

*Prime Minister*

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PRIME MINISTER

## CAP PRICES

I have seen Peter Walker's minute to you of 11 February.

2. I agree with the detailed estimates he gives of the effects of the Commission's proposals on prices in the shops. My only comments on the individual commodities are that the Commission proposals on beef and lamb will, of course, underpin the high prices - substantially above last year's CAP target prices in the case of beef - which housewives are presently having to pay; and that on liquid milk we have ourselves recently increased prices by 1½p per pint (8 per cent).

3. I have two more general comments. First, Peter Walker's letter compares the 28.8 per cent rise in food prices since May 1979 with a 43 per cent rise in the retail price index as a whole. The performance of food prices is, however, less impressive if one looks at the rate of price increases in other parts of the private sector, in particular manufacturing. For example, from May 1979 to December 1981 the prices of household durables rose by 23 per cent and clothing and footwear by only 15 per cent. The same trend seems to have been maintained more recently. Food prices in 1981 4th quarter had risen by 9.6 per cent compared with 1980 4th quarter, whereas the main "private sector" components in the RPI taken as a whole, had risen by 7 per cent.

4. Second, it is absolutely essential that over the next two years we do everything possible to bring down the domestic rate of inflation. Our inflation rate at present is at

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about the Community average and is falling. It is clearly desirable that the CAP price package should contribute to that deceleration, not retard it. For that reason I welcome yesterday's agreement that we must give thorough consideration to the scope for a green pound revaluation before any final agreement can be reached on CAP prices. And I believe we must make it clear in all our statements on this issue that our final decision will have to take account of the interests not only of producers, but also of consumers.

5. I am copying this minute to Cabinet colleagues and to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'G.H.' with a flourish.

(G.H.)

12 February 1982



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CORPORATION

