relating to children, including the United Nations Children's Fund, the Save the Children Fund, the Institute of Child Health at the University of London, and the Department of Child Health at the University of Newcastle upon Tyne. These non-statutory responsibilities are handled by three departments co-ordinated by the bilateral aid and rural development department, which is responsible for aid policy in relation to social development. The chief medical and health services adviser to the Overseas Development Administration is also head of the international health division of the Department of Health and Social Security, and is responsible for liaison on health matters between the two Departments. Similarly, the chief education adviser is in contact with professional colleagues in the Department of Education and Science, particularly in relation to sources of teaching and other educational skills for deployment in overseas countries under the aid programme.

AGRICULTURE, FISHERIES AND FOOD

Hill Livestock Allowances

Mr. Myles asked the Minister of Agriculture, Fisheries and Food whether he has completed his review of hill livestock allowances; and if he will make a statement.

Mr. Peter Walker: On 5 July I informed the House that in October my right hon. Friends and I would carry out a review of the economic conditions in the hill livestock sector in consultation with the farmers unions. I undertook to announce our conclusions in November. We have now carried out this review. We have taken into account the difficulties experienced by many producers, especially hill sheep farmers, as a result of last winter's severe weather, including an above average loss of animals and greatly increased feed costs. We have also had regard to the relatively depressed state of store market prices this autumn. The overall situation points to a substantial fall in net farm incomes in the current year in this important sector of farming. We have concluded that there is a need for sizeable increases

in the rates of hill livestock compensatory allowances to be paid next year.

We have therefore decided that, subject to parliamentary approval, the rate for hill cows should be increased from £29 to £35, an extra £6; the higher rate for hill sheep, from £3.60 to £5.50, an extra £1.90; and the lower rate for hill sheep, from £2.85 to £4.25, an extra £1.40. The increase in the higher rate for sheep includes and consolidates the 50p increase announced in July.

Draft regulations to implement these increases, which will be worth £20.6 million, have been laid before Parliament today.

That part of the cost which falls in 1979-80 will be financed from the Contingency Reserve, and Supplementary Estimates will be presented in due course.

These increases will be paid with the allowances due at the beginning of 1980.

My right hon. Friends and I consider that the increases in the allowances represent a substantial expression of our belief that hill and upland farmers should enjoy a reasonable standard of living.

Wheat Crop (Bulb Fly Maggot)

Mr. Michael Brown asked the Minister of Agriculture, Fisheries and Food what proposals his Department has to deal with the threat to wheat crops from bulb fly maggots, following the difficulties in the Yorkshire and Humberside area last year.

Mr. Wiggin: Routine monitoring has shown that this autumn wheat bulb fly egg counts were again high, especially in East Yorkshire. Local officers of my Department's agricultural development and advisory service were alerted and advice made available to farmers on seed treatments and other precautions to be taken at the drilling stage. There will be an egg hatch count early in the New Year and the position will continue to be monitored generally so that advice to farmers is up to date, in order to ensure that appropriate precautions may be taken.

Fish Processing

Mr. Beith asked the Minister of Agriculture, Fisheries and Food what representations he has received about increases in the whitefish, mackerel and sprat levies



Agriculture
2

PRIME MINISTER

Ministry of Agriculture, Fisheries and Food
Whitehall Place London SW1A 2HH

To see
MS

From the Minister's Private Office

N Sanders Esq
Prime Ministers Office
10 Downing Street
London SW1

November 1979

*There are enormous
witnesses. How do
I know the
Chief Secretary
approved this?*
*Yes - spoke
to ACPIC
+ told PM
PA now*
MS

Dear Nick,

HILL LIVESTOCK (COMPENSATORY ALLOWANCES) REGULATIONS 1979

--- I attach a copy of a written statement on changes in hill livestock compensatory allowances which my Minister intends to give in reply to an inspired written question tomorrow.

I am copying this letter to James; Stevens (Leader of the House Office); Vile (Cabinet Office) and to private secretaries to the other Agricultural Ministers and members of OD/E.

Yours sincerely,

G R Waters

G R WATERS
Principal Private Secretary

DRAFT REPLY TO INSPIRED PQ

HILL LIVESTOCK COMPENSATORY ALLOWANCES

On 5 July I informed the House that in October my Rt Hon Friends and I would carry out a review of the economic conditions in the hill livestock sector in consultation with the Farmers' Unions. I undertook to announce our conclusions in November. We have now carried out this review. We have taken into account the difficulties experienced by many producers, especially hill sheep farmers, as a result of last winter's severe weather, including an above average loss of animals and greatly increased feed costs. We have also had regard to the relatively depressed state of store market prices this autumn. The overall situation points to a substantial fall in net farm incomes in the current year in this important sector of farming. We have concluded that there is a need for sizeable increases in the rates of hill livestock compensatory allowances to be paid next year.

We have therefore decided that, subject to Parliamentary approval, the rate for hill cows should be increased from £29 to £35, an extra £6; the higher rate for hill sheep, from £3.60 to £5.50, an extra £1.90; and the lower rate for hill sheep, from £2.85 to £4.25, an extra £1.40. The increase in the higher rate for sheep includes and consolidates the 50p increase announced in July.

20%
50%

Draft Regulations to implement these increases, which will be worth £20.6 million, have been laid before Parliament today.

That part of the cost which falls in 1979-80 will be financed from the Contingency Reserve, and Supplementary Estimates will be presented in due course.

These increases will be paid with the allowances due at the beginning of 1980.

My Rt Hon Friends and I consider that the increases in the allowances represent a substantial expression of our belief that hill and upland farmers should enjoy a reasonable standard of living.

21 NOV 1979



STATION

MAFF withdrew their bid—

PRIME MINISTER

to be announced by Witter Answer at 2.30

Business of the House

on Thursday 22/11

You agreed that Sir Keith Joseph should make a statement on Rolls Royce tomorrow. Chris Price also has down a Ten Minute Rule Bill on jury vetting.

MS

PA
now

draft
attached
MS

Late this evening Mr. Walker made a bid for a statement tomorrow on the increases in the Hill Livestock Compensatory Allowance. I do not think that there is much to be said for this, since I see no reason to suppose that it would substantially improve the mood of the House and it would just use up time which could be incorporated in the Blunt debate, perhaps causing resentment as a result. There is no special reason why the MAFF announcement should be made tomorrow rather than at a later date; we have given an undertaking that it will be made by the end of the month.

Are you content for us to say to Mr. Walker that it would be better to make his announcement on Thursday (when there will be the Business Question and a debate on the EEC Budget), or do you see any advantage in doing it tomorrow?

MS

20 November 1979



From the Minister

MINISTRY OF AGRICULTURE, FISHERIES AND FOOD
WHITEHALL PLACE, LONDON SW1A 2HH

CONFIDENTIAL

Nigel Lawson Esq MP
Financial Secretary to the Treasury
Treasury Chambers
Parliament Street
London SW1P 3AG

20 November 1979

PA

Statement with

PM

MS

Thank you for your letter of 19 November.

I shall be as frank as you. I see no prospect of the reductions you foresee in capital grants arising. I am therefore content to agree that if they do arise they should be implemented from next January. When they do not arise I shall hope to persuade you that we should use part of the proceeds of Market Towers.

On this basis I understand that we can now go ahead with the announcement and I should be grateful for your confirmation that I can make it in the attached terms to the House tomorrow.

I am sending copies of this letter to George Younger, Nicholas Edwards and Humphrey Atkins, and to the Leader of the House.

PETER WALKER

DRAFT STATEMENT

On 5 July I informed the House that in October my Rt Hon Friends and I would carry out a review of the economic conditions in the hill livestock sector in consultation with the Farmers' Unions. I undertook to announce our conclusions in November. We have now carried out this review. We have taken into account the difficulties experienced by many producers, especially hill sheep farmers, as a result of last winter's severe weather, including an above average loss of animals and greatly increased feed costs. We have also had regard to the relatively depressed state of store market prices this autumn. We agree with the Farmers' Unions that the overall situation points to a substantial fall in net farm incomes in the current year in this important sector of farming. We have concluded that there is a need for sizeable increases in the rates of hill livestock compensatory allowances to be paid next year.

We have therefore decided that, subject to Parliamentary approval, the rate for hill cows should be increased from £29 to £35, an extra £6; the higher rate for hill sheep, from £3.60 to £5.50, an extra £1.90; and the lower rate for hill sheep, from £2.85 to £4.25, an extra £1.40. The increase in the higher rate for sheep includes and consolidates the 50p increase announced in July.

Draft amending Regulations to implement these increases, which will be worth £20.6 million, ~~will~~ ^{will} ~~have been~~ ^{reviewed} laid before Parliament today.

These increases will be paid with the allowances due at the beginning of 1980. They will be subject to the normal rule under the Less-Favoured Areas Directive which at present restricts payments to a maximum allowance of £38.55 per hectare of eligible land.

My Rt Hon Friends and I consider that the increases in the allowances represent a substantial expression of our belief that hill and upland farmers should enjoy a reasonable standard of living.

Grey Scale #13



A 1 2 3 4 5 6 **M** 8 9 10 11 12 13 14 15 **B** 17 18 19



Inches 1 2 3
Centimetres 1 2 3 4 5 6 7 8

Colour Chart #13

Blue Cyan Green Yellow

