

PREM 19/1746

# Common Agricultural Policy (C.A.P.)

# EUROPEAN POLICY

PE 1: MAY 1979

PE 13: JANUARY 1985

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(C.A.P.)

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PART 14 begins:-

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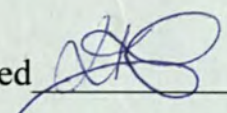
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**Cabinet / Cabinet Committee Documents**

Reference	Date
OD(E)(85)13	15/11/1985
CC(86) 8 <sup>th</sup> meeting, item 2	27/02/1986
CC(86) 6 <sup>th</sup> meeting, item 2	13/02/1986
CC(86) 3 <sup>rd</sup> meeting, item 3	23/01/1986
CC(85) 33 <sup>rd</sup> meeting, item 4	21/11/1985
CC(85) 30 <sup>th</sup> meeting, item 3	31/10/1985
CC(85) 28 <sup>th</sup> meeting, item 2	03/10/1985
CC(85) 25 <sup>th</sup> meeting, item 3	18/07/1985
CC(85) 24 <sup>th</sup> meeting, item 3	11/07/1985
CC(85) 21 <sup>st</sup> meeting, item 3	20/06/1985
CC(85) 20 <sup>th</sup> meeting, conel item 4	13/06/1985
CC(85) 19 <sup>th</sup> meeting, conel item 3	06/06/1985
CC(85) 18 <sup>th</sup> meeting, item 3	23/05/1985
CC(85) 17 <sup>th</sup> meeting, item 3	16/05/1985
CC(85) 16 <sup>th</sup> meeting, item 3	09/05/1985
CC(85) 15 <sup>th</sup> meeting, item 3	02/05/1985
CC(85) 14 <sup>th</sup> meeting, item 3	25/04/1985
CC(85) 13 <sup>th</sup> meeting, item 3	18/04/1985
CC(85) 12 <sup>th</sup> meeting, item 3	28/03/1985
CC(85) 9 <sup>th</sup> meeting, item 3	14/03/1985
CC(85) 4 <sup>th</sup> meeting, item 4	31/01/1985
CC(85) 2 <sup>nd</sup> meeting, item 3	17/01/1985
CC(85) 1 <sup>st</sup> meeting, item 4	10/01/1985

The documents listed above, which were enclosed on this file, have been removed and destroyed. Such documents are the responsibility of the Cabinet Office. When released they are available in the appropriate CAB (CABINET OFFICE) CLASSES

Signed \_\_\_\_\_



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**PREM Records Team**

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FRAME AGRICULTURE

THE FRG AND THE CAP

## SUMMARY

1. KIECHLE PUBLICLY EXPRESSES PESSIMISM ABOUT OUTCOME OF PRICE-FIXING NEGOTIATIONS. IF PRICES ARE CUT, HE WILL PRESS FOR NATIONAL OFFSET PAYMENTS TO GERMAN FARMERS.

## DETAIL

2. AT A PRESS CONFERENCE ON 26 MARCH, KIECHLE SAID HE WAS PESSIMISTIC ABOUT PROGRESS OF AGRICULTURAL PRICE FIXING NEGOTIATIONS. HE THOUGHT THE FRG COULD NOT EXPECT MUCH UNDERSTANDING FOR ITS WISHES, THOUGH THAT WOULD NOT STOP HIM CONSTANTLY EXPLAINING THEM. NEGOTIATIONS IN THE AGRICULTURE COUNCIL SHOULD NOT BE LIMITED TO PRICE FIXING. A NEW DIRECTION IN AGRICULTURAL POLICY WAS REQUIRED. THIS COULD INCLUDE EXPANSION OF SET-ASIDE MEASURES, OR PUSHING AHEAD WITH ETHANOL PROVIDED THAT IN THE LONG TERM THIS COST NO MORE THAN SURPLUS PRODUCTION COSTS.

3. THE FRG WOULD NOT ABANDON ITS FARMERS. IF THERE WERE PRICE CUTS, KIECHLE WOULD PROPOSE TO THE FEDERAL GOVERNMENT THE INTRODUCTION OF NATIONAL OFFSET PAYMENTS TO FARMERS. ACCORDING TO ONE PAPER (SUEDEUTSCHE ZEITUNG - SZ) HE SAID KOHL AND STOLTENBERG WERE WILLING TO AGREE.

4. ASKED IF THE FRG WOULD AGAIN CAST A VETO, KIECHLE AVOIDED A DIRECT ANSWER, BUT ADDED THAT A NEW PARTNERSHIP WITH FRANCE FOLLOWING GUILLAUME'S APPOINTMENT SEEMED POSSIBLE. IF THE FRENCH SUPPORTED THE GERMANS IN OPPOSING PRICE REDUCTIONS, NO VETO WOULD BE NECESSARY.

## COMMENT

5. WE HAVE CHECKED WITH FEDERAL CHANCELLERY AND FINANCE MINISTRY, ESPECIALLY IN VIEW OF SZ ATTRIBUTION QUOTED ABOVE. THIELE TOLD ECONOMIC COUNSELLOR THAT SPECIFIC PROPOSALS FOR NATIONAL OFFSET PAYMENTS HAD DEFINITELY NOT BEEN PUT TO CHANCELLOR KOHL. HECK WOULD SAY ONLY THAT IF ANY AGREEMENT HAD BEEN REACHED IT WOULD HAVE BEEN BETWEEN MINISTERS PRIVATELY AND OFFICIALS WOULD NOT NECESSARILY KNOW ABOUT IT.

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FRAME AGRICULTURE

AGRICULTURE COUNCIL: 24/25 MARCH 1986.

## SUMMARY

1. TWO NEW MINISTERS JOINED THE COUNCIL. MRS HOLBERG FOR DENMARK MAINTAINED PRECISELY THE SAME POSITIONS AS HER PREDECESSOR. MR GUILLAUME FOR FRANCE MADE NUMEROUS GENERAL STATEMENTS OF SUPPORT FOR FARMERS BUT IN MOST MATTER OF DETAIL STUCK TO ESTABLISHED FRENCH POSITIONS.
2. LITTLE PROGRESS ON PRICE PROPOSALS, CEREALS AND BEEF REFORMS AND THE MILK OUTGOERS PROPOSAL.
3. A MAJORITY REGARD THE FALL IN THE DOLLAR AS AN EXCEPTIONAL CIRCUMSTANCE JUSTIFYING EXCEEDING THE FINANCIAL GUIDELINE.
4. STOCK DEPRECIATION PROPOSAL AGREED ON A VOTE, WITH A GERMAN ABSTENTION. STOCK FINANCING CUTS TO BE DISCUSSED FURTHER IN COREPER, BUT COMMISSION PROMISE TO MAKE THE MAXIMUM CUT THEY CAN UNDER THEIR OWN COMPETENCE.
5. REVISED MANDATE FOR NEGOTIATIONS ON ACP SUGAR AGREED UNANIMOUSLY WITH COMPENSATION, VIA MCA PREFIXATION, FOR REFINERS.
6. FINAL TEXTS BASED ON LAST MONTH'S COMPROMISE ADOPTED ON STARCH AND SUGAR FOR THE CHEMICAL INDUSTRY BY MAJORITY VOTE, WITH BELGIUM VOTING AGAINST IN EACH CASE.
7. AID FOR ITALIAN FROST DAMAGED OLIVE GROVES AGREED UNANIMOUSLY.
8. PROPOSALS ON PORTUGUESE STRUCTURES GIVEN A FAIR WIND, SUBJECT TO AMENDMENTS TO BE CONSIDERED IN DETAIL BY SCA.
9. DIRECTIVE ON BATTERY CAGES PASSED BY MAJORITY VOTE WITH UK AND DENMARK VOTING AGAINST.
10. PRICE PROPOSAL DISCUSSIONS ON INDIVIDUAL PRODUCTS AND FINANCIAL IMPLICATIONS IN MY 4 IFTS. SUGAR AND STARCH IN MY FIFTH IFT. BATTERY HENS AND STRUCTURES IN MY SIXTH IFT. ALL OTHER DETAIL BELOW.

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DETAIL

11. RESPONDING TO THE PRESIDENCY'S CUSTOMARY WELCOME FOR A NEW MINISTER, GUILLAUME (FRANCE) TOOK THE OPPORTUNITY OF SETTING OUT THE BACKGROUND TO FRANCE'S STANCE IN THE PRICE NEGOTIATIONS. HE SAW THE PRIMARY OBJECTIVE OF THE CAP AS TO GUARANTEE A BETTER INCOME FOR FARMERS. HE RECOGNISED THE FINANCIAL CONSTRAINTS AND EXTERNAL TRADE PRESSURES UNDER WHICH THE CAP OPERATED, BUT HE ADVOCATED A RETURN TO BASIC PRINCIPLES: UNITY OF PRICES AND OF THE MARKET. ALL PREMIA SHOULD END. IN THE PRICE FIXING HE WOULD BE PRESSING IN PARTICULAR FOR THE DISMANTLING OF MCAS AND WOULD OPPOSE MEASURES RUNNING COUNTER TO SPECIALISATION OF PRODUCTION. HE COULD NOT THEREFORE ACCEPT ANY EXTENSION OF QUOTAS, IN PARTICULAR IN THE CEREALS SECTOR WHERE HE WAS ALSO CONCERNED ABOUT THE PROPOSED CORESPONSIBILITY LEVY. EQUALLY NECESSARY WAS FINANCIAL SOLIDARITY AND COMMUNITY PREFERENCE, AS HE WOULD FIND IT DIFFICULT TO ACCEPT ANY FURTHER CONSTRAINTS ON EC PRODUCERS WITHOUT SIMILAR RESTRICTIONS ON THIRD COUNTRIES. HE WAS OPPOSED TO SPECAIL AIDS OR SPECIAL MEASURES WHICH COULD UPSET THE NORMAL WORKING OF THE MARKET. FOR THIS REASON HE WAS AGAINST FUNDAMENTAL CHANGES TO THE BEEF REGIME WHICH WOULD INVOLVE THE INTRODUCTION OF EXPENSIVE NEW PREMIA. IT WAS IMPORTANT THAT, WITH THE ENLARGEMENT OF THE COMMUNITY, INCREASED ATTENTION SHOULD BE PAID TO MAINTAINING THE BASIC RULES OF THE MARKET.

CONCLUSION ON PRICE PROPOSALS AND EXTENSION OF MARKET YEARS

12. AFTER LENGTHY DISCUSSION ON INDIVIDUAL PRODUCTS (SEE MIFTS), BRAKS (CHAIR) CONCLUDED THAT SCA SHOULD WORK ON THE PACKAGE TO PREPARE IT FOR COUNCIL ON 21/22 APRIL WHEN HE WOULD AIM FOR AN AGREEMENT. IN HIS MEETING WITH COPA ON 25 MARCH THEY HAD LAID PARTICULAR STRESS ON THE NEED FOR AN EARLY DECISION TO END UNCERTAINTY AND ON INCLUDING THE COMMISSION'S PROMISED SOCIO-STRUCTURAL MEASURES IN THE DISCUSSION. A PROPOSAL ON THE LATTER SHOULD BE AVAILABLE AT THE LATEST IN THE WEEK BEFORE THE COUNCIL AND A HIGH LEVEL GROUP UNDER DE ZEEUW SHOULD MEET ON 17 APRIL TO CONSIDER THIS AND OTHER ASPECTS OF THE PRICE FIXING. THE EP'S OPINION SHOULD ALSO BE DELIVERED THAT WEEK TO CLEAR THE WAY FOR A CONCLUSION IN COUNCIL. IN ALL THE DISCUSSIONS, CONSTANT ACCOUNT SHOULD BE TAKEN OF THE FINANCIAL LIMITATIONS.

13. BRAKS PROPOSED THAT THE MARKETING YEARS FOR MILK, BEEF AND DRIED FODDER BE EXTENDED AS NECESSARY, TOGETHER WITH THE PROVISIONS ON THE BEEF VARIABLE PREMIUM AS PROMISED IN LAST YEAR'S PRICE FIXING. HOWEVER, THE LAST TWO COULD NOT BE FORMALLY DECIDED UNTIL THE EP HAD DELIVERED ITS OPINION. ON THESE A POLITICAL DECISION SHOULD THEREFORE BE TAKEN IN THIS COUNCIL WITH RETROSPECTIVE APPLICATION OF THE FORMAL DECISION WHEN IT WAS EVENTUALLY POSSIBLE TO TAKE IT. ANDRIESSEN (CHAIR) AGREED THIS COURSE, ADDING THAT ALL THE EXTENSIONS SHOULD BE TO 27 APRIL.

14. DEASY (IRELAND) SAID THAT RECENT CHANGES IN PAYMENTS FOR INTERVENED BUTTER HAD EFFECTIVELY REDUCED SUPPORT PRICES BY 1.5 PER CENT WHEREAS INSTITUTIONAL PRICES SHOULD BE MAINTAINED AT THE SAME EFFECTIVE LEVEL. THE CALF PREMIUM REGULATION SHOULD BE EXTENDED

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UNDER THE SAME TERMS AS THAT ON THE BEEF VARIABLE PREMIUM. GALLI (ITALY) SUPPORTED STRONGLY ON THE LAST POINT.

15. ANDRIESSEN DISMISSED THE IRISH DAIRY POINT AND INITIALLY OPPOSED INCLUDING THE CALF PREMIUM ON THE GROUNDS THAT ITS EXTENSION HAD NOT BEEN PROMISED IN LAST YEAR'S PRICE FIXING. HOWEVER, FACED WITH ITALIAN PERSISTENCE AND BRAKS' INCLINATION TO SUPPORT THEM, HE YIELDED THE POINT AND AGREED TO PROPOSE EXTENDING THE CALF PREMIUM ON THE SAME TERMS AS THE VARIABLE PREMIUM. GAUTIER (FRANCE) COULD ONLY AGREE ON THE UNDERSTANDING THAT THIS DID NOT PREJUDICE FRANCE'S OBJECTIONS TO THE PREMIA. BRAKS CONCLUDED THAT THERE WAS UNANIMOUS SUPPORT FOR THE PROPOSED EXTENSIONS (INCLUDING BOTH BEEF SECTOR PREMIA), ANSWERING MR JOPLING'S (UK) REQUEST FOR CLARIFICATION AS TO WHETHER THE UK COULD CARRY ON PAYING OUT VARIABLE PREMIUM WITHOUT INTERRUPTION BY SAYING THAT SUCH PAYMENT WOULD BE RETROSPECTIVELY AUTHORISED.

## OTHER BUSINESS

### (A) EXPORTS OF PURE-BRED CATTLE TO SPAIN AND PORTUGAL

16. FLORIAN (GERMANY) SAID THAT THERE SHOULD BE ACCESSION COMPENSATORY AMOUNTS (ACAS) ON EC10 EXPORTS OF THESE BREEDING CATTLE TO SPAIN AND PORTUGAL TO MAKE IT POSSIBLE TO COMPETE WITH THIRD COUNTRY SUPPLIERS. DE ZEEUW (NETHERLANDS), OTTOSEN (DENMARK) AND MR GUMMER (UK) SAID THAT THEY HAD HAD SIMILAR PROBLEMS, THE LATTER ADDING THAT THE COST INVOLVED SHOULD BE ONLY 2-3 MECU (IN CONTRAST WITH THE COMMISSION'S ESTIMATE OF 10 MECU PER YEAR) AND THAT THIS COULD BE COVERED WITHIN THE COMMISSION'S EXISTING PROVISION FOR ACAS. BARRERO (SPAIN) OPPOSED ACAS BECAUSE OF THE COST AND EFFECT ON RELATIONS WITH THIRD COUNTRIES. ANDRIESSEN WAS ALSO CONCERNED ABOUT THE COSTS AND REFERRED TO QUESTIONS RAISED DURING THE ACCESSION NEGOTIATIONS CONCERNING NATIONAL EXPORT SUBSIDIES ON CERTAIN CATTLE BREEDS. BRAKS CONCLUDED THAT SCA SHOULD CONSIDER THE FACTS AND LIKELY COSTS.

### (B) DAIRY SUBSTITUTES

17. KIECHLE (GERMANY), CALLED FOR A BAN ON DAIRY SUBSTITUTES. THE ISSUE SHOULD NOT BE LEFT TO THE ECJ. A BAN WOULD SAVE THE COMMUNITY BILLIONS OF ECUS IN THE DAIRY SECTOR. GUILLAUME ADDED THAT SUBSTITUTES COULD SOON DISPLACE 6 M TONNES OF MILK AT A COST OF 1.1 BECU PER YEAR. FISCHBACH (LUXEMBOURG) SUPPORTED.

18. ANDRIESSEN WAS WILLING TO CONSIDER WHAT COULD BE DONE TO AVOID THE ECJ IMPOSING A SOLUTION ON COUNCIL. THERE WAS ALREADY A COMMISSION PROPOSAL ON THE TABLE AND THIS WAS OPEN TO IMPROVEMENT. HE COULD UNDERSTAND THE VIEWS OF DAIRY PRODUCTS. ON THE OTHER HAND, ONE COULD NOTE WHETHER THE COUNCIL WISHED TO IMPOSE RESTRICTIONS ON INDUSTRIAL SECTORS OUTSIDE AGRICULTURE IN ORDER TO OVERCOME AGRICULTURAL PROBLEMS WHICH WERE IN PART THE PRODUCT OF CAP POLICIES. HE WOULD PREPARE A RECOMMENDATION FOR THE COMMISSION BUT THIS WAS A MATTER FOR COLLEGIAL DECISION. A REPORT AND ANY RECOMMENDATIONS WOULD BE READY BEFORE THE NEXT COUNCIL.

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19. KIECHLE FOUND THIS FAR TOO MEALY-MOUTHED. THERE WERE LIMITS BEYOND WHICH MEMBER STATES COULD NOT BE PUSHED. BILLIONS OF ECUS OF MEMBER STATES' MONEY WERE AT STAKE AND THE COMMUNITY WAS INTERFERING THROUGH THE ECJ CASE WITH LONGSTANDING NATIONAL PROVISIONS. HE DID NOT CARE ABOUT THE PROFITS OF INTERNATIONAL COMPANIES BUT WAS CONCERNED ABOUT THE WELL BEING OF HUNDREDS OF THOUSANDS OF FARMERS. IF THE COMMISSION DID NOT ACT, IT COULD BE THE LAST STRAW FOR GERMANY. GUILLAUME SAID THAT THIS WAS VERY IMPORTANT FOR FRANCE TOO. MR GUMMER ADDED THAT BRITISH FARMERS HAD TAKEN THE SAME VIEW AS THOSE IN GERMANY UNTIL THEY HAD REALISED THAT BUTTER CONSUMPTION WAS INCREASED BY SALES OF DAIRY AND NON-DAIRY MIXTURES. IT SHOULD ALSO BE RECALLED THAT THE PRODUCERS OF SUBSTITUTES DID NOT HAVE THE SAME FINANCIAL SUPPORT AS THE DAIRY SECTOR AND ALSO PROVIDED EMPLOYMENT. BRAKS CONCLUDED THAT THE COMMISSION'S REPORT SHOULD BE DISCUSSED AT THE NEXT COUNCIL.

(C) FUTURE WORK

20. THE NEXT SCA IS ON 7/8 APRIL. NO AGENDA YET.

HANNAY

YYYY

ADVANCE

HARRISON FCO

MACADAM CAB

HADLEY MAFF

WENTWORTH MAFF

DICKINSON MAFF

CRUICKSHANK MAFF

HOLLIS MAFF

ARCHER MAFF

HUNTER MAFF

THOMSON MAFF

BUTT TSY

DAFS ESSORY

DANI L MURRAY

WOAD HALL-WILLIAMS

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10 DOWNING STREET

From the Private Secretary

19 March 1986

Dear Colin,

**EUROPEAN COMMUNITY: THE COMMON AGRICULTURAL POLICY**

The Prime Minister discussed this morning with the Foreign and Commonwealth Secretary, the Chancellor of the Duchy of Lancaster, the Minister of Agriculture, Fisheries and Food, the Chief Secretary, Treasury and the Minister for Trade a longer term strategy for reforming the operation of the Common Agricultural Policy. Mr. D.F. Williamson was also present.

The Prime Minister said that some elements of the future strategy were clear. Restraint on support prices was necessary but could not be the sole answer to the problem. Other measures had also to be considered. Such measures must not discriminate against United Kingdom farmers.

The Minister of Agriculture, Fisheries and Food said that farmers themselves recognised that price restraint was necessary and the recent debate in the House of Commons had shown a wide measure of support for the Government's approach. He considered that the present problems in the operation of the Common Agricultural Policy would not be overcome by price policy alone. It was necessary to have a three-pronged attack on the problem. First, the United Kingdom must not accept discrimination against its own producers. Secondly, there was some scope for "price cuts by stealth" (to which Mr. Williamson's minute of 17 March referred) and, in particular, for some lightening of the intervention system, but severe changes would run up against the opposition of the Federal Republic of Germany and other member states. Thirdly, some more direct action on production control would be necessary: quotas were not in the United Kingdom's interest and we should concentrate attention on possible schemes for taking land out of agricultural production ("set-aside"), in particular by encouraging more woodland planting. He thought that any "set-aside" scheme should be voluntary and that it could be framed in such a way as to take out some cereal-producing

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land which was not best suited to that type of production. The best cereal land was a national competitive asset.

In discussion the following points were made -

(a) of the possible ways of correcting imbalances in the Common Agricultural Policy, the price route was certainly preferable. But other measures were also now required. It would be worth considering whether there should be no subsidies for new land brought into cultivation and how far other small businesses could be encouraged rather than discouraged in the countryside. The attitude to planning applications played an important role;

(b) within the Community concentration by the United Kingdom on price cuts alone was not a sustainable policy. The possible proposals on "set-aside" now had to be worked on urgently. The budgetary implications could not be decided until there had been a proper examination. It was open to question whether the best land should be excluded. In addition to the possible transfer of some land from agricultural production to woodland, there was also attraction in transfer to other environmental uses;

(c) it was important to put across to farming and other opinion that surpluses were not just a Community phenomenon. The growth in farming productivity and in crop and animal yields was having a world-wide impact. The policies to be adopted within the Community must not be discriminatory against United Kingdom farmers but opposition to discrimination must not mean opposition to change;

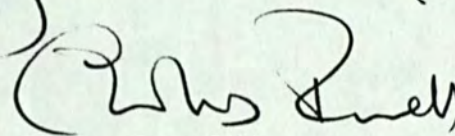
(d) as price restraint continued and ideas on "set-aside" were developed, the fall in land prices could accelerate. This phenomenon had led to extreme difficulties in the United States and, although the percentage of British farmers at risk might be lower than in the United States, it was important that this should not get out of hand;

(e) it was possible that there would be further realignments of currencies within the European Monetary System, with an effect on green currencies. This could make it more necessary to look, at a later stage in the present price package negotiations, at a possible adjustment of the green pound.

Summing up the discussion, the Prime Minister said that there was broad agreement that price restraint was an essential element of our strategy for the Common

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Agricultural Policy but that it would not be sufficient in itself to achieve the necessary objectives. The United Kingdom opposed unfair discrimination in the operation of agricultural support but supported measures to weaken too rigid intervention and to bring a greater market element into the disposal of agricultural production. It was also now necessary to look at alternative uses of some agricultural land, in particular possible ideas on "set-aside" and the encouragement of alternative employment in the countryside. The Minister of Agriculture, Fisheries and Food should consolidate proposals on these points into a paper for colleagues.

I am sending copies to Joan MacNaughton (Lord President's Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Ivor Llewelyn (MAFF), Jill Rutter (Treasury), Matthew Cocks (Department of Trade and Industry) and to Sir Robert Armstrong.

Yours sincerely,  
  
(C.D. Powell)

Colin Budd, Esq.,  
Foreign and Commonwealth Office.

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## 1986 CAP PRICE FIXING

### SUMMARY OF COMMISSION'S PRICE PROPOSALS (COM(86)20)

#### Introduction

1. The Commission proposes a price freeze for most commodities the introduction of a co-responsibility levy for cereals (together with significant changes to the intervention standards and period for intervention), and reforms in the beef regime to shift reliance away from market intervention towards a system of premia by December 1987. Nevertheless the Commission has stated that additional expenditure amounting to 790 mecu (£490m) will be necessary in 1986, caused almost entirely by the effect of the fall in the US dollar on the world markets on which the Community disposes of a proportion of its surpluses.
2. The Commission favours small producers in its proposed measures for cereals, beef and sheepmeat.
3. The Commission plans to operate a programme of disposing of surplus stocks over 1986-88 to be financed as far as possible within existing projections of CAP spending. The Commission estimates that if the Council adopts its proposed measures and if further problems do not arise, it will be able to restrain CAP market spending in 1987 and 1988 within the financial guideline for agriculture applicable under the Community's agreement on budgetary discipline. Details are listed below.

#### Financial implications

4. The Commission estimates that the price proposals would in themselves lead to:-

	<u>mecu</u>
a saving in 1986 of	- 408
a saving in 1987 of	- 786

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## 1986 expenditure

5. However, the Commission has stated that a supplementary budget of 790 mecu will be necessary in 1986 as follows:

	<u>Mecu</u>
Changes in market conditions (net)	+ 961
Supplementary stock disposals (para 8 below)	+ 1155
Adoption of milk outgoers and beef proposals	+ 5
Less adoption of price proposals	- 408
Commission management economics	- 200
Reduced payments to member states defraying the costs of intervention storage	- 300
Use of depreciation reserve in 1986 Budget	<u>- 423</u>
	+ 790

6. The principal element in the changes in market conditions is the fall in the value of the US dollar against the ecu which, the Commission says, will lead to extra expenditure of 750 mecu: on export refunds - particularly on cereals, and production aids on oilseeds and cotton.

## 1987 and beyond

7. The Commission has estimated the financial guideline for 1987 as 21.8 becu for the EC10 and has suggested 23.2 becu as the guideline for the EC12. They feel that it should be possible to keep Guarantee expenditure including continuing stock disposals within this figure although exceptional circumstances linked to movements in the dollar and US agricultural policy might affect that ability. Expenditure from 1988 onwards should also be within the guideline. All this assumes adoption of the Commission's proposals including those on milk outgoers and beef.

## Stock disposals

8. The Commission intends to produce proposals to reduce stocks in

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1986-1988; that could require an "extra budgetary effort", but would be carried out within the estimates of overall expenditure described above. In 1986 it is intended to reduce butter stocks by 270,000 tonnes and beef stocks by 230,000 tonnes by additional sales at a cost of 1155 mecu.

### Differentiation

9. Special treatment for small producers in the beef and cereals memorandum is included in the prices package. Differentiation is also extended to the sheepmeat sector (see paragraph 31 below). The Commission states its intention to address small producers similarly in future proposals whenever it is economically and socially justified.

### EC/US relations

10. The Commission expects the efforts being made in the EC to be matched by the Community's trading partners. It expresses concern about US agricultural policy, which seems, it says, to be aimed at increasing exports at the price of depressing world markets. The Commission, after analysing the US Farm Act would take the necessary initiatives, both on imports and exports, to safeguard Community interests.

### Agrimonetary

11. The following is proposed:

- 10.7% devaluation of Greek green drachma so reducing Greece's negative MCA by 14.4%;
- 1.9% devaluation of Italian green lira so reducing Italy's negative MCA by 2.5%;
- devaluation of French green franc by 1.5% to parity;
- no change in German and Dutch fixed positive MCAs.



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12. No proposal has been made at this stage for the UK's negative MCA as sterling is floating.

## Prices

13. The main changes proposed to the prices for individual commodities are shown at Table 1 attached.

14. The Commission estimates that the overall effect of the proposals including the agrimonetary changes at paragraph 12 above is a price freeze in national currency terms for all in EC 10 except:

- Greece + 11.6%

- Italy + 1.4%

- France + 0.8%

15. The overall change for EC10 as a whole is estimated at + 0.9% in national currencies (- 0.1% in ecu).

16. The changes in national currency terms for Spain and Porgugal are:

- Spain + 1.8%

- Portugal + 2.1%

## Structural

17. The Commission reaffirms its commitment to produce soon (perhaps March) the Structural proposals arising from the CAP Perspectives exercise (including those with environmental concerns).

## Procedure

18. The Council is formally requested to reach agreement on a package including the proposed reforms in cereals, oilseeds and dairy sectors (see below) before the new marketing years (1 April for dairy). If

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not, the Commission envisages replacing all or part of its prices proposals with others designed to reach the same market/budgetary objectives without reforms for cereals oilseed and dairy, and therefore (they say) much less satisfactory for producers.

### Individual Commodities (main points)

#### Cereals

19. - elimination of the existing guarantee threshold arrangements;
- intervention prices for common wheat, barley, sorghum, maize: frozen;
  - intervention price for rye cut by 1%; and abolition of the option of special premium for breadmaking rye taken into intervention;
  - intervention price for durum cut by 4.4%;
  - target prices increased by 0.5% except rye (- 0.3%), and durum (frozen);
  - abolition of breadwheat reference price;
  - aid for durum increased by 6.8%;
  - co-responsibility levy at 3% of intervention price on cereals sold off the farm with rebate of levy paid on first 25 tonnes;
  - abatement of 5% from intervention price for wheat not reaching higher quality standards;
  - minimum wheat specification for interventive standard raised to 72 kg/hl, with discounts on wheat less than 76 kg/hl;
  - extension of scale of penalties to bring reductions of up to 9% for barley not meeting quality standards;

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- intervention to be restricted to 1 December to 30 April;
- marketing year to begin on 1 July;
- monthly increments cut by 4.7% (durum: freeze);
- provision to enable payment of aid (up to export refund level) for new industrial uses;
- a report to be prepared on potential for bioethanol;
- undertaking to consider schemes such as set-aside;
- no carry-over payments this season; provision for maize abolished; competence for making the payments to be transferred from Council to Commission and limited to wheat and rye;

### Rice

20. - target and intervention prices frozen.

### Sugar

21. - prices frozen.

### Olive oil

22. - production aid and target price frozen;  
- intervention price cut by 5%.

### Oilseeds

23. - target and intervention prices frozen;
- increase in standard oil content for sunflower seeds with corresponding price adjustment;
  - change in guarantee threshold mechanism so that any reductions apply in the year that production exceeds a new maximum guarantee

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quantity (in proportion to the excess);

- premium in the target price for 00 varieties of rapeseed of 1.25 ecu 100 kg;
- from 1991/92 aid to be restricted to 00 varieties except if seed is destined for technical use;
- monthly increments for rapeseed and sunflower seed cut by 4.8% and 3.9% respectively.

## Protein crops

24. - minimum and guide prices for peas, beans and lupins raised by 1%;
- activating price for lupins raised by 0.5%;
  - activating price for peas and beans raised by 0.6%.

## Textile crops

25. prices frozen.

## Wine

26. - prices frozen; limitations on vineyard replanting rights; easier triggering of obligatory distillation; creation of anti-fraud squad.

## Tobacco

27. - prices and premia reduced by 0 to 6% according to variety;
- production zones proposed for each variety.

## Fruit and vegetables

28. - basic prices for cauliflowers and aubergines raised by 1%;

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- other basic prices frozen but reduction in the percentages used to calculate certain buying in prices will have the effect of reducing the buying in prices as follows;
- citrus by 2.5%; tomatoes and apricots by 5%; peaches by 10%;
- marketing premia - for oranges and mandarins frozen;
- for lemons reduced by 50%;
- for clementines abolished;
- lemon juice aid limited to 40% of Italian production.

### Milk

29. - target price frozen;
- intervention prices for - butter cut by 4%
    - smp raised by 3.5%;
  - co-responsibility levy unchanged at 2% for one year;
  - supplementary levy to be paid 6 monthly, not yearly;
  - community quota reserve level and allocation unchanged.
  - suspension of Inward Processing Relief arrangements to continue until 31 March 1989;
  - export refunds for bulk products to be set by tender;
  - transfer for 20,000 tonnes of intervention butter from Germany to Italy.

### Beef

30. - prices frozen;

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- final step to harmonised buying-in prices;
- implementation of memorandum. Phasing out of permanent intervention by December 1987 and rationalisation of existing premia into single premium whose basic element would be 20 ecu per head and limited to 50 animals per specialist beef herd. Suckler cow element, with enhanced FEOGA funding, not limited to 50 head.

## Sheepmeat

31. - prices frozen;
- Ireland and Northern Ireland to become a single region;
  - annual premium in all EC to be limited to first 500 ewes/goats or first 1000 in LFAs.

## Pigmeat

32. - basic price unchanged, but on higher quality basis;
- marketing year to begin on 1 August;
  - widening of enabling powers for emergency market support measures.

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TABLE 1

## 1986 CAP PRICE FIXING: COMMISSION PROPOSALS: MAIN PRICES

Change from 1985/86

%

### Cereals

#### Intervention prices

(i)	common wheat - meeting proposed tougher intervention standards (breadmaking standard) reference price for breadmaking wheat	0* abolished
(ii)	common wheat failing to meet breadmaking standard	- 5.0*
(iii)	barley	0*
(iv)	barley failing to meet the highest intervention standards: penalties up to	- 9.0*
(v)	maize	0*
(vi)	rye	- 1.0*
(vii)	durum wheat	- 4.4*
	durum wheat aid	+ 6.8*
(viii)	rice	0

#### Sugar

basic beet price 0

white sugar intervention price 0

Olive oil intervention price - 5

Oilseed rape 0\*

Sunflower seed intervention price 0

Soya minimum price 0

Dried fodder aid 0

#### Protein crops

activating price-peas, beans + 0.6

minimum price - peas + 1.0

- beans + 1.0

activating price - sweet lupins + 0.5

minimum price - sweet lupins + 1.0

NOTE: \* compared with Commission's interim measures.

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Change from 1985/86

%

## Textile crops

flax aid	0
hemp aid	0
silk - aid per box	0
cotton - minimum price	0

## Milk

target price	0
intervention prices - butter	- 4.0
- skimmed milk powder	+ 3.5
- Italian cheeses	+ 0.7 to + 0.8

## Beef

guide price	0
intervention price	0

## Sheepmeat

basic price	0
-------------	---

## Pigmeat

basic price	0
-------------	---

## Fruit and vegetables

basic prices - cauliflowers and aubergines	+ 1.0
- others	0
buying in prices - citrus	- 2.5
- tomatoes and apricots	- 5.0
- peaches	-10.0

## Wine

guide prices	0
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## Tobacco

prices and premia	0 to - 6
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PRIME MINISTER

COMMON AGRICULTURAL POLICY

You are to have a meeting tomorrow with the Lord President, the Foreign Secretary, the Chancellor, the Minister of Agriculture and Mr. <sup>Clark</sup> Morrison (DTI) to discuss the prospects for reform of the CAP. (Your meeting a fortnight ago was devoted just to this year's price-fixing.)

David Williamson has done a useful minute at A summarising the main technical questions. You might also glance again at Nick Owen's note at B.

But the meeting might first consider some wider political issues:

- (i) how serious is the potential damage to the Government's support in rural constituencies from taking a lead on CAP reform? Are there constituencies where a substantial alienation of the farming vote could tip the balance against the Government?
- (ii) how far can any adverse effect be reduced by showing that British farmers will not suffer any worse than their continental counterparts?
- (iii) conversely are there measurable and off-setting gains for the Government among consumers from being seen to take a tough line on holding down food prices?
- (iv) to what extent can the Government realistically expect to make a measurable impact on the CAP over the next two years? (There is little point in making a great song and dance and alienating the farming vote if there is little likelihood of achieving a result).

- (v) in the light of conclusions on these points, how prominent does the Government want to be in campaigning for reform of the CAP? Should the aim just be to stop costs escalating out of control in the short-term (for which there is wide support)? Or do we aspire to make more fundamental, long-term reforms in the CAP, designed to change its nature?
- (vi) if the latter, which of the various steps set out in Mr. Williamson's note should be pursued:
- direct measures to limit production such as quotas and set-aside schemes?
  - letting the market take more of the strain, ie. by weakening intervention?
  - transferring the social costs of the CAP to national budgets?
- (vii) do we want to make CAP reform a major theme during our Presidency of the EC?
- (viii) should we be more consistent in pursuit of the goal of reducing surpluses and costs? If selling butter cheap to Libya and the Soviet Union reduces the costs of the CAP, should we not support it provided there is parallel action to prevent fresh surpluses taking its place?

In practice the area of choice in all this is considerably more limited than the questions imply. We have no option but to work to stop CAP surpluses and costs escalating wildly if the government is to meet its public expenditure targets and goal of budgetary restraint in the EC. It is largely therefore a question of presentation in this country and tactics in the EC.

C.D.P.  
C D POWELL

18 March 1986

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CONFIDENTIAL

Prime Minister  
CDD

Qz.04926

MR POWELL

M

EUROPEAN COMMUNITY: REFORMING THE OPERATION OF THE COMMON  
AGRICULTURAL POLICY

You said that, following the decisions of OD(E) on the United Kingdom's approach to the immediate issues in the 1986 agricultural price fixing, the Prime Minister wished to discuss at her meeting with colleagues at 10.30 am on 19 March a longer term strategy for sustaining pressure, during the United Kingdom Presidency and over the next few years, for achieving reform of the operation of the common agricultural policy. If we are going to put a better balance into the markets the following questions are fundamental -

(i) will a sufficiently tough price policy alone be acceptable to Governments (including the British Government) and negotiable within the Community? The answer clearly is no. The Community has been steadily cutting farmers' support prices in real terms: from 1977/78 to 1985/86 the average level of common support prices in national currencies has been cut in every year but one. Agricultural output prices have been rising more slowly than prices generally and have been helping to cut inflation. Member states are prepared to continue a restrictive price policy (ie further cuts in real terms) but they are not prepared to make actual cuts in support prices for significant products because of the effect on farm incomes. Although the Germans have taken the centre of the stage with their opposition to cuts in cereal support prices, the opposition of member states to support price cuts relates also to the large number of small livestock producers and to the major Mediterranean products. Some British farmers would also go bankrupt in a tighter price squeeze. The present position in the United States shows the difficulties. Despite massive public expenditure on agriculture and direct support per farmer at about twice the Community level, many United States farmers



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have gone bankrupt, the Farm Credit System has \$10,000 million of non-earning assets (ie bad loans and foreclosed land) and current quarterly losses of over \$500 million and over 50 agricultural banks are expected to fail in 1986. Our own strategy, reflecting what is negotiable in the Community, must be to go for the best achievable support price restraint over a period of years, both as a disincentive to surplus production and, equally importantly, as a means of restraining or cutting budget cost (it is the difference between our prices and the prices of our competitors which is a major determinant of the cost of the common agricultural policy). The Commission's price proposal for 1986 is basically a price freeze, with some selected cuts;

(ii) can we get "price cuts by stealth"? The answer is clearly yes, but drastic changes will run up against the political opposition to too harsh an effect on farm incomes. Price cuts by stealth are achieved by guarantee thresholds which reduce support when a certain volume of production is exceeded (the Community has accepted the principle of guarantee thresholds but, because of Herr Kiechle's activities last year, further development is stalled or set back). In current circumstances price cuts by stealth are probably best achieved by some weakening of the intervention system. This is what the Commission has proposed this year for cereals - the estimated effect on producer returns for feed wheat and barley is about 7 per cent - and, although in a probably unnegotiable form, for beef. The intellectual argument for letting the market itself play a bigger role when a product is in structural surplus is very strong. No solution is painless but this method is probably one of those most likely to bring about the necessary adaptation of supply to demand. The Commission has also proposed this year a co-responsibility levy on cereals. This method raises cash for the budget which can be spent on product disposal but is open to other major objections: in particular, unlike the other methods above, it does not lower the market price and expand consumption directly and the disincentive effect on production is limited because the levy can be wholly or partly passed on;



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(iii) should we take more direct measures to limit production? This proved necessary for milk (quotas) and will probably prove to be necessary for cereals. There is increasing awareness in Europe that diversion of some land from its present production ("set-aside") will be needed if agriculture's improvements in yields and in productivity continue to outrun the pace of other policy changes. The detailed arrangements on "set-aside" are important, eg how to avoid poor land being taken out of production, whether the land should be kept fallow or transferred to woodland. The Minister of Agriculture, Fisheries and Food is examining the possible costs and benefits. The German government is also looking at a scheme, apparently to be 50 per cent financed nationally;

*Fyler*  
(iv) avoiding discrimination. It is against our interest that the Commission has proposed differentiated operation of a cereals co-responsibility levy and limits on a direct payment for beef animals and the ewe premium. We are opposing this aspect of the Commission's proposals. But the political wish to help small farmers in a period of severe price restraint remains. In the medium term we can seek to divert this away from the price support system, which should be common, towards the structural measures which can be used to assist in difficult situations. Under the structural measures it is usual for part of the cost to be borne by the member states themselves;

(v) restricting the taxpayer's commitment. It would be to the United Kingdom's advantage if, within a common set of rules to avoid distortions of competition, more of the agricultural expenditure were on national budgets. This has always run hard against the view of other member states that Community financing of agricultural support (financial solidarity) was the counterpart of the common market for industrial goods and thus an essential part of the political contract on which the European Community was founded. In the medium term, however, it should now be possible to get a greater element of national financing, eg on the costs of intervention and on premium or other measures which are partly support measures and partly structural;



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(vi) making the foreigner pay more. World markets for many agricultural products are, to say the least, distorted by import restrictions and by competitive subsidisation among exporters. It should be a prime objective of the Commission to reduce competitive export subsidisation by understandings with other exporters. The present situation is an unplanned form of subvention to certain third country economies.

The proposals of the Minister of Agriculture, Fisheries and Food for the United Kingdom's approach to the 1986 price fixing were set out in OD(E)(86) 6 and some longer term ideas were in a Secretariat paper OD(E)(86) 7. The Sub-Committee's broad endorsement of the Minister's proposals are in OD(E)(86) 3rd meeting.

I am sending copies of this minute to Joan MacNaughton (Office of the Lord President), Colin Budd (FCO), Ivor Llewelyn (MAFF), Richard Broadbent (Treasury), John Mogg (DTI) and to Sir Robert Armstrong.

*Df Williamson*

D F WILLIAMSON

17 March 1986

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THE PATTERN OF COMMUNITY AGRICULTURAL GUARANTEE EXPENDITURE  
BY PRODUCT - 1984

mecu

	Total	(£m) #	Total as % of Guarantee Section Expenditure
CEREALS	1,649	( 970)	8.9
OILSEEDS	655	( 385)	3.5
OLIVE OIL ..	1,095	( 644)	6.0
SUGAR $\mu$	1,632	( 960)	8.8
FRUIT AND VEGETABLES	1,454	( 855)	8.0
TOBACCO	777	( 457)	4.2
WINE	1,223	( 719)	6.6
MILK	5,442	( 3,201)	30.0
BEEF	2,547	( 1,497)	13.8
SHEEPMEAT	434	( 255)	2.3
OTHER PRODUCTS	1,066	( 627)	5.8
	<u>17,970</u>	<u>10,570</u>	

Notes: # Converted at 1.7 ecu/£1.

$\mu$  The costs of storage and disposal of sugar surpluses are partly recouped by levies from producers which form part of the Community's Own Resources. The amount entered for production and storage levies in the 1984 budget as amended is 1,225 mecu.

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THE PATTERN OF COMMUNITY AGRICULTURAL GUARANTEE EXPENDITURE  
BY TYPE OF SUPPORT - 1984

mecu

	Total	(£m) #	Total as % of Guarantee Section Expenditure
EXPORT REFUNDS	6,204	( 3,650)	33.8
INTERNAL DISPOSAL	4,540	( 2,670)	24.7
PUBLIC INTERVENTION	2,397	( 1,410)	13.0
PRIVATE STORAGE	765	( 450)	4.1
PRODUCTION SUBSIDIES	4,486	( 2,638)	24.4
OTHER	- 421	(- 248)	- 2.2
TOTAL	17,970	10,570	

# Converted at 1.7 ecu/£1.

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*CP*



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

From the Minister

*COP  
17/3.*

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
London SW1

17 March 1986

*Handwritten signature of Sir Geoffrey Howe*

1986 CAP Price Proposals

*ATTACHED*

We agreed at OD(E) on 6 March that you would write to the President of the Commission to emphasise that the discriminatory elements in the Commission's proposals were unacceptable to us and that, by including them, the Commission had made it hard for us to give them our usual support.

... I attach a draft which has been discussed at official level. I hope you will write in these terms in time for it to have had an impact before the next meeting of the Agriculture Council on 24 March. In addition to copying the letter to Vice President Andriessen, you will no doubt wish to make the British Commissioners aware of what you have written.

Copies of this letter and enclosure go to the Prime Minister, other members of OD(E), the Secretaries of State for Wales, Northern Ireland and Scotland and to Sir Robert Armstrong.

*Handwritten signature of Michael Jopling*

MICHAEL JOPLING

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DRAFT LETTER FOR THE FOREIGN AND COMMONWEALTH SECRETARY TO SEND TO M. DELORS

1986 Agricultural Price Proposals and Related Measures

As the discussions on the Commission's proposals for 1986 agricultural prices and related measures get under way, I thought that you should know of our strong support for the Commission's commitment to restore a better balance in the agricultural markets but our concern about one feature of some of the supporting measures.

The United Kingdom has shared common ground with the Commission over a number of years in seeking to use price restraint as the preferred choice for bringing agricultural production into better line with the requirements of the market. For this reason we welcome and support the fact that you have come forward with a tough package of proposals. We would be prepared for a more restrictive policy on common prices and believe that price cuts for some products would be justified. You know the importance we attach to the agreement on financial discipline to which the Council and the Commission are committed. We shall, therefore, be pressing for changes and further economies. Nonetheless, we recognise that a price package alone is unlikely to be sufficient to meet all the objectives this year and that other measures on intervention or on production control, such as the Community outgoers' scheme in the milk sector, are necessary.

The Commission has chosen to present this year, however, a number of proposals which introduce into the common agricultural market regimes a bias in favour of small or mixed farms and consequently against larger or specialist enterprises. We have also noted with concern the suggestion that further such measures might be proposed in future. The United Kingdom has always supported the view that as part of the agricultural guidance structural measures there is a case for helping certain categories of farms which on objective grounds might be subject to disadvantages, for example

because of unfavourable natural conditions. We consider, however, that the introduction into the market regimes of discrimination against production simply because it comes from a larger enterprise would be a breach of one of the basic principles of the common agricultural policy, by introducing distortion into the single market for agricultural products and frustrating the exercise of comparative advantage within the Community. We do not consider it right to move the common agricultural support system towards a system of agricultural support à la carte.

It is, of course, clear that these developments would be to the disadvantage of member states which have a more developed farm structure. For instance, under the Commission's proposal for a cereals coresponsibility levy, about 75% of production in the United Kingdom would be liable to levy but only about 20% of German production would be leviable. A levy of 3% would mean that, on average, the United Kingdom cereal grower would pay 3.75 ecu per tonne whereas the German grower would pay only 1 ecu per tonne. This disparity of 2.75 ecu per tonne is important in itself and would of course rise if the levy was to be raised to 6% as the Commission intends in 1987. We have always been opposed to coresponsibility levies because we consider that they are not effective in expanding the market and because they circumvent the proper discipline of the budget.

For both beef and sheep, the Commission's proposals involve limits on the number of animals qualifying for headage payments. We do not accept that there is any justification for biasing the market system against larger farmers. In effect, this has the consequence of differentiating the level of support in a way that is arbitrary and for which there is no objective justification. I should also mention the proposal for amalgamating Northern Ireland and the Republic of Ireland into a single region for the purpose of calculating the sheep annual premium. This would have an adverse effect on Northern Ireland's relatively small industry which is substantially different from that of the Republic and it would

present political difficulties. I hope it will not be pursued.

As to milk, we support fully the Commission's desire to reduce the surplus by a Community outgoers' scheme. But we could not tolerate a scheme which did not require all member states to cut back quotas by the agreed figure. The objective on milk outgoers must be to ensure that the scheme is effective throughout the Community so as to maximise the budgetary benefits.

I am writing to you at this stage so that you will be in no doubt about the strength of our opposition to these elements in proposals. I should add that the effect of the changes in your proposals I am advancing would be an additional budgetary saving, an important consideration in the present circumstances.

We are ready to require our farmers to accept a firm package of measures, provided that it is fair. We are not able to ask them to accept a settlement which introduces a permanent bias against them. The Commission's price proposals document shows that United Kingdom farmers suffered the greatest decline in incomes among member states -  $17\frac{1}{2}\%$  in 1985 - compared with an average decline of 5.7% for the Ten. This is not a situation in which we could justify treating United Kingdom farmers more harshly than those in other member states.

Because of our similar perception of the threat which current problems pose to the effective operation of the common agricultural policy, it is important that we should find as much common ground as possible on the decisions to be taken this year. We believe that the Commission's approach, in its proposals on a cereals coresponsibility levy and on beef and sheep, of introducing a bias into the market regimes towards small farms and against the larger enterprises is misconceived. I have to tell you that it is an approach which the British Government does not accept. I must therefore ask you to reconsider this aspect of your proposals.

I am sending a copy of this letter to Frans Andriessen.



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FM BONN

TO PRIORITY FCO

TELNO 223

OF 111715Z MARCH 86

INFO PRIORITY EC POSTS, WASHINGTON

*ms***THE FRG AND CAP**

## SUMMARY

1. GENSCHER AND KOHL REJECT THE BRITISH APPROACH TO CAP REFORM. REMARKS MADE BY STOLTENBERG SUGGEST WEAKENING ON AGREEMENT ON BUDGET DISCIPLINE AS IT APPLIES TO AGRICULTURE.

## DETAIL

2. I HAD A SHORT CONVERSATION ABOUT THE CAP WITH GENSCHER TODAY. HE DESCRIBED THE SITUATION IN THE EC AS VERY SERIOUS. THE FINANCE MINISTERS WERE POINTING OUT THAT THE COMMUNITY WAS APPROACHING THE LIMITS OF ITS FINANCIAL RESOURCES. IF THIS HAD COME AS A SURPRISE TO THEM, THEY OUGHT TO BE RESIGNING AS A BODY: EVERY SCHOOL CHILD HAD KNOWN THAT THIS WAS ONLY A MATTER OF TIME. WHAT TROUBLED GENSCHER MOST WAS THE FACT THAT THE EC WAS SUPPOSED TO BE "A COMMUNITY OF THE FUTURE", BUT HAD LITTLE MONEY TO DO ANY FUTURE-ORIENTED THINGS BECAUSE IT ALL WENT TO THE CAP.

3. I SAID THIS WAS EXACTLY OUR VIEW, AND SUMMARISED OUR POSITION ON WHAT WAS NEEDED: A SEVERE AND SUSTAINED POLICY OF PRICE RESTRICTION, INCLUDING ACTUAL REDUCTIONS WHERE NECESSARY, SO AS TO CUT NOT ONLY THE COSTS BUT THE SURPLUSES. IF THIS WAS NOT DONE, THE ONLY QUESTION WAS WHETHER THE EC WOULD REACH THE 1.4 PER CENT LIMIT IN 1988 OR IN 1987.

4. GENSCHER AGREED WITH ME ON THIS LAST CALCULATION, BUT NOT AS REGARDS THE REMEDY. A POLICY WHICH PUT LARGE NUMBERS OF SMALL FARMERS OUT OF BUSINESS WAS POLITICALLY NOT ACCEPTABLE. IN ANY CASE IT WAS NOT THE EXISTENCE OF THESE FARMERS BUT THE DISPOSAL OF SURPLUSES WHICH WAS SO EXPENSIVE. A BETTER APPROACH WAS TO CONCENTRATE ON TAKING LAND PERMANENTLY OUT OF PRODUCTION BY CONVERTING IT TO WOODLAND, MARSH ETC. I SAID I RECOGNISED THE QUOTATIONS FROM THE FDP PAPER ON AGRICULTURAL POLICY, BUT IN OUR VIEW ALL THESE IDEAS COULD ONLY BE MARGINAL. RESTRICTIVE PRICE POLICY WAS THE KEY. DID GENSCHER THINK THAT AFTER THE BUNDESTAG ELECTIONS IN JANUARY 1987 FRG AGRICULTURAL POLICY MIGHT LOOK DIFFERENT? GENSCHER'S REPLY WAS "NOT MUCH".

5. AFTER YESTERDAY'S ECOFIN COUNCIL (UKREP BRUSSELS TELNO 835) STOLTENBERG SPOKE OF THE EC'S SERIOUS FINANCIAL DIFFICULTIES AND THE RISK THAT CAP SPENDING WOULD EXCEED THIS YEAR'S BUDGETARY FRAMEWORK. HE CONCENTRATED HIS ATTACK HOWEVER ON THE COMMISSION'S "PROGRAMMING ORGY" WITH NON-OBLIGATORY EXPENDITURE ESPECIALLY ON RESEARCH. THE

**CONFIDENTIAL**

|PRESS.

## CONFIDENTIAL

PRESS HAS CONCLUDED THAT STOLTENBERG IS LOOKING FOR SAVINGS EVERYWHERE, EXCEPT ON THE CAP WHERE IT IS REALLY NECESSARY.

6. I SENT CHANCELLOR KOHL A COPY OF MY RECENT SPEECH ON AGRICULTURAL POLICY, WHICH I BASED ON MATERIAL AGREED WITH THE MAFF. HE HAS WRITTEN BACK REJECTING THE ARGUMENT THAT A RESTRICTIVE PRICE POLICY SHOULD FORM THE CENTREPIECE OF CAP REFORM: TRANSLATION IN MIFT.

### COMMENT

7. GENSCHER EVIDENTLY SHARES OUR CONCERN AT THE IMPLICATIONS OF GROWING CAP EXPENDITURE. BUT IT SEEMS THAT NEITHER HE NOR KOHL CONSIDER A POLICY OF PRICE STRINGENCY POLITICALLY TENABLE. IN THIS THEY ARE DOUBTLESS STRENGTHENED BY THE RECENT ELECTIONS IN SCHLESWIG-HOLSTEIN AND THE APPROACH OF ELECTIONS IN LOWER SAXONY. THEY PUT THEIR FAITH IN THE REMEDIES PROPOSED BY KIECHLE, SUCH AS SET-ASIDE, WHICH PURPORT TO OFFER RELATIVELY PAINLESS SOLUTIONS FOR THE FARMER AND THUS SAFEGUARD VOTES.

BULLARD

FRAME AGRICULTURE  
ECD(1)  
WED

THIS TELEGRAM  
WAS NOT  
ADVANCED

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GRS 270

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FM BONN

TO PRIORITY FCO

TELNO 212

OF 071545Z MARCH 86

INFO ROUTINE EUROPEAN COMMUNITY POSTS

INFO SAVING WASHINGTON

FRAME AGRICULTURE

FRG AND THE CAP: KOHL'S PRESS CONFERENCE

SUMMARY

1. AT A PRESS CONFERENCE YESTERDAY TO MARK THE THIRD ANNIVERSARY OF HIS GOVERNMENT'S ELECTION, KOHL REAFFIRMED THE FRG'S REJECTION OF CAP PRICE CUTS, AND IN ANSWER TO QUESTIONS SPOKE OF NATIONAL MEASURES IF THE FRG'S VIEWS DO NOT PREVAIL IN BRUSSELS.

DETAIL

2. KOHL SAID THAT EUROPEAN AGRICULTURE WAS SUFFERING FROM MISTAKES MADE IN THE 1970'S. SINCE HE HAD COME TO POWER THE MOST URGENT CORRECTIVE MEASURES HAD BEEN TAKEN: MILK QUOTAS HAD BEEN INTRODUCED AND THE FINANCIAL RESOURCES OF THE COMMUNITY HAD BEEN INCREASED SO THAT THE MARKET REGIMES COULD STILL BE FINANCED. THE EC WAS NOW EMBARKING ON A LONG AND DIFFICULT REORIENTATION OF THE CAP. HE STOOD BY THE FOLLOWING PRINCIPLES:

(A) MARKET AND PRICE POLICIES WERE THE MAIN BASIS FOR SECURING AGRICULTURAL INCOMES:

(B) HE THEREFORE REJECTED A POLICY OF DRASTIC PRICE CUTS TO REDUCE SURPLUSES:

(C) MEASURES MUST BE TAKEN TO SUPPORT THE MARKET REGIMES, INCLUDING NEW INDUSTRIAL PRODUCTS AND OUTLETS, AND SET-ASIDE SCHEMES IN THE INTERESTS OF ENVIRONMENTAL PROTECTION:

(D) SINCE REDIRECTION OF THE MARKET REGIMES WAS NOT POSSIBLE IN THE SHORT TERM, FARM INCOMES MUST BE SUPPORTED BY SUPPLEMENTARY MEASURES. THE EC, FEDERAL GOVERNMENT, AND LAENDER ALL HAD A ROLE TO PLAY:

(E) SOCIAL AND TAX POLICY SHOULD ALSO BENEFIT FARMERS.

13. KOHL



3. KOHL ANNOUNCED THAT THE CDU/CSU PAPER ON THE CAP (MY TELNO 196) WOULD BE DISCUSSED ON 16 APRIL, AND WOULD FORM THE BASIS OF NEGOTIATIONS IN BRUSSELS. THE FEDERAL GOVERNMENT WOULD NOT LET THE FARMERS DOWN. IT WANTED A SECURE FUTURE FOR THEIR SMALL FAMILY FARMS.

4. IN ANSWER TO QUESTIONS KOHL SAID THAT IF THE FEDERAL GOVERNMENT'S APPROACH MADE NO HEADWAY IN THE EC, THEY WOULD ADOPT CAREFULLY TARGETTED NATIONAL MEASURES, AS THEY HAD DONE BEFORE.

BULLARD

YYYY

FCO PLEASE PASS TO SAVING ADDRESSEE

FRAME AGRICULTURE

ECO (1)

(REPEATED AS REQUESTED)

UNCLASSIFIED

FM BONN

TO IMMEDIATE FCO

TELNO 196

OF 051545Z MARCH 86

INFO IMMEDIATE UKREP BRUSSELS

INFO PRIORITY PARIS, THE HAGUE

INFO ROUTINE ATHENS, BRUSSELS EMBASSY, COPENHAGEN, DUBLIN, LISBON

INFO ROUTINE LUXEMBOURG, MADRID, ROME

INFO SAVING CG HAMBURG, CG DUSSELDORF, CG MUNICH, CG FRANKFURT

*An indication of what we are up against.*

FRAME AGRICULTURE

THE CAP AND THE FRG

*mf*

SUMMARY

1. CDU/CSU ADOPT A PAPER ON AGRICULTURE WHICH REJECTS PRICE CUTS AND PROPOSES MEASURES FOR SMALL FARMERS. KIECHLE SPEAKS OF NATIONAL AIDS OF UP TO DM 1 BILLION IF THINGS GO AGAINST THE FRG IN BRUSSELS. THE GERMAN PRESS IS CRITICAL, BUT THE PAPER IS LARGELY ACCEPTED BY THE FDP, AND CRITICISM FROM THE OPPOSITION IS MUTED.

DETAIL

2. A JOINT COMMITTEE OF THE CDU AND CSU UNDER THE CHAIRMANSHIP OF THE CDU MINISTER-PRESIDENT OF LOWER SAXONY, ALBRECHT, HAS DRAWN UP A PAPER ON THE CAP WHICH HAS BEEN ADOPTED AS THE UNION PARTIES' POLICY. IT LAYS HEAVY EMPHASIS THROUGHOUT ON THE INTERESTS OF THE SMALL FAMILY FARM, REJECTS PRICE CUTS AND THEIR REPLACEMENT BY DIRECT INCOME SUPPORTS, AND ARGUES THAT FARM INCOMES SHOULD CONTINUE TO BE SUPPORTED BY AN 'ACTIVE PRICE POLICY'. IT FAVOURS THE REDUCTION OF SURPLUSES THROUGH VOLUNTARY SET-ASIDE SCHEMES FOR ELDERLY FARMERS, PAYMENTS FOR MAINTENANCE OF THE ENVIRONMENT AND THE DEVELOPMENT OF NEW MARKETS EG. FOR PROTEIN AND INDUSTRIAL CROPS (BIOETHANOL, INDUSTRIAL STARCHES AND FIBRES). FURTHER DETAILS FOLLOW.

3. SOME 200 FARMERS DEMONSTRATED YESTERDAY OUTSIDE THE BONN OFFICE OF THE GERMAN FARMERS' ASSOCIATION WHERE KIECHLE WAS MEETING THE ASSOCIATION'S COUNCIL. AS HE CONFIRMED LATER IN A TELEVISION INTERVIEW, HE TOLD THE ASSOCIATION THAT IF NEGOTIATIONS OVER THE CAP IN BRUSSELS DID NOT SQUARE WITH THE CDU/CSU'S POLICY, HE WOULD CONSIDER TOGETHER WITH THE FEDERAL CHANCELLOR, THE FINANCE MINISTER AND THE PARTY CHAIRMEN TRANSITIONAL EMERGENCY MEASURES AT NATIONAL LEVEL TO RELIEVE THE LIQUIDITY PROBLEMS OF GERMAN FARMERS. STUDIES BY THE AGRICULTURAL MINISTRY SHOWED THAT ON A WORST CASE AIDS OF UP TO DM 1 BILLION COULD BE NECESSARY, BUT THEY WERE RECKONING ON A LOWER FIGURE OF THE ORDER OF DM 100 MILLION OR UPWARDS. IT DEPENDED, KIECHLE SAID, ON THE NEGOTIATIONS IN BRUSSELS.

4. THE CHAIRMAN OF THE FARMERS ASSOCIATION, HEEREMANN, HAS DESCRIBED THE MEETING WITH KIECHLE AS A 'SMALL STEP FORWARD'.

5. THE FDP HAVE WELCOMED THE UNION PARTIES' CAP PAPER AS BEING MORE OR LESS ON THE RIGHT LINES. GALLUS, THE FDP PARLIAMENTARY STATE SECRETARY IN THE FEDERAL AGRICULTURE MINISTRY, HOWEVER EXPRESSED DISAPPOINTMENT THAT THE CDU/CSU ENVISAGED A GREATER FINANCIAL BURDEN FOR THE LAENDER, AND PROPOSED INSTEAD THAT ADDITIONAL COSTS BE BORNE BY THE FEDERAL BUDGET.

6. THE GREENS HAVE CRITICISED THE CDU/CSU PAPER FOR NOT DOING ENOUGH FOR THE SMALL FARMERS, AND HAVE PROPOSED INSTEAD A CEREAL PRICE INCREASE OF FIVE PERCENT, FURTHER FINANCIAL AIDS FOR AGRICULTURE AND A PACKAGE OF MEASURES DESIGNED TO DISCRIMINATE IN FAVOUR OF SMALL FARMS AND LOW INPUT FARMING.

7. ONLY THE SPD HAS CRITICISED THE BASIC APPROACH OF THE PAPER, MAINLY ON THE GROUNDS THAT THE CDU/CSU PRICE POLICY DID NOT APPLY THE GREATEST HELP TO THOSE IN THE GREATEST NEED, AND AROUSED EXPECTATIONS WHICH IT WOULD BE IMPOSSIBLE TO FULFIL. THE SPD AGRICULTURAL SPOKESMAN ALSO CAST DOUBT ON BIOETHANOL AND ALTERNATIVE OUTLETS FOR AGRICULTURAL PRODUCTS AS A PRACTICAL MEANS OF REDUCING SURPLUSES.

8. WITH ONLY MINOR EXCEPTIONS, THE CDU/CSU APPROACH HAS RECEIVED A POOR PRESS HERE. PAPERS ACROSS THE POLITICAL SPECTRUM, INCLUDING CONSERVATIVE HEAVYWEIGHTS SUCH AS THE FRANKFURTER ALLGEMEINE AND HANDELSBLATT, CRITICISE IT AS A PANICKY ATTEMPT TO REGAIN FARMING VOTES IN A MANNER CONTRARY TO THE INTERESTS OF THE GERMAN TAXPAYERS AND TO THE PRESSING NEED FOR CAP REFORM. ONE OR TWO PAPERS CLAIM THAT THE CDU/CSU'S POLICY IS AN OWN GOAL: THE FARMERS WILL NOW CONTINUE TO BOYCOTT LOCAL ELECTIONS BECAUSE THE CDU/CSU HAVE DEMONSTRATED THAT THEY SUCCUMB TO BLACKMAIL, BUT THE FARMERS HAVE NO ALTERNATIVE POLITICAL PATRONS ON OFFER, AND WILL NOT RISK ABSTAINING AT THE FEDERAL ELECTIONS.

9. COMMENT IN MIFT.

BULLARD

FRAME AGRICULTURE  
ECD (1)

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CCPC



SUBJECT CC MASTER

10 DOWNING STREET

From the Private Secretary

5 March 1986

Dear Colin,

EUROPEAN COMMUNITY: AGRICULTURE

The Prime Minister discussed this morning with the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury, the prospects for the Community's 1986 agricultural price fixing. Mr. Williamson was also present.

The main points made in the discussion were:

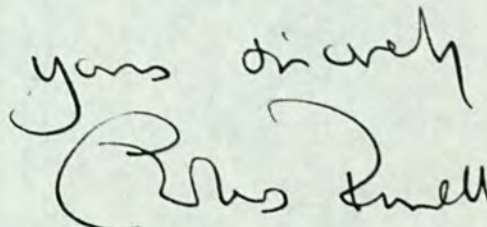
- (a) the main thrust of the United Kingdom's policy should continue to be to restrain Community support prices. The Commission's proposals on prices were tough and we should do all we could to prevent them being eroded;
- (b) since it was unrealistic to expect agreement within the Community on price cuts sufficient in themselves to correct structural surpluses, we had also to look favourably at indirect methods of reducing support, in particular by making intervention less rigid and less favourable (as proposed by the Commission for cereals);
- (c) the form in which some of the supporting measures had been put forward by the Commission was, however, contrary to the interests of efficient farming and, in particular, of United Kingdom agriculture. It was agreed that the Foreign and Commonwealth Secretary would write to Monsieur Delors, President of the Commission, indicating that, while we supported the strong line being taken by the Commission on prices and some related proposals on intervention, we were opposed to the introduction into the support arrangements of discrimination against efficient farming and against large farms such as those found in the United Kingdom;
- (d) the proposed co-responsibility levy for cereals presented serious problems. The proposal was now on the table and would raise money. There were, however, objections of principle to using a co-responsibility levy: such a levy, as a substitute for price cuts, did not pass on the benefit to the consumer and did

881

not expand the market. In addition, the form in which the Commission had now proposed the levy (on sales off farms and excluding the first 25 tonnes per farm) obviously benefited those parts of the Community where there was more use of cereals on the farm itself and a pattern of smaller farms. We should oppose such discrimination;

- (e) although this price package was tough, it was doubtful whether the Agriculture Council would be able to agree on measures sufficient to correct the imbalances, particularly in the cereals sector. We should give serious consideration to reducing production more directly; in particular, a voluntary set-aside scheme should be examined together with the possibility of transferring more land into timber production. The Minister of Agriculture, Fisheries and Food said that he would be circulating shortly some figures on the costs and benefits of possible set-aside arrangements. It was also important that the planning controls should not be used unreasonably to prevent changes of use in rural areas, in particular for small businesses, workshops and similar enterprises;
- (f) although the effect of the price package on budgetary expenditure was a saving, other factors had led the Commission to suggest that a supplementary budget of 790 million ecu would be needed. It was important that we should continue to exercise maximum restraint on budgetary expenditure and that the Finance Ministers in the ECOFIN Council should play a moderating role;
- (g) the latest developments in the United States made it likely that international trading difficulties would be greater in the coming year, with a consequent pressure from the Commission to spend more on disposal. The United States were intending to spend considerable sums under mandatory provisions to subsidise their agricultural exports directly. As a consequence world prices would probably be even more depressed.

I am sending copies of this letter to Ivor Llewelyn (Ministry of Agriculture, Fisheries and Food), Richard Broadbent (H.M. Treasury) and Michael Stark (Cabinet Office).

*yours sincerely*  


Charles Powell

Colin Budd, Esq.,  
Foreign and Commonwealth Office.



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cc PC

Qz.04913

MR POWELL

EUROPEAN COMMUNITY: AGRICULTURE

---

I attach a draft letter for you to send to Mr Budd (FCO) recording the main points which arose in the Prime Minister's discussion this morning. Action is under way to draft the letter for the Foreign and Commonwealth Secretary to send to Monsieur Delors.

*D F Williamson*

D F WILLIAMSON

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Qz.04913

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5 Ma.

*D F Williamson*

D F WILLIAMSON

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Qz.04913

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5 Feb

*D F Williamson*  
D F WILLIAMSON

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To issue  
CJ  
52AWN

~~DRAFT~~ LETTER FOR SIGNATURE OF MR POWELL TO MR BUDD (FCO)

EUROPEAN COMMUNITY: AGRICULTURE

The Prime Minister discussed this morning with the Foreign and Commonwealth Secretary, the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury, the prospects for the Community's 1986 agricultural price fixing. Mr Williamson was also present.

The main points made in the discussion were:

- (a) the main thrust of the United Kingdom's policy should continue to be to restrain Community support prices. The Commission's proposals on prices were tough and we should do all we could to prevent them being eroded;
- (b) since it was unrealistic to expect agreement within the Community on price cuts sufficient in themselves to correct structural surpluses, we had also to look favourably at indirect methods of reducing support, in particular by making intervention less rigid and less favourable (as proposed by the Commission for cereals);
- (c) the form in which some of the supporting measures ~~however~~ <sup>however,</sup> had been put forward by the Commission was <sup>L</sup> contrary to the interests of efficient farming and, in particular, of United Kingdom agriculture. It was agreed that the Foreign and Commonwealth Secretary would write to Monsieur Delors, President of the

/Commission

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Commission, indicating that, while we supported the strong line being taken by the Commission on prices and some related proposals on intervention, we were opposed to the introduction into the support arrangements of discrimination against efficient farming and against large farms such as those found in the United Kingdom;

(d) the proposed co-responsibility levy for cereals presented serious problems. The proposal was now on the table and would raise money. There were, however, objections of principle to using a co-responsibility levy: such a levy, as a substitute for price cuts, did not pass on the benefit to the consumer and did not expand the market. In addition, the form in which the Commission had now proposed the levy (on sales off farms and excluding the first 25 tonnes per farm) obviously benefited those parts of the Community where there was more use of cereals on the farm itself and a pattern of smaller farms. We should oppose such discrimination;

(e) although this price package was tough, it was doubtful whether the Agriculture Council would be able to agree on measures sufficient to correct the imbalances, particularly in the cereals sector. ~~It~~ *We should* ~~was necessary now~~ to give serious consideration to reducing production more directly; in particular, a voluntary set-aside scheme should be examined together with the possibility of transferring more land into

timber production. The Minister of Agriculture, Fisheries and Food said that he would be circulating shortly some figures on the costs and benefits of possible set-aside arrangements. It was also important that the planning controls should not be used unreasonably to prevent changes of use in rural areas, in particular for small businesses, workshops and similar enterprises;

(f) although the effect of the price package on budgetary expenditure was a saving, other factors had led the Commission to suggest that a supplementary budget of 790 million ecu would be needed. It was important that we should continue to exercise maximum restraint on budgetary expenditure and, in particular, that the Finance Ministers in the ECOFIN Council should play a moderating role.

(g) the latest developments in the United States made it likely that international trading difficulties would be greater in the coming year, with a consequent pressure from the Commission to spend more on disposal. The United States were <sup>intending</sup> ~~going~~ to spend <sup>considerable sums</sup> ~~higher sums~~, under mandatory provisions, to ~~directly~~ subsidise their <sup>directly. As a consequence</sup> agricultural exports ~~and~~ world prices would probably be even more depressed.

I am sending copies to Ivor Llewelyn (MAFF),   
Richard Broadbent (Treasury) and to Sir Robert Armstrong.

File

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PRIME MINISTERCOMMON AGRICULTURAL POLICY: PRICE-FIXING

OD(E) will meet on 6 March under the Foreign Secretary's chairmanship to discuss our attitude to the Commission's proposals for this year's price-fixing. You have a pre-meeting tomorrow with the Foreign Secretary, Minister of Agriculture, and the Chief Secretary to give a steer.

You have a wider meeting in a fortnight's time to discuss the future of the CAP. You will want to focus this time on the more immediate problem of the price fixing.

Mr. Williamson has done a note (A) summarising the issues. OD(E) will also have before it two papers, one from Mr. Jopling (B), the other from the Cabinet Office (C).

Our main problem is that we have probably the strongest interest of all Community members in and commitment to reducing the costs of the CAP. But, particularly after last year's bad results, there is a strong political interest in ensuring that British farmers are not hit too hard; or at the least that they are not made to suffer more than farmers elsewhere in the community.

The conclusions towards which you might steer are:

- We must continue to work for maximum price restraint;
- We should also support measures intended to weaken intervention (since this is equivalent to a price cut);
- We should support the further reduction in milk quotas;

- We can probably rely on others to oppose the drastic change proposed in the beef intervention arrangements, thus saving our fire for
  
- The co-responsibility levy on cereals. On this we should not oppose the concept of a levy (since we shall only be out-voted) but concentrate on making sure that it is applied in a way fair to British farmers. This means calculating it on an acreage basis;
  
- We don't need to reach a decision on the green pound until very close to the end, but you may like to smoke out Mr. Jopling's intentions. It may be possible to go for a tough price fixing and then buy off British farmers by changing the rate of the green pound.

CDP

4 March, 1986.



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Qz.04909

COP 573

MR POWELL

PRIME MINISTER'S MEETING ON AGRICULTURE, 11am, 5 MARCH

I suggest that the points which might be covered at this meeting are -

(1) the prospects. The present misuse of resources in the common agricultural policy (eg a butter stock of over a million tonnes, which is substantially more than the whole world's annual trade in butter, particularly when it is recalled that at the beginning of 1982, only four years ago, the Community had a public intervention stock of 10,000 tonnes, equivalent to 2 days' production) means that:

- we are aggravating the budget problems by risking to breach the agricultural guideline (which was not breached in 1985) in 1986 and by further weakening public confidence in the Community's financing as a whole. We are accelerating towards the point where an increase in the Community's financing ceiling from 1.4 per cent to 1.6 per cent VAT will be back in the public domain;

- the absurdly high stocks are, for the British public, the unacceptable face of the CAP and - wrongly but understandably - encourage the conclusion that the CAP is wrong in all respects and frustratingly unreformable;

(2) the 1986 price-fixing. We have to move - and to be seen to move - in the right direction. OD(E) will have to decide our approach on:

(a) prices. The Commission's package is as tough as can be negotiated this year; is a disincentive to production; and will cut the budgetary cost. A general cut in support prices cannot be achieved. The Commission proposes a freeze with a few selective cuts (eg -5% on olive oil intervention price).



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After allowing for some agrimonetary changes the average effect for the Community of Ten is -0.1% in ecu and +0.9% in national currencies. The cut in real terms in countries with higher inflation (Greece and, to a lesser extent, Italy) will be sharp. The key United Kingdom objective must be to secure this package;

(b) intervention. Weakening intervention puts a bigger market element into the policy and, so long as surpluses exist, is equivalent to a price cut. The Commission proposes restrictions on cereals intervention (including a 5% discount for feed wheat) which would cut producers' returns by about 7%. They also propose to abolish permanent intervention for beef from next year and to replace it by a system of direct payments to producers. There will be opposition to the measures on cereals intervention: subject to some technical points, it is in our interest to achieve them. The abolition of permanent intervention for beef is probably unnegotiable: if so, we should aim to get less rigid, ie weaker, intervention;

(c) other measures. The key sectors are milk, beef and cereals. On milk the Commission proposes that 3% of the milk quotas should be bought in (the Outgoers' Scheme); provided that this is fully and fairly applied, we should support it. On beef the Commission has proposed to replace permanent intervention by a direct payment of about £12 on each of the first 50 animals in a beef herd; this is unfavourable to the Netherlands and Denmark (mixed milk/beef herds) and to the United Kingdom (large beef herds) but the problem is likely to solve itself because the drastic change in intervention and hence the linked proposal of the direct payment scheme may prove unnegotiable. On cereals the Commission proposes a levy on cereal farmers of 3% (together with the intervention change this makes a cut of about 10% in the producer's return on feed wheat and barley) rising to 6% next year, to be charged on sales off farms other than the first 25 tonnes.



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These conditions weigh heavily on our producers (75% of United Kingdom production, 20% of German production leviable - the German farmers' union is still very strongly opposed!). This is a real problem for us. Sabotaging the levy will seriously weaken our budget stance (it should raise about 330 million ecu in 1986 and about 477 million ecu in 1987). We should go for an acreage basis or, failing that, each member state to decide, within broad criteria, how to raise the money corresponding to its production;

(d) green money. There is no proposal and no need to take a decision now on the green pound. It is, however, an important part of the balance of negotiating power this year. In the coming negotiations France, Germany, the Benelux, the Republic of Ireland and Denmark cannot get any more support for their own farmers from this year's package except by changing parts of the Community package itself (or national measures). A freeze in ecu does mean a freeze in marks, guilders etc. If, however, the green pound were partially adjusted - the monetary compensatory amount varies with exchange rates but is currently negative (9.5 per cent) - there could be some increase in British farmers' support prices in pounds while Community prices in ecu remained frozen.

I attach copies of OD(E)(86) 6 and OD(E)(86) 7.

I am sending a copy of this minute to Sir Robert Armstrong.

D F WILLIAMSON

4 March 1986





CONTROL



10, DOWNING STREET

From the Private Secretary

Card

BR

~~CDP~~  
① wed 5 at 16.00  
② wed 19 at 10.30  
CR

March

We need two meetings  
on the Agricultural Price

Fixing:

① before 6 March (ideally 4 or  
5 March) with Foreign Sec.,  
Mr. Topping, Mr. Williamson:  
about 45 minutes.

② in mid-March a wider  
one with FCS, Chancellor, Lord  
President, Topping, Channon & Williamson.  
CDP

PRIME MINISTER

EUROPEAN COMMUNITY: THE AGRICULTURAL PRICE PACKAGE

*mf*

*CAP 2412*

You were keen to have a fairly early discussion both of this year's price fixing and of longer-term strategy on the reform of the CAP.

I have discussed this with David Williamson. He has prepared the attached note. There are two essential points.

*1 Day  
the  
press  
discuss  
with  
+ M  
before the  
meeting*

*1 see* On procedure, OD(E) are to consider this year's price package on 6 March. The proposal is that the Foreign Secretary as Chairman should report to you; and you should thereafter have a meeting with a few senior colleagues to discuss the conclusions. Agree to a meeting in mid-March? (There is no great hurry, because there will be no significant progress in the Community until after the French elections.)

On substance, the Commission's proposals for this year are generally quite sensible and would reduce the budget. For this reason most other member States will oppose. There are proposals which we dislike because they discriminate against British farmers. You said in your NFU speech that we would not accept discrimination. But we must plan our tactics skilfully so that we do not

- (a) undermine the good parts of the Commission's proposals (by encouraging others to unpick them);
- (b) end up being out-voted in isolated opposition.

*C.D.P.*

CHARLES POWELL

21 February 1986

*LSB/WT*

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FM BONN  
TO PRIORITY FCO  
TELNO 143  
OF 201435Z FEBRUARY 86  
INFO PRIORITY EC POSTS

FRAME AGRICULTURE

GERMAN REACTION TO CAP PRICE PROPOSALS

SUMMARY

1. PREDICTABLE EXPRESSIONS OF OUTRAGE FROM THE FARMER'S UNION. AGRICULTURE MINISTER KIECHLE SAYS THAT HE DID NOT ENTER A VETO AGAINST A POLICY OF PRICE CUTS LAST YEAR ONLY TO ACCEPT THEM THROUGH THE BACK DOOR THIS YEAR.

DETAIL

2. THE PRESIDENT OF THE GERMAN FARMER'S UNION HAS DESCRIBED THE PRICE PROPOSALS AS A BITTER DISAPPOINTMENT. THEIR IMPLEMENTATION WOULD LEAD TO UNACCEPTABLE FALLS IN INCOME AND THE END OF MANY FARMS. THE PROPOSED CORESPONSIBILITY LEVY FOR CEREALS AND REDUCTION IN THE BUTTER INTERVENTION PRICE WERE SINGLED OUT FOR PARTICULAR CRITICISM.

3. A STATEMENT ISSUED BY THE FEDERAL MINISTRY OF AGRICULTURE CRITICISED THE PROPOSALS AS TAKING TOO LITTLE ACCOUNT OF THE INCOME SITUATION OF THE INDUSTRY. THE PROPOSED CHANGES IN INTERVENTION STANDARDS FOR CEREALS WOULD LEAD TO APPRECIABLE INCOME LOSSES. ADJUSTMENT OF THE BUTTER/SMP RATIO WAS ALSO A MISTAKE. THE GOVERNMENT WOULD FIGHT HARD FOR THE LEGITIMATE INTERESTS OF GERMAN FARMERS.

4. KIECHLE HAS SINCE BEEN ENLARGING ON THIS STATEMENT IN SPEECHES IN LOWER SAXONY, WHERE ELECTIONS ARE DUE IN JUNE. DESCRIBING THE PROPOSALS AS QUOTE TO PUT IT MILDLY, NOT VERY HOPEFUL UNQUOTE HE ACCUSED THE COMMISSION OF RETURNING TO ITS POLICY OF REDUCING EC PRICES TO WORLD LEVELS AND REITERATED HIS BASIC TENET THAT PRODUCERS SHOULD OBTAIN AS MUCH OF THEIR INCOME AS POSSIBLE FROM THE MARKET. THERE SHOULD BE SOME REWARD FOR THE SACRIFICES BROUGHT ABOUT BY QUOTAS FOR MILK AND SUGAR. WHAT WAS MISSING WAS A REAL EFFORT TO STRIKE OUT IN NEW DIRECTIONS, PARTICULARLY TOWARDS THE PRODUCTION OF CROPS FOR ENERGY OR INDUSTRIAL RAW MATERIALS. THE CEREALS PROPOSED WOULD LEAD TO PRICE CUTS OF TEN TO THIRTEEN PER CENT AND WERE UNACCEPTABLE.

5. THE CONSUMERS' ASSOCIATION HAS WELCOMED THE PROPOSALS AS OFFERING A WAY OUT OF THE SPIRAL OF INCREASING COSTS AND RISING SURPLUSES WHILE ARGUING FOR A FURTHER CUT IN PRODUCTION OF WINE, SUGAR AND MILK.

6. NEWSPAPER COMMENT HAS MOSTLY RECOGNISED THAT REFORM IS PAINFUL, NECESSARY AND FAR FROM CERTAIN TO BE ACHIEVED. FEW COMMENTATORS HAVE FAILED TO SPOT THE REALITY UNDERLYING THE COMMISSION'S CLAIM THAT THE PROPOSALS REPRESENT A PRICE FREEZE. THE GOVERNMENT'S REACTION IS KEENLY AWAITED.

7. THE PROPOSALS WERE PUBLISHED AT ALMOST THE SAME TIME AS THE GOVERNMENT'S ANNUAL AGRICULTURAL REPORT WHICH SHOWED A 15.4 PER CENT INCREASE IN FARM INCOMES IN 1984/85 COMPARED WITH A FALL OF 12.2 PER CENT THE PREVIOUS YEAR. BUT A FURTHER FALL OF BETWEEN 4 AND 8 PER CENT IS ANTICIPATED IN 1985/86.

BULLARD

YYYY

FCO PLEASE ADVANCE TO: MAFF - HADLEY, WENTWORTH

BPLNAN 0447

*FRAME AGRICULTURE*

*ECD(1)*

[ADVANCED AS REQUESTED]



cc Sir P. C. Cook

MR POWELL (10 Downing Street)

EUROPEAN COMMUNITY : THE AGRICULTURAL PRICE PACKAGE

We spoke yesterday about the handling of Ministerial consideration of the Community agricultural price package for 1986/87. The Commission's proposals have now been tabled and we propose the following arrangements for settling the United Kingdom's approach:-

- (i) the Sub-Committee on European Questions (OD(E)) of the Defence and Oversea Policy Committee will meet on 6 March and will have before it two papers: one from the Minister of Agriculture, Fisheries and Food recommending the line to take on the specific proposals of the Commission and another from the Cabinet Office Secretariat, based on discussions in a working group of officials, on measures to support a policy of price restraint;
- (ii) thereafter the Cabinet Office Secretariat will recommend to the Foreign and Commonwealth Secretary, as Chairman of OD(E), to submit to the Prime Minister a minute which will not only record the approach agreed or proposed on the major points in the price package but also the strategy and priorities which we should follow throughout this probably long drawn-out price fixing and over the next year or two.

If you agree with this proposal, you may wish to set up a meeting at which the Prime Minister could discuss these conclusions with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Minister of Agriculture, Fisheries and Food, the Secretary of State for Trade and Industry and, I would suggest, the Lord President of the Council.

The price fixing this year is clearly going to be very difficult both in substance and in tactics. It will be important to keep these main elements in mind:

- (i) on price support the Commission's proposal is quite courageous, being an almost complete price freeze in money terms and thus a significant fall in real terms. Where there are variations, they tend to be downwards eg minus 4%



on the intervention price for butter and cuts in support for tobacco. On intervention the proposals are also quite tough. The Commission proposes that cereals intervention should no longer be available throughout the year and, in particular, that it should not be available immediately after the harvest - this would be bound to cut the price, as significant quantities would be unloaded on to the unsupported market - and, in addition, the basic intervention price for feed wheat would in any event be cut by 5%. On beef the Commission proposes to abolish permanent public intervention from the end of 1987 and thereafter to use it only in exceptional circumstances. The price and intervention proposals should have a significant effect over a period of time in cutting the cost of the Common Agricultural Policy. It is important that our approach on other related matters does not have the effect of weakening these proposals. In the present circumstances it is in the British interest that restraint should be achieved as far as possible by price and less rigid intervention, because the other methods now being favoured in Brussels tend to have a disproportionate effect on the larger farmers.

(ii) On other measures the proposal to knock another 3% off the milk quota by buying it up through an outgoers scheme seems sensible. The problems arise over the way in which three other proposals have been framed

- the proposed co-responsibility levy (3% this year and 6% next year) on cereals is applied only to cereals sold off the farm and the first 25 tonnes are excluded. There is a good deal of steam behind the co-responsibility levy because it produces money which the Commission and other Ministers are desperately seeking.

- a new grant would be paid from the end of 1987 on the first 50 head of cattle over 6 months old on farms which are not also selling milk

- the ewe premium would be paid in future on the first 500 ewes (1000 in a less favoured area).

It is no good wringing our hands over these proposals. We must fight our corner and find allies (eg the combined effect of the two conditions on the beef premium would discriminate against the Netherlands). If we cannot demolish these proposals we must transform them. For example, the co-responsibility levy might be put on an acreage basis or, failing that, each member state could determine within broad criteria how its cereal farmers should raise their share.

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What we must do, however, is to avoid boxing ourselves into a corner in which we would be voted down or, worse still, invoke the Luxembourg compromise and still be voted down.

(iii) the Commission's price proposals are estimated to reduce the budget by about 400 million ecu in 1986 and by about 800 million ecu in 1987. Although for other reasons - principally the fall in the dollar - the Commission is still expressing the need for a supplementary budget in 1986, the budgetary effect of the price package is still well worthwhile.

I am sending a copy to Sir Robert Armstrong.

*DF Williamson*

D F WILLIAMSON

20 February 1986



Enropa: CAP Pt 13



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FRAME AGRICULTURE

FRENCH REACTION TO CAP PRICE PROPOSALS

SUMMARY

1. ANGRY REACTIONS FROM PRODUCER ORGANIZATIONS TO CAP PRICE PROPOSALS. OPPOSITION PARTIES USE THEM TO DENOUNCE THE ABSENCE OF A CAP CAPABLE OF MEETING FRENCH INTERESTS. NO EXPECTATION OF EARLY PROGRESS.

DETAIL

2. UNIFORMLY HOSTILE REACTIONS HAVE COME FROM FRENCH FARMING ORGANIZATIONS TO THE COMMISSION'S CAP PRICE PROPOSALS, CONDEMNED AS UNACCEPTABLE, EVEN PROVOCATIVE, ON ALL SIDES. THESE CRITICISMS COME AGAINST THE BACKGROUND OF A FALL IN FRENCH FARM REVENUE IN 1985 OF 7 TO 8 PERCENT IN REAL TERMS, FEAR FOR THE FUTURE OF EXPORT MARKETS WITH INCREASING US COMPETITION, AND IN THE ELECTION CONTEXT STRONG OPPOSITION CRITICISM OF THE SOCIALIST GOVERNMENT'S NEGLECT OF AGRICULTURE AND FAILURE TO SAFEGUARD FRENCH INTERESTS IN BRUSSELS.

3. THE COMMISSION'S PRICE PROPOSALS HAVE GIVEN GUILLAUME, PRESIDENT OF THE FNSEA, YET ANOTHER STICK WITH WHICH TO BEAT THE GOVERNMENT, ADDING TO THE LIST OF GRIEVANCES ON WHICH PRODUCERS ARE BEING CALLED TO SPEAK OUT IN A SERIES OF FNSEA-INSPIRED DEMONSTRATIONS UP AND DOWN THE COUNTRY IN THE RUN-UP TO THE MARCH 16 ELECTIONS. DENOUNCING THE PACKAGE AS PRICE CUTS MASQUERADING AS A PRICE FREEZE, GUILLAUME HAS SAID THAT SUCH IS THE GAP BETWEEN THE COMMISSION'S PROPOSALS AND THE NEEDS OF PRODUCERS THAT THERE IS NO BASIS FOR A SENSIBLE DIALOGUE. IN ANY CASE, THE REAL NEGOTIATIONS WILL BEGIN AFTER 16 MARCH AND BE HANDLED BY A NEW FRENCH GOVERNMENT, WHO IT IS IMPLIED WILL NOT REGARD THESE PROPOSALS AS A STARTING POINT FOR DISCUSSION.

4. A SIMILARLY STRONG LINE IS TAKEN BY THE CHAMBERS OF AGRICULTURE, WHO CONDEMN UNEQUIVOCALLY NOT ONLY THE PRICE PROPOSALS BUT ALSO THE PROPOSED DISMANTLING OF BEEF INTERVENTION ARRANGEMENTS, THE CEREALS CO-RESPONSIBILITY TAX WITHOUT A STATEMENT OF INTENT ON ITS USE FOR DEVELOPING NEW OUTLETS, AND THE FURTHER WEAKENING IN THE MARKET REGIMES FOR FRUIT AND VEGETABLES AND WINE IN THE FACE OF SPANISH COMPETITION. THE YOUNG FARMERS' ORGANIZATIONS HAVE BEEN EQUALLY VOCIFEROUS.

5. IN THE ELECTION CONTEXT, JEAN-CLAUDE PASTY, AGRICULTURE SPOKESMAN FOR THE RPR, HAS SAID HIS PARTY REJECTS THE COMMISSION'S PRICE PROPOSALS OUT OF HAND. A PRICE FREEZE OR PRICE CUTS FOR A THIRD CONSECUTIVE YEAR WAS CONTRARY TO THE OBJECTIVE OF THE ROME TREATY WHICH REQUIRED THE CAP TO GUARANTEE A FAIR STANDARD OF LIVING OF FARMERS. THE CAP WAS BEING MANAGED ON PURELY BUDGETARY CRITERIA WITHOUT ANY DEFINITION OF MEDIUM OR LONG-TERM OBJECTIVES FOR EUROPEAN

EUROPEAN AGRICULTURE. PASTY HAS REINFORCED HIS PARTY'S COMMITMENT TO STRENGTHENING THE PRINCIPLE OF COMMUNITY PREFERENCE, SINGLING OUT IMPORTS FROM NEW ZEALAND, THE ARGENTINE AND THE US AS PARTICULAR TARGETS. A NEW FRENCH GOVERNMENT WILL INSIST THAT THE FUNDAMENTAL PROBLEMS OF THE CAP ARE ADDRESSED. A PRICE INCREASE OF THE ORDER OF 5 PERCENT, WITH PRIORITY GIVEN TO BEEF AND MILK, WOULD IN PASTY'S VIEW BE EASILY JUSTIFIED.

6. NALLET, NOW ON THE CAMPAIGN TRAIL, HAS ADDED HIS VOICE TO THE CHORUS OF CRITICISM OF THE COMMISSION'S PROPOSALS, THOUGH HE HAS BEEN CAREFUL TO AVOID TOO FIRM A COMMITMENT IN TERMS OF PRICE OBJECTIVES, CONFINING HIMSELF TO SAYING THAT PRICES MUST TAKE ACCOUNT OF THE MARKET SITUATION, PRODUCER INCOMES AND THE FIGHT AGAINST INFLATION. HE CONCLUDES IN FAVOUR OF A PRICE SETTLEMENT BETWEEN ZERO AND 2 PERCENT. NALLET HAS CRITICIZED THE COMMISSION FOR ACTING PRECIPITATELY (ESPECIALLY IN RELATION TO PROPOSED CHANGES IN THE BEEF REGIME), FOR LACKING ANY CLEAR PERSPECTIVE FOR THE FUTURE OF EUROPEAN AGRICULTURE, AND FOR FAILING TO RECOGNISE THE SERIOUSNESS AND IMMEDIACY OF THE THREAT OF US COMPETITION ON WORLD MARKETS.

7. ON CEREALS, NALLET HAS TAKEN UP A CAUTIOUS POSITION ON THE PROPOSED CO-RESPONSIBILITY TAX, SAYING ONLY THAT HE FIRST NEEDS TO KNOW FOR WHAT END USES THE TAX WAS BEING COLLECTED. AS A LAST RESORT HE WOULD NOT OPPOSE SUCH A TAX ON CONDITION THAT EXEMPTION WAS PROVIDED FOR PRODUCERS OF 25 TONNES OR LESS.

8. THERE IS NO SERIOUS EXPECTATION HERE OF ANY PROGRESS ON THE PRICES DOSSIER BEFORE 16 MARCH, INDEED AN EVIDENT WISH ON THE PART OF THE FARMING ORGANIZATIONS THAT IT BE TAKEN UP BY A GOVERNMENT OF THE RIGHT WHO WOULD THEN HAVE TO REDEEM THE PLEDGES OF THE ELECTION CAMPAIGN TO REVERSE THE YEARS OF SOCIALIST NEGLECT OF AGRICULTURE. NALLET CONTINUES TO MAINTAIN HOWEVER THAT HE WILL NEGOTIATE SERIOUSLY ON PRICES AT THE FORTHCOMING AGRICULTURE COUNCIL IN THE HOPE OF REACHING AN EARLY SETTLEMENT.

9. FCO PLEASE ADVANCE PRIORITY TO HADLEY AND WENTWORTH, MAFF

FRETWELL

FRAME AGRICULTURE

ECD(1)

[ADVANCED AS REQUESTED]



The Rt Hon Michael Jopling MP  
Minister of Agriculture, Fisheries and Food  
Whitehall Place  
LONDON  
SW1A 2HH

CCPC  
②  
SCOTTISH OFFICE  
WHITEHALL, LONDON SW1A 2AU

Prime Minister  
This contains the  
line in your speech  
11 February 1986

EDP  
11/2.

Dear Michael,

COMMON AGRICULTURAL POLICY: THE 1986 PRICE PROPOSALS

I have now had an opportunity to take stock of the current position of Scottish agriculture. I am rather concerned about what I see and I think that you and our colleagues should be aware of the present difficult position of the industry.

I have also read with interest the various exchanges between you and our colleagues about the line to be taken in lobbying the EC Commission. While that exercise has now been overtaken, the correspondence, and in particular your letter of 3 February, raised an important general point about our attitude to unfair discrimination against our producers in pursuit of wider CAP reform objectives.

The recent Annual Review White Paper revealed that the industry, in the UK as a whole, fared pretty badly last year. But what is not apparent from the White Paper is that the Scottish agricultural industry fared even worse. The drop in net farm income in Scotland fell not by 43% as it did in the rest of the UK, but by 75%, the worst on record. Looking at the individual sectors of Scottish agriculture, and even taking account of our weather aid package and increased livestock compensatory allowances, most sectors of the Scottish industry will have made a loss this financial year, and a significant one at that. Scotland, with a third of the UK land area, contributes generally about 11% to UK agricultural output. It accounted for only 8% of net income in 1984, which was an above average year, and only 4% last year. Indeed, Scottish farming net income last year was below Northern Ireland's, whose industry is roughly half the size of ours.

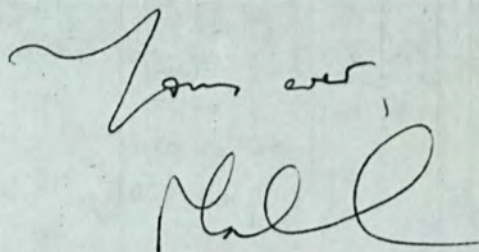
In the light of this, and especially following the recent rise in the cost of borrowing, morale is extremely low. I shall shortly be having informal meetings with the leaders of the Scottish NFU, the Scottish Landowners' Federation and the Milk Boards and I expect them to underline these points forcibly. However, the Scottish industry's leaders have consistently taken a pretty responsible public attitude, fully acknowledging the assistance the Government makes, the difficulties of the CAP and the need for its reform. Nevertheless, there is no doubt that farmers in Scotland, regardless of recent weather conditions, see the outlook as bleak, and our colleagues in rural constituencies are coming under increasing pressure on the industry's future.

HMP04101

While I fully accept the overriding need for CAP reform, there is no use pretending that in the current climate it will be easy to sell a package of weakened support to our industry. Nevertheless, I think we must do so. But I think our position would be quite untenable if, on top of this, we were prepared to acquiesce in unfairly discriminatory proposals against UK farmers, solely or mainly because our average farm size is greater than that elsewhere in the Community.

This is clearly a matter which we must discuss at the forthcoming OD(E) meeting on the CAP price-fixing proposals, but I thought colleagues would find it useful to be aware of the serious financial position in Scottish agriculture, and the difficulties I see in pursuing what may be very limited or illusory benefits to the CAP generally at the expense of UK but not Continental farmers.

I am sending copies of this letter to the Prime Minister, Members of OD(E), the Secretaries of State for Northern Ireland and Wales, and Sir Robert Armstrong.

A handwritten signature in black ink, appearing to read 'Malcolm Rifkind', written in a cursive style.

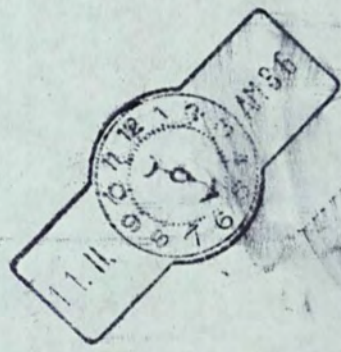
MALCOLM RIFKIND

When I talk to the... (faint, illegible text)

This is clearly a matter which... (faint, illegible text)

I am writing you... (faint, illegible text)

BAAGOT RIKIND





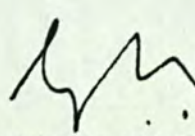
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MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Common Agriculture Policy: 1986 Price Proposals

1. Thank you for your letter of 3 February. *atlas consistent with this line. CDP 1072*
2. The Commission have now brought forward what look to be some quite tough price proposals. I agree that we should make clear that we will not agree to measures that would place a disproportionate burden on our own producers. Our approach should be that we want a price settlement that is tough but fair. In stating our position I think we should avoid indicating that we could not accept any differentiation in the help given to small and large producers. It is difficult to see how, otherwise, we can hope to get prices set at a level which will help to curb over-production. I have now seen the text of your speech to the NFU which seems to me to meet the point.
3. We certainly have to protect the interests of British farmers. But, as you know, I am extremely concerned about the budgetary consequences if we cannot get a really tough price settlement this year. We shall be discussing the substantive issues in OD(E) on 6 March.
4. I am copying this letter to the Prime Minister, other members of OD(E), Tom King, Malcolm Rifkind, Nicholas Edwards and Sir Robert Armstrong.

*ms*

  
GEOFFREY HOWE

*CCP*  
*2*  
*River Minister*  
*You should see*  
*this reaction to*  
*Mr. Toplin's recent*  
*letter. He (Treasury)*  
*would agree. But*  
*your speech is*  
*consistent with*  
*this line. CDP 1072*



EURO POL PT 3  
CAP.





We must have  
a thorough  
discussion  
? (P/A)?

10 DOWNING STREET

Prime Minister <sup>is a smaller</sup>  
<sup>group first</sup>  
This was Nick Owen's

parting shot on the  
Common Agricultural Policy.

It has some interesting  
ideas, & poses the  
main dilemma very

clearly: unless we accept  
some discrimination against

British farmers in order to  
achieve a price freeze, we  
may be no option but to go

to quotas.  
You might keep this in  
reserve for later discussion of the CAP  
COP

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PRIME MINISTER

5 February 1986

FUTURE OF THE COMMON AGRICULTURAL POLICY

We have not sorted out our approach to CAP reform:

1. We favour price reductions ("restraint") but our European partners won't accept them; they might (just) settle for a price freeze.
  
2. The Commission is proposing a price freeze, plus co-responsibility levies, ie a contribution from farmers for each tonne sold off the farm, with exemptions for small farms, to help pay for disposing of stocks. MAFF object to levies because:
  - a. They attack the problem from the supply side only; they don't help to get rid of surpluses by offering the consumer lower prices.
  
  - b. Small farms would be exempted from the levies; this favours our partners' agriculture because they have proportionately more - in some cases very much more - small farms than we have. Conversely, levies would penalise us for having a more efficiently-structured agriculture.

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3. It is unlikely that the Commission's proposals will solve the CAP problem.

The CAP is an economic time-bomb, as the attached table shows, using the cereals régime as an illustration. Option I - carrying on as we have been, increasing prices by 2½% a year - is the most explosive of all. Stocks increase sixfold, to 130 mt, by 1991, reaching 280 mt (double the current level of production) by 1995.

Option II - a nominal price freeze - is probably the most severe across-the-board price reduction which would be politically acceptable to all. Stocks still rocket, to 100 mt by 1991. Even a drastic price reduction, of 15% in 1986 (Option III) will fail to prevent production and stocks from rising. However, it would reduce support costs by 1991 - the only option which achieves this. Option IV is a variant of II, is preferred by the Commission, and asks farmers to pay a levy on sales of their farms to cover export costs. Stocks will still quadruple by 1991. The only option which reduces production, and eventually stocks, is quotas (Option V), although costs still rise under this option, partly because farmers would be "compensated" for their loss of output by price increases.

#### Most Likely Outcome

Cereals, and some other products too, will probably be subjected to quotas within 5 years. Continental Governments,

elected on the basis of proportional representation, haven't the nerve to go for Option III; so the Community will go for Option IV, price freeze plus the levy. This will fail to restrain production, finally driving the Community into adopting quotas. Indeed, the inevitability of quotas may itself frustrate all half-hearted price-restraint options. Farmers will produce more (and in some cases, already do) in anticipation of quotas, since quotas would be allocated on the basis of recent production levels.

#### Merits and Drawbacks of Quotas

Does this matter? Philosophically, it would be a matter for regret that large parts of an industry pass out of the market economy and into an administered system, in which entry will be almost impossible; changes in output and in land use will be matters for bureaucratic decision; the displacement of less efficient and dynamic farmers by more efficient farmers will be limited. The industry will undoubtedly become less efficient than it could be, and possibly than it currently is.

If the choice lies between an efficient agriculture which bankrupts the Community, or a less efficient, but less expensive system, the latter may be preferable. Efficiency in agriculture has lost much of its value, in so far as the industry produces unwanted surpluses. Quotas actually suit existing farmers pretty well, once their teething problems have been resolved. The dairy industry is learning to love its quotas. Because the Community will not dare to dismantle

quotas, once they are in place, they confer a kind of property right on the farmer. Quotas can periodically be sold off, either to national Governments, or to the Commission, when "outgoers" schemes are devised to reduce production. Quotas also guarantee the preservation of the geographical pattern of agriculture, which is of concern to the environment lobby and to those who wish to see rural communities preserved. They would, for example, preserve agriculture in those lowland areas of low grade land, mainly to the West of the country, which would be threatened by substantial price reductions.

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The drawback of quotas is that they will, in time, push up food prices in real terms; Europeans would pay even more as consumers, on top of their payments as taxpayers, to support the CAP. Farmers will demand that their real incomes rise not too far behind those of the rest of the economy. But because they would be under reduced pressure to improve their efficiency, and volume would be controlled, higher food prices would be the main way to increase farmers' real incomes. Rising real food prices would be a new and politically explosive factor.

#### UK Attitudes

MAFF's stance of price restraint, without exemptions to small farms, is logical and correct. It is also good domestic politics: why should our agriculture be penalised for being efficient? Unfortunately, this stance excludes us from serious consideration by all other member countries. Drastic

---

price reductions will never be politically acceptable without tempering their effects on the small, and often geographically disadvantaged family farm.

Income aids to small farms, along with drastic price cuts, were proposed late last year by the Commission in a Green Paper ("Perspectives on the CAP") as one solution to this problem. The UK opposed them on grounds of discrimination and administrative complexity. Our opposition was not decisive. German farmers, along with our own, resent the idea of being explicitly subsidised as "park keepers". Co-responsibility levies, with exemptions for smaller farms, are conceptually very similar to income aids and we are opposing these, too.

### Conclusion

In 1986, we may well be outvoted and have to accept co-responsibility levies on the basis proposed by the Commission.

But over the next few years, our choices are difficult: recognising continental opposition to large, across-the-board price reductions (of 15-20% or so):

1. either we may have to accept some measure of discrimination against British farmers, by virtue of the above-average size of their holdings, in order to secure price reductions which are large enough to restrain output; or

2. we must anticipate, even if we cannot propose ourselves, or even mention, the adoption of quotas on cereals and some other sectors.

If we feel we can opt for the former, we should propose that the Community develops a policy for the smaller farm, partly to be financed nationally, as a social measure. We should try to minimise discrimination against British farming by arguing that member states should be given discretion to look after their small farmers. "Small" farms could then be defined in relation to the national average sizes of farm holdings in each member state, rather than according to a universal community formula. After all, a 100 acre farm in Cardigan is as important to the local economy as a 10 acre farm in Central France.

If we decide that quotas are inevitable, we should urge that they be adopted soon in order to prevent stocks mounting further. We should try to ensure that they assume a form which provides both for a) some flexibility between producers and b) quotas' gradual liquidation, because production, even under quotas, will still substantially exceed demand. A Policy Unit idea which combines both these features is a transferable quota which is partially surrendered upon transfer, ie farmers can sell their quotas on the open market but would surrender, say, 25% of the quota whenever they are transferred. In this way, market forces could be harnessed to reduce surpluses.

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- 7 -

An alternative idea, proposed by the NFU, is annual quotas, plus set-aside. Farmers put in bids for quotas before each marketing year. Quotas would be allocated as a percentage of all farmers' bids. Land for which a quota is sought, but which doesn't receive one, must be set aside, ie to fallow, for a year. Farmers might be compensated for fallowed land. It would be cheaper than intervention buying.

You may wish to discuss these ideas with Michael Jopling.  
If we don't prepare the ground for our own ideas long in advance, we will end up having to accept those of other people.

*N. Scola*  
PP NICHOLAS OWEN

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Euro P&I; CAP Pt 13.

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- 7 -

An alternative idea, proposed by the NFO, is annual quotas, plus a reserve. Farmers put in bids for quota each marketing year. Quotas would be allocated as a percentage of all farmers' bids. Land for which a quota is sought, but which doesn't receive one, will be set aside for a year. Farmers might be compensated for fallow land. It would be cheaper than intervention buying.

You may wish to discuss these ideas with Michael. If we don't prepare the ground for our own ideas long in advance, we will end up having to accept those of other people.

NICHOLAS OWEN

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INFO EUROPEAN COMMUNITY POSTS, WASHINGTON, UKMIS GENEVA

FRAME AGRICULTURE

1986 AGRICULTURAL PRICE PROPOSALS.

SUMMARY.

1. THE COMMISSION AGREED ITS PRICES PACKAGE TODAY. IT IS VERY MUCH AS FORESEEN IN MY TEL NOS 234 AND 251 (NOT COPIED TO ALL).

2. DESPITE THE SAVINGS THE PACKAGE WILL PRODUCE IF ADOPTED, A SUPPLEMENTARY 1986 BUDGET OF 790 MECU WILL BE NECESSARY ACCORDING TO THE COMMISSION.

DETAIL

3. ANDRIESSEN LAUNCHED THE PRICES PACKAGE WITH A PRESS CONFERENCE THIS AFTERNOON. SO FAR ONLY A SUMMARY OF THE MAIN ELEMENTS IS AVAILABLE (MUFAXED TO WAY, MAFF) IT CONFIRMS A RESTRICTIVE PRICES POLICY WITH A FREEZE PROPOSED FOR MOST PRODUCTS, SMALL INCREASES FOR A FEW AND CUTS OF UP TO 10 PER CENT FOR OTHERS. IT IS PROPOSED TO REDUCE GREECE'S NEGATIVE MCA BY 14.4 PER CENT, ITALY'S BY 2.5 PER CENT AND TO GIVE FRANCE A 1.5 PER CENT DEVALUATION TO PARITY. THERE IS NO PROPOSAL ON THE UK'S NEGATIVE MCA. GERMAN AND DUTCH POSITIVE MCAS ARE TO BE LEFT UNTOUCHED. OVERALL THE EFFECT IS A PRICE FREEZE IN NATIONAL CURRENCY TERMS FOR THE ECIO EXCEPT GREECE, ITALY AND FRANCE WHO RECEIVE INCREASES RESPECTIVELY OF 11.6 PER CENT, 1.4 PER CENT AND 0.8 PER CENT.

4. THE COMMISSION REAFFIRMS ITS COMMITMENT TO PRODUCE SOON (PERHAPS IN MARCH) THE STRUCTURAL PROPOSALS ARISING FROM THE CAP PERSPECTIVES EXERCISE. THESE WILL TAKE ACCOUNT OF ENVIRONMENTAL CONCERNS. IN THE MEANTIME ATTENTION IS DRAWN TO THE SPECIAL TREATMENT PROPOSED FOR SMALL FARMERS IN THE BEEF AND CEREALS MEMORANDA WHICH ARE NOW ENDORSED IN THE PRICES PACKAGE. THE COMMISSION WILL SIMILARLY ADDRESS THE PROBLEM OF SMALL PRODUCERS IN FUTURE PROPOSALS WHENEVER IT IS ECONOMICALLY AND SOCIALLY JUSTIFIED.

5 ON INTERVENTION STOCK DISPOSALS, THE COMMISSION INTENDS TO PRODUCE PROPOSALS TO REDUCE STOCKS OVER 1986-88. THIS WILL REQUIRE AN 'EXTRA BUDGETARY EFFORT'. IN HIS PRESS CONFERENCE ANDRIESSEN SAID THAT HE PLANNED IN 1986 TO REDUCE BUTTER STOCKS BY 270,000 TONNES AND BEEF STOCKS BY 230,000 TONNES.

**RESTRICTED**

/6.

## RESTRICTED

6. THE FINANCIAL CONSEQUENCE OF THE PRICES PACKAGE (EXCLUDING STOCK DISPOSALS) IS ESTIMATED TO BE A SAVING OF 400 MECU IN 1986 AND 780 MECU IN 1987. HOWEVER, THE SUMMARY STATES THAT A 790 MECU SUPPLEMENTARY BUDGET WILL BE NECESSARY FOR FEOGA GUARANTEE EXPENDITURE IN 1986: 750 MECU OF THIS HAS BEEN CAUSED BY THE FALL IN THE DOLLAR AND THE REMAINING 40 MECU IS NECESSARY TO HELP FINANCE STOCK DISPOSALS. THE BUDGETARY POSITION IN 1987 MIGHT ALSO BE AFFECTED BY EXCEPTIONAL CIRCUMSTANCES LINKED TO THE DOLLAR AND U.S. AGRICULTURAL POLICY BUT THE COMMISSION FEELS THAT IT OUGHT TO BE ABLE TO PRESENT A DRAFT 1987 BUDGET WHICH PERMITS CONTINUING STOCK DISPOSALS WHILE STAYING WITHIN THE LIMITS OF BUDGETARY DISCIPLINE. THIS WILL, HOWEVER, ONLY BE POSSIBLE IF THE COUNCIL ADOPTS THE COMMISSION'S PACKAGE (INCLUDING THE MILK OUTGOERS PROPOSAL) - AND THE 1986 SUPPLEMENTARY BUDGET, IF FURTHER ECONOMIES ARE MADE IN MARKET MANAGEMENT AND IF TEMPORARY RESTRICTIONS ARE ACCEPTED ON THE COMMUNITY FINANCING OF INTERVENTION STOCKS, FROM 1988 IT SHOULD BE POSSIBLE TO OPERATE WITHIN THE CONSTRAINTS OF BUDGETARY DISCIPLINE.

7. THE SUMMARY INDICATES THE MAIN ELEMENTS OF THE PROPOSALS FOR THE MAJOR SECTORS:

- A) CEREALS AND RICE: ALL INTERVENTION PRICES FROZEN EXCEPT RYE (MINUS 1 PERCENT) AND DURUM (MINUS 4.4 PERCENT): TARGET PRICES INCREASED BY 0.5 PERCENT EXCEPT BARLEY AND RYE (MINUS 0.3 PERCENT), DURUM AND RICE (FREEZE): ABOLITION OF BREADWHEAT REFERENCE PRICE: DURUM AID INCREASED BY 6.8 PERCENT: CO-RESPONSIBILITY LEVY AT 3 PERCENT OF INTERVENTION PRICE ON CEREALS OVER 25 TONNES SOLD OFF FARM: 5 PERCENT INTERVENTION PRICE ABATEMENT FOR WHEAT NOT ATTAINING BREADMAKING STANDARD: EXTENSION OF SCALE OF PENALTIES BASED ON SPECIFIC WEIGHT OF BARLEY: INTERVENTION AVAILABLE ONLY FROM 1 DECEMBER TO 30 APRIL.
- B) BEEF: PRICE FROZEN: IMPLEMENTATION OF CAP PERSPECTIVES MEMORANDUM (CHANGED) FROM DECEMBER 1987.
- C) FRUIT AND VEGETABLES: CAULIFLOWER AND AUBERGINE BASIC PRICES INCREASED BY 1 PER CENT: ALL OTHERS FROZEN BUT WITH CHANGES IN COEFFICIENTS TO GIVE REDUCED BUYING-IN PRICES FOR CITRUS (MINUS 2.5 PER CENT), TOMATOES AND APRICOTS (MINUS 5 PER CENT) AND PEACHES (MINUS 10 PER CENT).
- D) MILK: GUIDE PRICES: FROZEN BUTTER INTERVENTION PRICE MINUS 4 PER CENT: SKIM MILK POWDER INTERVENTION PRICE PLUS 3.5 PER CENT: CO-RESPONSIBILITY LEVY UNCHANGED AT 2 PER CENT OF GUIDE PRICE: SUPER LEVY TO BE PAID SIX MONTHLY.
- E) WINE: ALL GUIDE PRICES FROZEN.

-2-  
RESTRICTED

(F)

## RESTRICTED

- F) OILSEEDS AND SUNFLOWER SEED: TARGET AND INTERVENTION PRICES FROZEN (WITH INCREASE IN STANDARD OIL CONTENT FOR SUNFLOWERS): GUARANTEE THRESHOLD MECHANISM CHANGED SO THAT ANY REDUCTIONS IN SUPPORT APPLY IN THE YEAR THAT PRODUCTION EXCEEDS A NEW MAXIMUM GUARANTEE QUANTITY: A 1.25 PER CENT ECU/100 KG TARGET PRICE BONUS FOR 00 VARIETIES OF RAPESEED.
- G) TOBACCO: FREEZE IN PREMIA AND PRICES FOR MOST SOUGHT AFTER VARIETIES: REDUCTIONS OF 2 PER CENT, 45 PER CENT OR 6 PER CENT FOR THE REST ACCORDING TO DEMAND.
- H) OLIVE OIL: FREEZE IN PRODUCTION TARGET PRICE AND PRODUCTION AID: 5 PERCENT CUT IN INTERVENTION PRICE.
- I) SUGAR, SOYA, TEXTILES AND DRIED FODDER: PRICES FROZEN.
- J) PEAS, BEANS AND LUPINS: ALL MINIMUM PRICES INCREASED BY 1 PERCENT: GUIDE PRICE PLUS 1 PERCENT: ACTIVATING THRESHOLD PRICE PLUS 0.5 PERCENT FOR LUPINS AND PLUS 0.6 PER CENT FOR PEAS AND BEANS.
- K) PIGS AND SHEEPMEAT: PRICES FROZEN.

8. FURTHER DETAILS OF THE PACKAGE SHOULD BECOME AVAILABLE TOMORROW WITH THE RELEASE OF VOL I OF THE FORMAL PROPOSALS. VOLS II AND III (GIVING THE FINANCIAL IMPLICATIONS AND LEGAL TEXTS) ARE EXPECTED AT THE END OF THIS WEEK OR BEGINNING OF NEXT.

HANNAY

FRAME AGRICULTURE  
FCO ADVANCE TO:-  
FCO - HARRISON  
CAB - MCADAM  
MAFF - ANDREWS HADLEY WENTWORTH WAY  
TSY - BUTT

*m*  
**ADVANCED AS REQUESTED**

FRAME AGRICULTURE  
ECO(1)

-3-  
RESTRICTED

Private Secretary

Charles CDJ  
5/3.

This Topling letter  
will lead to FCO and  
Treasury objections.  
You may like to  
await them before  
putting the papers  
to the PM. We'll  
weigh in just as  
soon as we can.

Colin Budd

5/2



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

copy

From the Minister

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London SW1

Mr Wall ECD (I)

✓ PS

PS / Mrs Chalkey

Mr Braithwaite

Mr Rennie 3 February 1986

Mr A. Fergusson

Advice please.

CEJudd  
3/2

COMMON AGRICULTURAL POLICY: 1986 PRICE PROPOSALS

I wrote to you on 17 January seeking agreement to a note for use in lobbying in Brussels on these proposals. In my letter I argued that the Commission were likely to propose that support be differentiated in a way that would place the burden of adjustment on larger farms, that the United Kingdom, with its more concentrated structure, would be disproportionately affected by such a policy, and that we should resist it. In his reply Peter Brooke suggested that a policy of differentiation in favour of small farms might be the price we would have to pay for effective reform of the CAP. For this reason he was reluctant to adopt a position from which we might have to withdraw and to see any reference to our opposition to discrimination by size included in the note. You and Paul Channon both supported this line of argument.

The lobby note has now become academic, as Commissioners have already held discussions of their proposals and are unlikely to be influenced by anything we say now, and we shall, of course, be discussing our detailed negotiating objectives in OD(E) once we have received the Commission's proposals. But I feel that I should write now to make clear that I do not see how we could defend a policy that effectively provided lower levels of support for farmers in the UK than were available elsewhere in the Community. This is already an issue of major concern to our farmers and to our supporters in Parliament - when the Prime Minister met members of the back bench Agriculture Committee last week, this was the main point they raised. They are well aware of the way the Commission's thinking is developing in this area, and will no doubt have seen recent reports that the Commission are now discussing the extension of this approach to the sheep sector. The industry is calling for firm assurances that the Government will resist this trend, and when I speak to the National Farmers' Union's AGM on 11 February I will not find it easy to evade this demand.

I believe that this is an issue that we will have to meet head-on. We must clearly continue our efforts to bring about a more rational

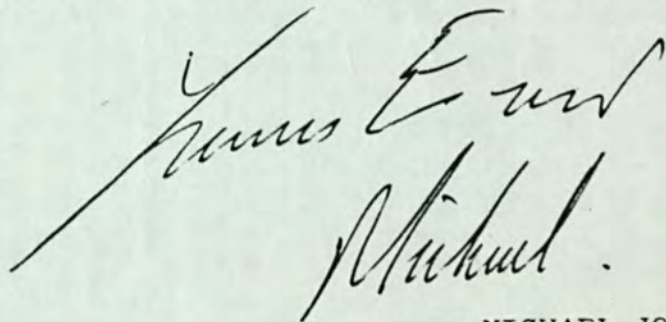
/and cost-effective ....

and cost-effective CAP, and we may have to agree to measures to protect, on a temporary basis I would hope, those most badly hit by CAP reform. But we should not accept measures which are clearly to the disadvantage of the United Kingdom and hit our own producers disproportionately hard. To do so would, in my judgement, be politically disastrous following the 43% drop in farm incomes in 1985 that I have recently had to announce. We should in effect be accepting that the CAP was being turned into more of a social policy to the permanent disadvantage of the UK industry.

Moreover, it currently looks as if the proposals that will emerge from the Commission will do little to solve the fundamental problems of the CAP and they are likely to be weakened still further in negotiation. The trade-off that Peter Brooke suggests may not, therefore, be on offer, and if we do not hold our ground we could end up without any adequate reform of the CAP and with measures that simply discriminate against the UK; I can think of nothing more calculated to alienate all our supporters.

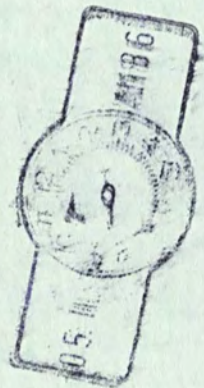
I shall be circulating what I intend to say to the NFU on 11 February. However, I believe that I must say clearly that we will not agree to measures that would place a disproportionate burden on our own producers, whether by discrimination on grounds of farm size or for any other reason. I trust that on reflection, you and the other recipients of this letter will agree to this.

I am copying this letter to the Prime Minister, other members of OD(E), Nick Edwards, Tom King and Malcolm Rifkind and to Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read "James E. ... Michael." The signature is written in dark ink and is positioned above the typed name.

MICHAEL JOPLING

EUR. POL : CAP : PE 13.







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

CEPC

(2)

Prime Minister

CDP  
3/2

From the Minister

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London SW1

3 February 1986

*Paul Geoffrey*

*MR*

COMMON AGRICULTURAL POLICY: 1986 PRICE PROPOSALS

*at farm*

I wrote to you on 17 January seeking agreement to a note for use in lobbying in Brussels on these proposals. In my letter I argued that the Commission were likely to propose that support be differentiated in a way that would place the burden of adjustment on larger farms, that the United Kingdom, with its more concentrated structure, would be disproportionately affected by such a policy, and that we should resist it. In his reply Peter Brooke suggested that a policy of differentiation in favour of small farms might be the price we would have to pay for effective reform of the CAP. For this reason he was reluctant to adopt a position from which we might have to withdraw and to see any reference to our opposition to discrimination by size included in the note. You and Paul Channon both supported this line of argument.

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/and cost-effective ....

EURO POL PT 13

CAP

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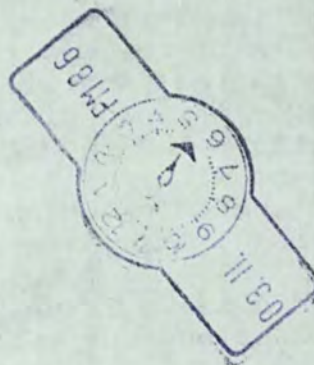
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I shall be circulating what I intend to say to the NFU on 11 February. However, I believe that I must say clearly that we will not agree to measures that would place a disproportionate burden on our own producers, whether by discrimination on grounds of farm size or for any other reason. I trust that on reflection, you and the other recipients of this letter will agree to this.

I am copying this letter to the Prime Minister, other members of OD(E), Nick Edwards, Tom King and Malcolm Rifkind and to Sir Robert Armstrong.

*James E. ...*  
*Michael*

MICHAEL JOPLING





cc ~~AD~~

NORTHERN IRELAND OFFICE  
WHITEHALL.  
LONDON SW1A 2AZ

SECRETARY OF STATE  
FOR  
NORTHERN IRELAND

The Rt Hon Michael Jopling MP  
Ministry of Agriculture, Fisheries  
and Food  
Whitehall Place  
London  
SW1A 2HH

3<sup>rd</sup>  
February 1986

*CDP 4/2.*

*Dear Minister,*

COMMON AGRICULTURAL POLICY: THE 1986 PRICE PROPOSALS

Thank you for copying to me your letter of 17 January 1986 to Geoffrey Howe about the 1986 CAP price proposals. *at trap*

I am content that the draft lobbying note which you enclosed with your letter should form the basis of an approach to the Commission in the immediate future but I would prefer the deletion proposed by Peter Brooke in his letter of 22 January and mentioned by Geoffrey Howe in his letter of 24th to be made.

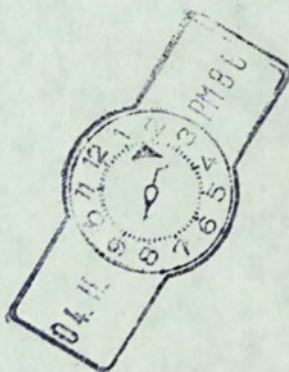
I am copying this letter to the Prime Minister, Geoffrey Howe, Members of OD(E), Malcolm Rifkind, Nicholas Edwards and Sir Robert Armstrong.

*Yours sincerely  
Nicholas  
to Private Secretary  
TK*

(Approved by the Secretary of State and signed in his absence in Northern Ireland)

EURO POL PT 13

CAP





From the Minister for Trade

DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET  
Telephone (Direct dialling) 01-215)  
GTN 215) 5144  
(Switchboard) 215 7877

cc PC

24 January 1986

Rt Hon Michael Jopling MP  
Minister of Agriculture,  
Fisheries and Food  
Whitehall Place  
LONDON, SW1A 2HH

CO  
271

*Dear Michael*

COMMON AGRICULTURAL POLICY: THE 1986 PRICE PROPOSALS

Thank you for sending Leon Brittan a copy of your letter of 17 January to Geoffrey Howe setting out the line you propose to take in lobbying the Commission on the 1986 CAP price proposals.

Our own feeling is that we may well have to accept some differentiation in favour of small farmers, possibly in the form of their exemption from the full rigours of the new regime, if we are to secure the effective disciplines in CAP price levels and production which are our central negotiating objective.

I agree with Peter Brooke that, while we should certainly not hint at this stage that we may be prepared to move on this issue, we must equally avoid locking ourselves now into a position which would make it difficult or impossible for us to accept a measure of differentiation at the end of the day. I agree, too, that the words "and must not discriminate on account of their size" should be deleted from paragraph 6 of the draft lobbying note enclosed with your letter.

I am copying this letter to the Prime Minister, Geoffrey Howe, members of OD(E), Tom King, George Younger, Nicholas Edwards and Sir Robert Armstrong.

*ms*  
*Paul*

PAUL CHANNON

L01AEN

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Euro Pol  
CAP  
PT 13



GRS 600

**CONFIDENTIAL**

CONFIDENTIAL

FM UKREP BRUSSELS

TO DESKBY 240900Z FCO

TELNO 234

OF 231915Z JANUARY 86

FRAME AGRICULTURE

**1986 AGRICULTURAL PRICE PROPOSALS.**

SUMMARY

1. ANDRIESSEN'S PROPOSALS ENVISAGE A PRICE FREEZE AS THE GENERAL RULE, IMPLEMENTATION OF THE CEREALS AND BEEF MEMORANDA, USE OF MCAS TO MAKE A SETTLEMENT EASIER, RESPECTING THE FEOGA BUDGETARY GUIDELINE IN 1986 BUT BREACHING IT IN 1987, AND A SEPARATE STOCK DISPOSAL POLICY OUTSIDE THE GUIDELINE.
2. COMMISSION TO DISCUSS THE PACKAGE ON 29 JANUARY.

DETAIL

3. WE HAVE BEEN GIVEN THE FOLLOWING INFORMATION IN CONFIDENCE AND ON THE STRICT UNDERSTANDING THAT OUR KNOWLEDGE OF IT IS NOT REVEALED IN OUR LOBBYING OF THE COMMISSION OR COMMISSION SERVICES.
4. ANDRIESSEN OUTLINED HIS PRICE PROPOSALS AT YESTERDAY'S COMMISSION MEETING. WE DO NOT YET HAVE FULL DETAILS BUT THE FOLLOWING POINTS FORM PART OF THE PACKAGE:

**CEREALS: PRICE FREEZE** WITH IMPLEMENTATION OF MEMORANDUM RECOMMENDATIONS (INCLUDING PRICE ABATEMENTS FOR LOW QUALITY AND CO-RESPONSIBILITY LEVY): IF COUNCIL FAIL TO AGREE THE LEVY, EXISTING GUARANTEE THRESHOLD MECHANISM TO APPLY GIVING 5 PER CENT PRICE CUT.

**OIL SEEDS: PRICE FREEZE** BUT WITH TARGET PRICE BONUS FOR OO VARIETIES AND DECLARATION THAT AID WILL BE PAID ON OO VARIETIES ALONE FROM 1991/92 EXCEPT WHEN SEED IS DESTINED FOR TECHNICAL USE.

**MILK: PRICE FREEZE WITH REDUCED QUOTAS** RESULTING FROM OUTGOERS SCHEME CURRENTLY ON THE TABLE.

**BEEF: PRICE FREEZE** WITH IMPLEMENTATION OF THE MEMORANDUM RECOMMENDATIONS.

**SHEEP: PRICE FREEZE FOR 1987,** NO CHANGE IN SEASONAL SCALE, REPUBLIC OF IRELAND AND N IRELAND TO BECOME A SINGLE REGION, ANNUAL PREMIUM THROUGHOUT EC TO BE CONFINED TO FIRST 500 EWES OR FIRST 1000 IN LESS FAVOURED AREAS.

**CONFIDENTIAL** / TOBACCO

# CONFIDENTIAL

TOBACCO; FRUIT AND VEGETABLES: SELECTIVE PRICE CUTS.

MCAS: NO CHANGE IN GERMAN AND DUTCH POSITIVE MCAS, GREECE'S NEGATIVE MCAS HALVED, ALL OTHERS ABOLISHED.

5. IT APPEARS THAT THE PROPOSALS ARE PRESENTED AS FALLING WITHIN THE FEOGA GUIDELINE FOR THE 12 IN 1986 BUT LEADING TO PROBLEMS IN 1987. THERE IS ALSO REFERENCE TO AN INTERVENTION STOCK DISPOSAL PROGRAMME COSTING 1-1.5 BECU OVER 3 YEARS AND FALLING OUTSIDE THE GUIDELINE.

6. ANDRIESSEN IS REPORTED TO HAVE SAID THAT A SETTLEMENT IS NOT LIKELY BEFORE 1 APRIL BECAUSE THE PARLIAMENT IS UNLIKELY TO HAVE DELIVERED AN OPINION BEFORE THEN. COMMISSION CABINETS WILL DISCUSS THE PROPOSAL OVER THE WEEKEND WITH EXPECTATION OF AGREEMENT AMONG COMMISSIONERS ON THE FINAL PACKAGE NEXT WEEK OR THE WEEK AFTER.

HANNAY

YYYY

FRAME AGRICULTURE

FCO ADVANCE TO:

FCO - WALL, HARRISON.

CAB - MCADAM.

MAFF - ANDREWS, HADLEY, MYERS, DICKINSON, MRS ARCHER, WENTWORTH, BURNE, HOLLIS.

TSY - BUTT.

FRAME AGRICULTURE

ECD(1)

(ADVANCED AS REQUESTED)

2.  
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PERSONAL

CHARLES

This is the minute on agriculture which I sent to the Foreign and Commonwealth Secretary, who was particularly concerned about the way in which the agricultural discussions might develop this year. Please use the ideas as much as you wish but keep in mind that it does represent my own approach and has not been cleared with officials in agriculture or other departments.\* Nigel Wicks has a personal copy.

\* If it had, it would have been wishy-washy, as the Prime Minister would say!

*D. F. Williamson*

D F WILLIAMSON

18 February 1986

bc: Mr Stark  
Mr Holroyd  
Mr Jay  
Mr McAdam

CONFIDENTIAL

Qz.04819

FOREIGN AND COMMONWEALTH SECRETARY

THE COMMON AGRICULTURAL POLICY

The problems created for us by the operation of the common agricultural policy are going to increase in 1986. The financial guideline risks to be breached and the 1.4 per cent VAT ceiling to be put back into the spot-light. It can certainly be argued that, although the United Kingdom is usually on the side of the angels, it does not have a sufficiently coherent or long-term strategy to achieve the reforms which are needed. I have the impression myself that we are in some danger of not seeing the wood for the trees and, in particular, of being mesmerized by the complexity or difficulty of some of the problems. For this reason I have taken it upon myself in the paragraphs below to go back to some basic points and to draw some conclusions, in particular for the three vital sectors of cereals, milk and beef.

If the objective is to restrain and in due course to reduce the Community's public expenditure on agriculture, this can be achieved by one or more of these methods -

(i) cutting production, preferably of the products which weigh most on the budget by

- making them less profitable through support price cuts in real terms. This is the United Kingdom's policy objective. It works, often with a time lag, but it is essential to ensure that land is not transferred to other forms of production which may be more costly for the budget (eg cereals to oil seeds). Correction of the common agricultural policy's present problems by this route alone is not negotiable. It is essential, however, to keep in mind that price cuts in real terms, even if insufficient to cut production, will still have a favourable effect on budget expenditure insofar as they reduce the gap with world prices, because export refunds and much other

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agricultural expenditure is calculated from the difference between Community prices and the prices of competing supplies from other countries. A price cut saves money even if there is no production response;

- direct controls of the volume of production, eg quotas for milk and sugar. In principle, this is an anti-competitive way of running an industry. It should only be used as a last resort. The judgement to be made is whether we have reached this point for cereals;

(ii) raising consumption. This has been a neglected subject recently. It is practicable to achieve some increase in consumption by direct subsidy for particular categories of consumer (social butter, social beef). I believe that we should look again at our refusal to operate some of these schemes. It is also possible to achieve significant increases in consumption by adjusting the support arrangements for some products so as to allow them to be sold more cheaply on the Community's own market. It is feasible, for example, to increase consumption of feed grains (which would re-take some of the market which has been surrendered to manioc and imported protein) and of beef (which would re-take some of the market from other meats, with, at least in the case of pig meat and chicken, a saving to the budget). So long as cereal production is rising and the volume of Community's cereal exports is effectively limited by our GATT commitment, there is no alternative for the Commission: they should be looking for greater consumption of Community cereals on the Community's own market by forcing grain out of intervention and jiggling the system so that it is not replaced in the intervention store;

(iii) reducing the tax payer's commitment by limiting the guarantee. Ultimately this method simply has the effect of reducing production and raising consumption. This way of tackling the problem, however, should reflect itself in lower public (Community and national) expenditure quite quickly, eg if cereals are not bought by an intervention agency, they will probably be stored at someone else's expense prior to sale. The two principal mechanisms are:

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the guarantee threshold, which means that the Community's full guarantee only applies up to a certain quantity of production. This is, under another name, the "standard quantity" concept which applied to some major products (eg milk) under the United Kingdom's pre-accession agricultural policy and is a feature of agricultural support in one form or another in a number of countries. The best way of operating a guarantee threshold is to set a global quantity representing internal consumption and an adequate margin and to accept the responsibility of a full guarantee so long as production remains within this figure. If, however, the figure is exceeded, ie production is exceeding the available commercial market, the intervention or basic support price would be cut. This is no more than a method of introducing into agricultural support the sort of market discipline which every other producer has to live with. In the absence of political will to make sharp and visible price cuts, guarantee thresholds should be a good way of actually adjusting prices to the market situation without the need to take new decisions each year. I consider it significant that nine Ministers of Agriculture were prepared to accept the price-cutting result of the guarantee threshold for cereals last year and that, despite Herr Kiechle's last stand, cereal prices are lower than they would have been in the absence of a guarantee threshold;

- making intervention discretionary or less rigid. Too many people seem to have forgotten that the *raison d'être* of intervention was to smooth out seasonal variations in production and consumption and that the basic support under the common agricultural policy comes from the consumer price sustained by external levy protection from lower world prices. I see no point of principle at issue in the arguments against making intervention less rigid. When the common agricultural policy was established, there was no permanent intervention for any form of meat. There still is none for pigmeat, although the livelihood of millions of farmers depends on it and it is the most important meat in the diet of Community consumers. Monsieur Chirac pushed through

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the introduction of permanent intervention for beef during the 1970s in a deal with the Germans. There is scope now for more selective use of intervention, eg for cereals by hotting up quality standards and restricting it to a part of the year, for beef by greater use of cheaper private storage in substitution, and possibly for skimmed milk powder by trying to move to discretionary intervention;

- by making the producers themselves pay more through a co-responsibility levy. I am not a supporter of such levies. The co-responsibility levy for milk was in effect when milk production was climbing steeply. These levies tend to be seen by producers as a great sacrifice (hence nothing more needed); producers usually demand a say in the way in which the money is spent; and at least a part of such levies tends to be passed on to the consumers. On the positive side they produce some money and probably have some disincentive effect. We should only accept them if we cannot do better;

(iv) by extracting a higher return from the market, in particular export markets. The Community is the dominant force in the world market for most milk products and a major trader in many other commodities. A mutual understanding with some other milk product or meat exporting countries to try to sustain market prices in third countries at or about a certain level by restraint on subsidy and, in particular, by restraining or cutting the export refund should be a major objective of the Commission.

/Cereals

CONFIDENTIAL

Cereals

Cereals are the base of the whole system. The greater part of the Community's cereals are produced for animal feed. In 1985 the United Kingdom produced about 11.95 million tonnes of wheat, of which only about 3.5 million tonnes went for milling; and about 9.7 million tonnes of barley, of which only about 1.7 million tonnes went for brewing/distilling. In recent years about 70 million tonnes of Community cereals have gone each year for animal feed and about 30 million tonnes for human consumption as grain. The value of the Community's output of animal products is far greater than the value of its arable crop: cereals are a vital part of the costs of a large number of Community farmers.

Community cereal production and stocks have developed as follows -

	1981	(est) 1985	% increase 1985/81
Production mill. tonnes	122.5	140	14%
Intervention stock of wheat at 31 December, mill. tonnes	3	7	133%
Intervention stock of barley at 31 December, mill. tonnes	0.8	4.3	438%
Community budget cost, billion ecu	1.9	2.2	+16%

The measures on cereal support this year ought to be:

- a price freeze, since a reduction is not negotiable;
- maintenance of the guarantee threshold. Even if the Council does not accept a price reduction this year, it may do in later years;
- an attack on the intervention arrangements, in particular abolition of the reference price for breadmaking wheat (this means that the basic support price for all wheat will be the (feed wheat) intervention price which is set at a lower level)

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and limiting open intervention both for wheat and barley to a part of the year (the practical effect of this is that some cereals are sold in the market at the other times of the year at below the intervention price because it is more costly to store than to sell). These measures will get the stocks down. The Commission is now proposing the abolition of the reference price for bread wheat and also a 5 per cent discount for feed wheat sold into intervention. It is not clear whether they propose to time-limit open intervention for wheat, although they do propose this for barley.

If all other member states also go for a co-responsibility levy of 3 per cent to be charged on cereals sold off the farm (or, if negotiable, on acreage) we should support it. I have little confidence that it will do much to improve the market situation, since some part at least of the levy will be passed on to the consumer. It may have a small disincentive effect but it will stiffen cereal producers resolve to avoid other more effective measures. Contrary to the general view in Whitehall, I think that one advantage of the levy in the present circumstances is that it will raise some money to reduce the pressures on the budget ceiling and the risk of breaching the financial guideline.

I do not expect that we shall come to cereal quotas this year, as there is no Commission proposal. It would be sensible, however, for the United Kingdom during 1986 to make a complete assessment and some contingency plans: farmers were unhappy that such contingency plans had not been made for milk, even though a milk quota proposal had been signalled earlier.

Milk

Milk is the principal product of Community agriculture. The intervention system is probably the most rigid, consisting of an open-ended guarantee to buy butter and skimmed milk powder. The regime is the most expensive for the Community budget of all the market organisations but past experience shows that with good management the cost can be substantially cut (1980 4.7 billion ecu; 1981 3.3 billion ecu; 1982 3.3 billion ecu, although milk

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production rose in each of these years). The estimated cost in 1985 is 5.8 billion ecu. The additional 2.5 billion ecu which the milk sector now costs by comparison with three years ago is the critical difference between budget peace and budget war.

Community milk production and stocks have developed as follows -

	1981	1985 (est)
No of dairy cows, mill head	25	24.9 (-0.4%)
Milk deliveries, mill. tonnes	96.1	99.5 (+3.5%)
Intervention stock of butter, at 31 December '000 tonnes	298	1103 (+270 %)
Intervention stock of skimmed milk powder, at 31 December, '000 tonnes	39	541 (+1287 %)
Community budget cost, billion ecu	3.3	5.8 (+76 %)

The measures on milk support this year ought to be:

- a price freeze, since a reduction is not negotiable. Skimmed milk powder is always saleable (it simply competes on price with other protein for animal feed if it cannot find a more profitable market) but butterfat is becoming progressively less saleable and the stock level is ridiculous and expensive. The support system therefore needs to be skewed to reduce the intervention price of butter eg by 5 per cent. To produce a neutral effect on milk, the skimmed milk powder price would have to be increased by about 4 per cent but no assurance should be given that this would be carried into other disposal schemes;
- an outgoers' scheme intended to sterilise some quota and effectively reduce the volume of production;
- I would like to see a first attempt to move to discretionary intervention for skimmed milk powder. This would allow at least some skim milk and powder to move into consumption at below the intervention price;



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- the time may also have come to think about disposing of some of the costly butter stock in margarine. This is the biggest untapped market: at the right price margarine manufacturers would take about 10 per cent butter in some margarines;
- there ought to be a determined attempt to get more from world markets (ie lower export refunds) by discussion with the New Zealanders.

Beef

Most of the money paid under the beef regime indirectly supports milk farmers, since most of the Community's beef comes from the dairy herd. In the longer term the objective should be to give adequate support (eg by direct payment) to specialist beef farmers but to reduce undifferentiated support for the beef market as a whole. Over a period of years the cost of the beef regime has been fairly steady but in 1985 it rose steeply and stocks are at a dangerous level.

The development of beef production (which normally follows a cycle) and stocks has been -

	1981	1985 (est)
Production, mill. tonnes	7	7.285 (+4.1%)
Intervention stock at 31 December, '000 tonnes	224	730 (+226%)
Self-sufficiency (%)	102.3	103.4
Community budget cost, billion ecu	1.4	2.7 (+93%)

The measures which are necessary in 1986 are:

- a price freeze;
- a switch to discretionary intervention, ie no requirement to have public purchasing at any time of the year (aided private storage can be made available at certain times) but a discretion for the Commission to open it if the market were severely overloaded.

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I would also recommend that the Commission should try, in discussion with other exporters (Australia, New Zealand, Argentina, Uruguay) to get a higher return (ie a lower export refund) from third country markets. For beef the United States does not have an export interest (except for high value "Hilton beef") but is a large importer.

I have set out the actions above because I think that there may be some risk this year of aiming at everything and getting even less.

*Df Williamson*

D F WILLIAMSON

Cabinet Office

7 February 1986



From the Minister

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for the  
Foreign and Commonwealth Office  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1A 2AL

NBM  
CAP 17/1

17 January 1986

Best Secretary of State

**COMMON AGRICULTURAL POLICY: THE 1986 PRICE PROPOSALS**

The Commission will shortly be considering their proposals for the 1986 price fixing and it is desirable that we should lobby the British Commissioners, the Agriculture Commissioner and the President of the Commission before conclusions are reached on the content of the proposals.

Officials have been considering the line which should be taken and have agreed on a generally tough line stressing the need for substantial price cuts for most commodities and the paramount need for the proposals to conform to the financial guideline for CAP expenditure.

Officials have not been able to agree on the line to take on discrimination in the CAP, an issue which will be one of our major concerns in the coming weeks.

The thinking which is emerging from the Commission on changes to the CAP show that there has been a conscious and considered decision to shift the focus of the available resources onto smaller and medium sized family farms. The beef and cereals sectors provide examples where this is the Commission's intention.

The consequences of the Commission's approach is to place the burden of adjustment on larger farms and to render less economic the agriculture industry of countries like the United Kingdom which have a more concentrated structure. This would be damaging to our national interest by reducing the benefits we get from our more efficient industry, as well as making it politically much more difficult for our farmers to accept the reforms needed to the CAP.

While we shall have to elaborate a detailed position once we have specific proposals, I see it as important to make clear now that we shall resist differentiation of support in ways which would strike at our industry because of its particular structure.

.....

The enclosed draft lobbying note does this and I hope that colleagues can agree that it should form the basis for lobbying the Commission in the immediate future.

I am sending copies of this letter to the Prime Minister, members of OD(E), the Secretaries of State for Northern Ireland, Scotland and Wales and Sir Robert Armstrong.

Yours Sincerely

C (Hurdyn)

for MICHAEL JOPLING

(Approved by the Minister  
and signed in his absence)

## 1986 CAP PRICE PROPOSALS

DRAFT LOBBYING NOTE FOR USE WITH BRITISH COMMISSIONERS,  
THE AGRICULTURE COMMISSIONER AND THE PRESIDENT OF THE COMMISSION

1. At the 1986 price fixing the Community faces a very serious situation in the CAP. Surplus agricultural production is creating major stocks which pose political and practical problems. The Community's international relations are adversely affected. There are growing problems in financing the CAP. And the continuing uncertainties about the future direction of policy create difficulties for farmers themselves. It is vital that the Commission makes proposals adequate to respond the challenge of this situation.

2. The financial guideline provides the overall limit on CAP guarantee expenditure. It is essential that the proposals for 1986/87 can operate within the guideline for 1986/ and 1987 and the Commission should present the necessary data to demonstrate that this is the case.

3. The main emphasis in the proposals must be on a tough long term price policy. Given the problems the Community faces substantial price cuts are appropriate for most commodities especially those in surplus or with expensive regimes. For example, for cereals a price cut of 5 percent should be made instead of imposing a coresponsibility levy and should be supplemented by measures to raise quality standards for intervention and to reduce the period during which intervention is available. The existence of milk quotas cannot justify excluding milk from a similar substantial price cut which can be made more tolerable by ending the coresponsibility levy and improved arrangements for quota transfer.

Price cuts are no less justified for Mediterranean commodities particularly given the scope for green rate devaluations.

4. Where there are threshold mechanisms they must be rigorously applied. They should also be extended, for example to the fresh fruit and vegetable sector for which it should at least be possible to reduce basic prices and to set all withdrawal prices in the range 40 to 45%.

5. The Commission has stressed the importance of long term price policy. In order to make a greater impact on producers' decisions the price proposals should cover several years.

6. The proposals must be balanced as between member states (eg by ensuring that Mediterranean commodities - the support cost of which has been rising very fast - are treated as rigorously as northern commodities) and must not discriminate on account of size. The only justification for discrimination should be natural handicaps in particular regions.





Foreign and Commonwealth Office  
London SW1A 2AH

EB

8 January 1986

Dear Ivor,

The Common Agricultural Policy and European Food Surpluses

will request if required

Thank you for your letter of 19 December enclosing useful material on CAP food surpluses. FCO Ministers will be drawing on it, and we are circulating it to our EC posts.

I am copying this letter to the Private Secretaries to members of the Cabinet and to Sir Robert Armstrong.

Yours Sincerely,  
Colin Budd

(C R Budd)  
Private Secretary

C I Llewelyn Esq  
Private Secretary to the  
Minister of Agriculture, Fisheries and Food



08.1.1912.1  
PH36





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

From the Minister's  
Private Office

Colin Budd Esq  
Private Secretary to  
Secretary of State  
Foreign and Commonwealth Office  
Downing Street  
London  
SW1A 2AL

19 December 1985

*Dear Colin*

**THE COMMON AGRICULTURAL POLICY AND EUROPEAN FOOD  
SURPLUSES**

At OD(E) on 20 November my Minister was invited to circulate material for use by Ministers and others for briefing on the need to reduce European surpluses of food. I now enclose some briefing, including points to make suitable for incorporation in speeches.

I am copying this letter to the Private Secretaries to Members of the Cabinet and to Sir Robert Armstrong.

*Yours ever*  
*Clw*  
C I LLEWELYN  
Private Secretary

## EUROPEAN AGRICULTURAL SURPLUSES: THE NEED TO CHANGE THE CAP

### POINTS TO MAKE

#### Why the Common Agricultural Policy needs to be changed

The Common Agricultural Policy (CAP) is costing Europe almost £11½ billion in 1985 - almost double its cost in 1978.

And since 1982 it has taken a rising part of the Community's budget so there is less to spend on other policies.

The cost of the CAP has grown because support prices have been set too high in relation to market demand and growing yields and efficiency in farming. As a result there has been a build-up of expensive surpluses. Stocks of butter, cereals, wine, beef and olive oil are all too high. This wastes money because of the costs of storing and disposing of unwanted produce at subsidised prices.

Selling off stocks to other countries causes difficulties in international trade because traditional exporters like New Zealand have their markets damaged. Some stocks are used for food aid, but there are limits to what can be dealt with this way. For example, not all the stocks are of foods which are suitable for the needy countries; and distribution of food is often a major difficulty.

Consumers are also disadvantaged by the high prices. If they were set lower consumers would get the advantage of cheaper food. And a lower cost of living also helps the economy generally by releasing resources for use in other parts of the economy.

#### How UK is Tackling the Problem

The UK has consistently pressed for CAP support prices to bear a closer relation to the realities of the market as the best way of containing the costs of the CAP and bringing a better market balance of supply and demand.

Significant progress has been made. The 1984 price fixing included an overall reduction, for the first time, in the level of common prices. It included a cut in real support levels across the Community of 4%. Milk quotas were introduced for the Community needs 5% below the level of production in the previous year. The 1985 price fixing, taken with the Commission's actions on cereals and rapeseed, constituted a further cut in real support levels of 3½%.

In 1984 the Community adopted a financial guideline for agriculture to operate from 1986 designed, broadly, to control the growth of CAP expenditure within the rate of growth of the Community's own resources.

We shall continue to press for further steps to be taken to cut the expensive surpluses and keep the cost of agricultural support within the budget guideline. A major element of the policy must be prices which reflect market demands more realistically.

## COMMON AGRICULTURAL POLICY: BACKGROUND FACTS

### 1. CAP Market Support<sup>(i)</sup> 1985 by Commodity

	£m	(million ecu)
Milk	3,773	(6,602)
Beef	1,406	(2,460)
Cereals	1,380	(2,415)
Sugar	965	(1,689)
Fruit and Vegetables	775	(1,356)
Wine	570	(998)
Olive Oil	513	(897)
Tobacco	481	(841)
Other	1,554	(2,721)
TOTAL	11,417	(19,979)

### 2. CAP Market Support<sup>(i)</sup> 1985 by Type of Support

	£m	(million ecu)
Export Refunds	3,835	(6,711)
Internal Disposal	2,109	(3,690)
Public Intervention	2,413	(4,222)
Private Storage	491	(859)
Production Subsidies	2,742	(4,799)

(i) Provisional expenditure under the Guarantee Section of the Agricultural Guidance and Guarantee Fund.

£1 = 1.75 ecu.

### 3. CAP Expenditure as % of Total EC Budget

1980	73
1981	65
1982	64
1983	69
1984	70
1985	73

4. Intervention Stocks

UK and EEC Agricultural Produce in Public Intervention  
and Assisted Private Storage ('000 tonnes)

<u>Commodity</u>	<u>UK Intervention</u>	<u>EC Intervention</u>	<u>EC Days Supply</u>
Butter	213	1,172	276
Skimmed Milk Powder	40	502	93
Bread	-	4,197	64
Wheat: Feed	3,581	7,646	-
Barley	1,952	4,358	48
Rye	-	1,022	145
Durum	-	970	82
Beef	104	914	59
Olive Oil	-	65	27
Table Wine	-	1,800 million litres	75

(A further 1000million litres (approx) of wine has become wine alcohol now held in stock.)

(i) Table Wine as at end March 1985. All other figures end October 1985.

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## RESTRICTED

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FM PARIS

TO IMMEDIATE F C O

TELNO 1119

OF 131609Z DECEMBER 85

INFO PRIORITY UKREP BRUSSELS, DUBLIN

PARIS TELNO 1098: SHEEPMEAT: TELECON TIMMS/PICKERING

1. BABIN (MINISTRY OF AGRICULTURE) TOLD US THIS AFTERNOON THAT NO DECISION HAD BEEN TAKEN AS YET ON LIFTING THE IMPORT DECLARATION REQUIREMENT FOR BRITISH SHEEPMEAT. THE FRENCH AUTHORITIES FELT IT NECESSARY TO HAVE REASONABLE GUARANTEES THAT THE REGULATION ON CLAWBACK ON EWES WOULD BE PROPERLY IMPLEMENTED BY THE UK BEFORE SCRAPPING THEIR CONTROLS. WHEN WE POINTED OUT THAT THE UK HAD GIVEN THE NECESSARY WRITTEN ASSURANCE TO THE COMMISSION AS THE REGULATION REQUIRED, BABIN SAID THAT THE FRENCH DELEGATION IN BRUSSELS HAD BEEN INSTRUCTED TO OBTAIN A COPY OF THIS AS SOON AS POSSIBLE SO THAT IT COULD BE STUDIED IN PARIS. A DECISION TO LIFT THE IMPORT DECLARATION SYSTEM COULD THEN FOLLOW IN A MATTER OF DAYS. THE FINAL STEP IN COMPLETELY DISMANTLING THE CONTROLS WOULD BE PUBLICATION OF THE DECISION IN THE OFFICIAL JOURNAL, WHICH IN TURN WOULD TAKE A FEW DAYS.

2. THERE IS NO DOUBT THAT THE FRENCH ARE PLAYING FOR AS MUCH TIME AS POSSIBLE BEFORE PROCEEDING TO LIFT THEIR IMPORT CONTROLS. NO-ONE IS PREPARED TO BE PINNED DOWN AS TO A PRECISE DATE. MEANWHILE IMPORTERS HERE REPORT THAT PROSPECTS FOR NEXT WEEK AT PRESENT LOOK MUCH THE SAME AS FOR THIS. IMPORT DECLARATIONS ARE BEING GRANTED FOR LAMB, ASSUMING THE QUANTITIES BEING REQUESTED ARE ABOUT NORMAL, BUT NONE IS BEING ISSUED FOR EWEMEAT.

3. FCO PLEASE PASS IMMEDIATE TO PS/MR JOPLING, PS/SIR M FRANKLIN, MRS ARCHER AND MRS PICKERING (MAFF), MCADAM (CABINET OFFICE) AND MRS NASH BROWN (TRANSPORT).

FRETWELL

FRAME AGRICULTURE

ECD(i)

## RESTRICTED

cc @u  
✓ flesher



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

From the Minister's Private Office

Tim Flesher Esq  
No 10 Downing Street  
London SW1

N  
12/12

11 December 1985

Dear Tim

I enclose the final version of the statement that my Minister intends to make this afternoon on the outcome of the Council of Agriculture Ministers' meeting held in Brussels earlier this week.

I am copying this to the recipients of my earlier letter.

Yours ever

C I LLEWELYN  
Private Secretary

## ~~DRAFT~~ STATEMENT TO PARLIAMENT

With permission, I will make a statement on the meeting of the Council of Agricultural Ministers of the European Community on 9 and 10 December. I represented the United Kingdom accompanied by my Rt Hon Friend, the Minister of State (Commons).

The Council agreed in principle, subject to the opinion of the European Parliament, to extend the quota system for sugar for the five years 1986/87 to 1990/91. For the first two years the A and B quotas will remain at their existing levels, and the Council will take a further decision by the end of 1987 on quotas for the remaining three years. The maximum rates of levy on A and B sugar will also remain unchanged for the first two years except for a small additional levy designed to recoup, over the coming five years, the deficit that has accumulated on the levy account. The additional levy will be shared between Member States so that those who have produced most quota sugar will pay the most; as a result the rate of levy will average 1.31% of the present intervention price for the Community as a whole, while in the UK it will be set at 0.8%.

The decision to fix the quotas for two years, instead of 5 as the Commission proposed, is helpful. In making its further decision, the Council will be able to take account of developments, in particular the expected increase in the use of sugar for industrial products.

The Council agreed to postpone until a later meeting further detailed discussion of proposals on sugar for the chemical industry and for a revised starch regime.



The Council also adopted a proposal intended to fulfil a commitment made during the price-fixing negotiations to extend the annual sheep premium to goats in certain regions, and also to untapped ewes of certain breeds in mountain areas. The premium is to be paid at 80% of the full rate. I made it clear that the proposal on ewes is unsatisfactory since it does not cover all the breeds and regions which are affected. I accordingly voted against the proposal.

There was further discussion of a measure setting minimum standards for battery cages for laying hens. Although falling well short of what I would wish, I recognised that the standards were the best on which agreement could be reached. The Danish Minister, however, was unable to accept the text at the present time, and the matter will be taken up at the next meeting of the Council on 19 December.

Finally, the Council discussed the Commission's proposal to ban the use of hormonal substances for fattening cattle. All other Member States were prepared immediately to accept such a ban from 1 January 1988. I continued to argue that, before reaching a decision, the Council should have available the scientific evidence from the Lamming Committee and should take full account of the implications of a ban for imports of meat and meat products. I also urged the Council to adhere to its previous decision to adopt such a measure only by unanimity.



TF seen



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

From the Minister's Private Office

Tim Flesher Esq  
No 10 Downing Street  
London SW1

11 December 1985

Dear Tim

I enclose a draft of the statement that my Minister intends to make this afternoon on the outcome of the Council of Agriculture Ministers' meeting held in Brussels earlier this week. I should be grateful for immediate clearance.

I am copying this to Bernard Ingham (No. 10), David Morris (Lord Privy Seal's Office), Murdo Maclean (Chief Whip's Office), David Beamish (Chief Whip (Lords) Office), Michael Stark (Cabinet Office), Andrew Lansley (Chancellor of the Duchy of Lancaster's Office), Joan MacNaughton (Lord President's Office), Len Appleyard (Foreign Office) and to Private Secretaries of the other Agriculture Ministers and Members of OD(E).

Yours ever

Ivor

IVOR LLEWELYN  
Private Secretary

## DRAFT STATEMENT TO PARLIAMENT

With permission, I will make a statement on the meeting of the Council of Agricultural Ministers of the European Community on 9 and 10 December. I represent the United Kingdom accompanied by my Rt Hon Friend, the Minister of State (Commons).

The Council agreed in principle, subject to the opinion of the European Parliament, to extend the quota system for sugar for the five years 1986/87 to 1990/91. For the first two years the A and B quotas will remain at their existing levels, and the Council will take a further decision by the end of 1987 on quotas from the remaining three years. The maximum rates of levy on A and B sugar will also remain unchanged for the first two years except for a small additional levy designed to recoup, over the coming five years, the deficit that has accumulated on the levy account. The additional levy will be shared between Member States so that those who have produced most quota sugar will pay the most; as a result the rate of levy will average 1.31% of the present intervention price for the Community as a whole, while in the UK it will be set at 0.8%.

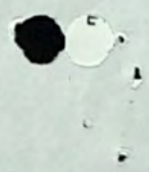
The decision to fix the quotas for two years, instead of 5 as the Commission proposed, is helpful. In making its further decision, the Council will be able to take account of developments, in particular the expected increase in the use of sugar for industrial products.

The Council agreed to postpone until a late meeting/further detailed discussion of proposals on sugar for the chemical industry and for a revised starch regime.

The Council also adopted a proposal intended to fulfil a commitment made during the price-fixing negotiations to extend the annual sheep premium to goats in certain regions, and also to untapped ewes of certain breeds in particular areas where they are slow to mature. The premium is to be paid at 80% of the full rate. I voted against the proposal on the grounds that it did not cover all the breeds of sheep and regions concerned.

There was further discussion of a measure setting minimum standards for battery cages for laying hens. Although falling well short of what I would wish, I recognised that the standards were the best on which agreement could be reached. The Danish Minister, however, was unable to accept the text at the present time, and the matter will be taken up at the next meeting of the Council on 19 December.

Finally, the Council discussed the Commission's proposal to ban the use of hormonal substances for fattening cattle. All other Member States were prepared immediately to accept such a ban from <sup>1</sup>January 1988. I continued to argue that, before reaching a decision, the Council should have available the scientific evidence from the Lamming Committee and should take full account of the implications of a ban for imports of meat and meat products. I also urged the Council to adhere to its previous decision to adopt such a measure only by unanimity.





10 DOWNING STREET

Prime Minister

This brings you up  
to date on agricultural  
developments in the  
Community.

Some improvement  
on milk; but  
unsatisfactory on cereals  
& sugar.

CDP

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bc pc

10 DOWNING STREET

*From the Private Secretary*

MR WILLIAMSON  
CABINET OFFICE

COMMON AGRICULTURAL POLICY: BUTTRESSING A POLICY OF PRICE  
RESTRAINT

The Prime Minister has now considered the paper attached to your minute of 8 October to me about practical ways in which we might seek to buttress our policy of price restraint.

The Prime Minister has commented: "The paper records an appalling state of affairs. We must make a major attack on this front (ie the problem of agricultural surpluses) in the European Council"

The Prime Minister would like the paper to be considered in the first instance at least by OD(E). It would be helpful if their discussion could embrace the point about handling in the European Council.

I am sending copies of this minute to Private Secretaries to the Lord President of the Council, the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer, the Secretaries of State for Scotland, Wales and Northern Ireland, the Chancellor of the Duchy of Lancaster, and to Sir Robert Armstrong.

(CHARLES POWELL)

4 November 1985

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VC





CONFIDENTIAL

CC NO

Prime Minister (2)

PM/85/91

*[Handwritten signature]*

PRIME MINISTER

CAP Reform: Consequences of Price Restraint for British  
Agriculture

1. I have read with great interest the Minister of  
Agriculture's minute to you of 30 September and his paper  
on the future of British agriculture. I agree with your  
comments (Charles Powell's letter of 7/October) and those  
of the Lord President, the Chancellor of the Duchy of  
Lancaster and the Chancellor of the Exchequer.

2. Michael Jopling does not say what assumptions about  
price cuts underlie his paper's predictions on land usage  
between now and the early 1990s. But the figure given  
for the reduction in the land area devoted to cereals  
necessary to stabilise surpluses at current levels (15  
per cent) implies a need for deep price cuts if surpluses  
are to be reduced. At the last two price rounds, Michael  
Jopling did well to secure agreement to real price cuts.  
Last year the fall was 4% and this year the figure is  
3½%. Guarantee thresholds have been established and milk

/quotas

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quotas introduced. The latter are administratively cumbersome but they are reducing production. FEOGA expenditure is still going up, but over the past three years the trend has been a declining one.

3. The Agriculture Council could not agree to a deep cut in prices for cereals at this year's price fixing. The final outcome was a price cut of about 6-7% in real terms. Unless more stringent cuts are made, projections from the Home Grown Cereals Authority show that on present trends, the cost to the Community budget of supporting cereals production alone could reach 14 billion ecu by 1991, i.e. five times the appropriation for cereals contained in this year's Community budget.

4. I see no alternative to pressing the case for curbing surplus production through price restraint if we are to succeed in improving economic efficiency, reducing costs to the consumer, containing the growth of the Community budget, reducing the proportion of the budget devoted to agriculture; and avoiding further exacerbation of our trading relations with developed and developing countries alike.

5. Price policy is the most effective way of achieving CAP reform. At the same time, Michael Jopling's paper shows that the effects of a price policy could be severe,

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even for our farmers who are among the largest and most efficient in Europe. Other Member States are all too conscious of the impact of price policy on their smaller, less efficient farms: we saw this year how the Germans, the wealthiest Member State in the Community were not willing to contemplate a deeper cut in cereal prices.

6. The Germans and others, therefore, have been looking at alternative approaches such as quotas, co-responsibility levies and Community financed income aids. All these courses have disadvantages; and none of them could be effective unless coupled with a sustained policy of price restraint. The main problem in my view is not so much the effects of CAP reform on British farmers - though Michael Jopling is right to point out that these could in some respects be severe - as the risk that CAP reform will be held up, with the serious costs that would entail.

7. We can only succeed if we carry a majority of member states with us. We must continue to put the main emphasis firmly on price restraint and I agree with the line which Michael Jopling is taking on the Agriculture Council (his letter to me of 18 October). But we shall have also to examine whether any elements in the thinking of other Member States, combined with price policy, could

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form the basis of an agreed outcome which will maintain  
the pace of reform at next year's price fixing.

Mr Williamson has produced a paper which usefully  
describes how a policy of price restraint could be  
buttressed by other measures. Further studies are in  
hand among officials. We should consider their  
conclusions in relation to the issues raised in Michael  
Jopling's paper.

8. I am copying this minute to the Minister of  
Agriculture, the Chancellor of the Exchequer, the Lord  
President, the Secretaries of State for Scotland, Wales  
and Northern Ireland, the Chancellor of the Duchy of  
Lancaster and Sir Robert Armstrong.

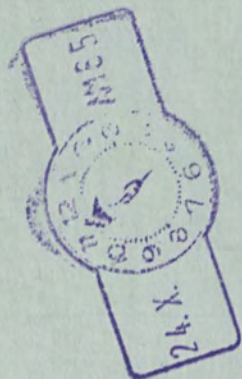
A handwritten signature in dark ink, appearing to be 'G. Howe', written in a cursive style.

(GEOFFREY HOWE)

Foreign and Commonwealth Office

24 October 1985

AGRICULTURE : Expenditure ; Sept 1983





From the Minister  
**CONFIDENTIAL**

The Rt Hon Sir Geoffrey Howe MP  
Secretary of State for Foreign and  
Commonwealth Affairs  
Downing Street  
London SW1A 2AL

18 October 1985

Dear Secretary of State

PERSPECTIVES FOR THE COMMON AGRICULTURAL POLICY

1. As you know, in July the European Commission issued a paper entitled "Perspectives for the Common Agricultural Policy". The Agriculture Council considered the paper at its informal meeting towards the end of last month and I promised to write to Cabinet colleagues about the discussion and about the next steps.
2. The Commission's document was billed as a "green paper". It was intended as a document for general debate, and is not specifically directed to the Council itself. Commissioner Andriessen is also consulting the main European agricultural organisations.
3. The paper ranges widely over a number of subjects including, for example, the protection of the environment and the problems of the rural economy. Some of these subjects are dealt with more sketchily than others. It does not go beyond setting out certain options for improving the CAP. It correctly diagnoses the major problems of the CAP (surpluses: budgetary cost) and stresses the need for a sustained restrictive price policy in order to bring the market back into better balance. It makes the point that the only fundamental alternative to an adequate price policy is to control production through quotas, and the disadvantages of quotas are well set out. But it also suggests that various measures would be needed to alleviate the effects of such a price policy, including income aids for certain categories of farmers. The latter subject is dealt with in more detail than some others, and includes a sketch of some alternative schemes. The promotion of alternative crops and new outlets for agricultural products are also discussed. The paper also deals in unsatisfactory and optimistic terms with the possibility of increasing the Community's external protection.
4. In the discussion in the Council I stressed the need to appreciate what would happen without any changes in present policies and the need to ensure that we tackle major problem areas as a first priority. I emphasised the costs of the CAP, both to the budget and to consumers, and I also referred to the problems which the export of surpluses is liable to cause for our trade relations

/with the rest ...

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with the rest of the world. I strongly commended the Commission's emphasis on price policy and underlined all the disadvantages of quotas. I accepted that, if surplus products were to be discouraged, farmers needed to be offered alternatives, but warned that this did not necessarily mean bringing a whole range of new products within the CAP. On environmental matters, I expressed a preference for national action: and I warned against the Commission's ideas on increasing external protection.

5. I am concerned about proposals for income aids for particular groups of farmers, since I can foresee that some Member States may be inclined to take whatever they can get in this area without altering their opposition to price restraint. In addition, since most of the aids would be paid out in other Member States, the financial cost to the UK could be heavy unless the aids were predominantly nationally financed. During the discussion a number of Ministers expressed significant opposition to the concept. It was disturbing that such support as income aids received was for early retirement incentives (which in themselves would do nothing to stem surplus production) or, in the case of Germany, was for permanent income aids to offset any price reductions.

6. I therefore felt it right to register my own doubts, and I took the line that income aids were not provided for in the Treaty and that social policy was a matter for Member States. In the event of negotiations eventually developing in a way which led us to conclude that income aids in some form were inevitable, I consider that we would have no difficulty in retreating (with other Member States) from this position of opposition and using the retreat to link aids firmly to action on price, and to secure the maximum possible degree of national financing.

7. So far as other Member States were concerned, the Dutch gave useful support on price policy and the Community's external policy but favoured co-responsibility levies. The Danes thought a price freeze possible. Others pressed to sustain incomes through price policy, pursue an active export policy, introduce curbs on imports of oils and fats and look for new outlets and crops. In general the discussion was disappointing. The Commission will evidently find it difficult to sustain a policy of severe restraint, but there was no very clear consensus on any alternative policy.

8. The green paper will be on the agenda of next week's Agriculture Council. Mr Andriessen will report on his consultations with producer and trade interests, but it seems unlikely that a substantive discussion will ensue. It may become clearer how the Presidency and the Commission intend to pursue matters, but I do not expect the debate to develop far before the appearance of a promised further memorandum from the Commission, which is apparently intended to make more specific suggestions, although still without firm proposals. In addition I expect a package of proposals from the Commission relating to the milk sector.

9. In the forthcoming discussions I shall be sustaining the approach set out in my initial statement drawing as necessary on the more detailed approach which has been agreed by officials. I shall of course keep you informed of progress as the discussions develop.

10. I am sending copies of this letter to the Prime Minister, to Cabinet colleagues and to Sir Robert Armstrong.

Yours Sincerely  
C. Hoare

For  
MICHAEL JOPLING  
(Approved by the Minister  
and signed in his absence)





The paper needs an  
opening statement  
We must make c.  
major points on  
front in the  
European Council  
not

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Prime Minister

(1)

None of your colleagues  
has yet commented on  
this paper.

Agree to propose  
discussion in AD(E),  
chaired by the Foreign  
Secretary, to see how  
far the proposals can be

Yes not

MR POWELL (10 Downing Street)

THE COMMON AGRICULTURAL POLICY: BUTTRESSING A POLICY OF  
PRICE RESTRAINT

taken up in our approach  
to next year's price fixing?  
CD  
y/xi

The Minister of Agriculture, Fisheries and Food submitted  
to the Prime Minister on 30 September a note on the consequences  
of price restraint for British agriculture. The Cabinet Office  
was asked to produce a paper on practical ways in which we  
might seek to buttress our policy of price restraint. This  
is now attached.

I am sending copies to the Private Secretaries to the  
Lord President of the Council, the Foreign and Commonwealth  
Secretary, the Chancellor of the Exchequer, the Secretaries of  
State for Scotland, Wales and Northern Ireland, the Chancellor  
of the Duchy of Lancaster and to Sir Robert Armstrong.

Df Williamson

D F WILLIAMSON

8 October 1985

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THE COMMON AGRICULTURAL POLICY: BUTTRESSING A POLICY OF  
PRICE RESTRAINT

Note by the European Secretariat, Cabinet Office

1. This paper sets out various ways which could be used to buttress the United Kingdom's main objective of price restraint within the common agricultural policy.
  
2. It takes as its assumptions that the budgetary cost of the common agricultural policy is to be decreased; that this is to be achieved in a manner which is not discriminatory against United Kingdom farmers; and that some further pressure on farm incomes can be accepted. This latter point raises the separate issue whether it is either desirable or negotiable to ease the effect of lower support on certain farmers by some form of income aid; this question has been tentatively raised by the Commission in its latest paper ("Perspectives for the Common Agricultural Policy, COM(85) 333 of 15 July 1985).
  
3. It is possible that during this autumn a more fundamental debate will begin in the Community about

(i) whether it would be politically possible to achieve greater or longer-lasting price restraint by specific schemes of income aid for certain categories of smaller farmers (for example, those farmers who could not otherwise make the adjustment to lower prices). Some of the options put forward

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by the Commission, eg a pre-pension scheme, look like a straightforward waste of money. But a degressive, self-eliminating scheme tied to some structural changes should at least be examined, at first in relation to cereals. It has to be recognised that once adopted of cereals this approach could have wide implications for public expenditure for other sectors (eg Mediterranean products;

(ii) whether, in the interest of the smaller farmers, there could or should be a higher return for the first part of production eg the products of the first X acres or the first X tons. This could be done by a direct payment on this proportion of area or production - probably with considerable administrative difficulties - or by a differentiated levy on larger producers. Differentiation would be likely to be least favourable to United Kingdom farmers. The United Kingdom has about 82 per cent of its agricultural area in large holdings (50 hectares or more) and only about 2 per cent in small holdings (10 hectares or less). At the other extreme Greece has only 8 per cent of its agricultural area in large holdings and 66 per cent in small holdings. The average United Kingdom farm size is about 68.7 hectares; in France it is about 25.4 hectares, in Germany about 15.3 hectares and in Italy about 7.4 hectares.

4. The prospect of Community discussion on these points should not, however, divert us from the agreed objective of price restraint, including indirect price restraint by introducing a greater market element or other cost-saving measures into the actual operation of agricultural support. This paper examines some possibilities.

5. Community support prices, expressed in national currencies, are now about 6.5 per cent in real terms below the level prevailing when the United Kingdom joined the Community. In the annual price-fixings in the early years of the common agricultural policy support prices were

generally being increased in real terms, and there is widespread agreement that the initial support level, at least for cereals, was already too high. In the late 1970s, however, it became apparent that production was rising or likely to rise strongly and that greater restraint on agricultural support was called for. Thus, between 1977/1978 and 1980/81, the gains in real terms made in the early 1970s were almost completely reversed. From 1977/78 to 1985/86 the average level of common support prices in national currencies has been cut in real terms in every year but one; in 1980/81, the reduction was as much as 6.2 per cent and in 1985/86 it was about 3.7 per cent. It is, however, apparent that the increase in farming efficiency, associated in the early years with a huge outflow of labour, has outpaced the cuts in real terms in support prices. The acreage under cereals has not increased, the number of dairy cows is almost unchanged but production has increased substantially and the Community's level of self-sufficiency has been rising in almost every agricultural sector.

6. The Council has not been ready to accept substantial direct cuts in support prices. For this reason, the Council decided to tackle the milk surplus situation through a quota scheme, despite the political difficulty of that scheme also. The following paragraphs set out under five headings ways in which, within a policy of continued direct price restraint, the cost of the main agricultural market organisations might be reduced indirectly -

- (i) limiting more effectively the open-ended guarantees
- (ii) reducing the role of public intervention
- (iii) a producer's contribution to the cost of export

- (iv) making the buyer in third countries pay more
- (v) import arrangements.

Some of these methods are already under way, but some strengthening may be possible over a period of time. The annexes to this note set out some possible applications to the more important products.

Limiting more effectively the open-ended guarantees

7. In 1980 the Commission advocated that a general principle of co-responsibility should be introduced whereby all or part of the cost of production in excess of a certain quantity - to be fixed in the light of internal demand in the Community and its external trade - should be borne by farmers themselves. In 1981 the concept of "guarantee thresholds" (ie support prices or aids reduced in proportion to excess production over a threshold level) was elaborated. In 1984 the Agriculture Council accepted more widely the principle of guarantee thresholds not only for products in surplus but also for products for which budgetary expenditure is liable to increase rapidly. Guarantee thresholds apply to cereals, rapeseed, sunflower seed and processed fruit and vegetables but not to some important products such as olive oil, fresh fruit, beef and tobacco. Quotas apply to milk and sugar.

8. It is essential to maintain pressure to implement each year the existing guarantee thresholds and to follow through the 1984 agreement of the Agriculture Council on the wider application of guarantee thresholds. Otherwise the objective may be lost in the debate which is about to begin on income aids and differentiated support.

9. Despite German obstruction, the cereals price resulting from this year's price fixing discussions is

lower than it would have been in the absence of the guarantee threshold. It is a step forward that almost all member states were ready to agree to price reductions for cereals and rapeseed, although the German Minister resisted fundamentally the operation of the threshold for cereals and rapeseed. The Commission is now thinking of altering the present threshold mechanism. Our concern must be to keep the best possible threshold mechanism in place.

Reducing the role of public intervention

10. This remains an area for potential savings, particularly in those cases where the Commission might conclude that it could act after consulting the Management Committee and without the need for a further proposal to the Council. The main methods are:-

(i) shortening the period of intervention, so that it does still ease the worst seasonal fluctuations but does not provide a floor in the market throughout the year. The biggest saving would come if it were possible to restrict cereals intervention to a clearing operation at the end of the marketing year: this could avoid the cost of taking grain into intervention merely to release it again in the same crop year and would almost certainly result in an overall lower price level in the market;

(ii) greater replacement of public intervention by private storage aid, the essential difference being that the public authority does not take over the

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ownership of a product subject to private storage aid. This has been actively considered in the past, eg for skimmed milk powder. An additional advantage in general is that for some products (eg beef) private storage aid can be associated with conditions eg that the product must be exported on being withdrawn from storage;

- (iii) tighter quality standards so that the volume eligible for intervention is reduced. It is important, however, that they should not lose touch with commercial reality and, in particular, with the characteristics of the United Kingdom product;
- (iv) maintenance and possibly wider application of delays in payment for intervention stocks, thus making this outlet less attractive to manufacturers and traders;
- (v) abolition or reduction of Community payments to member states (storage and interest charges) for holding intervention stocks. In 1984 these payments cost the Community budget over 1000 million ecu. This change, which would be strongly opposed by some other member states, would reduce pressure for price rises as the cost of intervention would bear more directly on national exchequers. On the other hand, it could reduce the pressure of the financial guideline.

A producer's contribution to the cost of export

11. The role of exports in the common agricultural policy has changed substantially since the policy was first framed. For most commodities (eg cereals, beef, pigmeat, wine, olive oil) exports - and the system of export refunds - were seen as a necessary but occasional method of balancing supply and demand. The Community is now the world's



largest exporter of animal products and the world's second largest exporter of agricultural products overall. This means that, through the export refunds, the taxpayer is providing a much more significant benefit to farmers' (and some manufacturers' and traders') incomes and is carrying it alone. The insulation against the effect of low prices in world markets is more important. The very large scale of the Community's agricultural trade - even for the Federal Republic of Germany agricultural exports are worth more than steel exports - has also generated pressures not to disturb the system. Nonetheless, there would be merit in an arrangement under which prices in export markets were reflected, even if only partially, in Community producers' returns. There would, of course, be strong resistance to this from those who would see it as a price cut.

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12. Among the ways in which this might be done are:

(i) a levy on production or sales of the product related to export sales. This could not be easily distinguished from the co-responsibility levy approach to which we are opposed. Moreover, the administrative costs would be very high and it would be very difficult to enforce such a levy if farmers refused to pay;

(ii) a charge on sales to intervention. Since the seller of, for example, butter or beef, to intervention would receive the intervention price less the charge, the basic level of support in the Community's own market would be lower and would reflect to some degree the effect of lower prices in export markets. The principal objective of such a scheme would be to provide some disincentive to intervention purchasing and to production when surpluses were being exported to low priced world markets. There would be strong resistance from agricultural interests on grounds of weakening support to producers.

Making the buyer in third countries pay more

13. Despite the Community's importance in world agricultural trade products, it is not a price-setter for many products. In some sectors, however, for which the Community is important as an exporter, such as milk products, beef or poultry the following factors can be identified:-

- (i) heavy subsidisation, principally that of the Community itself.
- (ii) an important role for centralised export marketing by state or semi-state bodies (eg the New Zealand Dairy Board, the Argentine Junta de la Carne) which enables export prices to be controlled to a considerable degree.
- (iii) a preponderance of state or semi-state bodies as buyers (eg for milk products, beef and poultry in the Soviet Union, for dairy products in Iran or Algeria). These bodies do not act like buyers in a free market: their resources depend on government decisions (and on such factors as Soviet income from oil and gold), they tend to buy in large quantities but can decide that their consumers should wait for supplies or go without. When supplies are plentiful and prices low, their position is strong, but, if world stocks start to fall and prices to rise, they can be under strong pressure to buy because no trade official wishes to explain to his political masters that he had misjudged the market.

14. The Commission does have a responsibility to try to reduce these distortions in informal discussions with other major suppliers. If and when it is judged that some increase in returns from export markets (eg for dairy products or beef) might be obtained, we should encourage the Commission to lead the market up by cutting export refunds and to discuss

informally with other major suppliers such as the New Zealand Dairy Board the indicative price levels which we might aim to sustain. With total expenditure on export refunds (1984) of about £3,650,000,000 and with about 44 per cent of all agricultural guarantee expenditure concentrated on milk products and beef, the potential budget saving from apparently modest changes in export refunds is very great.

Imports

15. The Community is the world's biggest importer of agricultural and food products but its import arrangements are, for historical reasons, unbalanced. This is particularly marked in the cereals and animal feed sector. For basic cereals such as wheat and maize the import barriers are normally very high but for the so-called cereal substitutes and for the protein element of animal feed there are no or very low barriers to imports. As a consequence, artificial trade develops in direct response to the import arrangements, for example the creation by European animal feed and trading companies of an enormous trade in manioc because it was not subject to levy and, when combined with soya (also not subject to levy), could provide an alternative source of animal feed. It is, to say the least, unusual in a managed market system that millions of tons of manioc (although subject to voluntary restraint agreements with major suppliers) are being imported into the Community for animal feed when public stocks of Community cereals suitable for animal feed are at an historically high level (almost a million tons of British barley has been offered to the intervention agency in August alone).

16. The low import barriers for certain so-called cereal substitutes and proteins are the result of tariffs bound in GATT and could not be increased without granting compensation to the countries which would be affected. The right way to tackle this problem, while respecting international trade commitments, is to make feed cereals cheaper in the Community

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and thus to provide more direct competition with the various cereal substitutes. In the immediate future it is also of major importance not to exacerbate international pressures in the United States by bringing up such sensitive issues as the Community's liberal import regime for soya, which in the present depressed state of United States agriculture is a lifeline for United States' producers. In the longer term, however, we should not rule out a radical look at protection for cereals, the so-called cereal substitutes and protein, with a view to a better balance and possibly a more liberal regime for cereals (including imported maize).

#### Conclusion

17. The proposals in paragraphs 7 - 16 are an indication of ways in which, under certain circumstances and for certain products, we might be able to reinforce our main objective of a tight price policy. They are not a substitute for it. We have to recognise that there will be strong opposition. In pursuing these objectives we should take account of effects on United Kingdom agricultural interests in domestic and export markets. The applications of some of these suggestions to particular products are annexed.

30 September 1985

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ANNEX 1 : The pattern of Community agricultural  
guarantee expenditure by product - 1984

ANNEX 2 : The pattern of Community agricultural  
guarantee expenditure by type of  
support - 1984

ANNEX 3 : Specific objectives for major products

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THE PATTERN OF COMMUNITY AGRICULTURAL GUARANTEE EXPENDITURE  
BY PRODUCT - 1984

mecu

	Total	(£m) #	Total as % of Guarantee Section Expenditure
CEREALS	1,649	( 970)	8.9
OILSEEDS	655	( 385)	3.5
OLIVE OIL	1,095	( 644)	6.0
SUGAR $\mu$	1,632	( 960)	8.8
FRUIT AND VEGETABLES	1,454	( 855)	8.0
TOBACCO	777	( 457)	4.2
WINE	1,223	( 719)	6.6
MILK	5,442	( 3,201)	30.0
BEEF	2,547	( 1,497)	13.8
SHEEPMEAT	434	( 255)	2.3
OTHER PRODUCTS	1,066	( 627)	5.8
	<u>17,970</u>	<u>10,570</u>	

Notes: # Converted at 1.7 ecu/£1.

$\mu$  The costs of storage and disposal of sugar surpluses are partly recouped by levies from producers which form part of the Community's Own Resources. The amount entered for production and storage levies in the 1984 budget as amended is 1,225 mecu.

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ANNEX 2

THE PATTERN OF COMMUNITY AGRICULTURAL GUARANTEE EXPENDITURE  
BY TYPE OF SUPPORT - 1984

mecu

	Total	(£m) #	Total as % of Guarantee Section Expenditure
EXPORT REFUNDS	6,204	( 3,650)	33.8
INTERNAL DISPOSAL	4,540	( 2,670)	24.7
PUBLIC INTERVENTION	2,397	( 1,410)	13.0
PRIVATE STORAGE	765	( 450)	4.1
PRODUCTION SUBSIDIES	4,486	( 2,638)	24.4
OTHER	- 421	(- 248)	- 2.2
TOTAL	17,970	10,570	

# Converted at 1.7 ecu/£1.

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## SPECIFIC OBJECTIVES FOR MAJOR PRODUCTS

Milk products

1. Limiting the quantity which could be sold into intervention or the period during which intervention is available would be possible routes to weakening market support, but the effect would tend to fall more heavily on the United Kingdom which remains relatively highly dependent on intervention while member states which rely more on export refunds would be less affected. It would not be sensible to raise quality standards for intervention since they already realistically reflect the commercial market.
2. At the 1985 price fixing the Commission has under its own powers provided that the minimum delay for payment for intervention purchases of butter should be reduced from 120 to 90 days for 1985/86. Not all member states have taken advantage of this (the United Kingdom, for example, has not) but for those that have a reversion to 120 days would imply a price cut of about 0.5 to 1.0 per cent.
3. In the past the Commission has considered the possibility of reducing costs by providing for tendering arrangements for export refunds or for sales out of intervention for export. However, the world market even for bulk milk products is not structured around clear world prices and futures markets which facilitate tendering in some other sectors; and when tendering for export sales of butter from intervention was tried in 1982 it was not successful.
4. The greatest improvements could be found (other than by cutting prices directly) by acting on the quota system, for example by reducing the overall level of quotas. The



Commission are expected to come forward with proposals to buy up quota.

Beef

5. It would be possible to limit intervention by further restricting the periods during which full carcasses may be offered or the qualities eligible for intervention. The Commission adopted such an approach for carcass intervention this autumn and significant reductions in intervention should thereby be achieved. It could also be useful to harmonise the qualities eligible for intervention in the different member states: this should now be possible given that the common intervention grid is now in place. There could also be advantage in making greater use of private storage provided that this was at the expense of public intervention.

Cereals

6. One of our prime objectives must be to maintain or improve the guarantee threshold. We would prefer a mechanism which operated automatically but there is little chance of negotiating this at present. It would be possible to act directly on the intervention system by limiting access to intervention to the final months of the marketing year only. In this way intervention purchases would cover only the genuine surplus (at present such grain is taken into intervention after harvest only to have to be sold out again later in the crop year) and the market would find its own level during the other months.

7. There is also a case for tightening quality standards for intervention, which could reduce the total quantity eligible for support and lower support prices for particular qualities remaining eligible. We would need to advocate that idea cautiously, since markets can be disrupted by standards which do not reflect commercial reality and some ideas could discriminate against the United Kingdom.

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8. On 31 July the Commission introduced, on its own responsibility, carry-over payments for wheat and rye only. During the price-fixing negotiations themselves, they indicated their intention of not proposing any carry-over payments at all in 1986. It remains to be seen whether they will do this.

Sugar

9. The Community's sugar regime is currently facing serious financial difficulties. Although the regime is supposed to be self-financing, the production levy/export refund account is in practice running into increasing deficit, which is estimated at about 600 million ecu up to the end of the 1984/85 marketing year. There is little scope for savings through market management measures in the sugar sector, where intervention plays only a minor role and where reasonably ordered marketing is assured by the self-financing storage levy/refund scheme.

10. Certain elements of the present sugar regime expire in June 1986. When this is discussed we should support increases in the maximum rate of production levies so as to enable the regime to become genuinely self-financing again, provided that this is done in a way which does not discriminate against the United Kingdom industry.

Fruit and vegetables

11. It should be our aim to reduce the buying-in price for citrus, peaches, apricots and table grapes to the same percentage of the basic price (40 to 55 per cent) as is the

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case for other fruit and vegetables. (At present those percentages are between 60 and 70 per cent). A reduction of the coefficients used in calculating withdrawal compensation (presently under review by the Commission) could also be helpful. Improvements will not be easy to negotiate, though it is possible that such changes will be easier to negotiate than cuts in the basic price.

12. It would be desirable to obtain guarantee thresholds in this sector (eg price cuts if production exceeded the specified level), at least for those products which entail considerable Community expenditure. So far, however, the Commission has shown no disposition to propose them partly because of major fluctuations in output from year to year, and there would be strong resistance from other member states.

13. We should oppose the continuation of support for certain processed fruits, in particular canned cherries (cost in 1984 about 10 mecu). We should continue to press for the formulation of separate quality standards for processed sultanas and raisins. Better standards should help to improve prices for Greek sultanas thereby enabling the processing aid to be reduced.

Wine

14. In view of the major reform of the wine regime which has just been negotiated, prospects for further improvements or economies in the short term must be limited. Nevertheless, we should continue to press for reductions in aids for long-term storage and for the use of must for enrichment and in aid to compensate distillers for the cost of distilling wine surpluses. The earlier triggering of aids for compulsory distillation might be expected to lead to smaller quantities qualifying for the higher rates of distillation aids payable in respect of wine coming out of long-term storage. ("Garantie de Bonne Fin".)

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Oilseeds : Olive Oil

15. The accession agreement with Spain and Portugal provides for a reform of the oils and fats sector as soon as possible after enlargement and Council discussions are likely to take place early next year. There have been many attempts in the past at such reforms and these have not been notably successful against the opposition of the producer member states, and it will again be difficult to secure improvements. In a Community of 12 we shall find it more difficult to resist changes in the oils and fats regime which could make the situation worse rather than better.

Tobacco

16. In principle the best reform for this sector would be to set a guarantee threshold for tobacco eligible for premiums taking account of the marketability of different varieties. For example, support for the less marketable varieties should be limited to a quantity certainly no greater than current production levels. On the same lines we could continue to press for increased price and premium discrimination against varieties which are most difficult to market and/or limiting the grant of full premium to cases when contracts had been concluded between growers and processors (which is presently less than 20 per cent of production).

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 FRAME AGRICULTURE  
 FM BONN  
 TO ROUTINE FCO  
 TELNO 879  
 OF 121545Z SEPTEMBER 85  
 INFO SAVING OTHER EC POSTS, MADRID, LISBON, WASHINGTON

**THE CAP: VIEWS OF FRG AGRICULTURE MINISTER KIECHLE**

SUMMARY

1. KIECHLE REMAINS DETERMINED TO RESIST ANY CAP REFORMS WHICH WOULD IMPOSE HARDSHIP ON THE GERMAN FARMING COMMUNITY. HE OPTS INSTEAD FOR INCENTIVES TO FARMERS TO ABANDON PRODUCTION OR SWITCH TO NEW CROPS, PLUS QUANTATIVE CONTROLS WHERE NECESSARY AND PRACTICABLE. IN THE LONG TERM HE SEES A MAJOR ROLE FOR AGRICULTURE AS A PROVIDER OF ENERGY.

2. KIECHLE'S MEETING WITH BLOCK IN JULY HAS IMPRESSED ON HIM THE RESOLVE OF THE UNITED STATES TO RETAIN AND IN SOME CASES REGAIN AGRICULTURAL EXPORT MARKETS.

DETAIL

3. I CALLED TODAY ON THE FEDERAL MINISTER FOR AGRICULTURE. AFTER A SAD EXCHANGE ON THE RECENT WINE SCANDAL I ASKED ABOUT GERMAN IDEAS ON HOW TO REFORM THE CAP. COULD KIECHLE ELABORATE ON A REMARK WHICH HE MADE IN A RECENT SPEECH: QUOTE YES TO STRUCTURAL CHANGE, BUT ACHIEVED VOLUNTARILY AND BY MEANS OF INCENTIVES, NOT BY PRICE REDUCTIONS AND ENFORCED BANKRUPTCY UNQUOTE?

4. KIECHLE REITERATED THAT HE WOULD NOT GO ALONG WITH A HARDSHIP POLICY AIMED AT FORCING PEOPLE OUT OF FARMING. NOT ONLY WAS THIS MORALLY INCONCEIVABLE FOR HIS GOVERNMENT: IT WAS ALSO IMPORTANT TO REMEMBER THE ROLE OF THE FARMERS AS A BULWARK AGAINST 'SOCIALISM'. A POLICY OF PRICE REDUCTIONS MIGHT INCREASE AVERAGE FARM SIZE, BUT IT WOULD NOT REDUCE OVERALL PRODUCTIVE CAPACITY: PROBABLY THE REVERSE.

5. IN KIECHLE'S VIEWS THE RIGHT WAY TO PROCEED WAS TO OFFER EARLY PENSIONS TO THOSE FARMERS (HE THOUGHT THERE WERE QUITE A NUMBER OF THEM) WHO WERE AGED FIFTY OR OVER AND HAD NO HEIRS OR NONE WISHING TO TAKE OVER: TO INTRODUCE A VOLUNTARY SET-ASIDE SCHEME: TO MAKE IT POSSIBLE FOR MORE FARMERS TO GO OVER TO PART-TIME ACTIVITY, SINCE THEY THEN GENERALLY FARMED LESS INTENSIVELY: TO ENCOURAGE SWITCHING OUT OF CEREALS INTO LESS CONVENTIONAL CROPS, FOR WHICH THE NECESSARY RESEARCH AND SEED DEVELOPMENT SHOULD BE PRESSED AHEAD AND TO CONSIDER QUOTAS FOR SOME PRODUCTS. HE DID NOT CONSIDER IT IMPOSSIBLE TO DEVISE A QUOTA SCHEME FOR CEREALS, ALTHOUGH THIS WOULD NOT TAKE THE SAME FORM AS IN THE MILK SECTOR. IF GERMANY WERE FREE TO INTRODUCE A NATIONAL SCHEME, SHE COULD QUITE QUICKLY DO SO, BUT THE

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PROBLEM WAS TO DEVISE SOMETHING WORKABLE FOR THE COMMUNITY AS A WHOLE. HE SAID WITH EMPHASIS THAT HE WAS NOT GOING TO INTRODUCE SOCIAL OR OTHER MEASURES WHICH WOULD REDUCE PRODUCTION IN GERMANY WITHOUT PARALLEL ACTION IN OTHER MEMBER STATES: THE LATTER WOULD THEN SIMPLY TAKE OVER THE FRG'S MARKETS. COMMUNITY SCHEMES WERE NEEDED.

6. KIECHLE SPOKE EARNESTLY ABOUT THE WARNINGS HE HAD RECEIVED FROM THE US TRADE SECRETARY ABOUT AMERICAN DETERMINATION TO REGAIN THEIR LOST SHARE OF WORLD AGRICULTURAL EXPORT MARKETS, WITH THE USE OF SUBSIDIES IF NECESSARY. EUROPE WOULD BE UNWISE TO IGNORE THESE WARNINGS. THE AMERICAN ATTITUDE UNDERMINED THE COMMISSION'S ARGUMENTS FOR REDUCING PRICES TOWARDS WORLD LEVELS IN ORDER TO BOOST EXPORTS.

7. ON CEREALS, KIECHLE ARGUED THAT PER TONNE SET-ASIDE MUST BE CHEAPER THAN EXPORT REFUNDS AT PRESENT LEVELS. ANY SCHEME MUST HOWEVER BE VOLUNTARY. IT WAS ALSO IMPORTANT TO LIMIT IMPORTS OF CEREALS SUBSTITUTES: INCREASING EC PRODUCTION OF PROTEIN CROPS WOULD HELP. IN THE LONGER TERM HE SAW GREAT POTENTIAL FOR THE USE OF AGRICULTURAL PRODUCTS AS AN ENERGY SOURCE, IT BEING OBVIOUSLY ONLY A MATTER OF TIME BEFORE THE SUPPLY OF NON-RENEWABLE FUELS DRIED UP.

8. COMMENT WILL FOLLOW.

BULLARD

YYYY

FCO PLEASE ADVANCE TO: MAFF - HADLEY: WENTWORTH  
FCO PLEASE PASS TO SAVING ATHENS, UKREP BRUSSELS, EMBASSY  
BRUSSELS, COPENHAGEN, DUBLIN, LUXEMBOURG, THE HAGUE, PARIS, ROME,  
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FRAME AGRICULTURE.

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NBPM  
CDP 16/7.

MR POWELL - 10 DOWNING STREET

EUROPEAN COMMUNITY: COUNCIL OF MINISTERS (AGRICULTURE)

1. The Germans were lobbying actively in the preparations for the Agriculture Council, which is now in progress, in order to achieve changes in the Commission's proposal on cereals and rapeseed prices. They have failed, however, to achieve their main objective. The United Kingdom delegation at the Council informed me this morning that the likely result of the Council will be:

(1) no change in the proposal for a 1.8% cut in cereals and rapeseed prices. The Germans will again not agree. On their own authority the Commission will apply the 1.8% cut. There will be no further discussion in the Council until the autumn, when the Commission's more widely drawn paper on the future direction of the common agricultural policy will be on the agenda;

(2) some changes in the supporting measures which the Commission considers to fall within its own competence. Mr Jopling will seek assurances that these can be financed within the budget provisions, if necessary by compensatory savings. The United Kingdom will only take note of any changes, thus leaving ourselves free to oppose or to suggest detailed amendments if these points are submitted to the Management Committee.

2. I am sending copies to Colin Budd (FCO), Rachael Lomax (Tsy), Ivor Llewelyn (MAFF) and Sir Robert Armstrong.

*D F Williamson*

D F WILLIAMSON

16 July 1985

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FRAME AGRICULTURE

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TO IMMEDIATE FCO

TELEGRAM NUMBER 2561 OF 10 JULY 1985

INFO PRIORITY COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN,  
LUXEMBOURG, ATHENS, LISBON, MADRID, WASHINGTON,  
INFO SAVING BRUSSELS.

## PERSPECTIVES FOR THE CAP

### SUMMARY

1. THE COMMISSION'S CONSULTATION PAPER WILL BE FINALISED THIS WEEK. THE INTRODUCTION WAS RELEASED TODAY AND REFLECTS DELORS' PREOCCUPATION WITH AVOIDING RURAL DEPOPULATION, PLACING A STRONG EMPHASIS ON SELECTIVE INCOME AIDS. BUT A CONTINUING RESTRICTIVE AND MARKET ORIENTED PRICE POLICY IS ALSO ENDORSED.

### DETAIL

2. AT THIS MORNING'S COMMISSION MEETING THE FIRST NINE PAGES OF THE CONSULTATION PAPER WERE AGREED. THEY WERE RELEASED TO DELEGATIONS THIS AFTERNOON (MUFAXED TO PACKER, MAFF) AND WERE SIMULTANEOUSLY RELAYED BY ANDRIESEN TO THE EUROPEAN PARLIAMENT'S AGRICULTURE COMMITTEE IN LUXEMBOURG. ANDRIESEN HAS BEEN MANDATED TO COMPLETE THE TEXT OF THE REMAINING CHAPTERS (IN CONSULTATION WITH DELORS) FOR RELEASE BEFORE THE AGRICULTURE COUNCIL ON 15-16 JULY.

3. WE UNDERSTAND THAT THE FRAMEWORK OF THE WHOLE PAPER IS SET BY THE INTRODUCTORY PAGES. HAVING STRESSED THE POSITIVE ACHIEVEMENTS OF THE CAP AS A CORNERSTONE OF THE COMMUNITY, THESE DEFINE THE CURRENT PROBLEM AS BEING HOW TO MAINTAIN THE AGRICULTURE POPULATION WITHOUT UNACCEPTABLE WASTE OF ECONOMIC AND FINANCIAL RESOURCES. THEY SAY THAT CONTINUING ACCUMULATION OF SURPLUSES, DUE TO IMBALANCE BETWEEN PRICES AND MARKETS, IS NOT A SATISFACTORY OPTION. ACCORDINGLY A RESTRICTIVE MARKET ORIENTED PRICE POLICY SHOULD BE CONTINUED TAKING ACCOUNT OF THE REALITIES OF INTERNATIONAL COMPETITION AND FINANCIAL CONSTRAINTS. WITHOUT SUCH A POLICY, THERE WOULD BE A NEED FOR MORE QUOTAS WHICH WOULD NOT BE IN AGRICULTURE'S LONGTERM INTERESTS. A MARKET APPROACH ALSO IMPLIES GREATER ATTENTION TO CONSUMER DEMAND IN TERMS OF QUALITY AND TO THE REQUIREMENTS OF FOOD MANUFACTURING INDUSTRY.

4. HOWEVER (THE INTRODUCTION CONTINUES) FARMERS MUST BE OFFERED POSITIVE PERSPECTIVES TO AVOID RENATIONALISATION OF AGRICULTURE POLICY, TO COUNTER THE RISK OF GROWING POLARISATION BETWEEN ECONOMICALLY SUCCESSFUL FARMS AND THOSE IN LESS FAVOURABLE CIRCUMSTANCES, AND TO PROTECT THE SOCIAL AND ECONOMIC CONDITIONS OF THE AGRICULTURAL POPULATION. THERE SHOULD THEREFORE BE A SHIFT

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IN EMPHASIS TOWARDS THE GUIDANCE SIDE OF FEOGA AND THIS POINTS TO SELECTIVE INCOME SUPPORT AS A NECESSARY COMPLEMENT TO THE PRICES POLICY.

5. THE OTHER THEMES TO BE CONSIDERED WITHIN THIS BROAD CONTEXT ARE:
- REFORM OF THE CEREALS REGIME
  - PROMOTING ALTERNATIVE FORMS OF PRODUCTION
  - DEVELOPMENT OF NEW OUTLETS IN THE INDUSTRIAL AND ENERGY SECTORS (BUT THE SCOPE HERE IS LIMITED AND RAISES SERIOUS QUESTIONS OF FINANCING)
  - DEVELOPING EXPORTS UNDER COMPETITIVE CONDITIONS
  - RECOGNISING THE IMPORTANCE OF AGRICULTURE AS A PROTECTOR OF THE ENVIRONMENT AND POSSIBLY PROVIDING FINANCIAL COMPENSATION FOR ANY NEW DISCIPLINE WHICH FARMERS ACCEPT.
  - BETTER INTEGRATION OF AGRICULTURE IN REGIONAL DEVELOPMENT.

6. THE TEXT SAYS THAT ANY ADDITIONAL EC EXPENDITURE WOULD NEED TO BE REFLECTED IN COMPENSATORY SAVINGS ELSEWHERE SO THAT THE FINANCIAL GUIDELINE IS RESPECTED. HOWEVER, ONE OPTION IS INCREASED PRODUCER FINANCIAL CORESPONSIBILITY.

7. WE UNDERSTAND THAT THE EMPHASIS ON MAINTAINING RURAL POPULATION WAS ADDED BY DELORS FOLLOWING HIS STRONG CRITICISM OF ANDRIESEN'S FIRST DRAFT. THIS IS CONSISTENT WITH DAVID CURRY (MEP)'S REPORT TO MR MACGREGOR (MINISTER OF STATE, MAFF) IN LUXEMBOURG YESTERDAY THAT DELORS HAD CRITICISED THE DRAFT BECAUSE OF ITS INSENSITIVITY TO THE FARMING COMMUNITY AND ITS INADEQUATE REFLECTION OF THE NORTH/SOUTH BALANCE AND REGIONAL FACTORS. DELORS WAS ALSO UNHAPPY THAT IT WAS NOT CAST AS A GENUINE OPTIONS PAPER AND WE UNDERSTAND THAT THE FINANCIAL DRAFTING OVER THE NEXT FEW DAYS WILL RECTIFY THIS.

8. ANDRIESEN INTENDS TO MAKE A STATEMENT ON THE PAPER AT NEXT WEEK'S AGRICULTURE COUNCIL.

FCO ADVANCE TO:-

FCO - CLEMENTS  
CAB - HARDING  
MAFF - PACKER, WAY  
TSY - BUTT

(ADVANCED AS REQUESTED)

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MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND THE FRENCH MINISTER OF AGRICULTURE: 2 JULY 1985

CDP  
2/7

Present

Minister  
Minister of State (Commons)  
Sir Michael Franklin  
Mrs Attridge  
Mr Boswell  
Mr Llewelyn

M Nallet  
M Lachaux  
M Trunel  
French Ambassador  
M Balnay ) French  
M Carnelluti ) Embassy

1. After welcoming M Nallet, the Minister suggested that the discussion should concentrate on the forthcoming review of the CAP, which was about to be launched by the Commission. He said that we were firmly of the view that a realistic price policy was the best way of controlling agricultural production. In our view, the alternatives to this were not attractive. In particular, we disliked the idea of any further extension of the quota system; he thought that the French shared our view.

2. M Nallet said that France did not, perhaps, approach the problem in the same way as the UK, but the conclusions they had reached were much the same. In the first place, it was clear that producers did not want an extension of the quota system and he agreed that this was not a practical solution. Secondly, it was essential to maintain the Community's presence on export markets and this meant that the gap between Community and world prices could not be allowed to increase. The Community must adopt realistic prices for all products which it expected to sell on world markets. He was sure that this approach was the correct one and thought that this was coming to be accepted by French producers. He had recently addressed a meeting of cereal growers and explained this policy, pointing out that it implied price reductions. They had not applauded, but they had not booed either. On this issue, France and the UK clearly held similar views, which were opposed by Germany. He thought that there were two aspects to the current German position. One reflected internal political pressures, but the second was more fundamental, and it derived from a different view of the future of the CAP. Germany had benefited from the CAP to the extent that it was now approaching self-sufficiency, but the Germans did not see themselves as exporters. He had been struck by the emphasis that they always placed on disposal on the internal market (for example, alternative uses for cereals) rather than on the world market. Germany, in fact, was primarily interested in maintaining prices and patterns of production so that their producers were guaranteed adequate incomes without any real changes in the existing farm structure. This worried him, as he thought that the logic of this policy led inexorably to quotas. A further point of concern to him was the growing emphasis on social payments, such as income aids. With the accession of Spain and Portugal, the Community would have a substantial agricultural population with an average income little above that of Greece. If the balance in agricultural expenditure moved away from market management measures towards social payments, this would be very expensive in budgetary terms as well as reducing France's receipts from the CAP; the net effect would be a marked increase in their net contribution.

3. The Minister agreed that it was necessary to maintain the Community's share of export markets and that to achieve this Community prices could not be permitted to diverge further from world prices. He commented that the UK was coming to rely to an ever greater extent on exports, and noted that as the UK became more export orientated and France became a net contributor, our views were coming together. Furthermore, our approach was, to a large extent, shared by the Commission and, provided that we kept together, we should be able to have a major influence on the forthcoming review. On the question of income aids, he shared France's reservations; these would only be effective if they were accompanied by a stringent price policy. His fear was that pressures from other Member States would lead to a lax price policy and income aids. He was also concerned about the effect of income aids on agricultural expenditure. Any social payments should be financed from, say, the Social fund rather than FEOGA. M. Lachaux cautioned against antagonising the Federal Republic too much since they were the principal contributors to the budget.

4. The Minister of State (Commons) added that the accession of Spain and Portugal would undoubtedly increase the degree of support in the Community for income support. Sir Michael Franklin commented that most members of the existing Community were aware of the dangers of giving any income commitment to Spain and Portugal. But it would be equally dangerous to provide such a commitment to, say, the part-time Bavarian farmer, as this would mean subsidising the inefficient sectors of Community agriculture at the expense of the market orientated ones, which were the ones where the UK and France were strong.

5. M. Nallet said that he was very aware of all these dangers. Before reaching any decisions, it would be essential to know whether income aids would be paid across-the-board, and whether they would come wholly or in part from the Community budget. He would like to see a projection of their effects on the budget, under various hypotheses within the next 15 years, given current demographic and production trends. Another consideration was the effect income aids would have on farm structures. Here, they would be likely to preserve existing structures and slow down the consolidation of small, fragmented holdings into medium sized farms.

6. Taking up this last point, the Minister asked what progress was being made in France on the rationalisation of milk production. M. Nallet replied that the number of milk producers had already fallen below 400,000. Given the age structure of the industry, this move would accelerate and he expected to see a total of 250,000 producers in five years. Their policy was to aim for holdings producing between 200 and 300 thousands litres a year, ie from 40-60 cows. He went on to say that the introduction of the quota system had provided a valuable opportunity to modernise the French milk industry. The key factor here was that France had chosen to introduce dairy, rather than individual, quotas; this meant that the structure of the industry could continue to evolve and that the trend in favour of the more efficient producer was accelerated. Germany, on the other hand, which had a very similar structure in the milk sector to France, had decided on individual quotas, which froze existing farm structures and patterns of production; this, once

again, illustrated the overall German approach to agricultural policy.

7. At the end of the meeting Nallet said that he was glad that there was such a wide measure of agreement between the two countries. There were, however, likely to be differences of view on how rapidly prices should be reduced, given the differing farm structures in the UK and France. The Minister replied that there, would, no doubt, be some differences of view. But the important point, on which he thought they were agreed, was that the Community could not adopt policies which were against the interests of efficient producers if it was to compete effectively on world markets.

8. Discussion continued over dinner. (The Minister of State (Commons), Mr Boswell and M Carnelluti were not present). The following points were raised:

a) there was general agreement that the new Presidency would have no option but to return to the question of cereal prices at the next Council, but no one was optimistic that any decisions would be reached;

b) M. Nallet said that there was some enthusiasm among French cereal producers for the idea, contained in the draft Commission "Perspectives" paper, of an organisation to fund cereal exports and alternative uses of cereals; this would be financed by a co-responsibility levy. M. Lachaux added that in any case more flexibility was needed in the price system for cereals; returns to producers should vary according to the size of the harvest and the variations should take effect in the same, rather than the following, marketing year. He implied that a co-responsibility levy, linked to the costs of disposal, would achieve this. On this point Sir Michael Franklin pointed out that institutional prices only provided a framework for market prices; in reality, market prices in Community did vary considerably according to the size of the harvest;

c) on alternative uses for cereals, such as the production of ethanol, the Minister made it clear that he remained a sceptic. Given that even countries that could produce cereals at world prices did not find this economic, he doubted that it would ever be an economic proposition in the Community. M. Nallet tended to agree; in particular, it was essential that the possibility of finding alternative uses for cereals was not used as a pretext for postponing a realistic price policy or reducing the emphasis on export orientated policies;

d) there was some discussion of US agricultural policies. M. Nallet thought that the Administration were having to take a particularly tough line because the Farm Bill was currently before Congress. Once this was out of the way, the situation should become easier. He felt that Mr Block's export enhancement programme was not part of a long term strategy, but a response to Congressional pressure. In his view, this made it important for the Community to respond to US moves. If the Community could match the US offer to Algeria, and any

subsequent offers, he did not think that Congress would be prepared to finance a prolonged offensive. In any case, the Community needed to maintain a share of the Algerian market; indeed, Algeria did not wish to be dependent on a sole supplier. He added that the United States' tactics were clearly to divide the Community. In this connection, he had been struck by the way that the Community Ministers had maintained a common line, without any prior co-ordination, at the dinner Mr Block had given in Paris recently. He thought that the dinner had proved useful and had made it clear to the Americans that the Community was united on this issue. He had told Mr Block on that occasion that he had no wish to be involved in an all out trade war, as this would be a disaster for all the participants and would be a very bad way to prepare for major trade negotiations;

e) On the question of trade negotiations, M. Lachaux said that the nature of Community institutions put the Community at a disadvantage compared to the US. US negotiators were able to negotiate a provisional agreement and then seek the endorsement of Congress. Community negotiators, on the other hand, were bound by a strict Council mandate, which was invariably well known to their opponents, and had very little flexibility. Both Sir Michael Franklin and Mrs Attridge thought that this over-stated the case. In practice, the Commission had a good deal of flexibility to explore possible compromises informally, while US negotiators were often at a disadvantage in that they could not guarantee to win over Congress. In any case, we would be happy to give the commission rather more flexibility on agriculture trade policy matters, but would France?

9. Two other matters were raised during dinner. The Minister asked M. Nallet whether he had reconsidered his attitude to the SEC scheme for ewes. He reminded M. Nallet of the efforts we had made to meet French pre-occupations. M. Nallet replied that he was meeting sheep producers throughout France and would reach conclusions in September. Conditions varied, but there was no doubt that in general the situation remained very serious and he was extremely concerned. Large numbers of producers had made it clear that prices were at levels that would not permit them to continue in business.

10. Finally, M. Lachaux revealed that France does not intend to reduce the period of delay on payment for butter bought into intervention.

*ell*

C I LLEWELYN  
4 July 1985

Private Offices

Mr Andrews  
Mr Hadley  
Mrs Attridge  
Mr Capstick  
Mr Wilson  
Mr Dickinson  
Mrs Archer  
Mr Packer  
Mr Lawson  
Mrs Pickering  
Mr Wentworth

Mr Cruickshank  
PS/Foreign Secretary  
PS/Chancellor  
PS/SofS for Scotland  
PS/SofS for Wales  
PS/SofS for Northern Ireland  
Mr Powell/No 10  
Mr Williamson/Cabinet Office  
Mr Anderson/UKREP  
Miss Timms/Paris



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## 10 DOWNING STREET

*From the Private Secretary*

26 June, 1985.

**FUTURE OF THE COMMON AGRICULTURAL POLICY**

The Prime Minister held a meeting this morning with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and your Minister about the future of the common agricultural policy. Mr. D.F. Williamson was also present. The meeting had before it your Minister's minute of 20 June to the Prime Minister.

The Prime Minister said that she agreed that the best way to correct the operation of the common agricultural policy was through price restraint. It was essential that the whole agricultural support price structure of the Community should not be geared to the least efficient small farmers but only to the full-time efficient enterprises. The problems of the smaller, less viable farmers were of a social nature and might be tackled outside the support price mechanism. In addition, she considered that we ought to continue to think of other ways of achieving the price restraint which we sought, for example, by less rigid intervention systems.

Mr. Jopling said that the essential objective must be to maintain the pressure for price restraint and not to move publicly to any fall-back position. In order to get price support geared to efficient production it was necessary to think how to tackle the problem of the small farmers in the Community who would become even less viable. It would also be necessary to think about alternative land use when, in the next decades, some agricultural land went out of production. He considered that there were real risks in starting on an income support policy for small farmers within the common agricultural policy; there was a risk that market support would cost up to the limit set by the financial guideline, but other Agricultural Ministers would want, in effect, to top this up with income support for their problem farmers.

In discussion it was said that the current trends gave rise to major long-term problems. Productivity was rising everywhere in agriculture and it was probable that the Soviet Union would eventually become more self-sufficient. The area into which

surpluses might be exported could then contract. It seemed likely, therefore, that over a period of time some land in Western Europe would go out of agricultural production or would move to lower forms of production. This did raise important political questions about the maintenance of rural communities and about what would be done with the land. In substance, the problem of many marginal farmers in the Community might have to met either by some form of outgoers scheme or by a deliberate decision to make forms of social payments to keep the land populated. If, in the end, there was a movement towards social support for these small farmers, of whom there were large numbers in the southern part of the Community, the United Kingdom would need to reiterate that it was inequitable that social security for the urban population should be wholly on national budgets while social security for the rural population was almost entirely on the Community budget.

There was a genuine conflict between the need to reduce surpluses on the one hand and to avoid depopulation of the rural areas on the other. This made it all the more important that there should be a fuller investigation of other possible land use, in particular timber. It would also be desirable to look in more detail at the various national aids and tax incentives in other member states which were contributing to the creation of agricultural surpluses elsewhere and at the possibility of revising and reducing some of the least acceptable support regimes, for example, that for tobacco.

The Prime Minister, summing up the discussion, said that the major objective of continuing price restraint within the Community was endorsed and that the Minister of Agricultural, Fisheries and Food, with the collaboration of the other Agriculture Ministers, should now prepare a further paper on the implications of price restraint for land use and population in rural areas of the United Kingdom. Taking account of the difficulties of achieving price restraint directly, the Cabinet Office should produce a paper which would set out the various ways (e.g., by making intervention less attractive) which could be used to buttress the United Kingdom's main objective of price restraint.

I am sending copies of this letter to Colin Budd (Foreign and Commonwealth Office), Rachel Lomax (HM Treasury) and Richard Hatfield (Cabinet Office).

(C.D. Powell)

C.I. Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.



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MR POWELL

FUTURE OF THE COMMON AGRICULTURAL POLICY

--- I attach a draft record of the meeting which the Prime Minister held this morning, in the form of a letter for you to send to Mr Llewelyn (MAFF).

*D F Williamson*

D F WILLIAMSON

26 June 1985

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To: *Williamson*  
on.

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~~Draft~~ letter from Mr Powell to Mr Llewelyn (NAFF)

FUTURE OF THE COMMON AGRICULTURAL POLICY

The Prime Minister held a meeting this morning with the Foreign and Commonwealth Secretary, the Chancellor of the Exchequer and your Minister about the future of the common agricultural policy. Mr D F Williamson was also present. The meeting had before it your Minister's minute of 20 June to the Prime Minister.

The Prime Minister said that she agreed that the best way to correct the operation of the common agricultural policy was through price restraint. It was essential that the whole agricultural support price structure of the Community should not be geared to the least efficient small farmers but only <sup>to</sup> the full-time efficient enterprises. The problems of the smaller, less viable farmers were of a social nature and might be tackled outside the support price mechanism. In addition, she considered that we ought to continue to think of other ways of achieving the price restraint which we sought, for example by less rigid intervention systems. // Mr Jopling said that the essential objective must be to maintain the pressure for price restraint and not to move publicly to any fall-back position. In order to get price support geared to efficient production it was necessary to think how to tackle the problem

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In discussion it was said that the current trends gave rise to major long-term problems. Productivity was rising everywhere in agriculture and it was probable that the Soviet Union would eventually become more self-sufficient. The area into which surpluses might be exported could then contract. It seemed likely, therefore, that over a period of time some land in Western Europe would go out of agricultural production or would move to lower forms of production. This did raise important political questions about the maintenance of rural communities and about what would be done with the land. In substance, the problem of many marginal farmers in the Community might have to be met either by some form of outgoers scheme or by a deliberate

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There was a genuine conflict between the need to reduce surpluses on the one hand and to avoid depopulation of the rural areas on the other. This made it all the more important that there should be a fuller investigation of other possible land use, in particular timber. It would also be desirable to look in more detail at the various national aids and tax incentives in other member states which were contributing to the creation of agricultural surpluses elsewhere and at the possibility of revising and reducing some of the least acceptable support regimes, for example that for tobacco.

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I am sending copies to Colin Budd (FCO), Rachel Lomax (Treasury) and Sir Robert Armstrong.

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PRIME MINISTER

FUTURE OF THE CAP

You have read the papers for this meeting.

The main purpose of it is to stimulate  
the MAFF into some rather more original  
thinking about the future of the CAP.

I have asked David Williamson to jot down  
- unofficially - the attached points based  
on his experience.

The conclusion you may want to reach is  
that the MAFF should go off and write  
a bolder study of the options: or you  
may like to invite the Cabinet Office  
to do it under David Williamson's chairmanship.  
Either way the Policy Unit should be associated  
with it.

C.D.P.

25 June, 1985



Prime Minister  
CDP

MR POWELL

FUTURE OF THE COMMON AGRICULTURAL POLICY

The note by the Ministry of Agriculture, Fisheries and Food annexed to Mr Jopling's minute of 20 June to the Prime Minister contains a description of the problem and very rightly points to the importance of price policy. It does not, however, examine the different ways of holding or reducing prices in practice. There is an element of "hoping for the best". It seems to me - particularly in view of German attitudes - that the United Kingdom should be trying to get into the Commission's review some ideas on how best to restrain prices. There is more than one way up the North face of the Eiger!

2. In the Community there are four main routes to price restraint. If and only if the conditions were strict enough, the first could be linked with income aid for the smallest farmers.

(1a) direct price restraint or reduction. Community support prices have been falling in real terms. Farmers have responded by gains in productivity due to a massive release of labour since the introduction of the common agricultural policy and by taking advantage of remarkable scientific advances eg on crop yields. Consumer prices for food have consistently been rising faster than producer prices for agricultural products: the Community's 1984 agricultural report showed an average difference since 1973 of about 2.4 percentage points a year. The Commission's price proposals for 1985/86 - now adopted or in effect in a less rigorous form - contained almost no price increases and a good number of freezes or reductions. We have to assess how far we can keep this going in future years in the face of political opposition in many member states. I



believe that we can hold price changes to well below the level of inflation but that this will not be enough. That is why we need to look at the other routes below.

(1b) direct price reduction, with some offsetting income aid. This is a dangerous route. It is only worth attempting if the conditions are set and not fudged. These should be:

- a significant price reduction for important products, ie for cereals, milk, olive oil etc (the export refund needed this week to bring the Community wheat price down to a competitive world level is about 15 per cent of the Community price). This will run hard into the determination of Ministers not to reduce the price of milk because of the trauma of the quota/levy system and the particular determination of Mediterranean countries to defend their product prices;
- income aid should be paid to the farmer, not to the farm. Thus it would be reducing over time. 23 per cent of all farm holders in the Community are 65 years old or more;
- it should not be paid to part-time farmers. The Prime Minister will recall how many part-time farmers there are. Among Community holders of farms, about 33 per cent are classified as full-time holders, about 54 per cent are classified as "main occupation" holders;
- any income aid should be included in the structural measures and thus subject to any overall expenditure limit there, eg for five years. It should not be negotiable annually in the price package.

(2) guarantee thresholds. We must continue to strongly support guarantee thresholds which have the effect of cutting the support price where a quantitative target of marketable production is exceeded. Despite Herr Kiechle's last stand - although only about 9 per cent of German agricultural production is cereals, and more than half the cereal production

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in Germany is used as an input, ie a cost, for livestock production - this method is a valuable extra weapon. There is little doubt that the existence of guarantee thresholds did produce a lower price package this year than would otherwise have been the case.

(3) loosening the intervention system. At least for some products the system was designed to be "belt and braces", ie open-ended access to public intervention at a remunerative price if the product could not be sold on the home market or for export. Even modest changes which make intervention less attractive and thus encourage some sales at a low market price in periods of excess supply can save the budget a lot of money. We made a start but more might be done, eg by varying the periods at which intervention is open or by substituting private storage and not acquiring the product. The change which I introduced of extending the period of payment for intervention purchases has definitely bitten, since Herr Kiechle is trying to reverse it!

(4) making the surplus producer pay the export cost. For part of the sugar crop (C sugar) the producer carries the cost or most of the cost of export, a levy of up to about 40 per cent being charged to broadly match the export refund. The intention is that for this sugar the world price only should be received. Despite the technical difficulties, this might be looked at for some other sectors.

Finally, if we are to continue to influence opinion in the Community towards the better operation of the common agricultural policy:

(i) we need to counter continually the assumption that there is a direct relationship between budget expenditure and farm incomes. By far the greater part of farmers' returns comes from the market. Small percentage changes

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in market returns, eg by better Commission management of exports, can reduce public expenditure markedly. In 1981, for example, when we reduced the budgetary cost of the common agricultural policy (in the milk sector by more than 1400 million ecu (about £825 million)), the price of final production rose satisfactorily for farmers in nominal terms and indeed was at its highest level in real terms for the whole of the period 1975-83;

(ii) while continually trying to rein in the Community's own export subsidisation, we should recognise that world markets are also distorted by important subsidisation and illiberal practices elsewhere, eg Japanese protectionism and United States support programmes. (United States Department of Agriculture expenditure on direct price support in 1983 was about \$18900 million and on consumption subsidies about \$17300 million. In addition, they released from store about \$10200 million of goods without receiving payment.)

I am sending a copy to Sir Robert Armstrong.

D F WILLIAMSON

25 June 1985

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PRIME MINISTER

21 June 1985

FUTURE OF THE CAP

The drift of the paper which MAFF have prepared for this meeting shows why we need a discussion on this subject. The paper illustrates (at Annex III) how difficult it will be to hold to the financial guideline (a gap of 3.5 billion ecu to be closed by 1989). This may understate the task - see below - yet Michael seems disinclined to consider seriously various devices which our partners may push onto us (quotas, co-responsibility levies), or income aids, which the Commission may propose, and which may make price restraint more acceptable politically.

Michael is quite right, of course, to stress the prime importance of price restraint and the real progress he has made in getting it accepted. But it seems a little short-sighted not to address the alternatives. We resisted milk quotas, single-handedly; made no plans to introduce them, and as a result, Michael has been on the defensive for a year, organising their introduction virtually from a standing start.

The Commission may just keep within the budget (20.6 billion ecu) next year, but this is thanks to the high dollar. A fall of just 1% in the dollar could breach the guideline. A 10% fall would add 600-1,000 million ecu to FEOGA costs. Shifts in US farm policy (cuts in

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deficiency payments, export aids) could add more. The record harvest in 1984 now looks less freakish than it did last year. The 1985 harvest could be almost as great, and rising yields will drive future harvests even higher. So we need some detailed scenarios of best and worst cases. This would enable us to consider whether, for example, income aids have any merit. Annex II of the paper argues that income aids won't reduce FEOGA expenditure. But we could look at this example in another way. Would income aids enable us to stabilise a budget which would otherwise run out of control? And couldn't we secure agreement that income aids should only be introduced as part of a package which helps to control expenditure?

The paper brings out the adverse distributional aspect of income aids. For example, if aids were restricted to farms of less than 20 hectares, 28% of farms in the Community, but only 5% of UK farms would benefit. But we could surely do better than this by insisting that the criteria take some account of differing farm structures in member states.

If quotas on cereals are forced upon us, as seems possible, what form should they take? Shouldn't they be marketable, so that out-goers can cash their chips at no cost to the budget? Why not insist that those who buy quotas relinquish part of them, so that production falls as farmers leave?

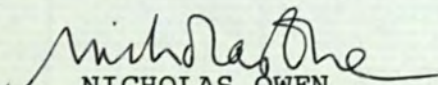
Should we not begin thinking, domestically, about alternative land use if, as the paper hints, 15% of farmland becomes surplus to requirements? Isn't this an opportunity for more people to have homes with 3 acres, and isn't it time to remove 'prime agricultural land' as a consideration in planning?

### Conclusions

The most useful outcome of the meeting would be a remit for MAFF, in conjunction with the FCO and Treasury, to:

1. spell out in more detail the best and worst prospects for the CAP, taking account of the future of the dollar and US farm policies;
2. think further about the non-price mechanisms which would be least objectionable to us, remembering that these are certain to appear on the menu and, like it or not, we may be forced to make a choice.

A separate exercise, involving DoE, might begin considering the opportunities which will be provided by the release of agricultural land and the implications this would have for the planning system.

  
NICHOLAS OWEN

D.R.

PRIME MINISTER

FUTURE OF THE COMMON AGRICULTURAL POLICY

Although the meeting of Ministers to discuss this is not until next Wednesday, you may want to glance at the papers this weekend.

You saw an earlier note by the Policy Unit and commented favourably on it (A).

The MAFF have now produced a paper. It stresses price restraint as the main instrument for controlling surpluses: that must be right, though it has proved extraordinarily difficult to put into practice. But it ignores or dismisses alternatives to this such as income aids. And does not deal at all with 'nationalisation' of farming aid.

You will probably want at the meeting to press for a bolder and more radical study, with which the Policy Unit should be directly involved.

C.D.P.

Charles Powell

21 June 1985



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

From the Minister

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PRIME MINISTER

FUTURE OF THE CAP

1. I welcome the meeting you have called for 26 June and I thought it might be helpful to have the attached background paper on the issues the Commission are considering in their current review of the CAP with particular reference to the points mentioned in your Private Secretary's letter of 5 June.

2. Over the past decade the Commission has undertaken many "reviews" of the CAP - the precise description has varied but they have all been essentially the same exercises. The factors responsible for this constant heart-searching have been apparent for some time. They are:-

- (a) continuous improvements in agricultural productivity which coupled with over-generous price settlements have resulted in EC production of many commodities increasing faster than consumption. The EC system is such that for many commodities the extra budgetary cost of any marginal increase in production increases dramatically as the Community achieves self-sufficiency because of the need to subsidise (eg by export refunds) the disposal of the extra production. As production has increased therefore the costs of the market regimes have increased even more;
- (b) farm income, though it varies from year to year for climatic and other reasons, is declining in real terms in most member states. In the UK total real farm income was lower in 1984 (a good year) than it was in the mid-1970s though since the number of holdings has also declined income per holding has been more stable. However, the reduction in the number of holdings, which has occurred in all member states, is itself regarded as a problem by some. The maintenance of the standard of living of the agricultural community is explicitly mentioned in Article 39 of the Treaty of Rome. This is frequently mentioned by members of the Agriculture Council and the reference is clearly regarded by them as the most important objective of the Community's agricultural policy.

The basic difficulty is that measures to deal with one of these problems make, or seem likely to make, the other worse. Ministers are, therefore, forced to decide which problem is most important to them.

3. These problems are, of course, not unique to the EC. The United States, for example, currently has a "farm crisis" which stems in essence from the same two factors; but the difficulties in the EC are in some respects particularly acute.

4. The surplus problem (paragraph 2(a) above) shows no sign of diminishing. Indeed the prospects are that the rate of technological change may if anything increase, so that on constant policies output and hence the cost of the CAP will increase even further. And recent US actions indicate that the cost of disposing of a given surplus on third country markets could increase. Reputable recent studies suggest that by the end of the decade some 15% of UK farmland may be surplus to requirements and could be allowed to go out of production. The effects of such a development on the agricultural economy as a whole would be so profound that it would constitute a major political problem.

5. However, I have no doubt, as is explained in the paper, that much the best response to the surplus problem is to seek to move towards a more market orientated policy and in particular to act on the price level. However, though the inevitable adverse long-term effect of over-generous increases in EC common prices has long been apparent, it has proved difficult to get the Council of Agricultural Ministers to take account of this in its decisions. Short-term political needs have been given greater weight.

6. Against this background we have sought ways of forcing the Council to take a more realistic view. We have had considerable success in achieving the agreements on the financial guideline for agriculture and on guarantee thresholds. These are, in essence, devices to force the Council to take account of financial and market realities by reducing expenditure and lowering prices. However, the experience of this year's price fixing is that, whatever the rules say, it is very difficult to get Ministers to agree to price cuts if it causes them political problems. Nevertheless these two measures have undoubtedly strengthened our hand in negotiations. A few years ago any price cuts would have been virtually unthinkable, while this year and last significant cuts in common prices for some products have been agreed. Price cuts in real terms have of course been much greater.

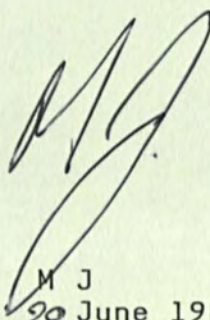
7. Other prescriptions for reforming the CAP involve either imposing measures such as quotas or co-responsibility levies which are intended as alternatives to a restrictive price policy, or income aids, which are regarded as a complement to price policy. As the attached paper shows there are distinct disadvantages to all of them.

8. I propose therefore that we should continue to make a restrictive price policy our first objective in the CAP. We should continue to give strong support to the financial guideline and the concept of guarantee thresholds. We may be obliged to consider other ideas such as co-responsibility levies, quotas or income aids. It would

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not be sensible to decide categorically now that in no circumstances could we accept any proposal of these types. But it is clear that such policies would not be our first preference; and that if we were seriously to consider them there would need to be definite other advantages for us in an overall package.

9. I am copying this to Geoffrey Howe, Nigel Lawson and Sir Robert Armstrong.



M J  
20 June 1985

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## PERSPECTIVES FOR THE CAP

### Introduction

1. In putting forward their proposals for this year's CAP price fixing the Commission announced their intention to carry out a further review of the operation of the CAP under the title "Perspectives for the CAP". The Commission have been undertaking the review under six headings:-

- (1) agriculture in society;
- (2) new uses for agricultural products;
- (3) alternative production;
- (4) agriculture and the environment;
- (5) external trade;
- (6) cereals.

2. Clearly, not all these are equally important. Some are no doubt included to meet the political need to be seen to explore possible areas where an expansion of agricultural output might be possible. For example, all the evidence is that in the short term there is very little scope for finding economic new uses for agriculture products (cf the mandate for Working Group 2). Heading (1) is the most important since it has been defined to include the possibilities of income aids to supplement a restrictive price policy.

### Recent Developments

3. Andriessen reported on the progress made so far at the Informal Agriculture Council in Sienna on 27/29 May. He referred to all the areas of work the Commission have been investigating, but on the vital issues he stressed that there was an urgent need to ensure a better balance in agricultural markets and to eliminate structural surpluses. Supply must be brought more in line with demand and support prices should take full account of technical progress and productivity. Only in this way could a further extension of quantitative controls be avoided. Such an approach would affect

agricultural incomes and employment, and some form of direct income support might need to accompany a restrictive price policy to make it socially and politically acceptable.

4. The response of member states reflected their well-known views. For example, the French emphasised the need to maximise export opportunities, while the Germans and others stressed the desirability of maintaining social objectives for the CAP, by which they meant predominantly the preservation of small or family farms, preferably through price support. I spoke in accordance with our established position, but only the Dutch gave strong support to the UK line for a market orientated price policy.

5. Andriessen said that the Commission would publish what he called a "green paper" setting out the Commission's thinking in greater detail by the end of June. After consulting the interests concerned he would put the Commission's conclusions to the Council in the autumn and it is intended that these be taken into account at the 1986 price fixing.

#### Analysis

6. The principal alternative methods of controlling EC production and containing the costs of the CAP are:-

##### (a) Price

7. Economically action on price is by far the best means of bringing supply and demand into balance. Reducing prices eventually brings about a decrease in production (despite occasional claims to the contrary), and an increase in consumption. At the same time it lowers the cost of disposing of any remaining surpluses (eg by export refunds) by reducing the gap between Community and world prices. These results are achieved without any of the bureaucratic complexities and economic inefficiencies that attend other measures.

8. Productivity in agriculture in the EC increases by some 1½ - 2% per annum and this may, if anything, increase over the next few years. Accordingly, real prices need to be reduced by this amount per annum if they are not, in effective terms, to increase.

9. Recent events have confirmed how very difficult it is to secure agreement on a really restrictive price policy especially if this involves reductions in common prices. Nevertheless, agreement was reached on the principle of guarantee thresholds and most have been applied properly (though not of course that for cereals). Some account has also been taken of budgetary discipline. As a result of these factors some common prices have been reduced over the past two years and most have been reduced substantially in real terms over this period. For example, in the last 3 years real milk and beef prices have been reduced by about 8% and (assuming a 1.8% price cut for cereals for 1985/86) the real price of wheat by well over 10%. But this action over a few years only is much less than is required to get the CAP onto a proper footing. In effect reform via the price mechanism has not yet been fully tried.

10. The need for a restrictive price policy is fundamental and the UK will need to continue to battle hard on this front. This will be the case whether or not alternative measures to control output/expenditure are considered or even agreed.

(b) Quotas

11. Quotas can take various forms. One form, for example, is set-aside whereby producers are paid not to plant a proportion of their land. However, as my Department's note (my letter of 5 December 1984 to Patrick Jenkin copied to you) showed there would be very real problems and potential costs in such a system. Production of milk and sugar in the EC is already limited by quota. Technically these are the commodities most suited to direct supply controls (because virtually all production passes through a few processing factories). As the experience with milk showed it is very difficult and costly in administrative terms to establish from scratch a satisfactory quota regime. It would be even more difficult to impose quotas at the farm level for other commodities since these would presumably need to be based on some historic performance related to output or acreage and in general detailed individual records do not exist in most member states. The milk and sugar examples show that there is a tendency for quotas to be set at too high a level and that once set it is very difficult to reduce them

in line with market needs. Thus a substantial surplus can in effect be institutionalised. Quotas are likely to act as a deterrent to improvements in efficiency since they impose a straightjacket on development. Moreover, the very existence of quotas is used to justify claims for large price increases.

12. For these reasons an extension of quotas to new commodities would be unwelcome and very much a second best solution. However, given the difficulty of tackling the Commission's cereals surplus by other means it would not be surprising if at some stage the idea of limitation by quotas were to be seriously put forward for this commodity at least. Our precise attitude would have to depend on the circumstances at the time, including the extent to which it had proved possible to make progress via price policy.

(c) Coresponsibility Levies and Oils and Fats Tax

13. Although the Commission has so far shown no disposition to argue for increases and/or new coresponsibility levies or an oils and fats tax in the "perspectives" context, the suggestion is very likely to come forward. Co-responsibility levies are undesirable since in practice they result in increased consumer prices thereby reducing consumption and do nothing to tackle the central issue of surpluses. Moreover they are manifestly a device for avoiding financial discipline (since such levies count in the EC budgetary process as "negative expenditure"). The milk coresponsibility levy contains significant exceptions for "small" producers and there would undoubtedly be strong pressure for similar provisions to be included in any new levy. Because of the nature of our farming structure, such levies are likely therefore to bear disproportionately on the UK. We should therefore continue to oppose them. The arguments on an oils and fats tax have been well rehearsed and we should remain opposed to it.

(d) Income Aids

14. The Commission are clearly giving considerable thought to the case for supplementing the incomes of individual poor farmers by direct income aids as a means of mitigating the effects of a restrictive price policy on the most disadvantaged. However, there

are a number of serious questions as to whether such a policy could be effective at the Community level and whether it would be in the UK interest including:-

- (a) it is highly doubtful if as a corollary to the introduction of a scheme a sufficiently restrictive price policy would in fact be adopted and sustained to ensure that there was a net financial benefit for the EC budget. An increase in Community expenditure would clearly be highly unwelcome;
- (b) it would be difficult to decide on the criteria for eligibility given the very different economic conditions in different member states. In practice it would seem that different qualifying income levels would be needed in different member states, but this would present severe problems of presentation;
- (c) most small farmers in the Community do not have the reliable records that would be necessary to confirm eligibility;
- (d) the absence of records presents a risk of abuse to any scheme. This need not (only) be fraudulent. It might be difficult, for example, to prevent the rural unemployed in some member states from taking steps to allow themselves to be redefined as producers. In general there could be enormous administrative problems;
- (e) if only very low incomes qualified for aid there would in effect be little mitigation in the political pressure to increase prices to help producers with low incomes (but not low enough to qualify). If relatively high incomes qualified for aid the cost of a scheme would be very high;

- (f) aids would act as a disincentive to structural rationalisation thereby perpetuating the CAP's problems into the future;
- (g) there would be a risk of conflict and/or overlap with member states' social security policies;
- (h) a scheme would be costly and since its main impact would necessarily be in the poorer Mediterranean countries, it would be very difficult to avoid a substantial EC contribution to it;
- (i) assuming (h) is correct then, mainly because of our farm structure the UK could be a substantial net contributor to any scheme.

15. Annex I shows the very different farm structure in the UK compared to the EC as a whole. Annex II gives a crude example of how a scheme might actually work taking account of the farm structure shown in Annex I. Necessarily Annex II contains some fairly heroic assumptions. I should emphasise in particular that the example quoted is a very favourable one. In practice it would be very difficult indeed to achieve the 10% across-the-board price cut envisaged; it is likely that it would be claimed aids were needed to compensate for much less restrictive price decisions than that. The example also envisages that prices will be sustained after the initial cut 10% lower than they would otherwise have been; this would be even more difficult to achieve. We could also be very hard-pressed to achieve 50% national financing. So we could certainly not expect to achieve the result set out in paragraph 8 of Annex II.

16. We should therefore be distinctly unenthusiastic about the concept of income aids (as we have always been in the past). We cannot judge the negotiating position in which the idea might be discussed, and it would therefore be premature to rule out the possibility of such a measure entirely. But at the very least we would need to make it very clear from the outset of negotiation

that we could only contemplate any scheme which would have net beneficial effects on Community expenditure and/or had other advantages for the UK in the "package".

(e) Budgetary Discipline

17. One of our major objectives over the coming years will be to ensure compliance with the financial guideline for agriculture. At this year's price fixing we have been successful in maintaining pressure on the Commission and others to recognise that budgetary costs must be kept within the 1985 budget provision and must respect the financial guideline for 1986. However, it is already clear that the difficulties of staying within the guideline is unlikely to ease over the following years. Precisely how difficult this will be depends of course, on market factors which cannot now be foreseen with precision. A measure of what is involved can, however, be provided by comparing the trend of CAP expenditure as it has developed under existing policies with what we expect to be permissible under the financial guideline. This comparison is shown in Annex III, which shows a gap of some 3.5 becu in 1989 between the trend figure and the guideline. Although a major step towards changing the trend has, of course, already been taken by the adoption of milk quotas the gap is one measure of the difficulties of negotiation that the Minister of Agriculture will face in the Council over the coming years. In some respects the position may get worse. The trend of expenditure on cereals and oilseeds in the base period was held down by strong world market prices due, in part, to the strength of the dollar by comparison with the ecu and to particular US pricing policies, and we cannot rely on these favourable influences persisting.

18. These figures take no account of enlargement and decisions have yet to be taken on how the additional revenues and expenditure generated by enlargement are to be taken into the guideline calculations. Substantial extra expenditure will arise from enlargement and we must expect there to be strong pressure from the enlarged block of Mediterranean countries for the adoption of further policies of particular benefit to them.

Conclusion

19. A restrictive price policy remains by far the best means of controlling the CAP. This will certainly not be easy to negotiate, but no other potential policies offer advantages sufficient to justify adopting them as our first preference. There are serious doubts as to whether any scheme of direct income aids which could be negotiated would, overall help to contain CAP costs or be of net benefit to the UK; but we cannot rule out the possibility entirely at this stage.

Ministry of Agriculture,  
Fisheries and Food

June 1985



FARM STRUCTURE IN THE EC 10 AND UK

I. Total Number of Agricultural Holdings by size

Size	EC 10 (1979/80 data)		UK (1984 data)	
	Number of Farms	Prop of total agric. area %	Number of Farms	Prop of total agric. area %
1 - 20 ha	4,500,000	28	84,000	5
20 - 50 ha	860,000	29	65,000	13
50 +	340,000	42	72,000	82
	<u>5,700,000</u>	<u>100</u> (89 m ha)	<u>221,000</u>	<u>100</u> (17 m ha)

II. Cereal Production: Number and size of production units (1977 data for EC 10 and UK\*)

	EC 10		UK	
	Number of Holdings	Prop of Cereals Area %	Number of Holdings	Prop of Cereals Area %
Up to 3 ha	2,100,000	9	22,000	1
3 to 20 ha	1,480,000	40	49,000	11
20 ha +	290,000	51	44,000	88
	<u>3,900,000</u>	<u>100</u> (27.5 m ha)	<u>115,000</u>	<u>100</u> (3.96 m ha)

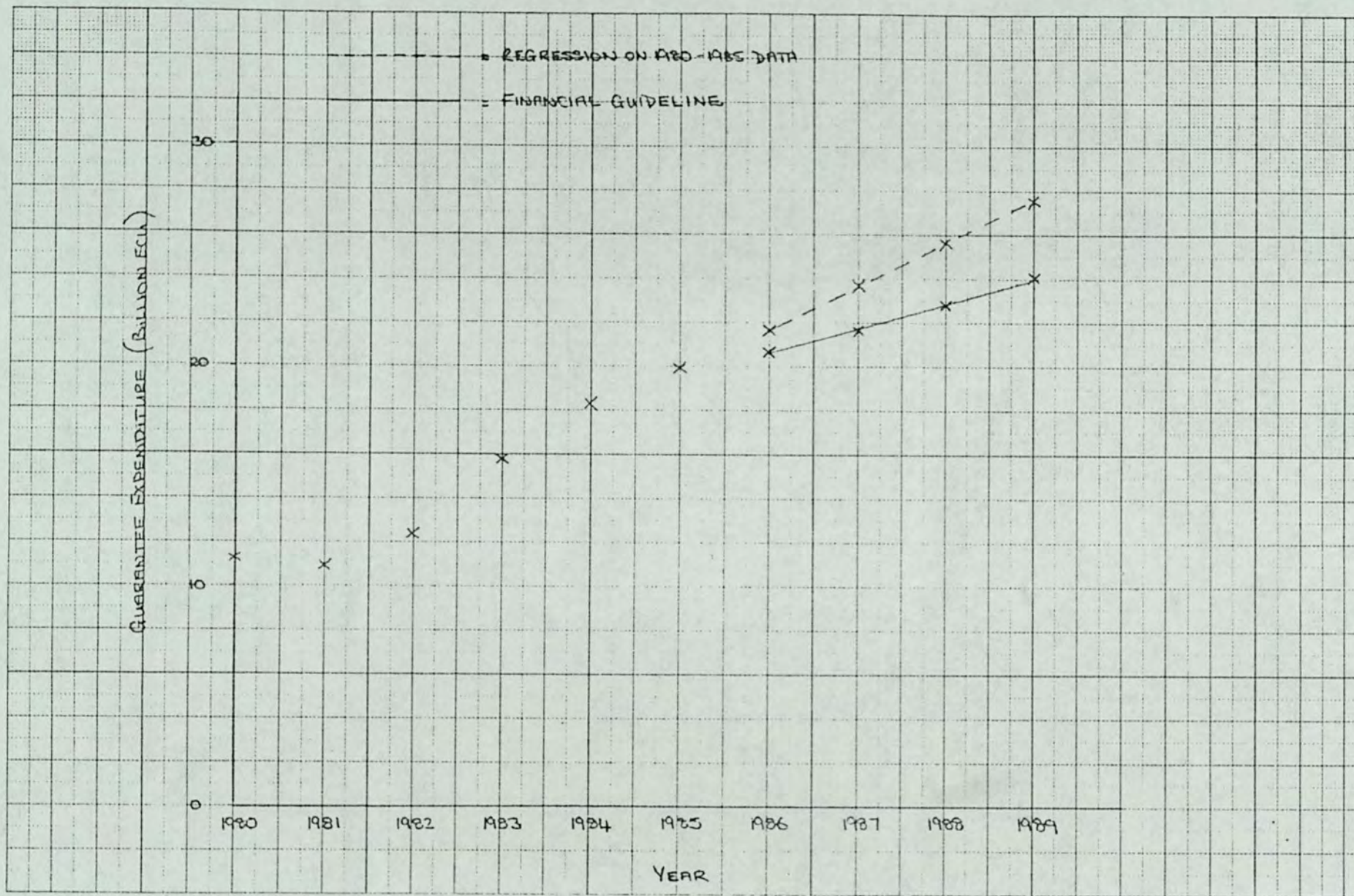
\* 1984 data for the UK records 95,000 holdings growing cereals.

Hypothetical Allocation of Income Aid as Compensation for Price CutsBasic Assumptions

1. Assume a once for all price cut of 10% averaged over all commodities. Prices are maintained thereafter 10% below what they would otherwise have been.
2. Loss of revenue to producers in EC 10, 12 billion ecu.
3. Assume agricultural production ceases to expand and therefore stabilises for some years.
4. The FEOGA budget would not rise, since surpluses would no longer be growing in volume, but would actually decline due to lower unit costs of surplus disposal. The budget might be about 3 billion ecus lower per annum than it would otherwise have been.

Income Aids

5. If the 4,500,000 holdings of between one and 20 ha are paid 750 ecus per annum income aid (100% EC financed), the cost would be about 3 billion ecus. This would broadly compensate for their share of revenue lost from the price cut.
6. The UK, having relatively few small farms, would receive only about 2% of the 3 billion ecu income aid. This contrasts with the UK's overall share of EC 10 agricultural production of 13½%; this latter figure is almost the proportion of the UK receipts from the agricultural side of the Community budget which would be reduced due to a cut in price support.
7. As a consequence:-
  - (i) Excluding the effect of the Fontainebleau mechanism the UK would find its net contribution to the budget rising by about 250 mecus.
  - (ii) Including the effect of Fontainebleau the net contribution would rise by about 100 mecus.
8. If 50% of income aids were financed by member states then the effect on the UK's net contribution would, in very broad terms, be neutral (but the UK's total contribution to the budget would be reduced by about 300 mecus).



CAP - European policy  
Pt 13



10 DOWNING STREET

C.D.P.

C.A.P.

Confirmed for  
9.15 on Wed  
26 = June.

C.K.

*With the compliments of  
the Attorney-General*

*Attorney General's Chambers,  
Law Officers' Department,  
Royal Courts of Justice,  
Strand. W.C.2A 2LL*

01 405 7641 Extn. 3201

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The Rt.Hon. Michael Jopling MP.  
Minister of Agriculture, Fisheries and Food  
Whitehall Place  
London SW1A 2HH

13 June 1985

Dear Michael.

NBPM  
CDP 14/6.

1985 CAP PRICE FIXING: POWERS OF THE COMMISSION  
TO ACT IN A LEGAL VACUUM

I have read your letter to Geoffrey Howe of 6 June 1985 in which you raise the question of what might happen if the end of the cereal year were reached without any agreement on prices. That possibility seems to have moved a step nearer in the light of the German Government invoking the Luxembourg Compromise at the Council of Agricultural Ministers on 11/12 June.

My concern is the basis upon which the Commission might purport to act in the circumstances you describe, since in other situations the United Kingdom has maintained that it has no such powers despite the existence of a legal vacuum ( see Minutes of EQO(83)80th Meeting). Any suggestion of departing from our previous policy will need to be carefully considered in the light of the legal precedents it might establish.

Copies of this letter go to the Prime Minister, other Members of OD(E), George Younger, Nicholas Edwards and Douglas Hurd and to Sir Robert Armstrong.

Yours etc.  
Michael.

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CAP: European Policy.

PE-13.



CC QUESTIONS  
COP  
PRESS.



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

From the Minister's Private Office

T Flesher Esq  
Prime Minister's Office  
10 Downing Street  
London  
SW1

13 June 1985

Dear Tim

COUNCIL OF AGRICULTURE MINISTERS: 11-12 JUNE 1985

I attach a copy of the statement which Mr Jopling intends to make in the House today. I should be grateful for immediate clearance.

I am copying this letter to Bernard Ingham; David Heyhoe (Leader of the House's Office); Murdo Maclean (Whip's Office, Commons); David Beamish (Whip's Office, Lords); Richard Hatfield (Cabinet Office); Paul Thomas (Chancellor of the Duchy of Lancaster's Office) and to Private Secretaries of the other Agriculture Ministers and Members of OD(E).

Yours ever  
Iv

IVOR LLEWELYN  
Private Secretary

COUNCIL OF AGRICULTURE MINISTERS 11/12 JUNE 1985

DRAFT PARLIAMENTARY STATEMENT

I represented the United Kingdom, with my hon Friend the Minister of State, at the meeting of the Council of Agriculture Ministers on 11/12 June in Luxembourg.

The Council resumed negotiations on prices for the 1985/86 season for cereals and rapeseed on the basis of a compromise which was before the Council on 13-16 May. The Commission submitted ten draft regulations to give effect to this compromise, including the proposed reduction of 1.8% in common prices for these commodities. When the Presidency announced his intention to put these regulations to a vote, the German Minister said his Government was not prepared to accept the decrease in cereal prices. He formally invoked Paragraph II of the Luxembourg Compromise by saying that a very important national interest was involved for Germany and that negotiations must be continued until unanimous agreement was reached.

I said in the Council that I had noted that the German Government supported the UK Government's view that where a Member State declared a very important national interest, discussions in the Council should continue without a vote. Given the German Minister's statement, I said that I had to object to a vote being taken and that I was not prepared to vote or abstain. The Ministers of Denmark, France, Greece and Ireland made similar statements. Nonetheless, the Presidency proceeded with a vote. These four Member States, together with Germany and the UK, invoked the Luxembourg Compromise on each of the draft regulations by refusing to vote or abstain. The regulations were therefore not adopted.

I regret the fact that the Council has thus failed to take decisions on sensible price arrangements for cereals and rapeseed for the next season. This represents a serious setback to the progress which has been made in putting the

CAP onto a more realistic basis. Careful thought will need to be given by the Agriculture Council and the Commission to the situation now confronting us.

The rapeseed and durum wheat marketing years begin on 1 July and the marketing year for other cereals on 1 August. In the absence of agreement in the Council, the Commission will need to take decisions on how the markets should be managed.

The Council failed to reach agreement on a draft Directive covering intra-Community trade in heat treated milk. Nor was it able to resolve long standing differences among Member States on the authorisation of hormone growth promoters. However, agreement was reached on the text of a Directive on control procedures for hormones. Its adoption was delayed pending further consideration of the substances to be authorised.

Several other veterinary Directives were adopted, including an important 2-year extension of the special import arrangements which the UK, Denmark and Ireland are entitled to apply as a protection against Swine Fever.



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

10 June 1985

The Rt. Hon. Michael Jopling MP  
Minister of Agriculture, Fisheries and Food

*John M. Shaw*

I have seen Geoffrey Howe's minute to you of 3 June.

I agree with the general line for the further negotiations which he advocates, but I should like to highlight a particular concern which we have. There is a real risk that the German demand for a reduction in the payment period for cereals bought into intervention will come back onto the table. Bonn telno 555 of 31 May reports them as wanting the period reduced from 120-140 days to 30 days; and the fact that the minimum payment period for butter was reduced from 120 to 90 days in the package agreed on 16 May is a worrying precedent, although I am pleased to hear that your officials have succeeded in having the Regulation amended so that the new minimum is optional and the maximum remains unchanged.

This proposal is particularly objectionable. It would have an immediate and large impact on domestic public expenditure - probably some £125 million in 1985-86 if the payment period were reduced to a mandatory 30 days. It would, moreover, be tantamount to a price increase. The proposal concerning cereals which was under consideration at the last Agriculture Council was apparently worth about +1 per cent on cereals prices, thus offsetting by more than half the proposed price cut of 1.8 per cent.

Making the reduction in the payment period optional is a possible way round the problem, but I imagine you (and other Agriculture Ministers) could come under intense pressure from cereal growers and traders to exercise the option if German producers and traders were seen to have secured a large reduction.

I agree with Geoffrey Howe that the best course is to persuade others to stand firm with us on -1.8 per cent and no concessions, and to hold this line at least until after the Milan European Council. But if it becomes clear that others are ready to offer the Germans some "compensation" I hope you will try to deflect discussion towards less objectionable options. The best outcome would be a solution limited to Germany and financed by Germany. Failing this, any solution should be designed so as to benefit mainly Germany in order to avoid deadweight expenditure elsewhere. I know that the Council has already discussed options such as extending special intervention for breadmaking wheat, reducing the moisture content for cereals bought into intervention and reducing monthly increments, and that they have run into opposition, particularly from the

*CCP*

*AT*  
*NBPM*  
*CDP*  
*11/6*



Germans, but if discussion looked like heading in more objectionable directions, you might see whether these other options could now be made to run.

I understand that our officials are in touch about revised briefing on the financial guideline and budget discipline. Provided a settlement on rapeseed and cereals does not exceed the cost of the Presidency package being considered at the last Council meeting, the financial consequences in 1986 should be manageable. But since that Council we have learned that the Commission's estimate of the financial guideline for 1986 has come down from 20.65 becu to 20.45 becu and their forecast of Feoga Guarantee expenditure in 1986 has now risen to 20.3 becu. This leaves very little headroom for unforeseen contingencies or the 1986 price fixing settlement. Any escalation of the cost of the 1985 package must therefore be avoided. I hope you will make this point strongly to your colleagues in the Agriculture Council, reminding them of the budget discipline provisions.

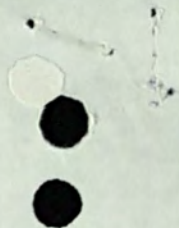
I would want to be consulted if compromise proposals emerged which added to the cost of the last Presidency compromise package.

I am sending copies of this letter to the Prime Minister, other members of OD(E) and Sir Robert Armstrong.

NIGEL LAWSON

A handwritten signature in black ink, appearing to read 'Nigel Lawson', written over the typed name.

EURO POL: CAP ; PE13



CONFIDENTIAL

CCP



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

NBPM  
CDP 4/6

From the Minister  
The Rt Hon Geoffrey Howe QC MP  
Secretary of State for Foreign  
and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London SW1A 2AL

6 June 1985

1985 CAP PRICE FIXING

Thank you for your minute of 3 June. I should comment on your points about the handling of cereals at next week's Agriculture Council.

I note what you say about leaving this matter unresolved until after the Milan European Council. But I am not sure your minute takes sufficient account of the attitude of other Member States - and indeed of the Commission - if the Germans formally invoke the veto and the negotiations remain blocked. The Germans and Kiechle are clearly being less than honest about the use of the Luxembourg Compromise and there are obvious attractions from a wider policy point of view in forcing them to come clean. But if we were successful as you suggest in making Kiechle next week move to paragraph II of the Luxembourg Compromise text, the negotiations would clearly be seen to have reached an impasse. In these circumstances, I believe that we should find growing pressure from other Member States - and from among Commissioners - for a compromise to be found which would give the Germans a way out. You will have seen the report of the Germans briefing (Bonn Telno. 574) of Community Ambassadors who "led by the French" spoke of the need for a compromise and for a solution to be found before Milan. Nallet, in briefing the French press after the last Council, also referred to the need for "an acceptable compromise".

I shall be speaking to Nallet and Pandolfi, as well as to Andriessen, before the Council to ensure that our position is understood and to try to make sure the French and we stay together and that the Commission hold firm.

If we were to reach the end of the cereals year without any agreement, we should be moving into uncharted waters involving no doubt a good deal of legal argument. Some voices within the Community argue that the Commission would have no alternative in these circumstances but to continue with the prices

EURO . POL : CAP : PE 13.

as they were fixed the previous year. In effect, this would give the Germans what they are now openly advocating, unless through management measures the Commission could achieve a weakening in the price support level to bring about de facto cut in price. This would not necessarily be easily achieved from a technical point of view and the Germans would, of course, object to this.

An alternative view is that the Commission would be justified in these circumstances - and the Court could be expected to support them - in putting into place price arrangements which reflected the qualified majority view within the Council. In effect, this would mean that the Commission will be saying to the Germans that they were not prepared to see the decision process blocked. It would be a moot point, of course, whether this would amount to an overriding of the Luxembourg compromise by Commission action. Certainly, if paragraph II had been invoked by the Germans, this would clearly be the case. The question for us, in this situation, would be whether we should support the Commission's right to follow the view of the qualified majority or whether we should lend support to the Germans if they were continuing to object.

We need not face these issues immediately. I make these points simply to indicate that the issues may not be quite as clear cut as your minute suggests. I shall of course consult you if there are unexpected developments at next week's Council.

I am copying this letter to the Prime Minister, other members of OD(E), George Younger, Nicholas Edwards and Douglas Hurd and to Sir Robert Armstrong.

*James Callaghan*  
*Michael*

MICHAEL JOPLING

11 12 11  
JUN 1972



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10 DOWNING STREET

From the Private Secretary

5 June 1985

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72  
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PC

FUTURE OF THE CAP

The Prime Minister has noted the discussion of the future of the CAP at the recent informal meeting of Agriculture Ministers, and the Commission's intention to circulate an options paper later this month. She thinks it would be helpful to have an informal meeting of Ministers to clear our minds on the major issues in advance of the Commission's own paper. Among the issues which might be discussed at such a meeting are:

- Price restraint and budgetary discipline: can partners be persuaded to restrain, or even reduce, the CAP's surpluses by these means alone? In broad terms, what is the cost of the CAP likely to be under present policies?
- Income support measures: would some form of limited income support for small or "family" farms be a cheaper way of achieving the CAP's social objectives? Are they necessary to secure the price restraint that is needed?
- The form and financing of such measures: would they disadvantage us by virtue of our relatively large farms? How far could national financing be pursued?

Caroline Ryder will be in touch to fix a time.

I am copying this letter to Colin Budd (Foreign and Commonwealth Office), Rachel Lomax (H M Treasury) and Richard Hatfield (Cabinet Office).

C D POWELL

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food

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Bob

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MR POWELL

5 June 1985

FUTURE OF THE CAP

Background

The Commission will be circulating an options paper later this month. Andriessen describes it as a "Green" Paper. It will be based on the work of six Commission working groups. He intends to consult farming organisations first, and then to present the Council with "conclusions" in the Autumn.

The prospect of the study getting a realistic grip on the costs of the CAP do not look hopeful. Andriessen resisted Mr Jopling's suggestion for a seventh study, on budgetary implications, and independent expertise has not been brought into the exercise. However, the paper is likely to be sound on price restraint, will raise the question of direct support for farmers' incomes in disadvantaged areas and is likely to be sceptical (quite properly) about alternative uses for agricultural production.

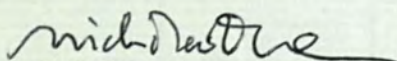
Within Whitehall, MAFF is traditionally hostile to direct income supports because they fear that the UK would lose out (though MAFF have done well by our hill farmers in this regard). Treasury are nervous about budgetary implications. Against this background, I suggest a draft (which you might wish to shorten) along the following lines:

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"The Prime Minister would like to have an informal discussion on the future of the CAP, to clear our minds on the major issues in advance of the Commission's own paper on the subject which, I understand, is expected at the end of June."

Subject to views which you may have, the agenda for the discussion might run on the following lines:

1. <sup>A</sup> - Price restraint and budgetary discipline: can partners be persuaded to restrain, or even reduce, the CAP's surpluses by these means alone? In broad terms, what is the cost of the CAP likely to be under present policies?
  
2. - Income support measures: would some form of limited income support for small or "family" farms be a cheaper way of achieving the CAP's social objectives? Are they necessary to secure the price restraint that is needed?
  
3. - The form and financing of such measures: would they disadvantage us by virtue of our relatively large farms? How far could national financing be pursued? <sup>B</sup>

  
NICHOLAS OWEN

FCS/85/160MINISTER OF AGRICULTURE, FISHERIES AND FOOD1985 CAP Price Fixing

1. Thank you for your letter of 17 May. The partial price package agreement on 16 May was a reasonably good outcome for the UK in relation to the products that were covered and I know you have had to fight hard to achieve it. Taken with last year's settlement it does represent progress in holding down prices.

2. We must keep up the pressure on the Germans over cereals and rape prices. It may be possible to settle rapeseed at the outset; if necessary we shall need to establish whether Kiechle is prepared to accept by a vote. It will be important also to establish at the outset whether Kiechle, having had time to reflect, is now prepared to accept a vote on the 1.8% price cut of cereals. The Germans claim so far to have invoked only paragraph one of the Luxembourg compromise, which stipulates that when very important interests are at stake the Council will endeavour, within a reasonable time, to reach solutions which can be adopted by all the Members of the Council. They argue that they are "not using a veto". We should not let them get away with this. If Kiechle does not accept the call for a vote, we should, in concert with the French, resist any attempt by the Presidency to water down the proposed 1.8% cut. In those circumstances, rather than settling for a smaller cut, we should have nothing to lose by letting the cereals regime run its course to the end of the season on 31 July and encouraging the Commission to manage the regime thereafter in a way which will achieve the cuts which all but one Member State can agree to.

ePC

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3/6.



3. Your officials have mentioned that there could be a danger of the Germans accepting a 1.8% cut but insisting on measures which effectively would neutralise the cut through the Commission's management of the regime. But I do not see how it could be in the Commission's interest to offer these; and in your contacts with Andriessen before the Council you will no doubt be seeking to ensure that they do not do so. I would rather leave the matter unresolved until after the Milan European Council than accept a cut of less than 1.8%; and I think we should make clear in advance to the French, the Commission and Pandolfi that this is our view. The fear that the whole question could become an issue at the Milan European Council could exert some real pressure on Kiechle.

4. I am copying this minute to the Prime Minister, other members of OD(E) and Sir Robert Armstrong.

GEOFFREY HOWE

Foreign and Commonwealth Office  
3 June, 1985

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LAD 1613.

1-3 JUN 1968

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MR ADDISON

31 May 1985

REVIEW OF THE COMMON AGRICULTURAL POLICY

I offered to provide a draft letter on this subject, which would go to Michael Jopling's office.

"The Prime Minister has expressed interest in having a discussion on the future of the CAP with the Minister of Agriculture, and other interested colleagues. The Prime Minister is concerned about the prospect of continuing surpluses, even assuming a restrictive price policy. She considers that the basic problem with the CAP is that any system of price support is likely to generate surpluses and is an expensive way of pursuing the social objectives which the CAP sets itself, since it benefits the larger, more efficient farmers most. She also recognises that, so long as price support remains the CAP's principal form of support, it will be difficult to persuade our partners to accept price reductions.

The Prime Minister would find it helpful, therefore, if a discussion paper could be prepared, which would begin by sketching out the likely economic and budgetary implications of the present system and would then set out possible options for reforming the CAP. The paper might consider ways of shifting the balance within the CAP from price support towards the provision of limited income

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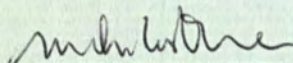
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- 2 -

supplements, financed largely on a national basis. The paper might set out, in respect of each option:

1. the implications for our own agricultural sectors;
2. the likely responses of other Member States;
3. the administrative problems which would need to be addressed.

The paper should be prepared in consultation with the Treasury and the Foreign Office, by the end of June, if possible."

  
NICHOLAS OWEN

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FRAME AGRICULTURE

FM UKREP BRUSSELS 241535Z MAY 85

TO PRIORITY F C O

TELEGRAM NUMBER 1939 OF 24 MAY

INFO ROUTINE COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN,  
LUXEMBOURG, ATHENS, LISBON, MADRID,  
INFO SAVING BRUSSELS.

ROME PLEASE PASS ALSO TO MAFF PARTY IN SIENA.

AGRICULTURAL PRICE FIXING: CEREALS.

SUMMARY

1. THE COMMISSION HAVE TODAY DECIDED, AND ANNOUNCED TO THE PRESS THAT THEY STICK BY THE COMPROMISE PROPOSAL OF LAST WEEK OF A PRICE CUT OF 1.8 PER CENT.

DETAIL

2. AT THIS MORNING'S COMMISSION MEETING (A NUMBER INCLUDING, LORD COCKFIELD, BEING ABSENT), ANDRIESSEN WAS HABILITATED TO STICK TO THE LAST COMPROMISE IN THE 13/16 MAY COUNCIL OF A CEREALS PRICE REDUCTION OF 1.8 PER CENT BUT TO GO NO LOWER. HE WAS ALSO AUTHORISED TO MAKE THIS POSITION PUBLIC AND THE PRESS WERE INFORMED AT NOON TODAY.

3. THERE WAS NO DISCUSSION ON THE SUBSIDIARY ELEMENTS (MONTHLY INCREMENTS, CARRYOVER PAYMENTS) BUT IT SEEMS TO BE ASSUMED THAT THE PROPOSED REDUCTION IN THE DELAY IN INTERVENTION PAYMENTS STANDS.

4. THIS DECISION WAS THE OUTCOME OF SOME DIFFERENCES BETWEEN HAWKS (EG LORD COCKFIELD) WHO HAD WISHED THE COMMISSION TO REVERT TO ITS ORIGINAL PROPOSAL AND OTHERS WHO HAD PLEADED FOR THE COMMISSION NOT TO BE TOO TOUGH AND IN PARTICULAR TO AVOID THE COMMISSION TAKING THE BLAME FOR KIECHLE EXERCISING A VETO AT THE NEXT COUNCIL.

5. CHRISTOPHERSEN VOICED CONCERN ABOUT HOW AGRICULTURAL SPENDING FOR 1986 COULD BE RECONCILED WITH THE GUIDELINE. THE GUIDELINE CALCULATIONS WERE BEING REVISED TAKING ACCOUNT OF MEMBER STATES' REVISED FORECASTS OF OWN RESOURCES: THE GUIDELINE FIGURE (BUDGET DEFINITION) WAS NOW 20,435 MECU. AGRICULTURAL SPENDING, TAKING ACCOUNT OF THE COMMISSION'S EARLIER ESTIMATES AND REVISIONS MADE DURING THE PRICE FIXING, WAS LIKELY TO BE JUST UNDER 20.6 BECU. THIS WOULD LEAVE ROOM FOR A PRICES PACKAGE NEXT YEAR, OR SPECIAL DESTOCKING MEASURES - UNLESS THE COUNCIL ABANDONED AGREEMENT ON BUDGETARY DISCIPLINE.

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6. WE WILL TRY TO CHECK WHAT WAS BEHIND THE FIGURES QUOTED BY CHRISTOPHERSEN.

7. WE UNDERSTAND FROM AVERY (ANDRIESSEN CABINET) WHOSE CONFIDENCE PLEASE RESPECT, THAT THERE HAVE ALSO BEEN UNDERTONES THAT MITTERRAND WISHES TO REACH SOME SORT OF AGREEMENT WITH KOHL WHEN THEY MEET NEXT WEEK (AS PART OF A FENCE MENDING EFFORT). THIS IS PART OF THE REASON WHY ANDRIESSEN WAS ANXIOUS TO PUBLICISE THE COMMISSION'S POSITION TODAY. ANDRIESSEN IS ALSO REPORTED BY AVERY AS BEING DETERMINED NOT TO RETREAT FURTHER ON THE 1.8 PER CENT.

FCO COPY TO:

FCO - CLEMENTS.

CAB - JAY.

MAFF - MRS ATTRIDGE, HADLEY, G. WILSON, LOWSON, PERRINS.

TSY - BUTT.

BUTLER

FRAME AGRICULTURE

ECD(1).

COPIES TO

COPY ADDRESSEES.

[REPEATED AS REQUESTED]

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CDD

Nick Owen is

drawing up a draft PS  
with 15 commissioners a note  
from M. J. Owen 23/5

PRIME MINISTER

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Prime Minister

You may also like to see  
some Dutch idles, which I  
attach.

The problem of launching a study  
is that we don't want to  
under the budget discipline  
route to control of costs.

23 May 1985

REVIEW OF THE COMMON AGRICULTURAL POLICY

Agree to informal  
discussion among colleagues as  
a first  
step.

Michael Jopling raised this subject last December. He  
proposed an initiative in the Community to launch an  
independent review. You saw no need for such a review, and MJ  
did not pursue it.

before  
deciding to  
launch a  
study?  
Yes - then  
is a most interesting  
paper or study?  
CDD  
23/5

In the event, the Commission launched a study of its own,  
concerned mainly with supply and demand prospects in the  
Community and in the world over the next 5 years, and with  
alternative crops and alternative uses for existing crops.

These studies ought to underline the need for policy  
changes. The German refusal to accept price reductions under  
the present arrangements points in this direction. Ought we  
not, therefore, to begin thinking ourselves about the changes  
in policy which are both politically feasible and technically  
capable of containing the CAP, if budgetary discipline fails  
to do so.

I attach some thoughts on the direction in which the CAP  
might go. If you see any merit in pursuing ideas of this  
kind, you could invite Michael Jopling to prepare a paper on  
this subject.

Nicholas Owen  
NICHOLAS OWEN

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## THE COMMON AGRICULTURAL POLICY

The defects of the CAP are well known. It is a burden on consumers and taxpayers; it damages other economies; it fails to create a genuinely common agricultural market because of "green" currencies; it divides Europe more than it unites it; it can harm the environment. Is there any possibility of reforming it?

The CAP is, at heart, a social policy, not a food policy. There never was a danger of food shortages, any more than there is a danger of a steel shortage. The CAP's basic objective is to bring the income of even the smallest (full-time) farmer up to that of the average wage in the community at large. The CAP's difficulty with this objective is that, as presently constructed, it is bound to fail to achieve it, and at disproportionate cost.

Farming is one of those satisfying activities, like acting and freelance journalism, or politics come to that, which always attract people at rewards less than they could obtain in other occupations. Since there is no restriction on entry into the industry, other than into dairy farming, there will always remain many farmers at the margin whose incomes remain below the average community income, whatever support is offered.

Price support is a grossly inefficient way of helping the poorest farmers; most of its benefits accrue to the larger, efficient farmers.

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The CAP divides its support roughly as to 95% price support and 5% for investment aid to small farmers (the so-called "structural" measures). The latter are not well focused on income support. A cost-effective, "social" CAP would reverse this emphasis, and focus support on raising the incomes of the smallest, or disadvantaged farmers to some minimum specified level, by direct means, rather than indirectly by investment grants. Larger, efficient farmers, situated on productive land, who could survive at prices close to the world market level, would receive a tapering degree of price support.

The main problems with refocusing assistance towards the least-efficient are:

1. It would enrage the Germans, who are wedded to price support and consider that they pay more than their share to sustain it.
2. It runs counter to all notions of economic efficiency. Economic efficiency entails larger farms, on the more productive land, rather than small farms on less productive land. However, it is in the nature of social welfare systems that they temper economic efficiency. Agricultural efficiency is of limited value if it yields surpluses.
3. It poses the administrative problem of identifying the recipients who would qualify for income support. Which

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regions would be singled out? What type of farms? Is the "family farm" a desirable end in itself, and if so, why? Should the income support be related to production, and if so, to what types of production? Should support be accorded to new farmers or should it be restricted to existing farmers? Should support be related to animals, like the headage payments made to upland farmers in Britain, or to individuals?

Many ideas have been advanced to deal with surpluses. The table overleaf sets out the advantages and disadvantages of some of them. The only solutions which seem remotely feasible in political terms, and likely to constrain surpluses, are the last two - multiple pricing and price reductions plus income supplements. They would both have three themes:

1. Gradual alignment of intervention prices towards the world price: the so-called guarantee threshold mechanism, which is causing the Germans so much trouble on cereals when it actually threatens to bite, is unlikely to achieve this. Its weaknesses are:
  - There is no reference to world prices, even indirectly by reference to the costs of dumping community surpluses.
  - It doesn't give clear and relevant signals. Prices are set after farmers have planted their crops. Any

OPTIONS FOR REDUCING/CONTAINING AGRICULTURAL SURPLUSES

OPTIONS	ADVANTAGES	DISADVANTAGES
1. Price reductions	Economically efficient, administratively straightforward.	Politically difficult, slow to have desired effect (initially may even be perverse) unless clear signals given
2. Quotas	Quick-acting, preserves regional distribution, could provide outgoers with compensation if market in quotas permitted, at no budgetary cost.	Fossilises industry structure, administratively demanding, many hard cases to resolve.
3. Co-responsibility levies	Easy to administer.	Passed on to consumers, so does nothing to reduce surpluses.
4. Deficiency payments	Combines income support and low prices, possibly related to world market prices.	Difficult to apply once surpluses have emerged; substantial price reduction required; unpopular in other Member States (even though system has already been applied - oil seeds, olive oil, tobacco). Budgetary costs can be higher than under intervention system because <u>all</u> production supported and burden is shifted from consumer.
5. Multiple pricing, as in sugar regime	Provides basic income from "quoted" acreages or tonnages; could leave remainder to find market level.	Administrative problems in defining entitlements to higher price(s).
6. Price reductions & fixed income supplements, & compensated retirement scheme	Achieves social objectives, regional and environmental balance, and economic realism.	Substantial administrative problems in identifying beneficiaries, handling new farmers.

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price reduction triggered by surpluses starts from whatever new price is set each year, so the mechanism can be overridden.

What is needed, though is unlikely to be accepted, is an automatic price mechanism which tells the cereal farmer this Summer what price he can expect next Summer. It could, for example, be based on the weighted average of this year's intervention price and this year's world price. The weighting could be chosen so as to provide a gradual an alignment towards world prices as is desired. But it would need to be fairly rapid, otherwise farmers would never mentally adjust to world competition.

2. A minimum income support for existing farmers: This could be provided in the form of headage payments, but in respect to a limited number of animals, and not, as now, to all livestock; and price support at existing levels in respect to limited acreages, or tonnages. The advantage of this kind of occupational safety net is that it is unrelated to output and would not contribute systematically to surpluses. Allied to it, would be the option of withdrawing from farming, with compensation, enjoyed by dairy farmers now.
3. Gradual nationalisation of farming aid: Member States are said to provide more (direct) support to agriculture than the CAP itself. We should encourage this trend. It would allow each Member State to judge, and pay for, its

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own social objectives. Community support under the structures directive could be limited to a given percentage of each country's acreage, or farming employment. This would deal with the fact that the average UK farm is considerably greater than that on the Continent.

It will be objected that this third element is fundamentally at odds with the Community, which restricts state aids in the interests of securing common markets.

However, there is no effective common market in those products to which the CAP applies. The green currency system fragments the market; internal trade is said to involve more paperwork than external trade. The incentive to export to other Members' markets is reduced if the easy option of selling into intervention is available. Thus it is only in the non-supported products, such as poultry, bacon and horticultural products that there is genuine competition and market dynamism. Anything lost by insulating a limited proportion of output from competition would be offset by the creation of a more competitive market for the balance.

### Conclusion

The CAP is at heart a social policy, but is the most inefficient form of social policy imaginable. Perhaps the only way in which it will be politically possible to reform it, and bring food prices closer into line with world levels, would be to provide direct minimum income guarantees to

farmers, combined with retirement schemes. We should go Dutch on paying for them. Though difficult to administer, a solution of this kind could be considerably cheaper for Europe's taxpayers and consumers.

*Nicholas Owen*  
NICHOLAS OWEN

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(FRAME AGRICULTURE)  
FM THE HAGUE 231415Z MAY 85

TO IMMEDIATE DESKBY (231600Z) FCO  
TELEGRAM NUMBER 163 OF 23 MAY  
PRIORITY INFO ROME, UKREP BRUSSELS.

INFORMAL MEETING OF AGRICULTURE MINISTERS AT SIENA : DUTCH APPROACH.

1. THE DUTCH MINISTER OF AGRICULTURE WILL HAVE WITH HIM A BRIEF ENTITLED 'PROSPECTS FOR EC AGRICULTURE POLICY' WHICH MAKES THE FOLLOWING POINTS :

- A) IN CONTRAST TO EARLIER TIMES OF UNLIMITED FINANCIAL RESOURCES AND A NEED TO IMPORT A PROPORTION OF MOST PRODUCTS, IMPROVED TECHNOLOGY AND PRODUCTIVITY HAVE CHANGED THE COMMUNITY INTO A MAJOR EXPORTER OF CERTAIN COMMODITIES, AND PRESSURE ON THE COMMUNITY BUDGET HAS EFFECTIVELY HALVED THE AVERAGE RATE OF GROWTH OF EXPENDITURE ON AGRICULTURE. DECISION- MAKING IS NO LONGER A QUESTION OF TOTTING UP THE REQUIREMENTS OF MEMBER STATES, AND HAS BECOME MORE A QUESTION OF SHARING THE PAIN. THIS DEMANDS A GENUINELY COMMUNAUTAIRE (UNDERLINED) APPROACH.
- B) THESE CHANGED CIRCUMSTANCES BRING PRESSURE ON A MARKET AND PRICE POLICY WHICH CONTAINED A CONSIDERABLE SOCIAL ELEMENT. FUTURE PRICE POLICY MUST TAKE INCREASING ACCOUNT OF THE NEED TO EXPORT ONTO THE WORLD MARKET.
- C) BY NECESSITY SOCIAL CIRCUMSTANCES MUST BECOME LESS DOMINANT IN THE SETTING OF PRICES, AND AGRICULTURE CAN NO LONGER BE PROTECTED FROM MARKET REALITY. A DIFFERENT METHOD MUST BE CHOSEN TO ACHIEVE SPECIFIC SOCIAL AIMS SEMI COLON MORE ATTENTION MIGHT BE PAID TO SUPPLEMENTS WITHIN THE FRAMEWORK OF THE GUIDELINE FOR MOUNTAIN AND PROBLEM AREAS, THE COMMUNITY'S REGIONAL AND SOCIAL POLICY (INCLUDING IMPS), AND NATIONAL SOCIAL POLICY.
- D) A MORE MARKET-ORIENTED PRICE POLICY MEANS THAT THE PRINCIPLE OF SPECIALISATION WILL PLAY A GREATER ROLE IN EUROPEAN AGRICULTURE . MEMBER STATES DIFFER OVER THIS DEPENDING ON THEIR STRUCTURE AND COMPETITIVE POSITION. FOR EXAMPLE, KIECHLE REMARKED THAT HE WOULD NOT COOPERATE IN THE CROWDING OUT OF GERMAN GRAIN PRODUCTION BY MORE EFFICIENT GRAIN-GROWING MEMBER STATES. IN FACT A PRICE REDUCTION FOR CEREALS OF BETWEEN 5 AND 10% WOULD BE QUITE POSSIBLE FOR THE MOST IMPORTANT GRAIN-PRODUCING STATES, FRANCE AND THE UNITED KINGDOM. KIECHLE OBVIOUSLY WISHES TO PLACE AGRICULTURE IN A SORT OF ECONOMIC NATURE RESERVE IN WHICH NORMAL PRINCIPLES DO NOT APPLY (CONTRAST GERMAN CAR PRODUCTION WHICH HAS CONTINUALLY EXPANDED ITS MARKET SHARE).

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- E) FOR THE FUTURE THE CHOICE LIES BETWEEN A MORE MARKET- ORIENTED PRICING POLICY COMBINED WHERE NECESSARY WITH SUPPLEMENTARY SOCIAL POLICY NOT LINKED TO AGRICULTURAL COMMODITIES, AND A SOCIAL AGRICULTURAL PRICING POLICY WHICH WOULD LEAD UNAVOIDABLY TO AN INCREASE IN THE NUMBER OF SECTORS GOVERNED BY QUOTAS (C.F. THE DAIRY SECTOR WHERE SOCIAL CONSIDERATIONS PREDOMINATED FOR TOO LONG).
- F) CEREALS POLICY REMAINS THE KEY. THIS IS RECOGNIZED BY THE COMMISSION DEDICATING ONE OF ITS SIX INTERNAL WORKING GROUPS TO CEREALS AND CHOOSING THREE OTHER WORKING GROUPS ON WHICH CEREALS POLICY WILL HAVE A STRONG INFLUENCE (INTERNATIONAL TRADING, NEW APPLICATIONS OF AGRICULTURAL PRODUCTS, ALTERNATIVE PRODUCTS). TENSION IN AGRICULTURAL TRADE IS GREATEST IN THIS SECTOR AND A REDUCTION OF TENSION CAN ONLY BE ACHIEVED BY THE COMMUNITY GIVING A CLEAR SIGNAL THAT IT IS SERIOUS ABOUT PURSUING A MARKET-ORIENTED CEREALS POLICY AND A REDUCTION OF EXPORT SUBSIDIES. FOR BOTH NEW APPLICATIONS AND ALTERNATIVE PRODUCTS THE PRICE OF CEREALS WILL BE AN IMPORTANT FACTOR.

2. IN CONVERSATION WITH FIRST SECRETARY (AGRICULTURE), PIERHAGEN SAID THAT THE DUTCH HAD NO GREAT EXPECTATIONS OF EITHER SIENA OR THE ANDRIESSEN REVIEW. EXPERTISE, WHETHER INTERNAL OR INDEPENDENT, WAS NOT LACKING, AND EXPERTS COULD QUICKLY IDENTIFY THE CHANGES WHICH WERE NEEDED IN THE CAP. THE REAL PROBLEM REMAINED POLITICS AND THE MECHANISM OF DECISION-MAKING. GERMAN BEHAVIOUR DURING THE PRICE FIXING MARATHON ALLOWED NO OPTIMISM ABOUT THE COMMUNITY'S POLITICAL WILL TO SOLVE ITS PROBLEMS. THE DUTCH WOULD AS ALWAYS WORK CONSTRUCTIVELY BUT WERE CYNICAL ABOUT THE VALUE OF THE EXERCISE. THEY HAD SEEN IT ALL BEFORE. PIERHAGEN THOUGHT THAT THE MOST THAT COULD BE EXPECTED WAS PRICE RESTRAINT PLUS A MOVE IN THE DIRECTION OF GREATER NATIONAL EXPENDITURE ON SOCIAL POLICY WITH A LITTLE MORE FROM THE COMMUNITY IN THE AREAS MENTIONED IN PARAGRAPH 1(C) ABOVE. PIERHAGEN WAS QUITE GLOOMY ABOUT BUDGET DISCIPLINE. IT WAS FULL OF ESCAPE HATCHES AND WAS AT BEST NO MORE THAN ONE EXTRA ELEMENT PUSHING IN THE DIRECTION OF REFORM. THE GERMANS NOW APPEARED TO HAVE ABANDONED IT IN DEED IF NOT IN WORD AND THE UNITED KINGDOM REMAINED VULNERABLE TO AN EVENTUAL BLACKMAIL WHEN ITS REBATE MECHANISM CAME UP FOR REVIEW

3. FCO PLEASE ADVANCE TO MRS ATTRIDGE, PACKER AND MELVILLE, MAFF.

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GERMAN EUROPEAN POLICY: BUNDESTAG DEBATE

SUMMARY

1. HEATED DEBATE IN THE BUNDESTAG YESTERDAY, IN WHICH KOHL CAME IN FOR SHARP PERSONAL CRITICISM FROM THE OPPOSITION FOR HIS GOVERNMENT'S MANAGEMENT OF EUROPEAN POLICY, AND PARTICULARLY THE CAP PRICE-FIXING, LUXEMBOURG COMPROMISE, AND SDI.

DETAIL

2. IN A BUNDESTAG DEBATE ON EUROPEAN POLICY CALLED BY THE OPPOSITION, VOGEL, THE SPD LEADER, ACCUSED KOHL OF 'ZIG-ZAGGING' ON SDI, OF PLAYING AN INCONSISTENT ROLE AT THE BONN ECONOMIC SUMMIT, AND OF DEALING EUROPE A HEAVY BLOW THROUGH KIECHLE'S VETO IN THE AGRICULTURAL PRICE-FIXING. THROUGH HIS POLICY OF CONTRADICTIONS AND INDECISIVENESS KOHL HAD SET EUROPEAN UNITY AT STAKE. VOGEL ASKED HOW, IN THE CIRCUMSTANCES, THE FEDERAL GOVERNMENT EXPECTED TO PRESENT ITS ARGUMENTS IN MILAN. KOHL HAD SCALED NEW PEAKS IN THE ART OF GOVERNMENT BY INVOKING THE VETO AT PRECISELY THE MOMENT WHEN HE WAS CAMPAIGNING AMONG THE OTHER EUROPEANS FOR ITS ABOLITION AND A RETURN TO THE MAJORITY-VOTING PROVISIONS OF THE TREATY OF ROME: AND BY HAVING HIS AGRICULTURE MINISTER FIGHT FOR INCREASED EC EXPENDITURE AT THE SAME TIME AS HIS FINANCE MINISTER WAS ASKING FOR THE GREATEST ECONOMY AND STRICTEST POSSIBLE BUDGET DISCIPLINE FROM THE EC. THE DEVASTATING INTERNATIONAL CRITICISM SHOWED WHAT TO MAKE OF SUCH A CHANCELLOR. THE DEPUTY SPD FLOOR LEADER, ROTH, ACCUSED KOHL OF PITCHING THE EC INTO DEEP CRISIS. IT WAS NO LONGER POSSIBLE TO SPEAK OF COOPERATION WITH FRANCE. THE FEDERAL GOVERNMENT'S EUROPEAN POLICY WAS IN COMPLETE CONFUSION: THEY HAD SPOKEN UP FOR FREE WORLD TRADE AT THE ECONOMIC SUMMIT, THEN FOUGHT A CUT IN CEREAL PRICES IN THE EC PRICE-FIXING ROUND.

3. KOHL SAID THAT NOT HE, BUT HIS PREDECESSORS WHO HAD LIVED FROM HAND TO MOUTH IN THEIR EUROPEAN POLICY, WERE RESPONSIBLE FOR AGRICULTURAL OVERPRODUCTION AND ITS CONSEQUENCES. IT ILL BEFITTED THE OPPOSITION TO CRITICISE THE GOVERNMENT WHEN THEY HAD BEEN UNABLE IN THEIR TIME IN OFFICE TO SOLVE PROBLEMS SUCH AS THE BRITISH BUDGET CONTRIBUTION AND THE ACCESSION OF SPAIN AND PORTUGAL. HE CALLED ON THE SPD TO SHOW MORE SOLIDARITY WITH THE FARMERS.

4. KIECHLE AND HEEREMANN (PRESIDENT OF FARMER'S UNION AND CDU MP) TOOK UP THE THEME OF PAST MISTAKES FROM THE TIME OF THE SPD/FDP COALITION. KIECHLE, ACCUSING THE SPD OF TRYING TO STAB HIM IN THE BACK, STATED THAT THE FEDERAL GOVERNMENT WOULD CONTINUE TO OPPOSE THE CONCEPT OF IMPLEMENTING QUANTITATIVE CONTROLS TOGETHER WITH PRICE CUTS WHICH WOULD BURDEN THE WEAKER FARMERS. MERTES, (MINISTER OF STATE, AUSWAERTIGES AMT) CLAIMED THAT OTHER MEMBER STATES WOULD HAVE INVOKED VITAL NATIONAL INTERESTS MUCH EARLIER THAN THE FEDERAL REPUBLIC HAD DONE.

5. KOHL WAS ALSO ACCUSED BY THE SPD AND GREENS OF SACRIFICING EUROPE FOR AMERICA IN HIS ENTHUSIASM FOR SDI. EHMKE (SPD) CLAIMED THAT KOHL HAD BECOME THE 'CHANCELLOR OF THE CARTOON BUBBLE': A JOKE IN HIS OWN CAMP AND A LAUGHING-STOCK ABROAD. TODENHOEFER, THE CDU/CSU SPOKESMAN ON DISARMAMENT, RETORTED THAT THE SPD'S ANTI-AMERICANISM AND GULLIBILITY ABOUT THE RUSSIANS HAD MADE THEM THE LEAST RELIABLE OPPOSITION THE FEDERAL REPUBLIC HAD KNOWN.

BULLARD

FRAME GENERAL  
ELD(I)

## Agriculture Council

3.30 pm

**The Minister of Agriculture, Fisheries and Food (Mr. Michael Jopling):** With permission, Mr. Speaker, I wish to make a statement on the Council of Agriculture Ministers meeting in Brussels on 13 to 16 May 1985. My hon. Friend the Minister of State and I represented the United Kingdom.

The meeting was devoted entirely to negotiations on the 1985-86 agricultural prices and an agreement was reached last Thursday covering all commodities other than cereals and rapeseed.

Decisions on prices were overdue and, while decisions on all commodities would have been preferable, I was not prepared to give in to German insistence that there should be no meaningful reduction in prices for cereals.

They felt so strongly on this issue that their Minister made it clear, using the words of the Luxembourg compromise, that very important interests were involved for his country and that the Germans were not prepared to agree to a vote. This represented a significant change in the attitude of the Federal Government towards the use of the Luxembourg compromise.

Tying to the decisions which were taken, the co-responsibility levy for milk was reduced by 1 per cent., backdated to the beginning of April. This is linked to the reduction of 1 per cent. in the national quotas. With the 1.5 per cent. increase in the support price for milk, this means an improvement of 2.5 per cent. in the level of support for milk. Now that these decisions have been made, we can go ahead and notify producers of their individual quotas for 1985-86. Letters to producers will start to be sent out later this week.

The Council agreed that supplementary levy will be collected annually at the end of the milk year. This avoids problems over quarterly or half-yearly payments which may bear unfairly on producers if they change their seasonal pattern of production.

The Council did not agree to the Irish Government demand for a permanent addition of 58,000 tonnes in their quota allocation on account of a statistical error in the Irish production figures on which the Council based its decisions last year. An adjustment was made only for 1984-85 and 1985-86.

As I foreshadowed in my statement on the implementation of the report of the Committee on Medical Aspects of Food Policy, I accepted that the special United Kingdom butter subsidy should be discontinued. Taken together with other adjustments affecting butter, this will mean over time a small increase in butter prices of about 1p per 250g pack.

I secured the continuation of the beef variable premium scheme in an unchanged form, against very strong opposition from most other member states. This will be welcome to producers and consumers alike, and will reduce the quantity of United Kingdom beef going into intervention. The guide price for beef will remain unchanged, but United Kingdom producers will benefit—by approximately 1 per cent.—from an increase in the intervention prices under the second stage of the carcass classification grid which was agreed last year.

For sheepmeat, there will be no price change this year. But, for the next year, when the marketing year will start on 6 January, the basic price will increase by 1 per cent.

I successfully resisted pressure from the Commission and some member states for changes in the regime which would have been damaging to our interests, including a proposal to impose a ceiling on variable premium and a related bar to the recovery through the ewe premium of any money forgone. I resisted also pressure for an immediate end to the special export certification arrangements which facilitate the export of ewes from Great Britain. Instead, there will be further discussions about these arrangements over the coming months. The Commission has undertaken to bring forward proposals to enable annual premium to be paid from next year on certain sheep in especially disadvantaged mountainous areas which cannot be tugged until their third season.

I secured agreement on the modification which the farmers' unions and the trade had sought to the sheepmeat seasonal scale which will promote more orderly marketing. I secured also an extension until the end of 1987 of the exemption from clawback for our sheepmeat exports to third countries, which should enable our exporters to develop that trade with more certainty.

Agreement was reached on measures that should bring about a better balance for Mediterranean products and establish a greater control over the regimes in these sectors. In particular, significant price reductions were agreed for tomatoes, citrus fruits and some varieties of tobacco.

Overall, the changes which were agreed will have a negligible effect on food prices in our shops.

Throughout the negotiations, I have attached great importance to the Council continuing with the task, which was started last year, of bringing greater realism into the common agricultural policy within the budgetary constraints laid down. The Commission stated clearly that it would ensure that the measures agreed, with the decisions yet to be reached on cereals and rapeseed, will be financed within the budget provision recently approved for 1985 by the Budget Council. The cost of the compromise package under discussion, of which this settlement forms part, was within the financial guideline for agriculture in 1986.

The Council will meet again on 11 June to continue its discussions on cereals and oilseed rape.

This package, agreed last Thursday, meets our objectives. In particular, I was determined to resist measures which would discriminate against British interests, and that we have done. I consider it a good agreement for the United Kingdom and for the Community as a whole. I commend it to the House.

**Mr. Brynmor John (Pontypridd):** I thank the right hon. Gentleman for that statement. Although it contains some good points, overall this year's endless round of meetings is probably one of the most disastrous ever for the Council of Ministers. I hope that we shall have a debate on it in the near future.

If the Secretary of State was reflecting the unanimous views of those hon. Members who participated in the recent debate on agriculture and price proposals, he must be disappointed. Because the right hon. Gentleman is the only Minister of the Council who comes before us, it is incumbent upon us to criticise the Council through him. To say that agreement has been reached when, in fact, for the first time the main component in the agreement has been removed, is like "Hamlet" without the prince.

**Mr. Waldegrave:** The information is not available. However, my right hon. and noble Friend is commissioning a study of the economic impact of the Arts by the Policy Studies Institute which should provide a relevant assessment.

**Mr. Baker:** Does my hon. Friend accept that the foreign currency earnings of such tours are, in the opinion of everyone connected with the arts, very substantial indeed? Will he do everything possible to encourage the benefits for the nation which are both financial and cultural, from tours of the performing arts?

**Mr. Waldegrave:** Yes, and I can confirm that the great majority of such tours turn out in the end to be money-spinners as well as important cultural activities, which is their fundamental purpose. The study, which is being jointly funded with the Gulbenkian foundation, is aimed at providing some measurement of the scale of the money involved, and that will be useful.

**Mr. Sheldon:** We look forward to seeing the results of the study. Is the hon. Gentleman aware that it is important to bear in mind the number of tourists who come to this country—as anybody can see when queueing at box offices—to enjoy our cultural heritage? It is vital for us to retain and advance that?

**Mr. Waldegrave:** I entirely agree with the right hon. Gentleman, though, as I have sometimes made myself unpopular in the House by saying, I do not believe that we should try to defend the arts primarily as a source of tourism. The same applies to any economic activity. Tourists come to see the commercial theatre just as much as the subsidised theatre. Down that route lies an argument for the withdrawal of subsidy from many minority, specialist and fringe artistic activities.

#### Objects in Lieu of Tax

21. **Mr. Faulds** asked the Parliamentary-Secretary of State answering in respect of the Arts, whether it is policy of the Minister for the Arts to discourage tax debtors from making applications in excess of an overall token figure covering annual discharges in kind of capital transfer tax liabilities which had previously been established administratively, for the statutory provision to be brought into effect whereby pre-eminent objects may be accepted in satisfaction of such tax liabilities; and if he will make a statement.

**Mr. Waldegrave:** There has been no recent change, but as my right hon. and noble Friend said recently in

another place, the Government are looking again at the arrangements whereby the cost of acceptances in lieu of tax is met from the Votes of our respective Departments.

**Mr. Faulds:** Can the hon. Gentleman clarify the reason for so prolonged a delay? Has his noble Friend consulted the Museums and Galleries Commission, which administers the scheme? If not, can the Under-Secretary give an explanation for that unhappy omission?

**Mr. Waldegrave:** I will check and write to the hon. Gentleman as to exactly who has been consulted. I hope that there will not be a long delay. I believe that the studies should be completed within the next month or two. It is an important matter to get right.

**Mr. Cormack:** Is my hon. Friend aware that his last remarks are not reassuring because a month or two can soon become three or four? Is he aware that it is vital that the pledge that our noble Friend gave in another place should be redeemed at the earliest possible opportunity? Does my hon. Friend agree that as our noble Friend is also a Treasury Minister, he should be in a happy position to resolve this quite difficult problem?

**Mr. Waldegrave:** I note the remarks of my hon. Friend who, I am sure, will wish to pay tribute to the Government for again this year finding a large sum, £25 million, for the rescue of the three great houses and for finding additional funds the year before for the support of Calke. In other words, I am sure that as well as pressing my noble Friend, he will want to give credit where credit is due.

**Mr. Buchan:** Surely, much of the tax arrangement is purely notional and has the effect of restricting the possibility of works of art passing into public hands. The time has come to stop this nonsense. The traffic in art is becoming positively obscene. Is the Minister aware that the National gallery could afford only about one third of the canvas area of the last Turner to be sold because of the level of its annual grant? One way forward, even for this Government, would be to remove the ceiling and to alter the restrictions.

**Mr. Waldegrave:** It is a new degradation of language to apply obscenity, which is often misused, to trade in works of art. We are not talking about notional money. The hon. Member for Workington (Mr. Campbell-Savours) argued that the cut in taxes was a disgrace. If taxes are cut by the giving of tax allowances, it is real money and not notional money that is not taken in tax.



Does the right hon. Gentleman appreciate that the success or failure of these talks and the sincerity of professions to reform CAP will always depend upon the cereal settlement? Does the right hon. Gentleman agree that, judged by this criterion, this meeting has been an abysmal betrayal of the people who live in the EC and who have put their faith in the Council's making this type of reform?

Is it true that over-production of fruit and vegetables was so great that dumping or destruction caused the Community to pay out hundreds of millions of pounds? Would this not have justified a far larger cut in the threshold of these products? Is it true that in this and other respects the rest of the Council agreed lower cuts than would have been justified in order to help secure German agreement to cereal cuts? Is it not true that Germany has pocketed all the benefits of these concessions without agreeing any cereal trade-off? What will happen on 11 June, now that the German Government have refused to allow any more than a derisory 0.9 per cent. cut in cereal prices? What will happen now that the Commission, by reaching partial agreement, has capitulated in advance to German demands?

May I welcome very much the retention of the beef variable premium? The *Glasgow Herald*—I do not know whether it is right or wrong—reports the right hon. Gentleman as saying that he has received "a verbal assurance that it can be extended". How bankable is that assurance? Many of us in the House are getting pretty sick of the annual blackmail on the beef variable premium. Similarly, we also welcome the measures on sheep, including the sheep variable premium. May I ask the right hon. Gentleman what his justification is for a rising butter price when there are still enormous surpluses of unwanted butter?

I return to cereals. Has not the talk of budget discipline, which the right hon. Gentleman and others have carried on over the years, and of reforming the common agricultural policy, been shown, in the light of the fiasco that I have described, to be totally insincere? Is it not a fact that the EC is producing far too much in the form of cereals and that even the Commission's miserable 3.6 per cent. proposed reduction, which was much lower than the Government's proposal, has been halved again during the negotiations? What, therefore, will be the future of cereal production? In my view, there will be no reduction of the amount of cereals. Have the right hon. Gentleman and his colleagues made an assessment, on the 1.8 per cent. proposal, of the amount by which cereal production will fall? Otherwise, we shall have to take it that we shall continue to add to the millions of tonnes of unwanted and unused cereals in store.

What about the cost? I heard what the right hon. Gentleman said, and I have also studied what he said in the final part of his statement about it being "within the budgetary constraints laid down." Frankly, if that is so, it is remarkable. My understanding is that if there is only a 1.8 per cent. cut in the cereal price, we shall be spending tens of millions of pounds extra this year and hundreds of millions of pounds extra next year on account of only the cereal prices themselves.

In my view—

**Mr. Edward Leigh** (Gainsborough and Horncastle): Too long.

**Mr. Eric Forth** (Mid-Worcestershire): Too long.

**Mr. Speaker:** Order.

**Mr. John:** I am talking about the most serious part of the agricultural year — [Interruption.] To most Conservative Members, it is a matter of pocketing the difference. To millions of consumers, it is a matter of vital importance.

The millions who are offended by the spectre of unwanted cereals will regard the Council of Ministers' ducking of the major issue of this Council as arrant political cowardice. I believe that the complacency that the Council has shown now will give way to blind panic and cereal quotas. If that happens, the farming community will once more have to cope with ministerial shortcomings.

**Mr. Jopling:** I am grateful to the hon. Gentleman for his kind words about the continuation of the beef variable premium arrangements. Perhaps I can help him in his question. A date—6 April—has been put into the agreement, but the Commissioner has given me an undertaking that, if the marketing years are extended, the beef variable premium will be extended with that. That means that it will be extended on the same basis that it has been over many years.

It is all very well for the hon. Gentleman to talk about annual blackmail. The reason why we have the arrangement annually is that when it was introduced by Lord Peart back in 1975, for the next five years it was renewed only on an annual basis. Therefore, we are left with what his Government arranged during those years.

On sheepmeat, again, I am grateful to the hon. Gentleman for his warm welcome. With regard to the other things that he mentioned, he will understand that I heard what he said about the need for a debate, but my right hon. Friend the Leader of the House is in his place, and he, too, will have heard what the hon. Gentleman said.

On fruit and vegetables, the hon. Gentleman will have heard what I said earlier. There are reductions for fruit and vegetables of up to minus 3 per cent. That is a good move.

On the costs of the package, it is clear from what the Commissioner has told us that he believes that the package will be budgetarily neutral in 1985 and will come within the financial guidelines in 1986.

On cereals, I find it strange that the hon. Gentleman speaks about ducking the issue. The German delegation used the Luxembourg compromise, which meant that the debate could not be concluded but had to continue. The response of successive British Governments to that appeal by a member state, which in the past we have used ourselves, is well known. It is not fair, and shows no understanding of the situation, to speak of ducking the issue.

I understand that all compromise proposals on cereals have lapsed. We must wait and see whether the Commission comes up with new ideas before the Council meeting on 11 June. I have made my negotiating position clear in recent months. I have always believed—I told the House when we debated the matter—that the guarantee threshold for cereals should be properly implemented. I will be ready to consider the new proposals that the Commission puts before us on 11 June.

**Several Hon. Members** rose—

**Mr. Speaker:** Order. I understand the importance of the statement to the House, but I have to have regard also

[Mr. Speaker]

to the fact that no fewer than 42 right hon. and hon. Members are anxious to take part in the subsequent debate. I will therefore, allow questions to continue until 4.5 pm.

**Mr. J. Enoch Powell** (South, Down): Is the right hon. Gentleman aware of the deep resentment, not only in Northern Ireland, about the special treatment once again afforded to the Irish Republic? Is he aware that the nominally temporary nature of that treatment is regarded with some scepticism?

**Mr. Jopling:** The right hon. Gentleman will be glad to know that I opposed the increase in the Irish quota throughout the piece, as I opposed any extra for Ireland a year ago. The difficulty this year was that, while last year I had supporters in my opposition, this year I had none. Therefore, in the end, it was impossible to resist the increase of 58,000 tonnes. However, I sternly resisted any suggestion that it should be placed on a permanent basis. That is why the increase applies only to 1984-85 and 1985-86.

**Sir Peter Mills** (Torrige and Devon, West): Will my right hon. Friend agree that the Opposition are making heavy weather of a very good agreement worked out after some 60 hours of work and only three hours sleep? My right hon. Friend is to be congratulated on what he has achieved, especially the supplementary levy that will be collected annually at the end of the year. That must be of tremendous benefit.

May I add one note of criticism? We are getting tired of the Irish Republic getting away with it not only in the last price review but on the subsidies that it receives for exports to this country.

**Mr. Jopling:** I am grateful for my hon. Friend's generous words. I believe that the payment of the levy annually will help producers who could have found themselves in difficulty if they had altered their seasonal patterns, and so will help a number of our producers. The Irish settlement has been allowed in the belief that a statistical error was made by the Irish Government a year ago. I opposed it all the way through the piece. It is a pity that more states did not take the same view.

**Mr. Nigel Spearing** (Newham, South): Now that both the United Kingdom and West Germany have invoked the Luxembourg arrangement in regard to agricultural prices, is it not clear that the EEC would work a great deal more smoothly if an element of flexibility were introduced into the common agri-cultural policy to allow national Governments to meet the unique agricultural and social needs of their countryside?

**Mr. Jopling:** I do not quite know what the hon. Gentleman's attitude is to use of the Luxembourg compromise, but he will know that the British Government have always taken the view that it is right for delegations and member states to have that weapon. We are all interested to observe that the West Germans have now joined the club.

**Sir Hector Monro** (Dumfries): I thank my right hon. Friend very much indeed for the hard work that he and his colleagues have put in on our behalf in Brussels. May I say how much we appreciate the retention of the beef premium and the sheepmeat regime and the change in the co-responsibility levy? Will my right hon. Friend and his

colleagues try in future to get some continuity so that farmers do not have to hang on until May to know what the year holds for them?

**Mr. Jopling:** I am grateful to my hon. Friend. I understand the problem of continuity. Matters have been made a good deal more difficult this year because a new Commission came into office on 1 January and it could not produce its proposals as early as usual. There were some delays in discussing the matter, which I opposed at the time. I have continually told my colleagues that we must try to settle earlier. My hon. Friend will be aware that, in the past, the settlements have had to wait until June.

**Mr. Geraint Howells** (Ceredigion and Pembroke, North): As the Minister has just said, six months is too long to sort out the annual price negotiations. What can the Minister do in future negotiations to ensure that they are finalised within a few weeks? I welcome the decision for beef producers and sheep producers, but it is only short-term. I wish that the Minister and his counterparts in Europe would discuss the long-term future of agriculture. Confidence would be restored if the industry knew that the variable beef premium and the sheepmeat regime would remain in force for the next 10 years. I should like to ask the Minister two other questions, one on quotas — [HON. MEMBERS: "No."] Were quotas discussed for other products which are produced in Britain? Finally—[HON. MEMBERS: "Really!"]—

**Mr. Speaker:** Order. That would be an abuse when so many other hon. Members want to get in. The hon. Gentleman has done jolly well.

**Mr. Jopling:** I am grateful for what the hon. Gentleman said about the beef and sheepmeat arrangements. They were difficult to achieve but they are good. I agree that six months is too long, but I do not believe that we could have settled the sheep and beef arrangements satisfactorily at an earlier meeting. I am sure that the hon. Gentleman agrees that it is better to wait to get the right decision than to get the wrong one early.

As for the hon. Gentleman's question about quotas on other products, I have been worried for a long time about the possibility of quotas creeping into the cereals sector. I raised the issue with my colleagues at one stage and I can tell the House that I have been considerably heartened to hear that a good many of my ministerial colleagues on the Council strongly oppose cereal quotas. I hope that, when we discuss some of the more long-term studies in Italy next week, we shall be able to fortify that strong feeling in the Council of Ministers that cereal quotas are not the way out.

**Mr. Edward Leigh** (Gainsborough and Horncastle): On that very point, will my right hon. Friend confirm to the cereal farmers whom I represent, who are arguably the most efficient in the world, that he will not tolerate a repetition of what developed in milk last year—when, because of agriculture ministers' failure to act on price, huge surpluses built up and draconian quotas had to be introduced at the last moment? If necessary, will my right hon. Friend invoke the Luxembourg compromise to veto any suggestion by our Common Market partners that we should have quotas on cereals, as that would be devastating for the fertile eastern counties?

**Mr. Jopling:** I am afraid that I cannot anticipate the attitude that one would take to future proposals in the discussions. I can only say that if my hon. Friend had

heard what I said in the Council about the possibility of cereal quotas, he might have accused me of reading his speeches.

**Mr. Thomas Torney** (Bradford, South): Has the Minister considered that there would be no surplus if we sent surpluses to the Third world, where millions of people are starving? Will he press the Commission to dispose of this awkward problem in that way?

**Mr. Jopling:** The hon Gentleman, who takes a great interest in these matters, knows that the Community has been extraordinarily generous with food aid. Substantial quantities of grain are supplied by the European Community and the United Kingdom, under the food aid convention. The Community is committed to providing more than 1.65 million tonnes annually. While I agree that we must be as generous as possible, the hon. Gentleman is wrong not to recognise what we have already done.

**Mr. Albert McQuarrie** (Banff and Buchan): I congratulate my right hon. Friend and his ministerial colleagues on their success, which has been welcomed in Scotland. Is my right hon. Friend aware that beef producers in the United Kingdom suffered a considerable setback in the target price this year, which according to the National Farmers Union will amount to £45 million up to 20 April? Can he give the House an undertaking that he will endeavour to improve the support to the beef sector, for example, by intervention, so that there will be a good back-up to the beef premium scheme?

**Mr. Jopling:** I am grateful for my hon. Friend's remarks. I noticed that the National Farmers Union of Scotland talked about the settlement on beef and sheepmeat as good news for producers and consumers, and welcomed the British Government's stand. I am aware that, during the past few weeks, the beef market has weakened. However, I hope that as we move away from the period in which a good many cows are being slaughtered as a result of the milk quota arrangements, we shall see more stability in the beef market, and that producers' returns will be improved as we move into the second stage of the carcass classification grid, to which I referred earlier.

**Mr. Robert MacIennan** (Caithness and Sutherland): Is the Minister aware that the package, which he described somewhat oddly as meeting the Government's objectives, has been rejected by the president of the NFU who said that it

"does very little to help the industry with its current problems." Does the Minister realise that, even if the Government had these extremely limited objectives, he has failed to satisfy those who are worried about the budgetary costs and the trading impact of the cereal surplus, and that if he does not end his somewhat dogmatic opposition to quotas, a system will be forced on him for which he is wholly unprepared?

**Mr. Jopling:** I can only say that, if the hon. Gentleman reads carefully the statement by the president of the NFU on 17 May, he will see phrases such as

"I greatly welcome the Minister's success in retaining the variable premium for beef . . . I also welcome the decision to reduce the milk co-responsibility levy."

The president further stated that he was "pleased to know" about the sheepmeat arrangements. That seems to me to be rather a warm response. If the hon. Gentleman is critical of the fact that we were unable to achieve what I

regard as a realistic settlement on cereals, he should re-read his speech in the House on 18 March, in which he said:

"Therefore, I hope that it will not be necessary to attack cereal production too savagely in one year."—[*Official Report*, 18 March 1985; Vol. 75, c. 664.]

As usual, in his stumbling way, the hon. Gentleman does not know what he wants.

**Mr. Robin Maxwell-Hyslop** (Tiverton): Is it the present position on the Luxembourg compromise that Germany can exercise a veto and we cannot? Secondly, what need is there for a co-responsibility levy now that the quota scheme is in operation?

**Mr. Jopling:** I may not understand exactly what my hon. Friend meant by his second point. We continue to have a co-responsibility levy, which is now running at 2 per cent. I have always expressed my opposition to the co-responsibility levy. I am glad that many Ministers now join me in being critical of it, and talk of the need to phase it out. My hon. Friend's first point is wrong, in that it strengthens our hand considerably to know that the German Government also believe in the use of the Luxembourg compromise. That can only strengthen the hand of other countries which believe that that weapon should be available.

**Mr. Dafydd Wigley** (Caernarfon): Although I welcome the Minister's success in withstanding the threats to sheep and milk, it appears that he was fighting a rearguard action at the meeting. Does he accept that farmers in Wales want him to go out with positive plans to safeguard their long-term future instead of fighting such rearguard actions? They want positive plans such as those put on behalf of Ireland—the Irish Government succeeded in part—but which we appear not to be putting forward.

**Mr. Jopling:** The hon. Gentleman is being unreasonable by nitpicking simply because I got what I wanted at a late stage in the negotiations. A prominent farming leader in Wales jumped the gun and criticised the settlement because he imagined that we would not get some of the things that I was determined to get. He should be satisfied, and should rejoice that we got what we wanted.

**Mr. Robert Jackson** (Wantage): On the Luxembourg compromise, the British Government's position at least has the merit of consistency. Is it not a bizarre exhibition of political incoherence that the Federal Republic of Germany should advocate European union and then invoke the Luxembourg compromise in defence of an industry that represents 0.2 per cent. of German GNP?

**Mr. Jopling:** I am sure that my hon. Friend welcomes, as I do, the conversion of the German Government to the use of this device. Although it has taken them many years to come round to it, let us welcome them into the fold.

**Mr. Tony Speller** (Devon, North): May I first congratulate my right hon. Friend on securing a package far better than many of us had expected? Secondly, does he believe that the increase in prices to producers of 1 per cent., 1.5 per cent. or eventually 2.5 per cent., is reasonable at a time when inflation is nearly 7 per cent.?

**Mr. Jopling:** It is a difficult equation to put to dairy farmers, but all dairy farmers understand that they do not have the right to continue producing milk that is not

[Mr. Jopling]

wanted. I remind my hon. Friend that about 12 per cent. of the milk that we shall produce this year will be surplus to consumption in the European Community. Production will be about 98 million tonnes, whereas consumption will be only 86 million tonnes. Most farmers realise that we must adjust to the reality of the position, and, like it or not, that spells a difficult economic equation.

**Mrs. Elaine Kellett-Bowman** (Lancaster): Does my right hon. Friend accept that the marginal farmers in my constituency will be pleased with his success in the beef and sheepmeat regimes? Does he accept that they will be hopping made, as I am, that Ireland has again got away with murder? I hope that it will not next year. As to quotas, will he beaver away to try to alter the odd formula which penalises farmers who were upgrading their herds at the relevant date? They were penalised because they had some up-and-coming heifers in their herds at the time.

**Mr. Jopling:** On my hon. Friend's last comment, I am aware of the problems of dairy farmers who had undertaken expansion programmes. That is one difficulty that emerges from the quota arrangements. I am grateful for her generous remarks at the beginning about our success. With her, I am not pleased with what we eventually had to agree for the Irish.

**Mr. Richard Shepherd** (Aldridge-Brownhills): Has my right hon. Friend estimated the increased cost to be borne by the British Exchequer, the British taxpayer and the British consumer as a result of the agreement?

**Mr. Jopling:** My hon. Friend will understand that it is impossible to estimate an overall figure while part of the package will continue to be negotiated on 11 June. I remind him that the Commission believes that the agreement will be budgetarily neutral in 1985.

**Mr. Dennis Skinner** (Bolsover) *rose*—

**Mr. Speaker:** May I ask the hon. Gentleman whether he was here for the statement?

**Mr. Skinner:** Yes—part of it.

**Mr. Speaker:** Mr. Carlisle.

**Mr. John Carlisle** (Luton, North): Does my right hon. Friend accept that there will be great disappointment in the cereals trade about the inability to reach agreement, and that that will cause enormous uncertainty? What will be the effect of the guarantee by the American Government of about \$2 billion of export credit for cereals next year on his talks on 11 June and on the settlement which I hope will then be reached?

**Mr. Jopling:** My hon. Friend puts his finger on an important point. I hope that that announcement in Washington will have a salutary effect on my colleagues, who will realise that they cannot fly in the face of economic reality for long.

**Mr. Forth:** Will my right hon. Friend give the Prime Minister a detailed account of the negotiations and the Federal Republic of Germany's use of the veto so that, when she goes to Milan this month and is lectured about European unity, she can draw the attention of the other member states to the realities of political life in Europe?

**Mr. Jopling:** I have done that already.

## Bidston Steelworks (Closure)

4.5 pm

**Mr. Frank Field** (Birkenhead): I beg to ask leave to move the Adjournment of the House, under Standing Order No. 10, for the purpose of discussing a specific and important matter that should have urgent consideration, namely,

"the proposed closure of the Bidston steelworks in Birkenhead."

My request is specific, because it relates to an announcement of closure made on Friday. It is urgent, because the closure will take place in an area where unemployment is already more than 40 per cent. It is important to have the debate, because it would allow me to illustrate how the proposed closure of Bidston steelworks is contrary to two central planks of Government policy. First, the Government say that they believe in competition, but Allied Steel is trying to buy Bidston steelworks only with the aim of closing a competitor. Secondly, the Government say that they are firmly committed to the private sector, yet Allied Steel, which is half owned by the British Steel Corporation, is using taxpayers' money to destroy jobs in Birkenhead.

Above all, I hope that my application will be successful because it will allow me to express at greater length the anger in our town following the announcement that those jobs will be snatched from our area and transferred to the south.

**Mr. Speaker:** The hon. Gentleman asks leave to move the Adjournment of the House for the purpose of discussing a specific and important matter that he believes should have urgent consideration, namely,

"The proposed closure of the Bidston steelworks in Birkenhead."

I fully understand the hon. Gentleman's anxiety, and I listened carefully to what he said, but I regret that I do not consider that the matter which he has raised is appropriate for discussion under Standing Order No. 10, and I cannot, therefore, submit his application to the House.

### BILL PRESENTED

#### UNSOLICITED NEWSPAPERS (LIMITATION OF DELIVERY)

**Mr. Tony Speller** presented a Bill to prevent delivery of free newspapers to a dwelling where the occupier or his representative has given notice in writing to the publisher of a free newspaper that he or she no longer wishes to receive copies of that newspaper: And the same was read the First time; and ordered to be read a Second time upon Friday 7 June and to be printed. [Bill 148.]



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

From the Minister's Private Office

T Flesher Esq  
Prime Minister's Office  
10 Downing Street  
London  
SW1

20 May 1985

Dear Tim

COUNCIL OF AGRICULTURE MINISTERS: 13 - 16 MAY 1985

I attach a copy of the statement which Mr Jopling hopes to make in the House today. I would be grateful for immediate clearance.

I am copying this letter to Bernard Ingham; David Heyhoe (Leader of the House's Office); Murdo Maclean (Whip's Office, Commons); David Beamish (Whip's Office, Lords); Richard Hatfield (Cabinet Office); Paul Thomas (Chancellor of the Duchy of Lancaster's Office) and to Private Secretaries of the other Agriculture Ministers and Members of the OD(E).

Yours ever

Iv

IVOR LLEWELYN  
Private Secretary

## AGRICULTURAL PRICE FIXING

### PARLIAMENTARY STATEMENT

With my hon Friend the Minister of State, I represented the United Kingdom at the Council of Agriculture Ministers in Brussels on 13 to 16 May 1985.

The meeting was devoted entirely to negotiations on the 1985/86 agricultural prices and an agreement was reached last Thursday covering all commodities other than cereals and rape.

Decisions on prices were overdue and, while decisions on all commodities would have been preferable, I was not prepared to give in to German insistence that there should be no meaningful reduction in prices for cereals.

They felt so strongly on this issue that their Minister made it clear, using the words of the Luxembourg compromise, that very important interests were involved for his country and that the Germans were not prepared to agree to a vote. This represented a significant change in the attitude of the Federal Government towards the use of the Luxembourg Compromise.

Turning to the decisions which were taken, the co-responsibility levy for milk was reduced by 1%, backdated to the beginning of April. This is linked to the reduction of 1% in the national quotas. We can now go ahead in the next week or so to notify individual quotas for 1985/86. With the 1.5% increase in the support price for milk, this means an average improvement of 2½% in the support price for milk.

The Council agreed that supplementary levy will be collected annually at the end of the milk year. This avoids problems over quarterly or half yearly payments which may bear unfairly on producers if they change their seasonal pattern of production.

The Council did not agree to the Irish Government demand for a permanent addition of 58,000 tonnes in their quota allocation on account of a statistical error in the Irish production figures on which the Council based its decisions last year. An adjustment was made only for 1984/85 and 1985/86.

As I foreshadowed in my statement on the implementation of the COMA Report, I accepted that the special UK butter subsidy should be discontinued. Taken together with other adjustments affecting butter this will mean over time a small increase in butter prices of about one penny per 250 gram pack.

I secured the continuation of the Beef Variable Premium Scheme in an unchanged form, against very strong opposition from most other Member States. This will be welcome to producers and consumers alike, and will reduce the quantity of United Kingdom beef going into intervention. The guide price for beef will remain unchanged. But UK producers will benefit - by approximately 1% - from an increase in the intervention prices under the second stage of the carcass classification grid agreed last year.

For sheepmeat, there will be no price change this year. But, for next year, when the marketing year will start on 6 January, the basic price will increase by 1%. I successfully resisted pressure from the Commission and some Member States for changes in the regime which would have been damaging to our interests, including a proposal to impose a ceiling on variable premium and a related bar to the recovery through the ewe premium of any money foregone. I also resisted pressure for an immediate end to the Special Export Certification arrangements which facilitate the export of ewes from Great Britain; instead, there will be further discussions about these arrangements over the coming months. The Commission has undertaken to bring forward proposals to enable annual premium to be paid from next years on certain sheep in especially disadvantaged mountainous areas which cannot be tugged until their third season.

I secured agreement to the modification which the industry and

trade had sought to the sheepmeat seasonal scale which will promote more orderly marketing. I also secured an extension until the end of the 1987 of the exemption from clawback of our sheepmeat exports to third countries, which should enable our exporters to develop that trade with more certainty.

Agreement was reached on measures that should bring about a better balance for Mediterranean products and establish a greater control over the regions in these sectors. In particular, significant price reductions were agreed for tomatoes, citrus fruits and some varieties of tobacco.

The overall effect of the changes agreed will have a negligible effect on food prices in our shops.

Throughout the negotiations, I have attached great importance to the Council continuing with the task which was started last year of bringing greater realism into the common agricultural policy within the budgetary constraints laid down. The Commission stated clearly that they would ensure that the measures agreed, with the decisions yet to be reached on cereals and rape, will be within the budget provision recently agreed for 1985.

The Council will meet again on 11 June to continue its discussions on cereals and oilseed rape.

In particular, This package agreed last Thursday meets our objectives. / I was determined to resist measures which would discriminate against British interests and this we have done. I consider it a good agreement for the UK and for the Community as a whole. I commend it to the House.







CCP  
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ODP  
20/5

Treasury Chambers, Parliament Street, SW1P 3AG

Mr Ruth Rawling  
Assistant Private Secretary  
Minister of Agriculture Fisheries and Food  
Ministry of Agriculture Fisheries and Food  
Whitehall Place  
LONDON SW1A 2HH

20 May 1985

Dear Ruth,

**DRAFT STATEMENT ON AGRICULTURAL COUNCIL**

The Chancellor has asked the Economic Secretary to deal with the draft statement on the Agricultural Council which was circulated under Ivor Llewelyn's letter to Colin Budd of 17 May.

As I mentioned when we spoke, the Economic Secretary is content with the statement subject to the following points:

- (i) Deletion of "so called" from the last line of page 1;
- (ii) Amendment of the last clause of the penultimate paragraph to read "will be financed within the budget provision recently approved for 1985 by the Budget Council" and addition of a new sentence: "The cost of the compromise package, of which this settlement formed a part, was within the financial guideline for agriculture in 1986."
- (iii) Insertion after the second sentence of the last paragraph: "The prospects for a satisfactory settlement on cereals and rapeseed have not been prejudiced". (We agreed this sentence would sit more comfortably with the sentence which it is proposed to insert between the ultimate and the penultimate paragraphs alluding to the forthcoming meeting to discuss cereals and rapeseed.)

will require if required

I am copying this letter to Charles Powell (No.10), Rachel Lomax (Treasury), John Graham (Scottish Office), Colin Williams (Welsh Office) and Jim Daniels (Northern Ireland Office).

Yours ever,  
A M Ellis  
A M ELLIS  
Private Secretary

20 MAY 1955

PROBATION DEPT  
WASHINGTON DC



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

From the Minister's Private Office

Colin Budd Esq  
Private Secretary  
to the Secretary of State  
Foreign and Commonwealth Office  
Downing Street  
London SW1

17 May 1985

*Dear Colin*

AGRICULTURE COUNCIL: 13-16 MAY

.. I enclose a draft of the statement my Minister will be making to Parliament on Monday; Mr Jopling has not yet approved this. I would be grateful for any comments as soon as possible. We will be circulating a final version on Monday in the usual way.

I am copying this letter and enclosure to Charles Powell (No.10), Rachel Lomax (Treasury), John Graham (Scottish Office), Colin Williams (Welsh Office) and Jim Daniels (Northern Ireland Office).

*Yours ever*

*CI*

C I LLEWELYN  
Private Secretary

## AGRICULTURAL PRICE FIXING 1985

### DRAFT PARLIAMENTARY STATEMENT

With my hon Friend the Minister of State, I represented the United Kingdom at the Council of Agriculture Ministers in Brussels on 13 to 16 May 1985.

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They felt so strongly on this issue that their Minister made it clear, using the words of the Luxembourg compromise, that very important interests were involved for his country and that the Germans were not prepared to agree to a vote. This represented a significant change in the attitude of the Federal Government towards the use of the so-called Luxembourg Compromise.

We can now go ahead in the  
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individual quotas for 1985/86.

Turning to the decisions which were taken, the co-responsibility levy for milk was reduced by 1%, linked to the reduction of 1% in the national quotas.\* With the 1.5% increase in the support price for milk, this means an average improvement of 2½% in the support for milk.

The Council agreed that supplementary levy will be collected annually at the end of the milk year. This avoids problems over quarterly or half yearly payments which may bear unfairly on producers if they change their seasonal pattern of production.

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The overall effect of the changes agreed will have a negligible effect on food prices in our shops.

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Council continuing with the task which was started last year of bringing greater realism into the common agricultural policy within the budgetary constraints laid down. The Commission stated clearly that they would ensure that the measures agreed, with the decisions yet to be reached on cereals and rape, will be within the budget provision recently agreed for 1985.

This package agreed last Thursday meets our objectives. I was determined to resist measures which would discriminate against British interests and this we have done. I consider it a good agreement for the UK and for the Community as a whole. I commend it to the House.

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LUXEMBOURG, PARIS, ROME, THE HAGUE  
INFO SAVING WASHINGTON

AGRICULTURE COUNCIL: GERMAN PRESS

SUMMARY

1. GERMAN PRESS REGARD KIECHLE'S INVOCATION OF THE LUXEMBOURG COMPROMISE AS A DEFEAT FOR GERMAN EUROPEAN POLICY. THEY SHOW LITTLE SYMPATHY FOR THE FARMERS, BUT UNDERSTANDING FOR KIECHLE'S DIFFICULT POLITICAL POSITION AT HOME.

DETAIL

2. THE REGIONAL AND NATIONAL GERMAN PAPERS AGREE THAT KIECHLE'S NEGOTIATING TACTICS, WHILE REPRESENTING A (TEMPORARY) VICTORY FOR THE GERMAN FARMING LOBBY, AMOUNT TO A HEAVY DEFEAT FOR THE EUROPEAN COMMUNITY AND A LOSS OF CREDIBILITY FOR BONN'S EUROPEAN POLICY. MOST EDITORS POINT OUT THE INCONSISTENCY OF THE FEDERAL GOVERNMENT'S POSITION: THE GERMANS HAD BEEN AMONG THE MOST ACTIVE PROPONENTS OF BUDGET DISCIPLINE AND AGRICULTURAL REFORM. AND KOHL HAD TAKEN A PERSONAL STAND IN FAVOUR OF MAJORITY VOTING AS AN ESSENTIAL CONSTITUENT OF A STRONGER EUROPE. YET KIECHLE, WITH THE FULL BACKING OF KOHL AND HIS CABINET, HAD CHOSEN THE MONTH BEFORE THE MILAN EUROPEAN COUNCIL FOR THE GERMANS TO INVOKE THE LUXEMBOURG COMPROMISE FOR THE FIRST TIME IN ITS 20 YEAR EXISTENCE. THE STUTTGARTER ZEITUNG, ECHOING CRITICISMS MADE BY SPD, SUGGEST THAT ARMS CONTROL AND REDUCING UNEMPLOYMENT ARE VITAL GERMAN INTERESTS, NOT CEREAL PRICES. SOME EDITORS DRAW PARALLELS BETWEEN THE PRICE-FIXING AND OTHER AREAS WHERE BONN HAS IRRITATED ITS EUROPEAN PARTNERS THROUGH LACK OF GOVERNMENTAL COORDINATION, EG ENVIRONMENT, EC BUDGET, GATT, SDI, EUREKA. OTHERS REPORT THE US ADMINISTRATION'S PLANS FOR EXPORT SUBSIDY THROUGH PAYMENTS-IN-KIND, AND WARN THAT KIECHLE IS STORING UP TROUBLE FOR THE COMMUNITY: STADLMANN IN THE FRANKFURTER ALLGEMEINE SEES THE PRICE-FIXING AS A CRUCIAL TEST OF STRENGTH BETWEEN DELORS' COMMISSION AND KIECHLE.

3. THERE IS A CONSPICUOUS ABSENCE OF SYMPATHY IN THE NATIONAL PRESS FOR THE FARMERS OR FOR THEIR CLAIM THAT A CUT IN CEREAL PRICES WOULD

BE INTOLERABLE. THE PRESS DOES HOWEVER SHOW SYMPATHY FOR KIECHLE'S POLITICAL DILEMMA. ERTL HAD ALWAYS BEEN ABLE TO BRING HOME BENEFITS FOR THE FARMERS. KIECHLE HAD HAD TO TAKE OFFICE JUST AS THE TIDE WAS TURNING. HE HAD BROUGHT NOTHING BUT BAD NEWS FROM BRUSSELS TO A FARMING POPULATION WHICH HIS PREDECESSORS HAD NOT PREPARED FOR THE CHANGE. HE WAS NOW FIGHTING FOR HIS POLITICAL EXISTENCE. THE BILD ZEITUNG CITES STRAUSS: 'OUR EC PARTNERS MUST UNDERSTAND THAT SINCE THE HUGE LOSSES AMONG FARMING VOTERS IN THE NORTH-RHINE WESTPHALIA ELECTIONS, THE FEDERAL GOVERNMENT HAS ITS BACK TO THE WALL. COMPARED WITH THIS IT IS OF LESSER IMPORTANCE WHETHER THE MILAN COUNCIL IS A SUCCESS OR A FAILURE. OUR PARTNERS WOULD BE WELL ADVISED TO TAKE A POSSIBLE VETO SERIOUSLY. AFTER ALL, WE GERMANS PAY MOST IN THE EC.'

4. STRAUSS IS REPORTED TO HAVE TOLD KIECHLE TO ACCEPT NOTHING ON CEREAL PRICES 'WHICH DID NOT HAVE A ZERO BEFORE THE DECIMAL POINT'. HANDELSBLATT REPORTS THAT THE COMMISSION, AT BRITISH REQUEST, HAS CONFIRMED THAT ITS NEW CEREALS PROPOSALS WILL BE NEUTRAL IN THEIR EFFECT ON THE BUDGET. DIE WELT SAYS THAT IT WAS THE BRITISH, WITH AN EYE ON MILAN, WHO INSISTED THAT KIECHLE COME CLEAN ABOUT WHETHER HE WAS INVOKING THE LUXEMBOURG COMPROMISE.

FCO PLEASE PASS SAVING TO WASHINGTON

WILLIAMS

FRAME AGRICULTURE

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[REPEATED SAVING AS REQUESTED!]



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## USE OF THE LUXEMBOURG COMPROMISE IN RECENT YEARS

The following is the position of Member States of the Community on the Luxembourg compromise.

(a) Belgium and Netherlands take the view "that the Presidency must have recourse to voting where the Treaties so provide". Belgium and Netherlands have not invoked the Luxembourg compromise. However, at the Fisheries Council on 14 December 1983, the Commission refused to adopt as its own proposal a Presidency compromise on herring quotas which all Member States, except Belgium and the Netherlands, could agree to. The Commission took this position on the grounds that, unlike the other member states directly concerned, Belgium and Netherlands could not invoke a vital national interest to prevent a decision. A compromise was eventually adopted with Belgium abstaining.

(b) Denmark shares the UK view that "when a Member State considers its very important interests to be at stake, discussion should be continued until unanimous agreement is reached". (Declaration on the signature of the Solemn Declaration in 1983.)

The Danes have frequently invoked the Luxembourg compromise on fisheries questions, the last time being the Fisheries Council on 12 July 1983 on herring quotas.

(c) France The formal French position is that "voting will be postponed if one or more Member States so request in order to defend an essential national interest directly related to the subject under discussion, which they confirm in writing" (declaration of the French Prime Minister on the signature of the Solemn Declaration).

Before the Transport Council on 10 June 1982, the French representative said that decisions (on inland waterways where the French were in a minority of one) should be taken in the Council "in accordance with established practice, within which the



Luxembourg compromise maintained, for the French government, all its value". In the event, no move to a vote was made.

In November 1984, in a speech in Germany, M. Dumas said it was "indispensable to maintain the possibility for a Member State to invoke a vital interest provided that the Member State justifies it objectively in the Council".

(d) Germany takes the view that "the Presidency must have recourse to voting where the Treaties so provide". However, in the Agriculture Council on 16 May, the Agriculture Minister said that, if a vote were to be proposed on cereal prices Germany would have to ask that it be deferred because a very important national interest was at stake. The Presidency then declined to move to a vote on the basis that Germany had invoked the Luxembourg compromise. On 13 May, Chancellor Kohl had written to the President of the Commission using Luxembourg compromise language: "This issue of price reduction is an essential question in which very important interests in our agriculture and thus our economy are at stake, and with regard to which we would find it very difficult to allow ourselves to be overruled in the Council."

(e) Greece takes the view that discussion of a subject should be continued "until unanimous decision is reached in cases where vital and essential national interests of a Member State are at stake and written notification has been made to this end". (Declaration in the context of the Stuttgart Declaration, 1983.)

At ECOFIN in June 1982, the Greeks had difficulties over a compromise package for the renewal of OECD export credit consensus rules. The Greek representative said that since very important national interests were at stake, a vote should be deferred. No vote was called.

In the Agriculture Council in September 1983, the Greeks refused to accept a one-year roll-over of the dried fruit regime with subsequent introduction of a guarantee threshold. When the Dutch



representative proposed a vote, the Greek representative immediately intervened to say that this was a matter of vital national interest and that a vote would not be appropriate. No vote was taken.

(f) Ireland takes the view that "voting will be postponed where one or more Member States so request in order to defend an essential national interest directly related to the subject under discussion, which they confirm in writing". (Declaration on signature of the Solemn Declaration, 1983.) At the Agriculture Council on 26 March 1984, Ireland invoked the Luxembourg compromise over the proposed size of its milk quota. The Irish confirmed their position in writing. No vote was taken.

In a speech on 22 March 1985, Dr Fitzgerald said: "The outstanding issue of providing for the exceptional case where a genuine vital national interest of a member country might be overridden by other members should be capable of resolution ..."

(g) Italy takes the view that the Presidency "must have recourse to voting where the Treaties so provide".

At the Steel Council on 25 July 1983, Italy reminded other Ministers of the existence of the Luxembourg compromise without formally invoking it. In a restricted session outside the Council chamber, Italian Minister made it clear that if a vote seemed likely he would formally invoke the Luxembourg compromise to prevent the adoption of steel quotas unacceptable to Italy. Agreement was reached on a compromise without a vote.

It is also unlikely that the Italians would in practice accept to be voted down on the olive oil or wine regimes.

(h) Luxembourg shares the view that the Presidency "must have recourse to voting where the Treaties so provide". There is no recent record of Luxembourg invoking a very important national interest. The question of a permanent seat for the European



institutions is the most commonly quoted example of a Luxembourg "vital national interest". Since the question of the institutions is covered by one of the unanimity articles of the Treaty (Article 216) there is no possibility of their having to invoke the Luxembourg Compromise on this issue. We believe however that Luxembourg would be opposed to a Treaty amendment of this article, or to giving the European Parliament joint decision-taking rights in this field because this would increase the chances of their being voted down. Luxembourg could almost certainly not accept to be outvoted on steel quotas and migrant workers.

(i) United Kingdom takes the view that "when a Member State considers its very important interests to be at stake, discussion should be continued until unanimous agreement is reached". At the Agriculture Council in May 1982, the UK invoked the Luxembourg compromise on the grounds that the Commission's proposed price package would result in a ten per cent increase in the cost of the CAP and would substantially and unacceptably increase the UK net contribution to the budget. No vote was taken but at the Agriculture Council on 17/18 May, despite repeated use of Luxembourg compromise language by the UK Minister, the Belgian Chairman proceeded to a vote. Denmark and Greece refused to participate in voting. All other Member States voted in favour of the price package. France claimed that the UK had been overruled for misusing the Luxembourg compromise, ie making a false link between its budget problem and the agricultural price fixing.



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FRAME AGRICULTURE

FROM PARIS 171700Z MAY 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 416 OF 17 MAY 1985

INFO PRIORITY UKREP BRUSSELS, BONN, WASHINGTON, ROME

INFO SAVING ATHENS, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE,  
LUXEMBOURG, LISBON, MADRID

CAP PRICE-FIXING : FRENCH REACTIONS

## SUMMARY

1. THE OUTCOME OF THE AGRICULTURE COUNCIL IS SEEN BY THE FRENCH GOVERNMENT AND PRESS AS PROFOUNDLY UNSATISFACTORY. THEY PUT THE BLAME SQUARELY ON THE GERMANS, ACCUSING THEM OF INTANSIGENCE (A TERM HITHERTO USUALLY RESERVED FOR THE BRITISH). GERMAN READINESS TO INVOKE THE LUXEMBOURG COMPROMISE AND THE LACK OF CONSISTENCY IN THEIR EUROPEAN POLICIES ARE PRESENTED AS SEVERE SETBACKS TO THE RETURN TO HEALTH OF THE CAP, AND TO THE WIDER FUTURE OF EUROPE.

## DETAIL

2. NALLET IS QUOTED AS ACCUSING THE GERMANS OF REFUSING TO APPLY THE CAP RULES THEY HAD THEMSELVES HELPED TO WORK OUT AND INVOKING THE LUXEMBOURG COMPROMISE ON AN ISSUE DIFFICULT TO DESCRIBE AS A VITAL INTEREST. HE ADDED THAT ALL THE CONCESSIONS OFFERED TO THE GERMANS IN THE PAST TWO MONTHS OF NEGOTIATION HAD NOW BEEN WITHDRAWN. PRIME MINISTER FABIUS HAS DESCRIBED THE OUTCOME OF BRUSSELS AS A SEVERE BLOW TO EUROPE: HE ACCUSED THE GERMANS OF DOUBLE INCONSISTENCY IN CALLING FOR BOTH BUDGET DISCIPLINE AND INCREASED EXPENDITURE, AND IN URGING THE DEVELOPMENT OF EUROPE WHILE INVOKING THEIR RIGHT OF VETO. FRENCH FARMING REPRESENTATIVES HAVE WELCOMED THE ENDING OF UNCERTAINTY BUT ARE PREDICTABLY CRITICAL OF THE LOW LEVEL OF PRICE INCREASES FOR MOST PRODUCTS.

3. THE FRENCH PRESS WHICH HAS PORTRAYED THE GERMANS AS THE VILLIANS THROUGHOUT THE RECENT NEGOTIATIONS, SEES THE OUTCOME OF THE COUNCIL AS AN UNSATISFACTORY COMPROMISE AND A VICTORY FOR GERMAN OBSTINACY. THERE IS WIDESPREAD COMMENT ON THE GLARING CONTRADICTIONS BETWEEN PREVIOUS GERMAN PLEADINGS IN FAVOUR OF A RETURN TO MAJORITY VOTING AND GREATER BUDGETARY DISCIPLINE ON THE ONE HAND, AND THEIR USE OF THE VETO TO PROTECT THEIR OWN FARMERS ON THE OTHER. THE PRESS IS GENERALLY AGREED THAT THE REASONS FOR GERMAN INTRANSIGENCE ARE TO BE FOUND IN DOMESTIC GERMAN POLITICS, AND THAT THE PRESSURES ON KIECHLE WERE EXACERBATED BY LAST WEEKEND'S LOCAL ELECTION RESULTS. MOST COMMENTATORS TEND TO SEE THE OUTCOME OF THE COUNCIL AS A DEFEAT FOR FRANCE BUT NOTE THAT THE FRENCH DELEGATION DID NOT IN THE END APPEAR READY TO FIGHT IT OUT WITH THE GERMANS TO THE BITTER END. THE BRITISH ROLE IS GENERALLY SEEN IN A POSITIVE LIGHT. DESPITE ONE OR TWO EARLIER HINTS TO THE CONTRARY, PRESS COMMENT TODAY DOES NOT SUGGEST THAT WE WERE PART OF THE PROBLEM BY DEFENDING THE GERMANS' RIGHT TO INVOKE THE LUXEMBOURG COMPROMISE.

**RESTRICTED**

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**RESTRICTED**

4. SEVERAL PAPERS GO BEYOND THE IMMEDIATE AGRICULTURAL ISSUES TO DRAW SOME SOMBRE CONCLUSIONS FOR EUROPEAN PROSPECTS. LES ECHOS (BUSINESS DAILY), WHICH IS HIGHLY CRITICAL OF KOHL, COMMENTS THAT THE DECISION OF THE OTHER NINE TO SUBMIT TO A GERMAN DIKTAT MEANS THAT THE CREDIBILITY OF CAP REFORM HAS BEEN DIMINISHED AND HOPES THAT INSTITUTIONAL REFORMS WOULD EMERGE FROM THE MILAN SUMMIT HAVE BEEN RUINED. LE QUOTIDIEN DE PARIS (RIGHT-WING) DESCRIBES THE FAILURE OF THE NEGOTIATIONS AS YET ANOTHER ILLUSTRATION OF THE DECLINE OF EUROPE, THE ESSENTIAL REASON BEING THE CRACK IN THE BONN-PARIS AXIS. THE NEWSPAPER REGARDS RELATIONS AS NOW MARKED BASICALLY BY DISCORD, DESPITE FRENCH ATTEMPTS TO PLAY THIS DOWN, AND THE IDEA OF A FRENCH INITIATIVE TO RELAUNCH EUROPE AS DIFFICULT TO IMAGINE IN SUCH CIRCUMSTANCES.

5. IN AN EXCEPTIONALLY BLUNT EDITORIAL, ENTITLED QUOTE BONN AGAINST PARIS UNQUOTE, LE MONDE (INDEPENDENT) CONDEMNS THE GERMAN THREAT TO USE THEIR VETO, CALLING THIS A SAVAGE BLOW TO CAP REFORM AND A DEMONSTRATION OF DOUBLE INCONSISTENCY - IT BEING CONTRADICTORY FIRST TO FORCE THE COMMUNITY TO RETURN TO LAXITY JUST WHEN KOHL HAS SUPPORTED REAGAN OVER A NEW GATT ROUND WHICH WILL PUT THE CAP IN AMERICAN GUN-SIGHTS, AND SECOND TO INVOKE THE LUXEMBOURG COMPROMISE (AFTER DENOUNCING IT FOR TWENTY YEARS) JUST WHEN PEOPLE ARE READY TO RETURN TO THE DECISION-MAKING PROVISIONS OF THE TREATY OF ROME. THE PROSPECTS FOR A RELAUNCH OF THE COMMUNITY AT MILAN ARE POOR INDEED, CONCLUDES LE MONDE, UNLESS THE VARIOUS FRANCO-GERMAN MEETINGS BEFORE THEN, INCLUDING DUMAS-GENSCHER NEXT WEEK, SHOW THAT PARIS STILL HAS SOME INFLUENCE IN BONN.

COMMENT

6. SUCH WIDESPREAD AND DAMNING CRITICISM OF THE GERMANS IS WITHOUT RECENT PRECEDENT HERE. THE GLOOM ABOUT THE PROSPECTS FOR MILAN IS ALSO NOTABLE. THIS LATEST ROW, ADDED TO INCREASING FRENCH SUSPICION THAT THE GERMANS HAVE TAKEN THE US SIDE OVER SDI, MARKS A SIGNIFICANT DOWN-TURN IN THE RELATIONSHIP. THE DAMAGE CAN PROBABLY BE REPAIRED TO SOME EXTENT, BUT THE CONVICTION IS CLEARLY GROWING IN PARIS THAT KOHL'S GOVERNMENT IS DANGEROUSLY WEAK IN DOMESTIC POLITICAL TERMS AND INCAPABLE OF PURSUING CONSISTENT POLICIES.

7. IT IS DIFFICULT TO SEE HOW THE FRANCO-GERMAN TANDEM CAN BE RESTORED TO MOTION SUFFICIENTLY TO PRETEND TO GIVE ANY SORT OF CONSTRUCTIVE LEAD ON COMMUNITY MATTERS AT THE MILAN EUROPEAN COUNCIL.

FCO PLEASE ADVANCE TO:

FCO : FAIRWEATHER AND CLEMENTS (ECD(1))  
MAFF : MRS ATTRIDGE  
CAB : WILLIAMSON, STAPLETON, JAY  
HM TREASURY : BUTT

FCO PLEASE PASS SAVING ADDRESSEES

REPEATED SAVING AS REQUESTED

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FRETWELL  
FRAME AGRICULTURE  
ECD (1)

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



From the Minister

**CONFIDENTIAL**

~~AT~~ file  
COO 17/5

The Rt Hon Sir Geoffrey Howe QC MP  
Secretary of State for Foreign and Commonwealth Affairs  
Foreign and Commonwealth Office  
Downing Street  
London SW1

17 May 1985

Dear Secretary of State

**AGRICULTURAL PRICE FIXING 1985**

1. You will know that the Agriculture Council eventually reached agreement last evening on an agricultural prices package which excludes cereals and rapeseed.

2. Following the outcome of our discussions on 8 May, I sought throughout the extended meetings in Luxembourg on 13/15 May and in Brussels this week to isolate the Germans on the cereals issue. It was evident, however, that a number of other Member States, of which Belgium, Greece and Ireland were most vocal, were sympathetic to the German opposition to any significant price cut on cereals and there was reluctance among them to force the Germans into using the Luxembourg Compromise. In this situation, we were faced with a real risk of a move to isolate us, so long as the German Minister continued to avoid defining his position. The French Minister, Nallet, with whom I concerted tactics carefully at each stage, was very firm in his opposition to the Germans on cereals. But he was clearly prepared to stay with the Commission, wherever they moved. Andriessen's attitude was, therefore, critical. He was given a firm brief by his colleagues. But we knew that he had the latitude to move to a 1.8% cut in cereals in the context of an overall agreed package - and there was a suggestion that he might be able to move lower to a 1.6% cut.

3. The Presidency eventually came forward with their final compromise package, including a 1.8% cut for cereals and rapeseed with no move to meet the German demands for a higher milk price increase and no cut in the butter price.

4. At this stage the German Minister, Kiechle, returned to Bonn for consultations. He reported back to the Council - in a very carefully and cleverly worded statement - making clear that,

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although he had some room for manoeuvre, he could not accept the Presidency package and that he was looking for some form of compensation. He avoided, however, yet again making his position clear on voting. I therefore intervened to smoke him out. I said that I understood him to be indicating that the German Government envisaged that there were situations where the Council should not proceed to a vote and that this possibility existed for these negotiations. Kiechle did not dissent. Pandolfi, who throughout was seeking to use the Presidency to protect the Germans, announced that my statement was "not helpful".

5. We subsequently moved into a Ministers only meeting at which Pandolfi called for an indicative vote. This eventually forced Kiechle to refer to paragraph 1 of the Luxembourg Compromise, thus making it clear that he was not prepared to be out-voted on any package which did not contain his minimum demands on cereals - a cut not more than 0.9%, special intervention for German wheat and quicker payment to producers for cereals offered for intervention. Before the Council resumed, I discussed the situation with Pandolfi and emphasised that he had to ensure that Kiechle's position on the Luxembourg Compromise was brought out clearly in the Council.

6. In the subsequent Council session, Pandolfi stated that Kiechle had made it clear that he was invoking paragraph 1 of the Luxembourg Compromise. He then proposed splitting the package. The arguments for and against keeping the whole package together or settling for what was on the table on other products and continuing the argument on cereal, were finely balanced. It was clear that most delegations wanted to agree as much as possible there and then. Both Nallet and I eventually agreed to accept this course on the understanding that both we and the Commission would not therefore be committed to the Presidency proposal on cereals.

7. After lengthy discussions on how the split should be done and on a number of details, the package excluding the cereals and rapeseed proposals was voted through with Germany (over butter) and Greece abstaining. I sought and obtained from Andriessen's confirmation that it would be the Commission's intention to ensure that the final overall agreement including cereals and rape would still be covered by his earlier statement. On the financial consequences, a UK statement went into the minutes confirming our position.

8. I was, of course, concerned throughout to defend our interests on other parts of the package. You will have seen that the Beef Variable Premium Scheme continues for 1985/86 unchanged; the outcome on sheepmeat has avoided damage to our industry though we shall face continuing pressures from the Commission and the French for changes in the regime which would disadvantage us.

On milk other Member States were prepared to meet the Irish demand on the basis of a text that gives them an additional 58,000 tonnes for each of the years 1984/85 and 1985/86.

9. Discussions on cereals and rapeseed will be resumed in Luxembourg on 11/12 June. In spite of the position of the French, the Commission and ourselves, it is very difficult (given the attitude of other Member States) to see an agreement being

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reached now on a bigger cut than 1.8%. Nor is it easy to see the Germans accepting even this figure without a scale of compensation which would be intolerable in market and budgetary terms. It was evident in the margins of the negotiation that the Commission could find no way of buying off the German demands without unacceptable financial consequences. So we are still some way from the end of this bruising and difficult negotiation.

10. I am sending copies of this letter to the Prime Minister, Members of OD(E), the other Agriculture Ministers and to Sir Robert Armstrong.

Yours Sincerely  
C. H. J. J. J.

for MICHAEL JOPLING  
(Approved by the Minister  
and signed his absence)

17 MAY 1985

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Rome Minister  
CDD

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Qz.04450

MR POWELL

CABINET, COMMUNITY AFFAIRS: AGRICULTURE

The Agriculture Council is still continuing without reaching a settlement. In consequence, the Minister of Agriculture, Fisheries and Food will not be at Cabinet but the Foreign and Commonwealth Secretary will be briefed on the latest situation.

2. The Commission has not changed its proposals by comparison with the situation set out in the Cabinet brief on Community Affairs. The Presidency has suggested some further changes, of which the most important would be a correction of the cut in cereal support prices to -1.8 per cent. The German Minister, Herr Kiechle, is continuing to oppose any cut in cereal prices and, broadly, a 9 - 1 situation against Germany has continued throughout the night's discussions. Mr Jopling has, in accordance with his instructions, sought to make explicit that, if Herr Kiechle does not accept a vote, then the Luxembourg compromise is being invoked by the Federal Republic of Germany.

3. The very latest situation is that the Presidency will probably call during the morning a meeting of Ministers only at which they will ask for an indicative vote on the Commission's proposals, if these were to be adjusted slightly in line with the Presidency's document. This procedure would be in our interest, since Herr Kiechle would be forced either to say that he would accept a vote (thus reducing cereal prices) or would have to make clear that he would invoke the Luxembourg compromise.

4. By comparison with the Commission's revised proposals the Presidency's text would add to budget costs about 70 million ecu in 1985 and about 126 million ecu in 1986. The Commission would probably undertake to offset all or part of these costs by management measures.

5. I am sending a copy to Sir Robert Armstrong.

D F Williamson  
D F WILLIAMSON

16 May 1985



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Prime Minister

CDP 16/5

mt

Qz.04457

MR POWELL

EUROPEAN COMMUNITY: AGRICULTURE

I understand from our delegation at the Agriculture Council that they expect the Council to conclude soon with the following result:-

(i) when the Council resumed for its formal session this afternoon the Chairman made quite clear that the position of Herr Kiechle in the preceding informal meeting amounted to the invocation by him of the Luxembourg compromise. It seems to me, therefore, that, although the Germans may wriggle in their later presentation of the results of this Council, there is no real doubt elsewhere in the Community that the Luxembourg compromise has been used;

(ii) the Council then worked through the numerous points in the latest Presidency compromise and is expected to agree unanimously on all of them except cereals (and rapeseed);

(iii) agreement will not be reached on cereals (and rapeseed) and no vote will be taken because of Herr Kiechle's position. Consequently the current proposals on cereals (and rapeseed) will remain on the table and these matters will have to be resolved later.

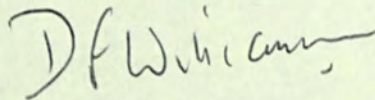
The fact that all other issues will have been agreed by the Council and cereals (and rapeseed) left over without a vote is a further confirmation that in fact the Luxembourg compromise is being used. Otherwise it is evident that the package would have been completed by a vote on cereals (and rapeseed).

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I am sending copies to Colin Budd (FCO), Rachel Lomax (Treasury) and to Sir Robert Armstrong.

A handwritten signature in dark ink, appearing to read 'D F Williamson', with a stylized flourish at the end.

D F WILLIAMSON

16 May 1985

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GRS 440  
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FRAME AGRICULTURE  
FM BONN 101615Z MAY 85  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 476 OF 10 MAY  
INFO IMMEDIATE UKREP BRUSSELS  
INFO SAVING OTHER EC POSTS

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1985 CAP PRICE FIXING: GERMAN POSITION

SUMMARY

1. SPECULATION THAT KIECHLE HAS CABINET BACKING FOR A VETO. GERMANS STILL FIRMLY AGAINST PRICE REDUCTION FOR CEREALS. GOVERNMENT IN AN INTERNAL POLITICAL BIND. OFFICIALS UNCLEAR WHETHER ISSUE WILL BE SETTLED AT NEXT WEEK'S COUNCIL.

DETAIL

2. TODAY'S PRESS CONTAINS REPORTS THAT KIECHLE HAS THE CABINET'S BACKING FOR A VETO.

3. CONTACT WITH OFFICIALS IN AGRICULTURE, FINANCE AND FOREIGN MINISTRIES AND THE FEDERAL CHANCELLERY CONFIRM THAT KIECHLE HAS THE CABINET'S FIRM BACKING TO RESIST ANY REDUCTION IN CEREALS SUPPORT PRICE. THEY ADD THAT KIECHLE IS DETERMINED TO DO EVERYTHING IN HIS POWER TO PREVENT A REDUCTION. HE IS NOW TOO FAR COMMITTED TO THE FARMERS AND IS SAID TO BE FIGHTING FOR HIS POLITICAL LIFE. ON THE QUESTION OF WHETHER OR NOT HE WILL INVOKE THE LUXEMBOURG COMPROMISE, OFFICIALS ARE EVASIVE. THEY POINT TO THE COMMUNITY TRADITION THAT WHEN ONE MEMBER IS IN PARTICULAR DIFFICULTIES, THE OTHERS SHOW UNDERSTANDING. THEY EXPECT UNDERSTANDING FOR THE FRG TO BE SHOWN THIS TIME. THEY RECOGNISE THAT INVOCATION OF THE LUXEMBOURG COMPROMISE CONFLICTS NOT ONLY WITH THE FEDERAL REPUBLIC'S TRADITIONAL POSTURE BUT ALSO WITH THE LINE THEY HAD BEEN TAKING IN DOOGIE COMMITTEE AND WITH THE POLICY OF FINANCIAL DISCIPLINE. BUT THE FARMERS' INTERESTS CANNOT BE SACRIFICED AGAIN. CLEARLY, THE GERMANS HOPE THAT A VOTE CAN BE AVOIDED. THE FACT THAT THE NORDRHEIN WESTFALEN ELECTIONS (ON 12 MAY) WILL BE OVER WHEN THE COUNCIL MEETS IS NOT, ACCORDING TO OFFICIALS, LIKELY TO LEAD TO GREATER FLEXIBILITY IN THE GERMAN POSITION.

4. OFFICIALS DO NOT SEEM TO EXPECT THAT NEXT WEEK'S COUNCIL WILL BE DECISIVE AND ARE PRESUMABLY LIVING IN THE HOPE THAT SOME COMPROMISE CAN YET BE AGREED THAT PROTECTS KIECHLE'S POSITION ON THE CEREALS PRICE ISSUE.

5. THERE HAS BEEN SOME CRITICISM, OF A RATHER ACADEMIC NATURE, OF THE GOVERNMENT'S POSITION IN THE PRESS BUT THE PRESSURE FROM THE FARMING LOBBY ON THE GOVERNMENT IS SAID TO BE UNYIELDING. ALSO IN TODAY'S PRESS IS A STATEMENT BY RIESENHUBER, FEDERAL RESEARCH MINISTER, DISMISSING THE POSSIBILITY OF USING AGRICULTURAL PRODUCTS AS A FORM OF ENERGY OR AS INDUSTRIAL RAW MATERIALS AND THUS OFFERING A SOLUTION TO THE PROBLEMS OF SURPLUSES.

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CIA  
Tom

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6. COMMENT

THE UNANIMITY WITH WHICH OFFICIALS REFER TO KIECHLE'S DETERMINATION TO PREVENT A CUT IN CEREAL PRICES IS IMPRESSIVE AND SUGGESTS THAT HINTS ABOUT A VETO ARE NOT JUST PROPAGANDA. FINANCE MINISTRY OFFICIALS HAVE SUGGESTED THAT AN ELEGANT SOLUTION WOULD BE FOR KIECHLE TO BE OUTVOTED BUT THEY DOUBT, GIVEN THE INTERNAL POLITICAL DIMENSION, THAT KIECHLE COULD BE RELIED UPON TO AGREE TO A VOTE. GERMAN TACTICS MAY BE TO CONTINUE TO TRY TO PLAY THE ISSUE LONG IN THE HOPE OF WEARING THE COMMISSION AND THE OTHERS DOWN.

FCO PLEASE PASS SAVING AND ADVANCE TO:-

FCO: RENWICK, FAIRWEATHER, CLEMENTS  
CABINET OFFICE: WILLIAMSON, HARDING  
TSY: BUTT  
MAFF: ANDREWS, MRS ATTRIDGE, PACKER

(ADVANCED AS REQUESTED)

BULLARD

FRAME AGRICULTURE  
ECD (U)

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*file K3ANL.*



10 DOWNING STREET

*From the Private Secretary*

9 May 1985

AGRICULTURAL PRICES

Lord Cockfield telphoned from Brussels this afternoon about Agricultural Prices. He had two points to make:

- (i) He had fought hard in the Commission to ensure that the new proposal on prices both preserved financial stringency and took account of the UK's particular interests. He believed that he had succeeded in stiffening his colleagues on the first aspect. There was nothing more he could do.
- (ii) The purpose of the new Commission proposal would be to allow a vote to be taken. In theory the vote would be against the Germans but he saw a risk that it might end up as a vote against the UK. He was confident that the Minister of Agriculture was aware of this risk, but would nonetheless like his view to be passed on.

I am copying this letter to Colin Budd (FCO), Rachel Lomax (HM Treasury) and David Williamson (Cabinet Office).

C.D. POWELL

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.

*PLC.*

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FRAME AGRICULTURE

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FM UKREP BRUSSELS 081644Z MAY 85

TO IMMEDIATE FCO

TELEGRAM NUMBER 1689 OF 08 MAY 1985 -

INFO COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN, LUXEMBOURG,  
ATHENS, LISBON, MADRID, INFO SAVING BRUSSELS , WASHINGTON.

CAP PRICE FIXING: RUN-UP TO AGRICULTURE COUNCIL STARTING ON  
13 MAY

SUMMARY

1. RELIABLE SOURCES IN THE BERLAYMONT REPORT THAT TODAY'S COMMISSION MEETING RESULTED IN ANDRIESSEN BEING GIVEN A MANDATE TO PREPARE, FOR DISCUSSION AT THE AGRICULTURE COUNCIL STARTING ON 13 MAY, A COMMISSION COMPROMISE PRICES PROPOSAL. IT SHOULD BE FINANCIALLY NEUTRAL AND CONTAIN SUBSTANTIAL PRICE CUTS FOR CEREALS. ANDRIESSEN IS WORKING ON THE BASIS THAT A VOTE, POSSIBLY ON INDIVIDUAL PRODUCTS, MAY BE NECESSARY.

DETAIL

2. WE UNDERSTAND THAT AT TODAY'S COMMISSION MEETING (CHAIRD BY NATALI IN DELORS' ABSENCE) ANDRIESSEN SAID THAT THE CONDITIONS HAD NOT YET BEEN REACHED FOR A COMMISSION COMPROMISE PROPOSAL BUT THAT SUCH A PROPOSAL SHOULD NONETHELESS BE MADE AND SHOULD PROVIDE FOR THE POSSIBILITY OF VOTING ON INDIVIDUAL PRODUCTS. THE COMMISSION WAS NOT COMMITTED TO THE TERMS OF THE PRESIDENCY COMPROMISE OF 4 MAY (LUXEMBOURG TELNO 107) AND, IN PARTICULAR, SHOULD PROPOSE A CEREALS PRICE CUT LARGER THAN 1.8 PERCENT. THE COMPROMISE SHOULD TAKE ACCOUNT OF RELATIONS WITH THIRD COUNTRIES (AS REQUESTED BY DE CLERCQ) AND SHOULD FINANCIALLY NEUTRAL (AS REQUESTED BY CHRISTOPHERSON). THE PACKAGE SHOULD GIVE THE UK ''SOMETHING BUT NOT EVERYTHING'' ON THE BEEF VARIABLE PREMIUM SCHEME AND SHOULD NOT MOVE SUBSTANTIALLY FROM THE COMMISSION'S ORIGINAL PROPOSALS ON SHEEPMEAT, WHICH HE REGARDED AS A NON-COMMUNAUTAIRE REGIME.

3. WE UNDERSTAND THAT LORD COCKFIELD SUPPORTED BRITISH DEMANDS AND THAT MR CLINTON DAVIS ARGUED FOR STAYING CLOSE TO THE OVERALL SHAPE OF THE ORIGINAL PROPOSALS AND NOT ACCEPTING THE PRESIDENCY COMPROMISE.

4. IT WAS CONCLUDED THAT ANDRIESSEN SHOULD PREPARE COMPROMISE PROPOSALS FOR TABLING ON 13 MAY, THAT ANY ADDED COSTS MUST BE COVERED IN THE PROPOSALS AND THAT THEY MUST INCLUDE A ''SUBSTANTIAL REDUCTION'' IN CEREAL PRICES.

CAP

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FCO ADVANCE TO:-

FCO - CLEMENTS

CAB - HARDING

MAFF - ATTRIDGE, HUNTER, LOWSON, PICKERING, D ROBERTS, PERRINS  
WAY

TSY - BUTT

FCO PASS SAVING WASHINGTON

~~ADVANCED AS REQUESTED~~

FRAME AGRICULTURE

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COPIES TO: ADVANCE ADDRESSES

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RECORD OF AN AD HOC MEETING OF MINISTERS  
HELD IN CONFERENCE ROOM A, CABINET OFFICE  
ON WEDNESDAY 8 MAY 1985 AT 7.00 PM

NRPM  
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EUROPEAN COMMUNITY: AGRICULTURAL PRICE FIXING

Present Secretary of State for Foreign and Commonwealth  
Affairs (In the Chair)  
Chancellor of the Exchequer  
Minister of Agriculture, Fisheries and Food  
Secretary of State for Wales  
Minister of State, Scottish Office  
Parliamentary Under-Secretary of State,  
Northern Ireland Office  
Mr D F Williamson (Cabinet Office)  
Mr G Stapleton { " " }  
Mr M H Jay { " " }  
Mr B J Harding { " " }

The meeting, which had before it a Note by the Cabinet Office covering the Presidency's document of 4 May 1985, the text of a statement made by the Agriculture Commissioner on 5 May and the Commission's first assessment of the financial effects of the Presidency's suggestions, considered the line that the United Kingdom should take in the Agriculture Council starting on 13 May 1985 when negotiations on the 1985-86 Common Agricultural Policy (CAP) price-fixing proposals would be resumed.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Agriculture Council had again failed to reach a settlement on agricultural prices for 1985-86 at its meeting in Luxembourg on 2-5 May. However, while there were still a number of difficult issues outstanding, the Council had moved closer to agreement on several points and was expected to try to reach a settlement when the negotiations resumed in Brussels on 13 May. The German insistence that there should be no reduction in the cereals price remained the biggest obstacle to an agreement. At the last meeting of the Council they had rejected a Presidency compromise proposal for a reduction of

1.8 per cent and had received support from Belgium and the Republic of Ireland. The Commission had indicated that they could not accept the Presidency's figure, and the United Kingdom and France had continued to support the Commission's proposal for a reduction of 3.6 per cent; the United Kingdom's original objective of seeking the full 5 per cent reduction in cereals prices consistent with the strict observance of the guarantee threshold mechanism was no longer realistic. The Commission were expected to table a compromise package at the Agriculture Council starting on 13 May, but it was difficult to forecast at this stage what might be proposed on cereals. It was possible that the Commission might propose a price reduction somewhere between their original proposal and that of the Presidency. For the time being the United Kingdom's line should be to support the Commission's original proposal and to seek to isolate the Germans, who had shown signs that they might be prepared to invoke the Luxembourg Compromise on this issue. Apart from cereals, there remained a number of points of difficulty for the United Kingdom. These included the resistance of other member states to the extension of the Beef Variable Premium Scheme (BVPS), the proposed changes to the sheepmeat regime and the demand of the Republic of Ireland, supported in the Presidency's document, for an increase in its milk quota.

In discussion of the line that the United Kingdom should take in the Agriculture Council starting on 13 May the following main points were made:

- a. The United Kingdom should continue to support attempts by the Commission to constrain the overall cost of the package. It would, however, be necessary to insist on Finance Ministers being consulted if the additional cost of a compromise package were to result in higher budget costs in 1985 which could not be met without an increase in the figure already agreed by the Budget Council for the Inter-Governmental Agreement (IGA). A Joint Council of Finance and Agriculture Ministers would be necessary if the cost of the package exceeded the guideline for agricultural expenditure in 1986. If, on the other hand, the extra cost in 1986 was no greater than that envisaged under the suggestions put forward by the Presidency at the last Council (provisionally estimated,



on certain assumptions, by the Commission at about 270 million ecu) there would be no need to press for a Joint Council. In the event of that figure being exceeded, however, the Minister of Agriculture, Fisheries and Food would need to consult his colleagues on the line to take.

b. On cereals the United Kingdom should continue to work to isolate the Germans with the aim of forcing the issue of a suitably reduced cereals price to a vote, either on that proposal alone or on a wider package, provided this did not jeopardise the fulfilment of our negotiating objectives in other sectors. The preferred option would be to reduce the cereals price by voting the Germans down; it was possible that once the North Rhine Westphalia Land elections were over this might be acceptable to the German Agriculture Minister. If a vote could not be obtained, the Minister of Agriculture, Fisheries and Food should seek to establish that the Germans were invoking the Luxembourg Compromise. If so, there could be some political advantage to the United Kingdom since this would serve to strengthen the Compromise itself. It was noted, however, that some member states, notably Belgium and the Republic of Ireland, might not wish to see the Germans isolated on this issue.

c. An increase in the Irish milk quota would create major domestic political difficulties for the United Kingdom, especially in Wales and Northern Ireland. At the last Agriculture Council the United Kingdom had proposed that instead of giving in to Irish demands the matter should be resolved by the European Court of Justice under its accelerated procedure, with the Council issuing a declaration that it would abide by the Court's judgment. The United Kingdom should maintain this line, for which there was support from the French and the Danes. If, however, the Commission were to propose an increase, there could be advantage in forcing the issue to a vote; there was little hope of securing a majority against such a proposal, but there would be domestic political advantage in having been seen to have voted against it. However, this approach should not be followed if it endangered the United Kingdom's chances of securing other objectives, in particular an extension of the BVPS.

d. It was important to establish the budgetary cost of the suggestion by the Presidency that the collection of the milk supplementary levy might be postponed until the end of the year. It was noted that a Community-wide outgoers scheme for milk producers would be unattractive to the United Kingdom from a budgetary point of view, but that so far no proposal had been made.

THE FOREIGN AND COMMONWEALTH SECRETARY, summing up the discussion, said that the meeting endorsed the line which the Minister of Agriculture, Fisheries and Food was taking in the negotiations on the 1985-86 price-fixing proposals. In particular the United Kingdom should continue to work to isolate the Germans on cereals with the aim of forcing the issue to a vote, preferably on the cereals proposal alone but possibly on a wider package, provided this could be achieved without jeopardising our objectives in other sectors. If there were no vote because of German opposition, the United Kingdom should seek to make explicit that the Federal Republic of Germany had invoked the Luxembourg Compromise. The United Kingdom should also continue to resist any proposal to increase the Irish milk quota. For domestic political reasons there would be advantage in forcing this issue to a vote, even if there was no chance of overturning the proposal. However, this course should only be followed if there was no risk of provoking a vote on those aspects of a compromise package on which the United Kingdom was likely to be in a minority, in particular the extension of the BVPS. As regards the calling of a Joint Council of Finance and Agriculture Ministers it was agreed that this would be unnecessary if the extra cost of a Commission compromise package did not exceed that of the Presidency's latest proposals. If it appeared that this figure would be breached the Minister of Agriculture, Fisheries and Food would need to consult the Foreign and Commonwealth Secretary and the Chancellor of the Exchequer on the line to take. A Joint Council would be necessary if the cost of a Commission package exceeded the financial guideline for 1986; if it implied an increase in 1985 budget costs which would require a higher figure than that already agreed by the Budget Council for the IGA. Finance Ministers would have to be consulted.

The Meeting -

1. Took note, with approval, of the Chairman's summing up of their discussion.
2. Invited the Minister of Agriculture, Fisheries and Food to be guided accordingly.

Cabinet Office  
9 May 1985

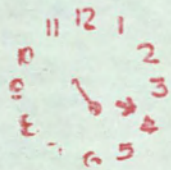
Distribution

See attached list

Distribution

PS/Foreign and Commonwealth Secretary  
PS/Chancellor of the Exchequer  
PS/Minister of Agriculture, Fisheries and Food  
PS/Secretary of State for Wales  
PS/Minister of State, Scottish Office  
PS/Parliamentary Under-Secretary of State, Northern Ireland Office  
PS/Sir Robert Armstrong  
Mr Powell (No 10)  
Mr Braithwaite (FCO)  
Mr Renwick (FCO)  
Mr Unwin (Treasury)  
Mr Andrews (MAFF)  
Mr Williamson (Cabinet Office)  
Mr Stapleton ( " " )  
Mr Jay ( " " )  
Mr Harding ( " " )  
Mr Anderson (UKREP)

- 9 MAY 1985



UNCLASSIFIED  
FRAME AGRICULTURE  
FM PARIS 071610Z MAY 35  
TO IMMEDIATE F C O  
TELEGRAM NUMBER 384 OF 7 MAY  
INFO PRIORITY BONN, UKREP BRUSSELS  
INFO SAVING ATHENS, BRUSSELS, COPENHAGEN, DUBLIN, THE HAGUE,  
LUXEMBOURG, ROME.

*Underlined bits  
only I suggest.*

*mt*

CAP PRICE FIXING: FRENCH REACTION TO FURTHER FAILURE  
SUMMARY

1. FRENCH PRESS HIGHLY CRITICAL OF GERMAN INTRANSIGENCE OVER CEREALS. RECOURSE TO A VOTE AT NEXT WEEK'S COUNCIL IS THOUGHT POSSIBLE. FARMERS' ORGANISATIONS EXPRESS GRAVE CONCERN OVER INCOME POSITION OF PRODUCERS.

DETAIL

2. THE FRENCH PRESS DEVOTES CONSIDERABLE SPACE TO THE LATEST BREAKDOWN IN CAP PRICE FIXING AND FIRMLY BLAMES THE GERMANS. MOST COMMENT THAT PROGRESS WAS POSSIBLE ON OTHER DOSSIERS DURING THE 4-DAY MARATHON IN LUXEMBOURG, AND THAT EFFORTS WERE MADE BY THE ITALIAN PRESIDENT AND OTHER MEMBER STATES TO FIND SOME WAY OF ACCOMMODATING THE GERMANS TO THE EXTENT OF LIMITING THE PROPOSED PRICE CUT FOR CEREALS TO 2 PERCENT OR LESS. BUT IN VIEW OF THE GERMAN REFUSAL, THE PRESS IS DIVIDED IN ITS VIEW OF HOW THE IMPASSE WILL BE RESOLVED. LE MATIN (LEFT-WING) POINTS TO THE STARK CONTRAST BETWEEN THE GERMAN INSISTENCE ON PROTECTING CEREAL GROWERS AND THEIR READINESS TO EMBRACE MEASURES ON TRADE LIBERALISATION (INCLUDING AGRICULTURE) AT THE BONN SUMMIT.

3. THERE IS WIDE DISCUSSION OF POSSIBLE RECOURSE TO A VOTE AT THE NEXT COUNCIL. LE MONDE SEES TWO POSSIBILITIES: THE GERMANS MAY BE READY TO ACCEPT DEFEAT IN A VOTE ON CEREALS AFTER THEIR ELECTIONS; ALTERNATIVELY, THEY WILL INVOKE VITAL NATIONAL INTEREST, AS KIECHLE HAS ALREADY HINTED, AND THUS PROVOKE A MAJOR COMMUNITY CRISIS. BOTH LE MONDE AND LES ECHOS (BUSINESS DAILY) COMMENT THAT RECOURSE TO A VOTE IS SOMETHING WHICH FRANCE WOULD PROBABLY PREFER TO AVOID, ESPECIALLY IN RELATION TO THE GERMANS. BUT LE MONDE COMMENTS APPROVINGLY ON THE LINE TAKEN BY NALLET: THAT FRANCE NEEDS A CUT IN CEREALS PRICES IN ORDER TO PROTECT THE FINANCING OF CEREALS EXPORTS AND THUS EUROPE'S POWER TO COMPETE WITH THE US ON WORLD MARKETS. NALLET IS REPORTED AS SAYING THAT THE NEED TO HAVE UNANIMITY TO TAKE SIMPLE MARKET MANAGEMENT DECISIONS CREATES A MAJOR DIFFICULTY FOR THE FUNCTIONING OF THE EC. SEVERAL COMMENTATORS SEE IN THE PRESENT IMPASSE THE SHAPE OF WORSE TO COME WHEN THE COMMUNITY IS ENLARGED UNLESS THERE IS INSTITUTIONAL REFORM.

4. FRENCH SUPPORT FOR A CEREALS PRICE CUT IN ORDER TO PROTECT FRANCE'S POSITION AS AN AGRICULTURAL EXPORTER IS APPLAUDED IN MOST PAPERS. LE FIGARO (LEFT-WING) COMMENTS THAT THE FURTHER THE COMMUNITY DEPARTS FROM A PRUDENT PRICE POLICY, AND THEREFORE FROM WORLD MARKET PRICES, THE MORE EUROPE PLAYS INTO THE HANDS OF THE AMERICANS WHO WERE OUT TO ATTACK THE EC EXPORT RESTITUTION SYSTEM. BUT LE FIGARO ADDS THAT TO MAKE PROGRESS, BOTH GERMANY AND THE UNITED KINGDOM WILL HAVE TO BE PERSUADED TO ABANDON THEIR PRESENT RIGID AND ANTAGONISTIC POSITIONS.

5. FARMERS' ORGANIZATIONS HAVE REACTED ANGRILY TO THE BREAKDOWN. AT A PRESS CONFERENCE TODAY, GUILLAUME, PRESIDENT OF THE FEDERATION NATIONAL DES SYNDICATS D'EXPLOITANTS AGRICOLES (FNSEA), ANNOUNCED THAT FRENCH PRODUCERS WOULD INSIST ON COMPENSATION FOR THE LOSSES ARISING FROM DELAY IN FIXING PRICES, AND DEMANDED IMMEDIATE FRANC DEVALUATION, INCLUDING REMOVAL OF THE FRANCHISE. HE ALSO ANNOUNCED THAT THE FNSEA HAD AGREED WITH REPRESENTATIVES OF MILK PRODUCERS THAT THE LATTER SHOULD TAKE UNILATERAL ACTION TO REDUCE BY 1 PERCENT THE MILK CO-RESPONSIBILITY LEVY DUE FROM 1 APRIL AND TO PAY THE REMAINING 2 PERCENT WHICH WOULD NORMALLY GO TO THE NATIONAL MILK OFFICE TO AN INTER-PROFESSIONAL DAIRY INDUSTRY ORGANISATION INSTEAD. GUILLAUME ATTACKED THE GERMANS FOR THEIR CONTRADICTIONARY STANCE AND THEIR READINESS, AS SHOWN AT BOTH LUXEMBOURG AND BONN, TO UNDERMINE THE CAP. HE ALSO ATTACKED THE BRITISH FOR WANTING TO LIMIT FARM PRICE SPENDING WHILE BENEFITING SUBSTANTIALLY FROM THE BEEF VARIABLE PREMIUM SCHEME AND THE SHEEPMEAT REGIME. ON THE LATTER HE SAID THAT FRENCH PRODUCERS DEMANDED AT LEAST PARITY OF TREATMENT WITH THEIR BRITISH COUNTERPARTS.

F C O PLEASE PASS SAVINGS

~~REPEATED AS REQUESTED~~

FRETWELL

FRAME AGRICULTURE  
ECD (I)

**CONFIDENTIAL**

CONFIDENTIAL  
 FRAME AGRICULTURE  
 DESKBY 060830Z

FM LUXEMBOURG 051910Z MAY 85  
 TO IMMEDIATE F C O  
 TELEGRAM NUMBER 107 OF 5 MAY,  
 INFO BRUSSELS UKREP BRUSSELS COPENHAGEN THE HAGUE ROME PARIS  
 DUBLIN BONN ATHENS LISBON MADRID WASHINGTON.

FROM UKREP BRUSSELS.

MY TELNOS.102, 104 AND 106:  
 AGRICULTURE COUNCIL, 2/5 MAY 1985: THE FOURTH DAY.

## SUMMARY

1. THE COUNCIL FAILED TO REACH A SETTLEMENT ON AGRICULTURAL PRICES FOR 1985/86 ALTHOUGH AFTER FOUR DAYS AND NIGHTS OF WORK IT HAS MOVED APPRECIABLY CLOSER TO AGREEMENT ON MANY POINTS. PRINCIPLE OUTSTANDING POINTS OF DIFFICULTY ARE CEREALS PRICES, SHEEP AND BEEF SUPPORT ARRANGEMENTS, ASPECTS OF THE MILK QUOTA ARRANGEMENTS AND A NUMBER OF MEDITERRANEAN DEMANDS.
2. THE CHAIR FOR THE FIRST TIME HINTED CLEARLY AT THE PROSPECT OF VOTING WHICH PROVOKED FURTHER NEO-LUXEMBOURG COMPROMISE LANGUAGE FROM GERMANY.
3. THE COUNCIL RESUMES ON MONDAY 13 MAY IN BRUSSELS WHEN, FOLLOWING INTENSIVE INTERIM BILATERAL ACTIVITY AND CONSULTATION BY ANDRIESSEN WITH HIS COLLEAGUES, IT IS HOPED THAT A FINAL COMMISSION COMPROMISE CAN BE TABLED AND A SETTLEMENT REACHED.
4. ROLL OVER OF ONE WEEK FOR MARKETING YEARS FOR DAIRY, BEEF, DRIED FODDER, CAULIFLOWERS AND SHEEPMET (WEEK 7).

## DETAIL

5. A REVISED, AND LENGTHY, PRESIDENCY COMPROMISE WAS FINALLY TABLED JUST BEFORE MIDNIGHT ON 4 MAY (COPY BY HAND OF MRS ATTRIDGE, MAFF). THIS INCORPORATED MANY OF THE FEATURES OF THE PREVIOUS COMPROMISE AND EXPANDED ON IT ON A NUMBER OF POINTS, MANY OF DETAIL, DESIGNED TO MEET THE REQUESTS OF MEMBER STATES.
6. NEW POINTS OF PARTICULAR SIGNIFICANCE WERE A PROPOSAL THAT THE CEREALS PRICE REDUCTION, AFTER APPLICATION OF A MODIFIED ABATEMENT, WOULD BE 1.8%: THE MARKET ELEMENT FOR DURUM WHEAT TO BE ALIGNED WITH COMMON WHEAT (6.77%): AN ARRANGEMENT ON MILK TO ALLOW GERMANY FOR THE FIRST TWO QUOTA YEARS TO USE LEVIES COLLECTED TO FINANCE COMPENSATION FOR ABANDONMENT OF MILK PRODUCTION: A SHEEPMET PRICE INCREASE IN 1986 OF 1% AND A COMMISSION INTENTION TO TERMINATE THE SPECIAL EXPORT CERTIFICATION

**CONFIDENTIAL**

/SCHEME



SCHEME (SEC) UNLESS BY 1 OCTOBER 1985 A SATISFACTORY SOLUTION HAD BEEN FOUND TO REMEDY THE NEGATIVE EFFECTS OF THIS SCHEME ON THE MARKETS OF OTHER MEMBER STATES: SPECIAL ARRANGEMENTS

UNDER THE BEEF CLASSIFICATION GRID TO HELP ITALIAN "VITELLONI" PRODUCTION: A COMMISSION UNDERTAKING TO EXAMINE MARKET SUPPORT MEASURES FOR NECTARINES WITH PROPOSALS IF APPROPRIATE: AND TOTAL DISMANTLING OF NEGATIVE M.C.AS FOR FRANCE, GREECE AND ITALY.

7. IN A FIRST TABLE ROUND STARTING AFTER MIDNIGHT, PANDOLFI (CHAIR) SAID THAT THE PRECISE CEREALS FIGURE NOW PROPOSED WAS IN CONFORMITY WITH HIS NEW RIGOROUS APPROACH (MY TELNO.106, PARA.13). HE WAS AWARE THAT THE COMMISSION WOULD NOT ACCEPT THIS FIGURE. THEREFORE THE ONLY WAY TO GET IT ADOPTED WOULD BE BY A UNANIMOUS VOTE OF THE COUNCIL. HE WARNED THAT IF SUCH A VOTE WERE FORTHCOMING, PRICES FOR OTHER COMMODITIES, NOTABLY MEDITERRANEAN PRODUCTS, WOULD RECEIVE A COMPARABLE INCREASE IN THE RATES PROPOSED BY THE COMMISSION TO PRESERVE BALANCE. HE CONSIDERED, WITHOUT BEING SPECIFIC, THAT ADEQUATE COMPENSATORY MEASURES COULD BE FOUND TO RAISE THE NECESSARY FINANCE.

8. AFTER NEARLY AN HOUR'S PAUSE FOR REFLECTION, MINISTERS GAVE INITIAL REACTIONS. MOST CONSIDERED THE DOCUMENT TO BE A FURTHER STEP TOWARDS COMPROMISE BUT, WITH VARYING DEGREES OF EMPHASIS, ALL WARNED THAT THEY HAD POINTS OF MAJOR IMPORTANCE WHICH WERE NOT YET ADEQUATELY COVERED AND SEVERAL RAISED OBJECTIONS TO MEASURES NOW PROPOSED FOR OTHER MEMBER STATES.

9. KOFOED (DENMARK) PARTICULARLY CRITICISED THE INCREASINGLY ITALIANATE FLAVOUR OF THE DOCUMENT CITING THE EVER-EXPANDING LIST OF POINTS FAVOURING HER. DE KEERSMAEKER (BELGIUM) CONSIDERED THE PAPER AN IMPROVEMENT BUT MORE WAS NEEDED TO MEET BELGIAN DEMANDS.

10. MR JOPLING (U.K) RETAINED SERIOUS DOUBTS AS TO WHETHER THE PAPER YET PROVIDED A BASIS FOR A BALANCED SETTLEMENT. A NUMBER OF POINTS OF IMPORTANCE TO THE U.K WERE STILL NOT SATISFACTORILY COVERED. MORE CLARITY WAS NEEDED ON THE FINANCIAL ASPECTS AND THE PROPOSED CEREALS PRICE REDUCTION WAS QUITE INADEQUATE.

11. BRAKS (NETHERLANDS) THOUGHT THE PAPER BETTER BALANCED AND A SOUND BASIS FOR DISCUSSION. BUT HE REJECTED THE CEREALS PROPOSAL AND REMAINED CONCERNED ABOUT ARRANGEMENTS FOR DIRECT/DAIRY SALES SWAPS, PREMIA IN THE BEEF SECTOR, AID FOR BELGIAN SLAUGHTERHOUSES AND FINANCE. FISCHBACH (LUXEMBOURG) ALSO THOUGHT THE PAPER A BASIS FOR A FINAL COMPROMISE BUT. STILL FELT THAT THE MILK PROVISIONS WERE OVER SEVERE.

12. MORONI (ITALY) REBUTTED ACCUSATIONS OF ITALIAN BIAS AND REPEATED DEMANDS ON POINTS STILL NOT ACCOMMODATED. DEASY (IRELAND) CONCENTRATED ON THE CONTINUED INADEQUACY OF THE ARRANGEMENTS FOR EXTRA IRISH MILK QUOTA. NALLET (FRANCE) COULD NOT AGREE A CEREALS FIGURE UNACCEPTABLE TO THE COMMISSION, SOUGHT FURTHER DETAILS ON FINANCE AND POINTED TO A NUMBER OF OUTSTANDING FRENCH REQUESTS ON MILK, SHEEP, BEEF AND WINE (PRICES AND SHORT-TERM STORAGE AID).

13. SIMITIS (GREECE) POINTED TO THE NUMBER OF CONCESSIONS ALREADY MADE BY GREECE, WELCOMED A POSSIBLE PRICE INCREASE ON MEDITERRANEAN PRODUCTS AND CALLED FOR FURTHER WORK TO MEET GREEK NEEDS ON TOMATO CONCENTRATE, TOBACCO, CEREALS AND GOATS. FLORIAN (GERMANY) THOUGHT THE BALANCE STILL NOT RIGHT. ITEMS WERE BEING ADDED WHICH FAVOURED MEDITERRANEAN COUNTRIES BUT THE CEREALS PROPOSAL WAS STILL INADEQUATE FOR GERMANY. GERMAN VIEWS ON MILK WERE ALSO INADEQUATELY CATERED FOR.

14. ANDRIESEN (COMMISSION) COMMENTED BRIEFLY THAT REACTIONS WERE ENCOURAGING BUT RESERVED FURTHER COMMENT UNTIL DELEGATIONS HAD COMMENTED IN MORE DETAIL.

15. THE COUNCIL THEN BROKE. WHEN IT RESUMED AT 10.30 A.M, MINISTERS ENLARGED ON THEIR ATTITUDES ON THE DETAIL WITHOUT ADDING SUBSTANTIALLY TO POINTS ALREADY MADE IN EARLIER SESSIONS THAN THE PRESENT ONE. NEITHER THE CHAIR NOR COMMISSION CONTRIBUTED AT ALL TO THIS ROUND AT THE END OF WHICH, PANDOLFI SAID HE WOULD CONSULT ANDRIESEN ON THE NEXT STEPS.

16. AFTER LUNCH, ANDRIESEN GAVE AN ON-THE-RECORD PRESS CONFERENCE (TEXT BY HAND OF MRS ATTRIDGE, MAFF). IN THIS, HE EMPHASISED THAT THE COMMISSION WAS NOT ENTIRELY ABLE TO SUBSCRIBE TO THE LATEST PRESIDENCY COMPROMISE ALTHOUGH HE NOTED THAT IN GENERAL IT WAS CLOSE TO THE ORIENTATION OF THE ORIGINAL COMMISSION PROPOSALS.

17. THE COMMISSION'S PRICE PROPOSALS HAD BEEN BROADLY CONFIRMED AND THE GENERAL PRINCIPLES OF THE GUARANTEE THRESHOLDS HAD NOT BEEN QUESTIONED. ONLY ON CEREALS HAD THERE BEEN A QUESTION OF A TEMPORARY MODIFICATION. THE AGREED ARRANGEMENTS FOR THE MILK QUOTA AND C.R.L IN 1985 WOULD BE RESPECTED AND THE OVERALL BALANCE BETWEEN NORTH AND SOUTH HAD NOT BEEN FUNDAMENTALLY CHANGED.

18. HE NOTED THAT THE EXTRA COSTS OF THE COMPROMISE (WHICH HE PUT AT 133.5 AND 270 MECU FOR 1985 AND 1986 RESPECTIVELY) WERE SIGNIFICANT BUT HE BELIEVED THAT THE COMMISSION COULD FIND COMPENSATING MEASURES TO ASSURE EFFECTIVE NEUTRALITY IN THE FINAL COST COMPARED WITH THE COMMISSION'S PROPOSALS.

19. HAVING SAID THIS, HE WENT ON TO CRITICISE DEVELOPMENTS<sup>MCU</sup> ON CEREALS QUOTING THE COMMISSION POSITION AS ALREADY SET OUT IN REF TELS. HE PARTICULARLY CRITICISED MR KIECHLE'S NEGATIVE POSITION AS 'UNACCEPTABLE AND CONTRADICTORY TO THE PRINCIPLES PREVIOUSLY ESTABLISHED BY THE COUNCIL BOTH FOR THE CEREALS REGIME AND AS REGARDS BUDGETARY AFFAIRS'. THIS ATTITUDE PUT AT RISK NOT LEAST THE PREPARATIONS FOR A NEW GATT ROUND, AN EXERCISE PARTICULARLY SUPPORTED BY THE GERMAN GOVERNMENT.

20. IN REPLY TO QUESTIONS, HE EXPLICITLY REJECTED THE PRESIDENCY'S PROPOSALS FOR A CEREALS CUT OF 1.8% AS INADEQUATE.

21. THE COUNCIL RESUMED AT 4.00 P.M. IN AN ASSESSMENT OF THE WORK TO BE DONE, PANDOLFI MADE FOUR POINTS.

22. FIRST, ALL THE METICULOUS PREPARATORY WORK HAD NOW BEEN DONE. DELEGATIONS' POSITIONS WERE FIRMLY ON THE TABLE. THE COUNCIL WAS THEREFORE READY FOR THE LAST STEP NEEDED FOR A COMPROMISE - A COMMISSION COMPROMISE PROPOSAL.

23. SECOND, THE PRESIDENCY WISHED TO MAINTAIN THE IMPETUS NOW GENERATED AND FOR ITS OWN PART WAS READY TO CONTINUE WORKING FOR AS LONG AS NECESSARY TO ACHIEVE A SETTLEMENT.

24. THIRD, THE COMMISSION HAD MADE CLEAR THAT IT COULD ONLY ONCE PLAY THE CARD OF TABLING A FINAL COMPROMISE. IT COULD NOT THEREFORE DO SO UNTIL IT WAS CLEAR THAT THERE WAS A PROSPECT OF SETTLEMENT.

25. FINALLY, IF PROGRESS MADE SO FAR WAS NOT TO BE UNDONE, IT WAS VITAL TO KNOW WHETHER THERE WAS NOW A GREEN LIGHT FOR THE LAST PUSH TO A SETTLEMENT (A FURTHER VEILED REFERENCE TO THE POSSIBILITY OF VOTING).

26. ANDRIESSEN CONFIRMED THIS ANALYSIS STRESSING THE NEED TO AVOID PREMATURE TABLING OF A FINAL COMMISSION COMPROMISE AND HIS UNWILLINGNESS TO DO SO UNLESS THE CONDITIONS FOR A SETTLEMENT WERE CLEARLY PRESENT. HE ADDED THAT THE COMMISSION WOULD ACCEPT A CONSIDERABLE PART OF THE PRESIDENCY COMPROMISE BUT WOULD HAVE TO TAKE ACCOUNT OF WHAT HAD BEEN SAID ON IT AND ALSO OF ITS OWN RESPONSIBILITIES.

27. FOLLOWING FURTHER CONFSSIONALS WITH MEMBER STATES, PANDOLFI AND ANDRIESSEN CONCLUDED THAT WHILST THERE WAS A POLITICAL WILL TO PROCEED AS FAST AS POSSIBLE TO A SETTLEMENT, FACTORS BOTH POLITICAL AND OF SUBSTANCE MADE IT IMPOSSIBLE TO DO SO AT THE PRESENT MEETING. THERE WAS, HOWEVER, REASON TO BELIEVE THAT AFTER NECESSARY CONTACTS OVER THE NEXT WEEK, THE REQUISITE CLIMATE COULD BE CREATED.

<sup>4</sup>  
CONFIDENTIAL

/28.

## CONFIDENTIAL

28. THE COUNCIL WILL ACCORDINGLY MEET AT 3.00 P.M IN BRUSSELS ON 13 MAY WITH A COMMISSION COMPROMISE PROPOSAL CIRCULATED A FEW HOURS BEFOREHAND (FOLLOWING CONSULTATION BETWEEN ANDRIESSEN AND HIS COLLEAGUES THIS WEEK). PRESIDENCY AND COMMISSION ARE PLEDGED TO SEEK A FINAL SETTLEMENT THEN.

29. IN THE MEANTIME MARKETING YEARS FOR DAIRY, BEEF, DRIED FODDER, CAULIFLOWERS AND SHEEPMEAT (WEEK 7 OF THE SEASONAL SCALE) HAVE BEEN AGREED FOR A FURTHER WEEK TO SUNDAY 19 MAY.

FCO ADVANCE TO:-

FCO - CLEMENTS.

CAB - WILLIAMSON.

MAFF - LOWSON, G.WILSON, WENTWORTH, MRS PICKERING, HUNTER,  
MYERS, CANN, NASH.

TSY - BUTT.

UKREP DIST:ROBBS/BOSTOCK/WESTCOTT/SPENCER/AG/ECON/EXT.

MILES

(ADVANCED AS REQUESTED)

FRAME AGRICULTURE  
ECD(1)

<sup>5</sup>  
CONFIDENTIAL



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cc:PC

10 DOWNING STREET

1 May 1985

*From the Private Secretary*

1985 CAP PRICE FIXING

The Prime Minister has considered the Minister of Agriculture's minute of 30 April in which he proposes that she should write to Chancellor Kohl about the German attitude to the 1985 CAP price fixing.

The Prime Minister intends to raise this matter with Chancellor Kohl in the margins of the Bonn Economic Summit but does not think that a letter at this stage would be likely to command his attention, given his very heavy involvement both in President Reagan's visit and the preparations for the Summit. She proposes to draw upon the separate speaking note which has been submitted for her use in any meeting with Chancellor Kohl.

I am copying this letter to the Private Secretaries to the members of OD(E), to the Secretaries of State for Wales, Scotland and Northern Ireland and to Sir Robert Armstrong.

CHARLES POWELL

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.

CONFIDENTIAL

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

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MA  
FERB  
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BZ

From the Minister

CONFIDENTIAL

mt

PRIME MINISTER

Prime Minister  
Would it not  
be better to  
try to speak to  
Kohl on the first  
evening of the summit,  
rather than write  
to him at this  
stage?  
CDP 394

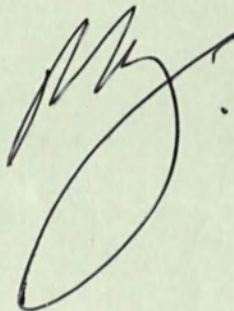
1985 CAP PRICE FIXING

In his minute to me of 26 April, the Foreign and Commonwealth Secretary referred to the extreme position which Kiechle, the German Minister, is taking up on cereals in the price fixing negotiations.

I had a meeting last evening with Pandolfi and Andriessen. Pandolfi, who had been to Bonn earlier for a meeting with Kiechle, reported that there was no move in the German position. He spoke of seeking a way forward by maintaining the guaranteed threshold mechanism but with a smaller reduction in the cereals price for 1986 than the 3.6% which the Commission have proposed, justifying this by reference to the exceptional 1984 harvest. But the Germans left Pandolfi with the message that they would agree to no reduction at all in cereal support prices and might invoke the Luxembourg compromise if faced with a line up against them. It was evident that Pandolfi at present sees no way out at the impasse on cereals. I made it very clear that the cereals settlement was of central concern to us. I said that it was essential to maintain pressure on the German Minister and that it would be wholly wrong to give way to their unreasonable demands.

There is no sign at the moment that the Germans will move their ground. But it is important that we leave them in no doubt that the position they are taking up is not tolerable. It is contrary to the decisions reached in the Council on the implementation of guaranteed thresholds generally and to cereals in particular; and it is also potentially very damaging to the Community's trade relations with the US. You are being briefed to speak to Chancellor Kohl on this subject in the margins of the Economic Summit. I understand that Mitterrand will also be advised to raise the issue with Kohl. But, given that the price negotiations are being resumed on Thursday, you may care to write to Chancellor Kohl in advance of the Summit. A suggested draft is attached.

I am copying this minute to the Members of OD(E), the Secretaries of State for Wales, Scotland and Northern Ireland and Sir Robert Armstrong.

A handwritten signature in black ink, consisting of a large, stylized 'M' followed by a flourish and a period.

M.J.  
30 April 1985



CONFIDENTIAL

DRAFT LETTER TO CHANCELLOR KOHL FOR THE PRIME MINISTER'S SIGNATURE

I am much looking forward to seeing you in Bonn later this week. There is one matter, however, about which I feel I should write to you now.

Agriculture Ministers are, as you will know, resuming negotiations later this week on the Commission's proposals for agricultural prices for 1985/86. Progress towards an agreement is being made particularly difficult by the stance which Herr Kiechle is taking over cereals prices. As I understand it, your Government's position is that there can be no reduction at all in the support prices for cereals. The Commission have proposed a reduction which is less than we consider necessary in order to reflect our market and the budgetary requirements. As we see it, your Government's position would involve ignoring the guarantee threshold mechanism for cereals which the Council has already agreed. It would imply substantial additional budgetary costs particularly in future years which is contrary to our mutual concern to see expenditure on agriculture brought under control. We cannot ignore also the importance of the outcome of the cereals negotiations on the attitude of the United States Administration and Congress. It is a concern of all of us to avoid the United States Government, under pressure from its Congress, taking actions which would be disruptive of world markets and which could have serious implications for our Community.

I understand the pressures on your farmers' incomes. But farming incomes here are also under considerable pressure.





We have had to take very hard decisions in the last year on milk because the Agriculture Council failed in the past to face up to its responsibilities in this sector. Failure now to carry through the agreed policy on cereals would be a serious matter which would store up even greater difficulties for us all in the future.

I hope you will understand my writing to you in this way. But the cereals problem in the Community, and its wider implications, is a matter of great concern to us. I would urge you, therefore, to reconsider the stance which your Government is taking on cereals.



Euro PD R13  
CAP

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CAP-30/4

CCP

MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD, THE  
PRESIDENCY AND THE COMMISSION: BRUSSELS 29 APRIL 1985

Present

Minister  
Minister of State (Commons)  
Sir Michael Franklin  
Mr Andrews  
Mrs Archer  
Mr Llewelyn

Signor Pandolfi  
Mr Andriessen  
Signor Moroni  
M. Le Gras  
Mr Pooley  
Mr Avery  
Mr Trojan

Signor Pandolfi said that he wished to emphasise three elements in the price fixing negotiations:

1. Cereals were clearly the major problem. He had just returned from Bonn, and there was no change at all in the attitude of Germany. In these circumstances, he thought that the only way forward was to give up the idea of any new mechanism, as it would be too difficult to devise a new scheme in the time available, and consider simply a relaxation in the price reduction proposed by the Commission, to take account of last year's exceptional harvest. This would mean maintaining the principle of the existing guarantee threshold system, but reducing its effect. He would not, however, go so far as to suggest a price freeze for cereals;
2. The "general equilibrium" of the package would have to be considered. The Council should examine in detail all the demands made by the various member states in order to find a general balance of advantages and disadvantages;
3. The third key element was the financial costs of the package. On this, the position of the Commission was clear. Moreover, the new figure decided on for FEOGA expenditure in 1985 represented a constraint on additional expenditure this year.

He thought that the negotiations at the Council later this week would be very difficult, but for political reasons it was essential to try to find a solution. So far as the conduct of this week's negotiations was concerned, he would first try to reach a balance on all aspects of the package other than cereals and then try to reach agreement on cereals. He feared that if the Council started by discussing cereals, the negotiations would be blocked immediately.

The Minister said that cereals was central to these negotiations and crucial to the future of the CAP. It was vital that market realities were not ignored and the achievements of the previous twelve months thrown away. He noted that Signor Pandolfi would not

be proposing a change in the mechanisms of the regime; he hoped, however, that the idea put forward by the Netherlands and UK delegations, that world prices should be taken into account in the guarantee threshold calculations would not be forgotten. On prices, he continued to believe that a 5% reduction would have been the right course, and he hoped that Germany would not be allowed to get away with imposing a zero price increase on the Community. The will of the majority must be made to prevail. It would be quite wrong for the Commission to move from its proposed 3.6% price reduction, particularly as a move on the sort envisaged by the Presidency would clearly not win over the Germans.

Signor Pandolfi stressed that any change on cereal prices would only be made in the final stages of the negotiation, but he could not suggest how German intransigence could be overcome; it seemed that this was a matter of vital interest to them. Mr Andriessen added that if there was a general wish in the Council to try to move towards Germany on prices, the Commission could try to accommodate it. They would be proposing changes in the regime, although they did not exclude these in the longer term. The Minister repeated that it would be a grave mistake for the Presidency or Commission to move until the Germans signalled some readiness to modify their position.

On other aspects of the package, Signor Pandolfi said that sheepmeat was clearly a key issue for the UK. On this, however, M. Mallet had told him that France's objections to the Special Export Certification scheme would not be met by an extension of the variable premium to all ewes. Moreover, the Commission had reservations about this idea, which they estimated could cost an additional 40 mecu. The Minister said that we too also saw difficulties in extending the variable premium to ewes. A number of technical problems would have to be resolved, and we would have to be sure that this extension did not have adverse financial implications for our producers. In view of these difficulties, we had been considering a different approach. Since French complaints centred on the export of younger ewes under the SEC, we had been looking at ways of excluding these animals from the SEC at times of the year when the French market was under pressure. There would be no problem in determining the age of ewes certified under the SEC, since the number of adult teeth a sheep possessed depended on its age. In specific terms, he was suggesting that ewes with less than six adult teeth (ie. less than three years old) should be excluded from the SEC when the market price in France was below the intervention price there.

Signor Pandolfi seemed attracted by this proposal, but commented that France was concerned about the number of carcasses exported and asked what reduction it would lead to. The Minister said that we could not quantify the effects of our proposal, but it was clear that at present the proportion of younger ewes exported was highest in the spring, which was when the French market was under most pressure. Our idea should, therefore, go to the root of the problem. Mr Andriessen said that his Services would consider this proposal.

Turning to other aspects of the sheepmeat regime, Signor Pandolfi said that the Commission had come up with a formula for the payment of ewe premium to Herdwick and certain other mountain sheep, and

were proposing some adjustments to the seasonal scale for May and June. It was agreed that both these points should be discussed further by officials. Mr Andriessen said that the Commission was not intending to change its proposal on a variable premium ceiling, including the recovery bar; the Minister emphasised that he was very firmly opposed to the latter point. Finally, Signor Pandolfi confirmed that exemption from clawback for exports to third countries would be extended.

On beef, Signor Pandolfi said that they were now thinking in terms of extending the Variable Premium for a year, until April 1986. This could, however, have financial consequences for FEOGA, and the Council would need to consider this point, together with possible modifications to the scheme. The Minister said that we did not accept that continuation of the Variable Premium involved an additional cost to FEOGA. It was essential that the Scheme was extended on the same basis as last year and, given the substantial changes that had been made last year, without further modification.

Turning briefly to milk, Signor Pandolfi noted that the UK had no special demands. One major problem was Ireland's request for additional quota; since this was Ireland's only significant demand in the price fixing it was politically necessary to give them something here. The Minister made it clear that he would be very strongly opposed to this; it should be left for the European Court to decide whether Ireland's bid for extra quota was justified.

The Minister stressed that it was important to maintain the agreement on quotas reached last year; this meant that both the 1% cut in overall quota and the 1% reduction in co-responsibility levy should be implemented. Additionally, he would be pressing for a Council declaration in favour of great mobility of quota between producers. On this last point, Mr Andriessen said that UK ideas on sale and purchase of quota raised two problems; they would provide an incentive to perpetuate the system and would mean that private purchasers would be competing with Community and national purchasers if there was a Community scheme for buying out quota. However, he was prepared to support a declaration asking the Commission to study all aspects of a scheme for purchase of quota, provided that it did not explicitly refer to private sale and purchase. Mr Pooley commented that increased flexibility in the administration of quotas would tend to maintain levels of milk production and thus the cost of the regime to FEOGA.

Finally, the Minister stressed that the Council would have to take full account of the financial consequences of any price fixing package and of the agreement on budgetary discipline.

C I LLEWELYN  
30 April 1985

Distribution (see overleaf)

Private Offices

Mr Andrews

Mr Hadley

Mr Dickinson

Mrs Archer

Mrs Attridge

Mr Wilson

Mr Lowson

Mr Wentworth

Mr Hunter

Mrs Pickering

Mr Packer

Mr Roberts

PS/Foreign Secretary

PS/Chancellor

PS/S of S for Scotland

PS/S of S for Northern Ireland

PS/S of S for Wales

Mr Powell/No.10

Mr Williamson/Cabinet Office

Mr Anderson/UKREP

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NBPM

CDP  
30/4

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

29 April 1985

The Rt. Hon. Michael Jopling MP  
Minister of Agriculture, Fisheries and Food

*John Michael*

**CAP PRICE FIXING 1985**

Thank you for sending me a copy of your minute to Geoffrey Howe reporting on last week's Agriculture Council and the prospects for the further negotiations. I have also seen Geoffrey's minute of 26 April.

Clearly it is a difficult negotiation and the prospects for securing the very rigorous settlement which market circumstances require does not look good. On the other hand you have managed to avoid becoming isolated and Kiechle is still in an isolated and difficult position on cereals himself. As Beregevoy confirmed when I spoke to him in Washington, our interests coincide with those of the French on some important points, and, as you report, the Danes and Dutch are not ready to capitulate to the Germans on cereals. I hope you will do your utmost to consolidate such alliances and, important though your concerns about the beef variable premium and sheepmeat regimes are, not allow these to distract you in the multi-lateral discussions from the pursuit of our main objective of a restrictive settlement.

You expressed some doubts about invoking a Joint Council in circumstances where the cost of the Commission's original proposals (19.85 becu) looked like being exceeded but remained below the financial guideline (20.65 becu). I acknowledge that there is some risk that a request for a Joint Council would be blocked in the Agriculture Council or that a Joint Council, if held, would be ineffectual. However, there are also political risks domestically in not pressing for a Joint Council in circumstances where significantly more expensive proposals seem likely to be accepted. There is a lot of interest in the House - much of it very sceptical - in the operation of the new budget discipline arrangements and we should certainly be asked to explain why we had not used them. Moreover, I do not accept that the involvement of Finance Ministers in the negotiations would not have some restraining influence, particularly given the outcome of the recent Budget Council.

Ian Stewart, in his letter to you of 21 March, recognised that it would not be appropriate to call for a Joint Council in response to a limited increase in the cost of the Commission's proposals. He therefore suggested a margin of 200 mecu. But, given that the headroom between the cost of the Commission's original proposals and the guideline is the very large sum of 800 mecu and that some headroom must be left for contingencies which arise between now and the end of 1986, I do not think it would be right to go beyond the sort of figure mentioned by Ian. If in the course of negotiations you conclude that more flexibility is desirable I should be grateful if you would consult me urgently in accordance with our agreement at Cabinet last week.





The Budget Council last week fixed the provision for FEOGA Guarantee in 1985 at 19.955 mecu. The Council embodied this figure in an Inter-Governmental Agreement, which has been announced to the House, and we regard this figure as final. You will need to remind your colleagues in the Agriculture Council and also the Commission that the financial consequences in 1985 of any settlement on prices will have to be accommodated within this figure.

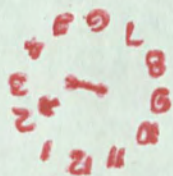
I am copying this letter to the Prime Minister, members of OD(E), the Secretaries of State for Wales, Scotland and Northern Ireland and Sir Robert Armstrong.

NIGEL LAWSON

Handwritten signature and initials in black ink, appearing to be 'Nigel Lawson' and 'N.L.' with a checkmark.

20 MAR 1982

Euro PSI PT13  
CAP



30 APR 1985



FCS/85/116

MINISTER OF AGRICULTURE, FISHERIES AND FOOD1985 CAP Price Fixing

1. Thank you for your minute of 24 April. I agree that we must insist on the application of the guarantee thresholds generally, and in particular in relation to cereals prices.

2. Our strategy must, therefore, be to continue to do all we can to overcome the German blockage. There is, after all, practically no sympathy in the Council for the German position and considerable irritation over the inconsistency between Kiechle's attitude and German claims that they want to control CAP expenditure. No doubt you will have in mind the possibility of working towards a vote on this issue or forcing Kiechle to use language even more clearly based on the Luxembourg compromise (which would be very useful to us in the context of the current debate on the institutions).

3. You raise the circumstances in which we should insist on a joint Council of Finance and Agriculture Ministers. I agree that we should certainly do this if the financial guideline looks like being breached. You suggest that the balance of advantage might be different if the cost of the Commission's original proposals were exceeded but the settlement was still well within the guideline. We agreed in Cabinet that in that event, you would consult me and the Chancellor of the Exchequer.

cc/pe  
②

Prime Minister  
CDP  
26/4.

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4. I am copying this minute to the Prime Minister, members of OD(E), the Secretaries of State for Wales, Scotland and Northern Ireland and Sir Robert Armstrong.

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

GEOFFREY HOWE

Foreign and Commonwealth Office

26 April, 1985

CONFIDENTIAL



CC PC 2

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



From the Minister

**CONFIDENTIAL**

*Prime Minister*

*CDD  
25/4*

FOREIGN AND COMMONWEALTH SECRETARY

*Overtaken by  
Report to  
Cabinet.*

*CDD  
25/4*

**CAP PRICE FIXING 1985**

1. You will know that the Agriculture Council concluded its meeting last evening with no progress towards an agreement on agricultural prices for 1985. It was an unproductive and disquieting meeting.

2. The Presidency circulated on Sunday a document of "principal elements of a global compromise", which was described as a paper prepared in close liaison with the Commission. It was an unhelpful and, for our point of view, thoroughly unsatisfactory document. On cereals, it contained an outline of a new guarantee threshold mechanism intended to replace the arrangements agreed last year. The clear intention was to avoid a price reduction which reflects last year's large cereals harvest in the Community; and there were some member states who were prepared to go a very long way towards meeting the Germans on this. On milk, the document contained concessions to Ireland and Italy on quotas. There was no reference at all to beef, including our demands on the Beef Variable Premium. There were also suggested changes in the sheepmeat regime which would unbalance the 1980 agreement to the serious detriment of our industry. On Mediterranean products there are a number of changes that could have proved costly and the proposed reduction in positive MCAs was deleted from the Commission proposals. The Commissioner was not prepared

/to put ...

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to put a cost on the compromise since the implications in relation to prices was left open. But there is no doubt that it would add significantly to the cost of the Commission proposals.

3. In the event discussions on the compromise document made no progress. We were able with the benefit of technical and other arguments and with French and Dutch support to kill off the/<sup>Presidency's</sup>cereal threshold idea. In doing so, we floated an alternative approach which would maintain the existing threshold mechanism with a modification to take account of changes in the relationship between Community and World prices. It became clear that no change in the threshold mechanism was going to get anywhere because of the immovable German resistance to any reduction at all in the common price level for cereals. The German Minister made it clear throughout that he had the total support of the German cabinet, as we knew, and was not prepared to budge. He even talked about a point of "national interest".

4. The Agriculture Council is meeting again next Thursday, 2 May and the Presidency intends to carry forward the negotiations to a conclusion. It is impossible to see, at present, a way through the German blockage. I hope that the Presidency and the Commission will be putting pressure on the German Government. But all the evidence so far is that they will not give any ground at all on the cereal price.

5. The Presidency said that they would produce a "non-paper" at the beginning of next week's Council. I shall be doing my best to influence it in our direction. On the evidence of this week's meeting, other Member States and the Commission will not be prepared to move to a position in which the Germans are voted down unless the German Government itself is ready to accept this way out of the present impasse. I think this unlikely, though we cannot rule out altogether a move towards a largely cosmetic formula on cereals in order to give the Germans a way out. We have to recognise

/that all ...

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that all other Ministers are mainly concerned to get an early settlement on terms acceptable to them, and this desire appears to be shared by the Commission. Apart from ourselves, only the French and to some extent the Danes and the Dutch appeared to be ready to stand up at all to the Germans on cereals.

6. I have, of course, maintained throughout our position on the need to respect the agreement on budget discipline including the provision for a Joint Council. It remains to be seen how the Commission will perform on this although Andriessen made a helpful statement about the financial implications at this week's Council.

7. I have been reflecting further on how we handle this in the light of your minute of 15 April to the Prime Minister. You argued that we should insist on a Joint Council if the compromise arrived at significantly exceeds the cost of the Commission proposals and if there is a breach of the Financial Guidelines. I think the former of these is very likely in the terms described in Ian Stewart's letter to me of 21 March; but there is a good chance that we can avoid a breach of the guideline. I have no doubt that such a breach would present the very greatest difficulties and we should have to insist on a Joint Council. But if the Commission's original proposals are exceeded without a breach I think we do need to reflect, particularly following the outcome of this week's Budget Council, whether insistence on a Joint Council would be in our wider interest. The Budget Council discussion showed how little support we can rely on even among Finance Ministers. I fear we should arouse absolutely no support for cuts in an agricultural package which did not breach the guideline in 1986. I do think we should consider whether it makes sense in domestic political terms to invite what would be seen as a significant further rebuff in a Joint Council discussion, particularly if this were to take place shortly before we were going

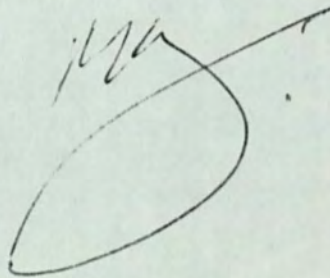
/to Parliament ...



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to Parliament seeking approval for the Own Resources Decision and a further Inter-Governmental Agreement.

8. I am copying this minute to the Prime Minister, to Members of OD(E) and to George Younger, Nick Edwards and Douglas Hurd as well as to Sir Robert Armstrong.

A handwritten signature in black ink, appearing to be 'MJ', with a large, stylized flourish below it.

MICHAEL JOPLING

24 April 1985

Euro Post Cap  
PT 13

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FRAME AGRICULTURE

DESKBY 240800Z

FM UK REP BRUSSELS 231910Z APR

TO IMMEDIATE FCO

TELEGRAM NUMBER 1438 OF 23 APR 85.

INFO PRIORITY COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN,

LUXEMBOURG, ATHENS, LISBON, MADRID AND WASHINGTON.

INFO SAVING BRUSSELS.

MY TEL NO 1421.

AGRICULTURE COUNCIL: 22/23 APRIL 1985.

AGRICULTURAL PRICES: THE SECOND DAY.

## SUMMARY.

1. COUNCIL CONCLUDED WITH NO PROGRESS HAVING BEEN MADE ON ANY ISSUE AND WITH PRESIDENCY COMPROMISE (MY TEL NO 1414) IN DISARRAY.

2. COUNCIL WILL MEET AGAIN IN LUXEMBOURG ON 2/5 MAY IN A FURTHER ATTEMPT AT A SETTLEMENT.

## DETAIL.

3. THE MORNING OF THE SECOND DAY WAS DEDICATED TO FURTHER WORK IN THE HIGH LEVEL GROUP (HLG) ON CEREALS AND TO THE CONCLUSION OF THE CONFSSIONALS.

4. THE LATTER SHOWED NO DISPOSITION ON THE PART OF MEMBER STATES TOWARDS COMPROMISE WITH THE GERMANS CONTINUING TO TAKE A PARTICULARLY TOUGH LINE.

5. IN THE HLG, PROGRESS WAS SIMILARLY SLENDER. FURTHER DISCUSSION OF PRESIDENCY PROPOSAL DID NOT REVEAL ANY MOVEMENT ON THE PART OF THE GERMAN DELEGATION WHO REFUSED TO CONSIDER ANY MECHANISM THAT COULD RESULT IN REDUCED PRICES. OTHER DELEGATIONS, WITH THE EXCEPTION OF THE GREEKS AND ITALIANS, CONSIDERED THE PRESIDENCY PROPOSAL NO IMPROVEMENT OVER THE CURRENT MECHANISM AND TECHNICALLY DIFFICULT TO OPERATE. IN THE LIGHT OF THIS, THE COMMISSION INDICATED IT WOULD NOT BE INTERESTED IN GOING ALONG WITH THE PRESIDENCY PROPOSAL.

6. THE DUTCH ALTERNATIVE CONCEPT (HAGUE TEL NO GRUBX 1 OF 4 APRIL) TAKING INTO ACCOUNT THE DIVERGENCE BETWEEN COMMUNITY AND WORLD PRICES (AS MEASURED BY THE LEVEL OF EXPORT REFUNDS) IN OPERATING THE GUARANTEE THRESHOLD SYSTEM WAS BRIEFLY DISCUSSED. IT PROVOKED FAVOURABLE REACTIONS ON THE PART OF MOST DELEGATIONS BUT STILL DID NOT MEET THE GERMAN PREOCCUPATION. THE COMMISSION INDICATED THAT IT WAS NOT OPPOSED IN PRINCIPLE AS IT WAS IN LINE WITH THE PROPOSALS IN COM 500 AND WOULD INDICATE A DEGREE OF PRODUCER PENALTY IF COMMUNITY PRICES WERE MARKEDLY HIGHER THAN WORLD PRICES. THE GROUP DID NOT, HOWEVER, PURSUE THE IDEA IN ANY DEPTH.

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7. ITALIAN ATTEMPTS TO GET AGREEMENT TO OTHER POINTS IN THE CEREAL PACKAGE, WHICH WOULD HAVE INCREASED COMMUNITY PREFERENCE AND DURUM THRESHOLD LEVELS, FOUNDERED.

8. IN A BRIEF RESUMPTION OF THE COUNCIL BEFORE LUNCH, PANDOLFI (CHAIR) REPORTED THE SERIOUS STATE OF AFFAIRS THAT NOW EXISTED, STRESSED THE URGENCY OF OVERCOMING THE OBSTACLES NOW CONFRONTING THE COUNCIL AND SAID HE WOULD SPEND THE AFTERNOON WITH THE COMMISSION IN AN EFFORT TO SEE WHETHER FURTHER PROGRESS WAS POSSIBLE THIS WEEK.

9. THE COUNCIL MET AGAIN IN SUPER RESTRICTED SESSION AT 6.00 PM. PANDOLFI HAD CLEARLY MADE NO SIGNIFICANT PROGRESS DURING THE AFTERNOON AND COMMENTED THAT THE NEGOTIATIONS WERE NOW STALLED ON A NUMBER OF KEY POINTS. HE WISHED TO MAINTAIN MOMENTUM AND PROPOSED THAT THE PRESIDENCY AND COMMISSION SHOULD CONTINUE URGENTLY WITH BILATERAL CONTACTS WITH MEMBER STATES ON THE BASIS OF A NON-PAPER WITH A VIEW TO AN EXTRA COUNCIL MEETING STARTING AT 3.00 PM ON 2 MAY IN LUXEMBOURG WHICH WOULD CONTINUE FOR SO LONG AS NECESSARY TO REACH A CONCLUSION. THE NON-PAPER, UNLIKE THE FIRST COMPROMISE, WOULD COVER ALL MATTERS. HE ENVISAGED THAT IN THE COURSE OF THAT COUNCIL, THE COMMISSION WOULD BE ASKED TO PROPOSE A FORMAL OVERALL COMPROMISE.

10. MOST MINISTERS AGREED FAIRLY READILY WITH THIS PROCEDURE ALTHOUGH BRAKS (NETHERLANDS) LED A SMALL GROUP WHO FELT THAT MORE DISCUSSION WAS NEEDED IN THE PRESENT COUNCIL, OR IN A RECONVENED HLG. OTHERWISE THE CHANCES OF PROGRESS IN MAY WERE SLENDER. KIECHLE (GERMANY) OMINOUSLY WARNED THAT IT WAS A WASTE OF TIME DRAWING UP A COMPROMISE WHICH HE WOULD NOT BE ABLE TO ACCEPT.

11. ANDRIESEN (COMMISSION) AGREED THAT A SERIOUS SITUATION EXISTED. THE COMMISSION WOULD COOPERATE FULLY IN EACH STAGE OF THE PROCEDURE OUTLINED BY PANDOLFI BUT THE COUNCIL MUST REMEMBER THE NEED TO RESPECT THE GUARANTEE THRESHOLDS, THE BUDGETARY RESTRAINTS UNDER WHICH IT WAS OPERATING AND THE RESTRICTION ON ROOM FOR MANOEUVRE IMPOSED BY EXTERNAL FACTORS.

12. GIVEN THE NEW TIMETABLE, MARKETING YEARS FOR BEEF, SHEEP, DAIRY PRODUCTS, DRIED FODDER AND CAULIFLOWERS WERE EXTENDED TO 5 MAY. IN THE CASE OF SHEEP, THE PREMIUM NEXT WEEK WOULD BE ON WEEK FIVE OF THE EXISTING SEASONAL SCALE.

FCO ADVANCE TO:

FCO - CLEMENTS.

CAB - HARDING.

MAFF - DICKINSON, MYERS, CANN, WILSON, ATTRIDGE, HADLEY,  
PICKERING, LOWSON, HUNTER, WENTWORTH, CAMP, MORDUE,  
PERRINS, WAY, THOMSON.

TSY - BUTT.

BUTLER  
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DESKBY 181430Z

FRAME AGRICULTURE

FM UK REP BRUSSELS 181350Z APR

TO IMMEDIATE FCO

TELEGRAM NUMBER 1375 OF 18 APR 85.

INFO COPENHAGEN, THE HAGUE, ROME, DUBLIN, PARIS, BONN, LUXEMBOURG,  
ATHENS, LISBON, MADRID AND WASHINGTON.

INFO SAVING BRUSSELS.

CAP PRICE FIXING: DEVELOPMENTS PRIOR TO AGRICULTURE COUNCIL ON 22/23  
APRIL.

SUMMARY.

1. ANDRIESSEN DOES NOT EXPECT A SETTLEMENT NEXT WEEK AND DOES NOT  
INTEND TO TABLE A COMMISSION COMPROMISE PACKAGE.

THE GERMANS ARE PRESSING INCREASINGLY FOR AN ACROSS THE BOARD  
PRICE FREEZE (POSSIBLY EXCLUDING MILK) AS THE BEST WAY OUT OF  
THE IMPASSE. A PRESIDENCY PAPER IS BEING PREPARED AND IS  
LIKELY TO REFLECT IN PART AT LEAST NEW COMMISSION IDEAS FOR  
ALTERING THE CEREALS GUARANTEE THRESHOLD SYSTEM.

DETAIL.

2. AT THIS WEEK'S COMMISSION MEETING ANDRIESSEN GAVE HIS COLLEAGUES  
A PROGRESS REPORT ON THE PRICE FIXING. HE OUTLINED THE GERMAN  
PROBLEM AND DIFFICULTIES OVER MEDITERRANEAN PRODUCTS, ALSO CASTING  
THE UK AS WELL OUTSIDE THE CENTRE OF THE PACK. IT WAS HIS VIEW  
THAT THE GERMAN AND ITALIAN ELECTIONS ON 12 MAY WOULD PREVENT ANY  
SETTLEMENT BEFORE THE COUNCIL BEGINNING ON 13 MAY. HOWEVER, A  
PRESIDENCY PAPER OF SOME SORT WOULD BE TABLED AT NEXT WEEK'S  
COUNCIL. THIS MIGHT WELL TAKE THE FORM OF A FURTHER OPTIONS  
DOCUMENT. ANDRIESSEN WOULD BE DISCUSSING IT WITH PANDOLFI BUT  
NO COMMISSION COMPROMISE PACKAGE WOULD BE TABLED NEXT WEEK BECAUSE  
SUCH A MOVE WOULD BE PREMATURE.

3. ANDRIESSEN ALSO ALERTED HIS COLLEAGUES TO INCREASING GERMAN  
PRESSURE FOR AN ACROSS THE BOARD PRICE FREEZE APART FROM A  
SMALL INCREASE FOR MILK. HE APPARENTLY SAW THIS AS GAINING INCR-  
EASING SUPPORT BUT HE HIMSELF DEFINITELY OPPOSED IT.

4. THE GERMAN REPRESENTATION HERE HAVE SINCE CONFIRMED THAT  
THEY REGARD THE LOCAL ELECTIONS ON 12 MAY AS IRRELEVANT.  
KIECHLE, THEY SAY, CANNOT BE EXPECTED TO BE ANY MORE AMENABLE  
AFTERWARDS. INSTEAD THEY POINT THE FINGER AT THE PRESIDENCY  
FOR SEEKING DELAY FOR ITALIAN DOMESTIC REASONS.  
THE GERMANS HAVE ALSO INTIMATED THAT THEY MIGHT BE PREPARED TO  
HAVE A TOTAL FREEZE (INCLUDING MILK) IF THIS WOULD MAKE THE  
IDEA MORE ACCEPTABLE.

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/CEREALS

CEREALS.

5. THE COMMISSION SERVICES HAVE PREPARED A SCHEME AIMED TO BREAK THE DEADLOCK ON CEREALS. A GUARANTEE THRESHOLD OF 120 MILLION TONNES (THE 126 MILLION IN THE COMMISSION PRICE PROPOSALS REDUCED TO OMIT NON-INTERVENED CEREALS LIKE OATS) WOULD BE DEVIDED INTO THREE SEPARATE THRESHOLD QUANTITIES:

- DURUM (1 JULY START TO MARKETING YEAR)
- WHEAT, BARLEY AND RYE (1 AUGUST START)
- MAIZE AND SORGHUM (1 OCTOBER START).

INTERVENTION PAYMENTS ARE MADE AFTER A FOUR MONTH DELAY. FOR THE FIRST THREE MONTHS OF THE MARKETING YEAR INTERVENERS WOULD UNDER THE SCHEME BE GUARANTEED AT LEAST 95 PERCENT OF THE INTERVENTION PRICE BUT THE ACTUAL LEVEL WOULD NOT BE DETERMINED UNTIL MONTH FOUR ONCE THE SIZE OF THE YEAR'S HARVEST WAS KNOWN AND WHEN THERE WOULD BE 1 PERCENT ABATEMENT (UP TO A MAXIMUM OF 5 PERCENT) FOR EACH 1 PERCENT THAT THE HARVEST EXCEEDED THE GUARANTEE THRESHOLD.

6. THE CHIEF ATTRACTION OF THE SCHEME FOR THE COMMISSION IS THAT IT COULD PROVIDE FOR EFFECTIVE PRICE REDUCTIONS WITHOUT OBLIGING MINISTERS TO AGREE REDUCTIONS IN INSTITUTIONAL PRICES.

THE SERVICES ESTIMATE THAT UNDER THE MECHANISM THE WHEAT/BARLEY/RYE INTERVENTION PRICE WOULD HAVE BEEN REDUCED BY 5 PERCENT IN 1984 AND IS PROJECTED TO BE CUT BY 2 - 3 PERCENT IN 1985. THE INTERVENTION PRICE WOULD HOWEVER REMAIN TO BE SET IN THE PRICE FIXING AND THE PROPOSAL ON THE TABLE FROM THE COMMISSION AT PRESENT REMAINS A FREEZE FOR DURUM AND PLUS 1.5 PERCENT FOR ALL OTHER CEREALS.

7. THE ABOVE IDEA IS TO BE DISCUSSED WITH THE PRESIDENCY BEFORE THE COUNCIL AND THEY MAY SEEK CHANGES BUT THE COMMISSION SERVICES STRONGLY EXPECT IT TO FIGURE IN SOME FORM IN THE PRESIDENCY DOCUMENT TABLED AT THE COUNCIL.

FCO ADVANCE TO:

FCO - CLEMENTS *ecd(1)*

CAB - HARDING

MAFF - HADLEY LOWSON PACKER ATTRIDGE ANDREWS

TSY - BUTT.

BUTLER

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NOTE OF A MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND  
FOOD AND THE FRENCH MINISTER OF AGRICULTURE:  
PARIS - 17 APRIL 1985

Present

The Minister	M. Nallet
Mr Andrews	M. Lachaux
Mr Llewelyn	M. Trunel
Miss Timms (Embassy)	M. Chevauchez

1. The Minister met the new French Minister of Agriculture, M. Henri Nallet over lunch to discuss the price fixing negotiations

2. M. Nallet asked the Minister for his views of the prospects for next week's Council. The Minister replied that the Council must try to make progress. Germany remained the main stumbling block. M. Nallet agreed. A rapid settlement was needed. His own farmers were already pressing for an early decision on green rate changes. The German position was not a reasonable one, particularly in two respects. In the first place, the budgetary constraints facing the Community had to be respected, because if they were not economies would subsequently have to be introduced at short notice; these would be likely to hit such items as export refunds on cereals, with adverse effects for cereal exporters such as the UK and France. In the second place, it was essential to adopt a responsible attitude on cereals in view of the attitude of the USA. If the Community did not pursue a moderate line, it would find itself in great difficulties viz-a-viz the United States. Overall, he thought that the Commission proposals were reasonable; they took account of the two points he had mentioned and were sensible on other products. He had few real difficulties with them.

3. The Minister said that his position was very similar. Restraint on cereals was necessary not only because of the attitude of the USA but also because of the growing surplus within the Community. At next week's Council the Presidency would, no doubt, put forward compromise proposals, but he would be distressed if the Commission moved from its position. He had, in any case, already made it clear that on two points, cereals and milk prices, the Commission's proposals were not stringent enough. M. Nallet noted this last point, and asked whether the Minister thought it possible to develop the Commission proposals to reconcile the UK and German positions. The Minister replied that we must clearly work on the basis of the Commission proposals and any adjustments would have to be small ones. It was essential to deal with difficulties now rather than putting off solutions. M. Nallet said that he accepted this basic analysis. Last year Heads of State had acted responsibly and tackled difficult decisions on the CAP. It would be irresponsible now to abandon what had been achieved. He fully agreed that if problems were not dealt with now, they would be more difficult to resolve later. But he feared that some delegations would be tempted to put off difficult decisions.

4. The Minister said that the UK attached great importance to the full implementation of the budgetary discipline agreement; we must ensure that we did not breach these financial constraints. He also hoped that it would be possible to avoid calling a joint Finance and Agriculture Council. M. Nallet replied that French legal experts had advised him that there was no legal basis for requiring a joint Council to be held this year. He trusted that such a Council would also be felt to be out of the question politically. Great progress had been made recently in reforming the CAP and relaunching the development of the Community, but if it was seen that decisions on prices were imposed by Finance Ministers, this progress would be endangered and the long-term reform of the CAP currently being carried through in such exercises as the Commission's "Reflections" one would be made much more difficult. The Minister commented that he did not accept this interpretation of the legal situation, but he agreed that politically it would be best to avoid the need to hold a joint Council. So far as the Commission's "Reflections" exercise was concerned, he agreed that this was important, but felt that the Council should retain a good deal of influence. The exercise should not be left solely to the Commission, and the Council should ensure that it had proper control of its development. M. Nallet agreed with this last point. He added that it was also essential to keep this exercise and the price fixing separate; Ministers' should only turn their minds to the long term reform of the CAP after they had reached decisions on prices, although they had to ensure that their price decisions did not prejudice long term reform.

5. Discussion then turned to individual commodities. On milk, the Minister explained the UK position, stressing the need to hold to the decisions reached last year and to freeze prices. M. Nallet said that he agreed on the first point. As the President's adviser, he had been directly associated with the courageous decisions that had been taken on milk, and it would be dishonourable to abandon these now. He was thus strongly opposed to the views expressed by Germany. The key decisions taken last year had to be respected, although there was a need for some flexibility on some points. He did differ from the UK on prices, however; he did not think that it was possible both to restrain production physically and freeze prices, and was seeking a higher increase than that proposed by the Commission.

6. The Minister pointed out that increases in prices would make it impossible to abandon the quota system and revert to a price policy without risking an explosion of production. M. Nallet replied that quotas were a transitional measure, but as such they would be necessary for several years. The structure of the milk sector in France had to be improved, and producers had to learn to co-operate (they were being forced to do this by the quota system). Once the structure of the industry had been modernised, it would be possible to revert to a market policy based on price, but a period of transition was needed first.

7. The Minister said that the Irish demand for extra quota was a matter of great sensitivity in the UK, and he hoped that France would oppose it. Since Ireland had appealed to the European Court,



the Court should be left to decide the matter. M. Nallet agreed that if the allocation of quota between member states and regions was reopened, there would be areas in France that would demand more.

On the other hand, in his previous capacity he had heard Mr Fitzgerald explain the importance of milk to Ireland to M. Mitterrand, so he was aware of the strength of feeling in Ireland on this issue. A further point was that the President's relations with Mr Fitzgerald were very good, and France had tried to be helpful to Ireland during their Presidency. He had noted what the Minister had said about the European Court, but he doubted whether Ireland would agree to leave matters to the Court; he thought that they would insist on a decision by the Council.

8. Turning to beef, the Minister said that, given the current surplus, a price freeze was clearly right. He was determined to retain the Beef Variable Premium Scheme, and hoped that now that the introduction of clawback had removed the possibility of any distortion, France would reconsider its opposition. M. Nallet said that he had no philosophical objection to direct aids for certain regions and certain commodities, where there were differences in conditions of production, but as a socialist he believed that direct aids should be subject to ceilings. However, his main preoccupation in this sector was the size of Community stocks and the large fall in incomes in France over the past year. Politically he was, therefore, in a difficult position and had to ensure that appropriate market management measures were taken. Nevertheless, he did not exclude some movement in the French position and had no fundamental reservations about the continued existence of the variable premium. Mr Andrews commented that we recognised that there were difficulties ahead in managing the market, and we would be happy to discuss ways of improving matters with French officials.

9. M. Nallet said that he had made three demands on sheepmeat. He recognised that sheep production in the UK was efficient and that the Community regime favoured UK producers. He did not wish to endanger this efficiency or alter the basic structure of the regime, but improvements were needed to assist French producers, who were facing severe liquidity problems. His three demands were:

- (a) use of the corrected central rate to calculate the annual ewe premium in national currency;
- (b) abolition of the Special Export Certification Scheme;
- (c) a single rate of ewe premium in all regions.

10. The Minister said that we were very strongly opposed to the abolition of the SEC, which we regarded as an integral part of the regime. Mr Andrews questioned whether the trade in ewes caused any difficulties for French producers. Any change in the current arrangements would be legally questionable and contrary to the spirit of the regime. M. Nallet commented that he understood the UK position. However, he needed to find a solution that would prevent the disappearance of sheep farming in France. He was ready to show flexibility and understanding, but he did need the final price

package to include something that would bring relief to his producers. The Minister said that he fully understood M. Nallet's position; nevertheless, he remained strenuously opposed to any change in the SEC arrangements. He added that there were two other points in this sector of interest to the UK. We could accept a ceiling on the variable premium, provided that this was not accompanied by any other recovery bar, and we were looking for some adjustment to the seasonal scale. M. Nallet replied that the merits of the current seasonal scale were a matter of dispute within his own industry, and he might be able to show some flexibility here.

11. The Minister said that he was very concerned at the increasing cost of Mediterranean products. The Commission were now proposing cuts, and he hoped that these would be maintained. M. Nallet agreed that certain Mediterranean products did present budgetary problems and added that he had no reservations about supporting the Commission's proposals. M. Lachaux pointed out, however, that if concessions on trade were made to Mediterranean third countries to compensate them for the effects of enlargement, as was probably in the forthcoming negotiations, the demands of the Mediterranean member states would be more difficult to resist.

12. M. Nallet said that he would be seeking a "symbolic gesture" on the price of table wine. Without this, he was not sure that French producers would accept the physical limitation on their production that had been agreed at Dublin. If French producers did not accept these physical constraints and the introduction of effective obligatory distillation, there was danger of a physical revolt. Moreover, if it did not prove possible to implement the Dublin agreement in France, it would not be possible to impose these disciplines on Spain. He added that a 1% price increase would have a negligible effect on the Community budget in 1985 and would only cost some 12 mecu in 1986.

13. The Minister said that according to our interpretation of the Dublin declaration, a price freeze was required. M. Nallet replied that he had been one of the drafters of the Dublin declaration; this referred to "restrictive prices", not to a freeze, and this term was intended to replace the word "freeze" in the earlier Commission document referred to in the declaration. He went on to stress that this point was a major one for France and one that he would be insisting on in the Council. The Minister observed that all delegations had their major points, as he himself had made clear earlier in the discussion.

14. M. Nallet said that on the agrimonetary side France was seeking a full green rate devaluation. If they could achieve this, their position would be more flexible. Mr Andrews replied that we believed that green rate changes should be the final element of any package.

15. Returning once more to the negotiations as a whole, M. Nallet said that both parties had a strong interest in the general line proposed by the Commission and in a rapid conclusion to the negotiations. They had to operate within these two constraints. So far as Germany was concerned, he was prepared to try to help, as he understood Herr Kiechle's political problems, but he was not

prepared to accept measures that could not be financed. On cereals, they had been reflecting on what might be done, as had the Presidency, the Commission and the Netherlands, and he did not exclude anything that would enable Herr Kiechle to escape from the position he had got himself into. The Minister mentioned the possibility of providing something on bread-making wheat, which would be restricted to Germany and of a temporary nature. Mr Andrews added that we were concerned at the Dutch ideas on cereals, as these would in practice mean that the guarantee threshold would not be applied. This would be a serious departure from the decisions taken last year. Moreover, we did not believe that the Dutch plan would result in a 3.6% price cut.

16. M. Nallet commented that the idea of relating the guarantee threshold to world prices merited consideration, although fluctuations in world prices would have to be taken into account, as would the potential effect on world prices of the US Farm Bill. He went on to say that he would be prepared to accept a specific and temporary measure to help Germany, although this would present him with serious political difficulties at home. The key was to find a solution that helped Germany without destroying the general balance of the Commission proposals.

17. Finally, M. Nallet said that he hoped that the UK and France would work together in the agricultural sector. From the moment that France had accepted the need to control expenditure on the CAP, their two countries had had a good deal in common as regards agriculture, and this common interest could only grow in an enlarged community.

ell

C I LLEWELYN  
18 April 1985

Distribution

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Commodity Under Secretaries

Mr Capstick

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PS/Foreign Secretary

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Mr Anderson (UKREP)

Miss Timms (Embassy, Paris)



PM/85/30

PRIME MINISTERNBPM  
CDP

16/4.

1985 CAP Price-Fixing

with CAP?

1. Michael Jopling minuted to you on 10 April proposing that you and Nigel Lawson should lobby Chancellor Kohl and Herr Soltenberg respectively to persuade the Germans to change their position on cereal prices.

2. I am sure it would be worthwhile for Nigel to raise this matter with Stoltenberg, and I hope he had an opportunity to do so last weekend at the informal ECOFIN Council. I shall be interested also to hear whether Finance Ministers considered the possibility that the Presidency compromise promised for the next Agriculture Council on 22-23 April will significantly exceed the cost of the Commission proposals and possibly breach the financial guidelines. I continue to believe, as I know does Nigel, that in either of these cases we must insist that a joint council of Finance and Agriculture Ministers be convened, as provided for in the budget discipline text. We must exploit to the full the leverage that text provides to resist pressure in the Agriculture Council for unrealistic price increases.

3. I am not convinced, however, that this is the right moment for you to approach Kohl direct. Julian Bullard in Bonn has reported that the position of rigid opposition to any price cuts for German farmers adopted by Herr Kiechle in the Agriculture Council has the full support of Chancellor Kohl and the Federal Cabinet. This position reflects the German Government's view



that avoiding any further fall in German farm incomes on top of the 18% recorded last year is a domestic political imperative. I attach a copy of the relevant reporting telegram from our Embassy in Bonn.

4. Against this background, it seems unlikely that an approach to Kohl would bear fruit. The Germans are more likely to move by pressure than persuasion. This means isolating them in the Council.

5. In my view, these considerations point to holding our fire, certainly until after 12 May, the date of the North Rhine Westphalia Land election: a crucial test of the Federal Government's popularity. Your meeting with Kohl at Chequers on 18-19 May would, of course, provide an opportunity to raise the issue with him in advance of what Michael Jopling suggests could be the crucial Agriculture Council on 20-21 May. Meanwhile Julian Bullard might be instructed to go on making our position clear with your full authority.

6. I am copying this minute to Michael Jopling and to the other recipients of his minute.

GEOFFREY HOWE

Foreign and Commonwealth Office  
15 April, 1985

CONFIDENTIAL

*Mc*

GRS 810  
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FRAME AGRICULTURE  
FM BONN 291440Z MAR 85  
TO IMMEDIATE FCO  
TELEGRAM NUMBER 308 OF 29 MARCH  
INFO PRIORITY UKREP BRUSSELS  
INFO ROUTINE ATHENS EMBASSY BRUSSELS COPENHAGEN  
DUBLIN LUXEMBOURG PARIS ROME THE HAGUE

CAP PRICE FIXING: GERMAN POSITION

SUMMARY

1. GERMAN POSITION REMAINS FIRM AND UNCHANGED. MAIN POINTS ARE NO REDUCTION IN CEREALS PRICES, NO CUT THIS YEAR IN POSITIVE MCAS, POSTPONEMENT OF CUT IN MILK QUOTAS, HIGHER INCREASE IN MILK TARGET PRICE THAN COMMISSION PROPOSE.
2. KIECHLE HAS FULL SUPPORT OF KOHL AND THE FEDERAL CABINET. HIS POSITION DERIVES FROM THE POLITICAL IMPERATIVE, AS SEEN FROM HERE, OF AVOIDING FURTHER FALLS IN FARM INCOMES AND NOT ADDING TO THE SACRIFICES IMPOSED AT LAST YEAR'S PRICE FIXING.

DETAIL

3. CONTACTS IN THE FEDERAL CHANCELLERY, THE AUSWAERTIGES AMT, THE FINANCE MINISTRY AND THE AGRICULTURE MINISTRY CONFIRM THAT THERE HAS BEEN NO SHIFT IN THE GERMAN POSITION SINCE THE START OF THIS YEAR'S PRICE FIXING NEGOTIATIONS. THEY THINK THAT IT WILL BE DIFFICULT TO REACH FINAL DECISIONS AT LUXEMBOURG NEXT WEEK BUT DO NOT EXCLUDE THAT THE PANDOLFI/ANDRIESEN COMBINATION WILL BE ABLE TO BRING MATTERS TO A CONCLUSION THEN.
4. THE CENTRAL GERMAN OBJECTIVE IS TO AVOID PRICE REDUCTIONS, NOTABLY FOR CEREALS, AND THEREFORE ANY CUT IN POSITIVE MCAS. ON CEREALS MUCH IS BEING MADE IN PUBLIC SPEECHES OF THE PROSPECTS FOR FINDING ALTERNATIVE USES FOR THE SURPLUS, PARTICULARLY CONVERSION TO ETHANOL. TWO RESEARCH PROJECTS ARE IN PROGRESS BUT IT IS ADMITTED PRIVATELY THAT THE PROSPECT OF ECONOMIC ETHANOL PRODUCTION IS DISTANT EVEN WHEN THE PRODUCTION COST IS COMPARED WITH THE COST OF ALTERNATIVE MEANS OF DISPOSING OF SURPLUS GRAIN. THE WILL NEVERTHELESS EXISTS TO SEE PROGRESS MADE IN THIS DIRECTION AND FURTHER ENCOURAGEMENT GIVEN TO ALTERNATIVE PROTEIN CROPS.
5. ON MILK KIECHLE WOULD PROBABLY SETTLE FOR A 2.5 PERCENT TARGET PRICE INCREASE BUT WITH NO ADJUSTMENT OF THE BUTTER/SMP RATIO. POSTPONEMENT OF THE SCHEDULED 1 MILLION TONNE REDUCTION IN THE COMMUNITY REFERENCE QUANTITY REMAINS A MAJOR OBJECTIVE. IT IS ACCEPTED THAT THE REDUCTION IN CORESPONSIBILITY LEVY SHOULD ALSO BE DEFERRED. THE DEMAND FOR LOWER BEEF PRICES APPEARS TO DERIVE MAINLY FROM THE DESIRE TO CREATE HEADROOM FOR HIGHER MILK AND CEREALS PRICES.

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*/6.*

6. ALTHOUGH KIECHLE HAS RECENTLY FACED WELL-PUBLICISED AND HOSTILE CRITICISM FROM BAVARIAN FARMERS AND FROM WITHIN HIS OWN (CSU) PARTY, HIS STANCE HAS THE FULL BACKING OF HIS MINISTERIAL COLLEAGUES. THE POLITICAL REPERCUSSIONS OF LAST YEAR'S 18 PER CENT DROP IN FARM INCOMES ARE STILL BEING FELT BOTH IN PARLIAMENTARY DEBATE AND IN THE COUNTRY GENERALLY. THE INTRODUCTION OF MILK QUOTAS HAS CAUSED GREAT BITTERNESS AND KIECHLE IS WIDELY CONDEMNED FOR AGREEING TO LAST YEAR'S REDUCTION IN MONETARY COMPENSATORY AMOUNTS WHICH LED TO A 5 PER CENT FALL IN SUPPORT PRICES ON 1 JANUARY. THE GOVERNMENT GETS LITTLE CREDIT FOR INTRODUCING THE OFFSETTING VAT-RELATED COMPENSATION SCHEME, WHICH IS USUALLY DISMISSED AS FAVOURING THE LARGER FARMERS WHO NEED HELP THE LEAST. RIGHTLY OR WRONGLY THE GOVERNMENT'S JUDGEMENT IS THAT IT CANNOT ASK FURTHER SACRIFICES OF ITS FARMERS AT THIS JUNCTURE. IN ADDITION KIECHLE'S OUTSPOKEN CRITICISM OF CEREALS PRICE CUTS POSES AN ADDITIONAL OBSTACLE IN THE WAY OF COMPROMISE.

7. OFFICIALS ARE GUARDED AS TO WHAT KIECHLE WOULD DO IF THE PRESIDENCY TRIED TO PROCEED BY MAJORITY VOTING. FEITER (BUNDESKANZLERAMT) THOUGHT THAT OTHER MEMBER STATES WOULD SHOW GREATER POLITICAL WISDOM THAN TO VOTE GERMANY DOWN ON AN ISSUE OF SUCH SIGNIFICANCE ALTHOUGH HE EXPRESSLY AVOIDED REFERENCE TO A VITAL NATIONAL INTEREST. GERMANY HAS NEVER EXPLICITLY ACCEPTED THE LUXEMBOURG COMPROMISE. VAN EDIG (AUSWASERTIGES AMT) CONSIDERED THAT OPPOSITION TO THE COMMISSION PROPOSALS FROM ITALY, GREECE AND PROBABLY OTHER MEMBER STATES WOULD IN ANY CASE MAKE A QUALIFIED MAJORITY UNNATTAINABLE AT THE NEXT COUNCIL.

8. HECK (FINANCE MINISTRY) GAVE IT AS HIS PRIVATE VIEW, (PLEASE PROTECT), THAT KIECHLE WOULD NOT GET HIS WAY IN BRUSSELS. A GERMAN DEFEAT AT THE HANDS OF HER EUROPEAN PARTNERS WOULD BE UNWELCOME TO THE CABINET BUT WOULD AT LEAST ENABLE THEM TO SAY THEY HAD DONE ALL THEY COULD. THAT WOULD NOT BE QUITE ENOUGH HOWEVER. SOMETHING ELSE WOULD HAVE TO BE DONE FOR THE FARMERS NOT LEAST BECAUSE OF THE ELECTIONS IN NORTH RHINE WESTPHALIA IN MAY BUT, EQUALLY, NOT FOR THAT REASON ALONE. HECK THOUGHT THAT THE GOVERNMENT MIGHT IMPROVE THE ARRANGEMENTS FOR ACCIDENT INSURANCE AND PENSIONS FOR FARMERS.

FCO PLEASE ADVANCE TO MAFF: - PS/MR JOPLING  
PS/SIR MICHAEL FRANKLIN  
MR ANDREWS  
MRS ATTRIDGE AND MR PACKER

BULLARD

FRAME AGRICULTURE  
ECD (1)

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2  
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file DA

10 DOWNING STREET

From the Private Secretary

15 April 1985

Dear Ivor,

1985 CAP Price Fixing

BF //

The Prime Minister has seen the Minister of Agriculture's minute of 10 April. She is ready to send a message to Chancellor Kohl about the price fixing. I should be grateful for a draft. She also agrees not to pursue a meeting with Mr. Andriessen.

I am sending copies of this letter to the Private Secretaries to members of OD(E) and to John Graham (Scottish Office), Colin Jones (Welsh Office), Jim Daniell (Northern Ireland Office) and David Williamson (Cabinet Office).

over taken  
by FCS to PM  
15.4

Yours sincerely  
Charles Powell

(Charles Powell)

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.



20

cc/c



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

From the Minister

CONFIDENTIAL

PRIME MINISTER

1985 CAP PRICE FIXING

Prime Minister CDP - announced  
Agree to send message to Kohl? (I will commission a draft)  
Agree CDP 13/4. Yes not

We have spoken briefly about the agricultural price fixing negotiations following the Council meeting on 1 and 2 April. This meeting made no progress primarily because of the German attitude on cereal prices and on the dismantlement of their positive MCAs. But, as is usual, most other Member States want a less restrictive outcome than that implied by the Commission's proposals. They would be content, if not positively in favour, of price determinations above what the Commission have proposed. Indeed, it seemed fairly clear that the Italian Presidency were not in any hurry to see a settlement since the proposals include a number of reductions in prices for Mediterranean countries. While there is delay in fixing new prices, the old ones will continue.

The German CSU Minister, Kiechle, has given commitments to his farmers that they will not suffer any price cuts this year. To achieve this objective he has not only to block the revaluation of the German mark that the Commission have proposed (which outcome would not cause us undue concern), but also prevent any decreases in common prices from affecting German farmers. Given the large and potentially very costly surpluses of cereals that have emerged in the Community in recent years, it is in my view essential that the Council agree on a substantial price cut. To do otherwise would send quite the wrong signal to producers. Further, the German attitude on cereals is important not only because it is a major commodity, but also because it has knock-on effects for other commodities. The Italians and Greeks are highly unlikely to accept the proposed price cuts for the commodities of interest to them, unless rigorous action is not also taken on cereals.

/It would .....

It would be helpful if you could approach Kohl, and if Nigel Lawson could tackle Stoltenberg, in order to try to persuade the Germans that they really must modify their position. We know that Kiechle's present line has been endorsed by the German Government as a whole but there must be some Ministers who feel uncomfortable at their position given their professed commitment to budgetary discipline.

Under the Treaty the Commission proposals can, of course, only be amended by unanimity. So long as the Commission remain firm, we are in a position to block a settlement which is more generous than the one proposed. So far the Commission have not indicated to the Council a willingness to amend their proposals, though they are clearly concerned at the deadlock and the confrontation with the Germans.

I have reflected on whether you should invite Mr Andriessen to see you when he is here in London on 15 April. His visit is for a bilateral discussion with the Americans on neutral territory. In these circumstances, I am rather doubtful whether it would be appropriate or wise for you to seek a meeting with Mr Andriessen at this juncture in the negotiations. I understand that you are due to see Mr Delors before the May Agriculture Council. Since it is most unlikely that a settlement is going to be reached on 22/23 April, it could be much more effective for you to tackle Delors just before what seems likely to be the timing of the crunch in the negotiations.

I am sending copies of this minute to the members of OD(E) and Secretaries of State for Scotland, Wales and Northern Ireland and to Sir Robert Armstrong.

*Handwritten signature*

*For*

M J

10 April 1985

(Approved by the Minister and signed in his absence)

*meeting  
not  
pursued  
11/4*

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FCS/85/74

MBM

MINISTER OF AGRICULTURE, FISHERIES AND FOOD

Agricultural Price Fixing and Budget Discipline

1. I have seen Ian Stewart's letter to you of 21 March.
2. Effective implementation of the budget discipline agreement is a priority objective for us. We must exploit to the full the leverage it gives to resist pressure in the Agriculture Council for unrealistic price increases. I therefore agree that if you are faced with the prospect of a significant dilution of the Commission's proposals, you should insist that a joint meeting with Finance Ministers be convened. I support the figures and general guidelines which Ian Stewart proposes.
3. Your discussion in this week's Agriculture Council confirm that a restrictive price settlement will not be easy. I was particularly concerned by Mr Andriessen's weakness on the financial guideline. We shall have to bring to bear as much persuasion as we can to convince him of the serious consequences of any breach of the guideline. It will also be important to ensure that Pandolfi and your colleagues in the Agriculture Council are in no doubt that respect for the financial guideline is one of our essential requirements, along with sustained price restraint and effective application of guarantee thresholds. Pandolfi seems to be taking a responsible line so far.

/4.



4. I am copying this minute to the Prime Minister, members of OD(E) and Sir Robert Armstrong.

*CR Budd*

*for* (GEOFFREY HOWE)  
(Approved by the Foreign Secretary and  
signed in his absence)

Foreign and Commonwealth Office  
29 March 1985

CAP. : EURO POL. Pt 13

29 MAR 1985

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CDP 21/3

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Treasury Chambers, Parliament Street, SW1P 3AG

Rt Hon Michael Jopling MP  
Minister of State for Agriculture, Fisheries and Food  
Ministry of Agriculture Fisheries and Food,  
Whitehall Place  
LONDON SW1

21<sup>y</sup> March 1985

Dear Michael,

**AGRICULTURAL PRICE FIXING AND BUDGET DISCIPLINE**

As you will only be too well aware, it is clear from the first exchange of views in the Agriculture Council last week that the price fixing negotiations are going to be very difficult, with pressure from all other member states, spearheaded by the Germans, to dilute the Commission's proposals.

As was agreed at OD(E) our objective must be to encourage the Commission to stick to their original proposals. So long as we do not join other member states in unanimous demand for amendments, the Commission will remain in a position to resist such pressures. I hope that you will be able to find an opportunity at the outset of the Council next week to speak to Andriessen and tell him that he can rely on your support and that we would regard the consequences of the Commission going along with a serious dilution of their proposals as very grave. The Council's commitment to effective budget discipline is for us an essential part of the Fontainebleau package. Were the agricultural price settlement to constitute a serious breach of budget discipline the Government's task in steering the increase in own resources through the UK Parliament will be made very much more difficult, and I hope you would consider conveying this message also to Pandolfi.

However, we need to do some contingency planning about how we would react if the Commission looked like weakening and a qualified majority were to emerge for amended proposals. As you know the conclusions on budget discipline provide that:

"If in the Commission's opinion the Council of Agriculture Ministers seems likely to take decisions whose cost would exceed that of the original proposals of the Commission, the final decision must be referred to a special Council session attended by both Finance and Agriculture Ministers and can be taken only by that special session."

Article 7.4 of the conclusions provides that these arrangements "shall apply" and the sixth entry in the accompanying Council minutes states that any Member State may seek the opinion of the Commission on whether the circumstances referred to in the above quotation apply, thereby being able to trigger a Joint Council.

I have concluded after careful consideration that if we were faced with the prospect of a significant dilution of the Commission's proposals we should insist that a joint meeting of Agriculture and Finance Ministers should be convened. I recognise that there is a risk that a Joint Council would not prevent an unsatisfactory price settlement and that the new budget discipline arrangements would then be seen to have taken a bad knock. On the other hand, the threat of a Joint Council could help strengthen the Commission's resolve, and the direct involvement of Finance Ministers in the negotiations ought to have some moderating influence. Moreover, we would expose ourselves to even greater criticism at home if an unsatisfactory price fixing were arrived at without our having invoked the budget discipline arrangements which we took the lead in negotiating last year.

The question arises of the circumstances in which you should invoke the possibility of a Joint Council and when it would be best for you to do this. My conclusion on the first point is that you should do this if faced by the prospect of amendments adding significantly to the cost of the Commission's package. The figure I have in mind is around 200 mecu, ie amendments which turned the forecast net savings of 40 mecu in 1986 into a net cost in excess of some 150 mecu. However, a rather smaller net addition to costs might warrant invoking a Joint Council if the particular amendments were very damaging to our objectives on CAP reform and budget discipline, eg involving an unravelling of the milk quota arrangement or backing away from the application of the guarantee threshold for cereals.

I am sure that you will not want to invoke the possibility of a Joint Council until discussions in the Agriculture Council had crystallised into a real threat to the Commission's proposals, and it is difficult to predict whether this stage may be reached next week. On the other hand, immediately such a situation does arise I am sure that you should ask the Commission to comment on the cost implications and make quite clear that you would insist on a Joint Council. By doing this quickly you would maximise any deterrent effect that a Joint Council might have.

I am sending copies of this letter to the Prime Minister, Members of OD(E) and Sir Robert Armstrong.

*Yours ever*  
*Ian*

IAN STEWART



RESTRICTED

FM UKDEL STRASBOURG 142020Z MARCH 85  
TO PRIORITY FCO  
TELEGRAM NUMBER 68 OF 14 MARCH  
AND TO PRIORITY UKREP BRUSSELS  
ROUTINE EC POSTS,  
SAVING LISBON MADRID AND WASHINGTON

FRAME AGRICULTURE

FROM UKREP BRUSSELS

## EUROPEAN PARLIAMENT RESOLUTION ON CAP PRICES

## SUMMARY

1. THE EUROPEAN PARLIAMENT REJECTED THE COMMISSION PROPOSALS ON AGRICULTURAL PRICES AND VOTED, IN A RESOLUTION WHICH HAD A MAJORITY OF ONLY 14 VOTES, FOR AN AVERAGE INCREASE IN REAL TERMS IN CAP PRICES OF 3.5%. THE RESOLUTION AS ADOPTED CONTAINS FEW SPECIFIC RECOMMENDATIONS ON PRICE CHANGES FOR INDIVIDUAL PRODUCTS. IT SUGGESTS THAT THESE BE DIFFERENTIATED IN ORDER TO ENCOURAGE CROPS OF WHICH THERE IS A SHORTFALL, COUPLED WITH A CO-RESPONSIBILITY POLICY INVOLVING PRODUCERS IN THE MANAGEMENT OF MARKETS FOR SURPLUS PRODUCTS.

## DETAIL

2. THE VOTE REJECTING THE COMMISSION PROPOSAL WAS 111 IN FAVOUR, 183 AGAINST AND 9 ABSTENTIONS.

3. THE RESOLUTION ADOPTED BY THE PARLIAMENT IS AN AMENDED VERSION OF THE PRANCHERE MOTION FOR RESOLUTION (DOC 2-1770/84/A). THE FINAL VOTE ON THIS RESOLUTION WAS 137 FOR, 123 AGAINST AND 13 ABSTENTIONS. THE MAJORITY IN FAVOUR WAS THUS MARKEDLY SMALLER THAN THE MAJORITIES FOR THE PARLIAMENT'S VOTES ON AGRICULTURAL PRICES IN PREVIOUS YEARS - WHEN MAJORITIES OF 50 OR SO WERE TYPICAL. BUT THE GENERAL PATTERN OF VOTING WAS THAT THE BUDGETS COMMITTEE AMENDMENTS, BASED ON A POLICY OF NO CHANGE IN PRICES COUPLED WITH STRUCTURAL AND DIRECT INCOME AIDS, WERE VOTED DOWN UNLESS THEY SPECIFICALLY CONCERNED AIDS OF BENEFIT TO FARMERS. IN MOST OF THE VOTES, WHICH TOOK OVER THREE HOURS, THE EDG AND PART OF THE SOCIALIST GROUP, INCLUDING THE BRITISH SOCIALISTS, VOTED ON THE LINES OF THE COMMISSION PROPOSAL. THEY GOT SPASMODIC SUPPORT FROM OTHER GROUPS, NOTABLY FROM MEMBERS OF THE BUDGET COMMITTEE. THE MAJORITY OF THE CHRISTIAN DEMOCRATS, LIBERALS, FRENCH COMMUNISTS, GAULLISTS, RIGHT-WING GROUPS AND VIRTUALLY ALL THE GREEKS VOTED FOR THE HIGHER PRICE PROPOSALS.

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4. IN A CLOSE VOTE ON THE TEXT ON OILS AND FATS (PARA 85) A RECOMMENDATION QUOTE REQUESTS THE COUNCIL IMMEDIATELY TO ADOPT THE COMMISSION'S PROPOSAL WHICH WAS APPROVED BY THE EUROPEAN PARLIAMENT (REPORT BY MR GOERENS ( DOC 1-1507/83)) ON THE INTRODUCTION OF A TAX ON VEGETABLE FATS : UNQUOTE WAS REJECTED.

5. ALSO REJECTED WAS THE PROPOSAL IN THE PRANCHERE DRAFT FOR A 5% INCREASE IN THE TARGET PRICE FOR MILK. NO NEW FIGURE FOR MILK WAS ADOPTED.

6. AFTER THE VOTE ANDRIESSEN DECLINED TO COMMENT IN PLENARY. BUT SPEAKING PRIVATELY TO BRITISH MEPS AFTERWARDS HE INDICATED THAT THE NARROWNESS OF THE MAJORITY FOR THE RESOLUTION, ITS INCONSISTENCIES AND LACK OF SPECIFIC SOLUTIONS WOULD MAKE IT RELATIVELY EASY TO DISMISS.

7. FULL TEXT OF RESOLUTION AS ADOPTED WILL BE AVAILABLE FROM MISS HAMER UKREP BRUSSELS TOMORROW MORNING.

FCO PSE PASS ROUTINE TO ALL EC POSTS AND SAVING TO LISBON  
MADRID AND WASHINGTON

FCO PSE ADVANCE TO:

EO - FAIRWEATHER RENWICK P/S P/S MR RIFKIND

CAB - WILLIAMSON

MAFF - PS/S OF S P/S MR MACGREGOR

LUSH

FRAME AGRICULTURE  
ECD (1)

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AS ADDRESSEES.

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MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND  
THE FRENCH STATE SECRETARY FOR EUROPEAN AFFAIRS:  
5 MARCH 1985

NSPM  
CAP  
FR.

Present

Minister  
Sir Michael Franklin  
Mrs Attridge  
Mr Llewelyn

Mme Lalumiere  
M. Kessedjian  
M. Blanchemaison  
Mme Quincy  
Mr. Carnelutte  
M. Vidal

After the Minister had welcomed Mme Lalumiere, it was agreed that the discussions should concentrate on the fisheries aspects on enlargement and on the CAP price-fixing.

The Minister said that French and British officials would be meeting on fisheries in Paris on Thursday. He thought it essential for the five to maintain a common front, and hoped that the Commission (whose officials would also be present on Thursday) could be brought to support their position. Mme Lalumiere replied that she could confirm that maintaining the unity of the five was a major French concern; the UK could rely on France here. It was necessary, however, to conclude the enlargement negotiations rapidly, both for the good of the Community and to preserve the political stability of Spain and, in particular, Portugal. For this reason the five would need to show imagination and devise compromise acceptable to all parties, including the Commission. It was indisputable that the current Commission proposals were not satisfactory either for the five or for Spain. The meeting on Thursday could play an important part in bringing matters to a satisfactory conclusion.

The Minister said that we fully agreed on the political necessity for enlargement. He was anxious, however, that an agreement on fisheries should not endanger the principles of the CFP, which had been established with such difficulty. It was thus important not to give Spain quotas that endangered these principles. There were also important points concerning access to be settled, in particular those relating to the French six to twelve mile limit and the Irish box; here the five needed to consider carefully what they could accept.

Mme Lalumiere said that it was clear that any agreement would have to balance a number of considerations. The key ones were first, the number of Spanish vessels permitted access to current Community waters. Here a reduction in the total Spanish fleet was needed, although this might have to be matched by an undertaking from the ten not to increase the size of their fleets. Second, geographic

zones. Issues of importance here were the six to twelve mile limit, the Irish box, the Portuguese request for boxes round the Azores and Madeira and the Portuguese problem in Area IX. Third, quotas. On this point the Commission proposals weighed most heavily on stocks of interest to France. They would be looking to see the burden spread more evenly and other species covered as well.

The Minister agreed that it was particularly important to limit the number of Spanish vessels permitted access to current Community waters. It would also be helpful to reduce the total size of the Spanish fleet but we would not agree that this should be conditional on a further reduction of our own fleet. However, a commitment not to increase our fleet was rather different, and merited further discussion. On quotas, he had noted what Mme Lalumiere had had to say. However, the key stock was that of hake which was of major interest to France and to Spain. There would clearly have to be some hard bargaining here. Mme Lalumiere said that she totally agreed with this analysis.

Turning to agriculture, Mme La Lumiere thought that the UK and France perhaps regarded the Commission's price proposals in much the same way. What were the Minister's views?

The Minister said that we welcomed the general thrust of the Commission proposals, which we saw as maintaining the return to reality that had started last year. It was now essential for the Agriculture Council to continue the process. But there were some areas where we felt the Commission had not been strict enough; for example, we wished to see the full 5% reduction required by the guarantee threshold applied to cereals, while on milk we were seeking a price freeze. We also attach great importance to respecting the financial guideline.

Mme La Lumiere replied that it would be for M. Rocard to go into details at the Council next week. In general, however, France could support the overall balance of the proposals. However, for milk and wine, where steps had been taken to limit levels of production, it would be difficult, if not impossible, to combine these quantitative restrictions with price freezes. They had to pay attention to the difficult position of producers in these sectors. On cereals, the key issue for France was the competitiveness of exports on world markets. The Community was now a major cereals exporter and had to sell on the world market; this required competitive prices. She would welcome the Minister's view on this and on the German bid for price increases for cereals.

The Minister said that it was clear that France and the UK were not going to agree on milk prices. On wine, he noted that the Council last week had agreed on a price freeze, in line with the Dublin Declaration. He agreed on the importance of cereal exports; the current level of the dollar made Community exports very competitive at present. However, this situation would not last if the German request for higher prices was met. This was why we were opposed to

the German request and continued to seek a lower price than that proposed by the Commission.

clh

C I LLEWELYN  
6 March 1985

Distribution

Private Offices

Mr Andrews  
Mr Mason  
Mrs Attridge  
Mr Griffiths  
Mr Hadley  
Mr Dickinson  
Mr Myers  
Mr Wilson  
Mr Packer  
Mr Haddon  
Mr Melville  
Mr Wentworth  
Mr Lowson  
Mr Hollis  
PS/Foreign Secretary  
PS/Chancellor of the Exchequer  
Mr Powell, No.10 -  
Mr Williamson, Cabinet Office  
Miss Timms (Embassy, Paris)  
Mr Anderson (UKREP, Brussels)  
Mr Kuyk (UKREP, Brussels)





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10 DOWNING STREET

*From the Private Secretary*

4 March 1985

REVIEW OF THE CAP

The Prime Minister has noted your Minister's minute of 1 March about the steps he proposes to take to influence the Commission's Review of the Common Agricultural Policy.

I am copying this letter to the Private Secretaries to members of OD(E), the Secretaries of State for Wales, Scotland and Northern Ireland and to Sir Robert Armstrong.

(CHARLES POWELL)

Ivor Llewelyn, Esq.,  
Ministry of Agriculture, Fisheries and Food.



From the Minister

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

CEPC  
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Prime Minister  
CDP  
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PRIME MINISTER

#### REVIEW OF THE CAP

1. I wrote to Nigel Lawson on 6 February explaining that the idea of a review of the CAP undertaken under the aegis of the Council of Ministers which I had earlier advocated had been overtaken, as I feared, by a Commission statement that they proposed to undertake a review. We have no means to prevent the Commission going ahead but we can seek to influence the Commission's handling of this matter.

2. As agreed, this has now been considered inter-departmentally by officials who concluded that our first objective should be to ensure that the basic figures such as supply and demand prospects for agricultural products, both within the Community and externally, are produced early on in the review process. We would expect the figures to be linked to estimates of the potential budgetary and other economic implications and to some assessment of the likely effects on international trade relations. I am sure that this is right.

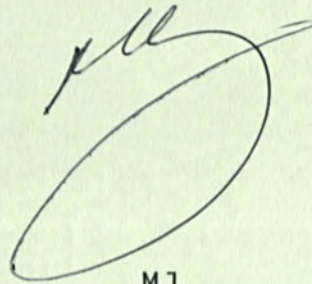
The facts, if we can get them on the table are likely to show clearly the need for radical measures and hence give support to our basic position on the CAP. That will be the stage we may want to put forward specific policy suggestions. Naturally we shall want to insist throughout that the review takes full account of the limitations on the resources available under the Financial Guideline for Agriculture.

3. I propose to tackle the Agricultural Commissioner Frans Andriessen, in this sense when there is a suitable opportunity. When we are clearer on the Commission's detailed thinking I will report further. I am still considering how best to associate the Council and Member States with this review.

/4. I am copying ...



4. I am copying this minute to the other members of OD(E) and to the Secretaries of State for Wales, Scotland and Northern Ireland, and to Sir Robert Armstrong.

A handwritten signature in black ink, consisting of a large, stylized loop with a smaller loop above it.

MJ  
1 March 1985

Euro-Art: Cap #13

... on behalf of the ...  
... of the ...  
... of the ...

ON  
1001 1001





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

010

From the Minister's Private Office

T Flesher Esq  
Prime Minister's Office  
10 Downing Street  
LONDON SW1

27 February 1985

Prime Minister:

The outcome of the Agriculture  
Council - Mr Jopling is making  
a statement tomorrow.

Dear Tim,

COUNCIL OF AGRICULTURE MINISTERS: 25-26 FEBRUARY 1985

I attach a copy of the statement which Mr Jopling hopes to make in the House tomorrow. I would be grateful for immediate clearance.

I am copying this letter to Bernard Ingham; David Heyhoe (Leader of the House's Office); Murdo Maclean (Whip's Office, Commons); David Beamish (Whip's Office, Lords); Richard Hatfield (Cabinet Office); Alex Galloway (Chancellor of the Duchy of Lancaster's Office) and to Private Secretaries of the other Agriculture Ministers and Members of the OD(E).

Yours ever,

David Herbert

PP IVOR LLEWELYN  
Private Secretary

Agriculture Council - 25, 26 & 27 February 1985

My hon Friend the Minister of State and I represented the United Kingdom Government at the meeting of the Council of Agriculture Ministers in Brussels on 25 to 27 February.

MILK PACKAGE

The Council agreed to certain modifications to the milk supplementary levy regulations, two of which are particularly important to our industry.

The first is a provision enabling producers who have two quotas, one wholesale and one for direct sale, to switch between the types of quota according to the marketing needs of their businesses.

In order to avoid abuse, there will be strict administrative controls. This is a change for which I have been pressing at successive meetings. I am delighted that we have now obtained an agreement.

The second important element for milk is a provision, for one year only, to permit unused quota to be switched between producers and between regions. Provided there is no abrupt change in levels of milk production, I would expect this to relieve all liability for levy on wholesale milk sales in the United Kingdom in 1984/85.

This is of particular benefit to Northern Ireland. We would also

expect liability for levy on direct sales to be substantially reduced, though it is not possible at this stage to say whether it would be eliminated.

The package did not deal with a number of points which are of importance to some other member states, including the Irish request for an additional 79,000 tonnes of quota. This issue will be further discussed in the price fixing. It was made clear that subsequent decisions on this or other matters were in no way taken at this Council. I emphasised that we remain opposed to the Irish request.

I am also pleased to announce that the Council agreed on a series of important measures to bring wine production under control. These implement the outline agreement reached by the European Council in Dublin last December.

The new measures contain three main elements. The first element is an effective guarantee threshold so that surplus production will be removed by compulsory distillation at low prices, so as to dissuade producers from increasing output.

The second element is a system of aids for producers who grub-up their vineyards and go out of production, thus leading to a permanent reduction of the Community's vineyard area.

The third element is a commitment to a restrictive price policy for as long as a significant structural surplus remains. This is a crucial part of the agreement and was one of the Government's major objectives.

During negotiations I was successful in reducing substantially the cost of the package to the Community without undermining its effectiveness. The Commission's original proposals would have cost over the next five years 740 mecu - about £500m. But this has now been reduced to about 485 mecu - about £290m.

Our calculations show that these decisions will lead to very significant savings for the Community budget - at least £200m annually - by way of reduced distillation costs.

The agreement of the Council will be put into legal form as soon as the European Parliament has given its opinion on a small element of the package, which has only been recently proposed by the Commission, to restructure some Greek vineyards. I made it clear that this element is still subject to scrutiny in this House.

The Council also carried forward discussion on the more general agricultural structures regulations. The Commission formally proposed a new article authorising member states to introduce aids in environmentally sensitive areas. As the House knows, I have been pressing for such a provision. I am glad to say that it had a

wide measure of support in the Council. I would expect discussion on the structures package to be resumed at the next Council, when I hope it will be possible to reach decisions.

Finally, the Council adopted a regulation which allows the Commission to acknowledge applications submitted to it for aids for improvement in processing and marketing facilities. Without a prior acknowledgement from the Commission, work in hand is rendered ineligible for aid. This technical change was, therefore, needed in order to allow people to press ahead with investments. This is an important change for many British firms which wish to make improvements urgently.

This was a highly satisfactory Council for the United Kingdom. The wine decisions are the second major step, after milk, to bringing reality into the common agriculture policy. The modifications of the milk regime are of great importance to us, as is the proposal on conservation. And the Council has cleared the way to press ahead now with the price fixing negotiations.

## MINISTER'S MEETING WITH LORD COCKFIELD: 22 FEBRUARY 1985

The Minister met Lord Cockfield, who was accompanied by his chef de cabinet, Mr Fortescue, this morning. Lord Cockfield said that he thought that he thought it had been an achievement for the Commission to put forward price proposals involving a reduction in prices in real terms. The Minister agreed, but thought that it was unfortunate that the Commission had proposed a price increase for milk and had not gone for a 5% price cut for cereals. We were clearly going to have difficulties in both these sectors. On cereals, the Germans were arguing against any price cut, while the French were seeking a co-responsibility levy; he thought that the introduction of such a levy would be a disaster and hoped that Lord Cockfield would oppose it strongly. On milk, the main point of concern was German opposition to the implementation of the agreed 1% cut in quota. So far as the UK was concerned, he was determined to retain the Beef Variable Premium. There were also difficulties for us in the proposals on sheepmeat, in particular that for a recovery bar. Overall, we were concerned at the cost of the proposals; as Lord Cockfield knew, we believed that guarantee expenditure in 1985 should not exceed 19.3 billion ecu.

Lord Cockfield said that he had argued against the proposals on cereals and milk prices. However, much was made in the Commission of the alleged link between agriculture and unemployment and the need to retain employment on the land - Delors frequently made this point. Another idea frequently put forward in the Commission was the need to differentiate between large and small farms, penalising the former while assisting the latter. He opposed these ideas, but usually found himself in a minority of one. The problem was that the Commission was composed of 13 socialists and him. Similarly, he had been alone in arguing that the Commission should respect the agreement on financial discipline, although Delors was now coming round to this.

The Minister agreed that any policy penalising larger farms should be opposed, since such a policy would discriminate against the UK, with its more advanced farm structure. An example here was the French idea of a ceiling on HLCAs, which was directly aimed at the UK. He went on to say that so far as structures were concerned, he was alarmed at the figures now being mentioned for IMPs. Lord Cockfield confirmed that the Commission had now agreed on 2 billion ecus.

Delors had been determined to secure as high a figure as possible. // Turning to enlargement, the Minister asked Lord Cockfield how he saw the negotiations developing. Lord Cockfield replied that this depended on how they had gone so far and accounts differed on this. What he had been told by Sir Michael Butler bore no relation whatsoever to the account given to the Commission by Natali and Delors. According to Natali, one more marathon session was all that was needed. Events had justified the Commission package; although problems remained on fish five member states supported the Commission and a few more concessions should bring about agreement on the basis of the Commission proposals. He added that in taking this line Natali was not, in his view, being naive; he was aiming to generate a mood of optimism in the Commission in order to maintain support for the current Commission line. In this he was helped by



the fact that most Commissioners were finding it difficult to discover what was going on in the Council.

The Minister emphasised the importance we attached to fisheries in these negotiations. Lord Cockfield said that he was fully aware of this.

Lord Cockfield said that he had taken a very firm line in the Commission on British Sherry, although, once again, he had been isolated. He hoped that the Government would not weaken on this point, as he would be placed in an embarrassing position if we now gave way. The Minister replied that he had now intention of giving way; indeed, were he to do so he too would be put in a difficult position.

On the question of Commission staff, the Minister said that he was very concerned at the low level of British representation in DG VI. At the moment we only had one A3, and we were doing badly at lower grades too. Experience had shown how important it was for a country to be adequately represented in the Commission Services and for Commissioners to push for their compatriots to be promoted. He hoped that Lord Cockfield would do his best here, both on the appointment of A3s - he reminded him that we had an excellent candidate for the vacant Beef Division post - and on promotions further down the ladder.

*ell*

C I LLEWELYN  
22 February 1985

Mr Andrews + 1

cc  
Private Offices  
Mr Mason  
Mrs Attridge  
Mr Griffiths  
Mr Holroyd  
Mr Melville  
Mr Packer  
Mr Haddon  
PS/Foreign Secretary  
PS/Chancellor of the Exchequer  
Mr Powell/No. 10  
Mr Williamson - Cabinet Office  
Mr Myers

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TELEGRAM NUMBER 146 OF 21 FEBRUARY

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FRENCH VIEWS ON CAP PRICES 1985/86

SUMMARY

1. SOME INDICATION OF THE FRENCH POSITION ON CAP PRICES AT NEXT WEEK'S AGRICULTURE COUNCIL. BUT THOROUGH INTER-DEPARTMENTAL DEBATE PROBABLY STILL TO COME, AND DIFFERENCES EVIDENT BETWEEN AGRICULTURE MINISTRY AND OTHERS.

DETAIL

2. CHEVAUCHEZ (ROCARD'S CABINET) SUGGESTED TWO GUIDING PRINCIPLES: A PRICE SETTLEMENT WHICH WOULD BE PERCEIVED BY PRODUCERS AS HAVING, UNLIKE LAST YEAR, SOME POSITIVE ELEMENTS; AND THE AVOIDANCE IN SECTORS SUCH AS MILK AND WINE OF DOUBLE CONSTRAINTS IN THE FORM OF BOTH PRODUCTION CONTROL AND A PRICE FREEZE. THE FIRST PRINCIPLE MEANT THAT THE FRENCH WERE PREPARED TO CONSIDER A REDUCTION IN THE CEREALS PRICE OF THE ORDER PROPOSED BY THE COMMISSION (BUT NOT GREATER) ON CONDITION THAT THIS WAS LINKED TO THE INTRODUCTION OF A CO-RESPONSIBILITY TAX ON CEREALS PRODUCERS TO FINANCE THE SEARCH FOR ALTERNATIVE OUTLETS, FOR INSTANCE ETHANOL. THIS WOULD BE A SIGN TO PRODUCERS OF A POSITIVE POLICY FOR THE FUTURE. FRENCH CEREALS PRODUCERS WERE READY TO ACCEPT SUCH A TAX. CHEVAUCHEZ ADDED THAT THE FRENCH DID NOT INTEND TO MAKE THE RUNNING ON CEREALS PRICES, BUT WOULD LEAVE THIS TO THE GERMANS AND THE BRITISH TO DEBATE.

3. ON MILK, THE FRENCH WOULD PRESS FOR AN INCREASE GREATER THAN THE 1.5 PERCENT PROPOSED BY THE COMMISSION. THIS LINE WAS CONFIRMED IN CONTACTS WITH THE TRESOR AND SGC1. THE FRENCH DID NOT INTEND TO CALL INTO QUESTION THE ARRANGEMENTS ALREADY AGREED FOR MILK QUOTAS FOR THE COMING YEAR, INCLUDING THE FURTHER 1 PERCENT CUT IN PRODUCTION, THOUGH THEY WERE OF COURSE ANXIOUS TO SEE THE INTRODUCTION OF THE PROPOSED REGIONAL QUOTA TRANSFERS AND IF POSSIBLE THEIR EXTENSION BEYOND THE FIRST YEAR. BUT A MODEST PRICE INCREASE HIGHER THAN THE COMMISSION'S PROPOSAL WOULD BE INDISPENSIBLE.

4. A SIMILAR LINE IS EMERGING ON WINE, AT LEAST ACCORDING TO THE THINKING OF THE AGRICULTURE MINISTRY. A MODEST PRICE INCREASE WOULD HELP TO MOLLIFY PRODUCERS IN ADVANCE OF ENLARGEMENT AND TO COMPENSATE FOR THE INTRODUCTION OF PRODUCTION CONTROLS. AN INCREASE OF THE ORDER OF 2 - 4 PERCENT WOULD NOT BE INCONSISTENT, IN CHEVAUCHEZ'S VIEW, WITH THE DUBLIN AGREEMENT WHICH PROVIDED FOR A RESTRICTIVE PRICE POLICY, BUT NOT NECESSARILY A PRICE FREEZE. HE ARGUED THAT A SMALL INCREASE IN WINE PRICES WOULD IN PRACTICE COST LITTLE TO THE EC BUDGET.

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5. THE FRENCH APPEAR READY TO ACCEPT A ZERO PRICE INCREASE ON OLIVE OIL, AND TO LEAVE THE RUNNING ON OTHER MEDITERRANEAN PRODUCTS TO THOSE WITH THE STRONGEST INTEREST. ON BEEF AND SHEEPMEAT, CHEVAUCHEZ SAID THE FRENCH WERE UNLIKELY TO BE PRESSING FOR PRICE INCREASES, PREFERRING TO LOOK TO CHANGES IN THE REGIMES THEMSELVES, IN PARTICULAR ON SHEEPMEAT, TO SATISFY FRENCH PRODUCERS' NEEDS.

6. CONTACTS WITH MME OBLENSKY (TRESOR) AND CONSTANS (SGCI) REVEALED A MORE FAVOURABLE RESPONSE TO THE COMMISSION'S PRICE PROPOSALS, EVEN A READINESS TO CONTEMPLATE A GREATER CUT IN CEREALS PRICES THAN MINUS 3.6 PERCENT. THE DIFFERENCE OF APPROACH WAS ALSO IN EVIDENCE IN DISCUSSION OF GREEN RATE CHANGES. CHEVAUCHEZ SAID THE FRENCH MIGHT WISH TO GO FURTHER THAN THE COMMISSION PROPOSAL AND SEEK ALSO THE ABOLITION OF THE 1.5 PERCENT MCA FRANCHISE, A STEP BEING DEMANDED BY FRENCH FARM ORGANISATIONS. CONSTANS SUGGESTED THAT THIS WAS NOT THE VIEW OF OTHER DEPARTMENTS.

7. DISCUSSING THE RELEVANCE OF THE FINANCIAL GUIDELINE TO THIS YEAR'S PRICE FIXING, CONSTANS ARGUED STRONGLY THAT IT WOULD MAKE A NONSENSE OF THE GUIDELINE IF THE PRICE FIXING DID NOT RESPECT IT. ALTHOUGH JURIDICALLY THE COMMUNITY WOULD NOT APPLY THE BUDGET DISCIPLINE TEXT IN FULL THIS YEAR, THE COMMUNITY WOULD CREATE TROUBLE FOR ITSELF NEXT YEAR IF IT WERE TEMPTED TO BE LAX ON PRICES ON THIS OCCASION. CHEVAUCHEZ, ON THE OTHER HAND, TOOK A LINE SIMILAR TO THAT TAKEN BY THE FRENCH DELEGATION IN AGRIFIN, ARGUING THAT THE GUIDELINES WOULD COME INTO QUESTION ONLY WHEN THE REFERENCE FRAMEWORK WAS SET.

8. THE EXPECTATION HERE IS THAT AT NEXT WEEK'S COUNCIL THE ITALIAN PRESIDENCY WILL HAVE ONLY A BRIEF TOUR DE TABLE ON CAP PRICES, RESERVING THE REST OF THE TIME FOR STRUCTURAL FUNDS AND WINE. BLANCHEMAISON (SGCI) HAS COMMENTED TO US THAT THE FRENCH VERY MUCH WANT TO SETTLE THE STRUCTURAL PACKAGE, EXCLUDING IMPS, AT NEXT WEEK'S COUNCIL SO AS TO AVOID IT BEING TIED IN WITH CAP PRICES, ENLARGEMENT, ETC IN A GLOBAL PACKAGE IN LATE MARCH.

9. FCO PLEASE PASS IMMEDIATE TO MRS ATTRIDGE AND PACKER (MAFF).

FCO PLEASE PASS SAVING ADDRESSEES

FRETWELL

FRAME AGRICULTURE  
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REPEATED AS REQUESTED

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cc KC (A)



DEPARTMENT OF TRADE AND INDUSTRY  
1-19 VICTORIA STREET  
LONDON SW1H 0ET 5422  
TELEPHONE DIRECT LINE 01-215  
SWITCHBOARD 01-215 7877

Secretary of State for Trade and Industry

16 February 1985

The Rt Hon Michael Jopling MP  
Minister for Agriculture, Fisheries  
and Food  
Whitehall Place  
London SW1

Prime Minister  
CDD  
19/2

mf

R. Michael,

CAP

Nigel Lawson sent me a copy of his letter to you of 6 February. I entirely agree with him that we must press for the greatest possible restraint in the coming Price Fixing.

2 However, this can at best do no more than contain the problem and alleviate its symptoms. The Common Agricultural Policy remains an inefficient way of ensuring stability in the agricultural sector: its costs are huge (and seem at times to be virtually uncontrollable); it maintains food prices in the EC far above world levels; and it requires the disposal of surplus produce to third countries at knock-down prices which disturb the stability of world markets and which therefore increase tensions with major trading partners such as the US. Like Nigel, I am sure that radical reforms are essential. If, as expected, the Commission launches a long-term review of the CAP we must put as forcibly as we can the case for changes of the kind Nigel mentions. These will indeed be difficult to negotiate, but our aim must be to persuade our Community partners that early reform will be better for all concerned than eventual collapse.

3 I am copying this to the Prime Minister and other Cabinet colleagues and to Sir Robert Armstrong.

NORMAN TEBBIT

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MEETING WITH THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND THE ITALIAN MINISTER OF AGRICULTURE: 14 FEBRUARY 1985

Present

The Minister	Signor Pandolfi
Minister of State (Commons)	Signor Pricolo
Sir Michael Franklin	Signor Di Pace
Mr Andrews	Signor Quarandotto
Mrs Attridge	Signor Zezza (Italian Embassy)
Mr Llewelyn	Signor Fricchione (Council-Secretariat)
	Mr Trojan (Chef de cabinet Andriessen)

Signor Pandolfi thanked the Minister for agreeing to see him; as the Minister was aware, he was making this visit in his capacity of Chairman of the Agriculture Council. At the Council on 25/26 February, he expected to concentrate on agricultural structures, wine and amendments to the supplementary levy scheme. He would also hold a first table-round on the price proposals. These were the issues he wished to discuss with the Minister.

Agricultural Structures

Signor Pandolfi said that the Commission was preparing a new compromise on the financial aspects of agricultural structures and of IMPs. This would bring FEOGA Guidance expenditure and expenditure on IMPs together in a single financial framework. The new package had not yet been finalised by the Commission, but would be likely to have the following elements:

- (a) Additional expenditure in the Mediterranean, primarily in Greece, (ie IMPs) of some 1.3 to 1.5 billion ecu;
- (b) Guidance section expenditure of 5.997 billion ecu (ie the figure currently on the table), but with a different balance of expenditure to give more to the Mediterranean and less to the North.

This would give a total figure of 7.5 billion ecu for structural expenditure over 5 years. The package would also include transfers within the Social and Regional Funds from the North to the Mediterranean (worth some 100-150 MECU a year), and loans at subsidised interest rates to the Mediterranean countries under the Ortolini facility. He hoped that the Commission would adopt a package on these lines next week, and that at the next Agriculture Council it would be possible to reach agreement on the technical aspects of the existing structures proposals, with a general reserve on the financial aspects. The whole package would go to ECOFIN, which was meeting on the same date as the Agriculture Council on

11/12 March, for final agreement. Following this procedure, he thought that it should be possible for the Agriculture Council to resolve the two main areas of disagreement in the efficiency regulation, aids for the pig and dairy sectors. He foresaw no difficulty in reaching agreement on the UK's conservation initiative, and was confident that the Commission would propose an article in the Regulation. This would be the first stage of the two step approach he had discussed with the Minister in Rome. He added that a number of other countries, including France, were now interested in a provision on the environment (at the end of the meeting Mr Trojan handed over the text of a possible draft Article, emphasising that it had not yet been cleared by Mr Andriessen or the Commission; this is annexed). Signor Pandolfi concluded by saying that the new package, and his timetable for dealing with it, were ambitious, and would entail a considerable sacrifice for Italy. Much would depend on the attitude adopted by Greece, but he hoped that he could convince them that it was in their interest to settle this issue rapidly rather than take it to the next European Council.

Mr Trojan then explained the Commission's thinking in more detail. So far as the existing structural proposals were concerned, they did not propose to alter the current compromises on the efficiency regulation or the wine structural measures. They hoped, however, to find additional transfers to the Mediterranean from the 1.44 billion ecu for marketing and processing and the 700 million ecu for new regional measures; from these it should be possible to find an additional 800 million ecu for the Mediterranean. The additional 1.5 billion ecu for IMPs would include both agricultural and non-agricultural expenditure. The agricultural element would constitute about two thirds of the total.

The Minister said that the new figures suggested would create very great problems in ECOFIN. We continued to take the view that total expenditure under the Guidance Section should be set at a maximum of 5.5 billion ecu, including IMPs. We would, of course, consider any new proposals that came forward, but he was not at all optimistic that figures of the magnitude suggested would provide a basis for agreement.

Signor Pandolfi then asked whether the UK would insist on a ceiling for guidance expenditure, or could accept another formula, such as that of a montant estimé nécessaire. Sir Michael Franklin replied that we continued to want a ceiling, so that any other formula would not make an overall agreement easier to reach.

#### Wine

Signor Pandolfi said that at the next Council he hoped that it would be possible to reach agreement on the technical changes needed to the wine regulations to implement the Dublin Declaration. There were still difficulties over compulsory distillation, but this was primarily a Franco/Italian issue. However he was prepared to accept penal sanctions to ensure that this was effective. Despite this, enforcement would not be easy, and a comprehensive vineyard register, with a small element of Community financing, would be an essential element of any agreement for Italy. Both France and Italy also needed to balance agreement on compulsory distillation by the introduction of structural measures. Final agreement on the structural measures was, however, linked to all the other structures

'be

proposals, and so could only be agreed finally at ECOFIN, although a number of technical problems, such as the rate of FEOGA contribution and restrictions on replanting, could be resolved at the next Agriculture Council. He hoped, therefore, to reach agreement in principle, on 25/27 February, subject to a financial reserve on the structural measures; this could then be lifted at ECOFIN on 11/12 March. It was thus clear that agreement on structures by ECOFIN would unblock the wine package; equally, a continuing impasse on structures would prevent the implementation of the Dublin agreement on wine.

The Minister asked Signor Pandolfi whether he had made progress in his discussions with M. Rocard. Signor Pandolfi, taking this to refer to Italy's bilateral relations with France, said that they had been trying to improve the climate between the two countries, and were thinking of organising a joint meeting of wine producers. Both Italy and France faced similar problems in implementing compulsory distillation; it would be relatively easy for the 60% of production (in Italy) that came from co-operatives and large-scale producers, but it would be very difficult so far as small producers were concerned. M. Rocard had made it clear that a real effort by Italy to improve their controls, by means of penal sanctions and the introduction of a vineyard register, would improve the climate of opinion in France considerably. It was now suggested that the register should be a joint venture between France and Italy, and M. Rocard had offered the use of a new French satellite to speed up its introduction. M. Rocard had also suggested that Italy should introduce nationally financed grubbing-up premiums, in advance of the adoption of Community measures.

The Minister commented that he was disturbed by Signor Pandolfi's statement that compulsory distillation would be difficult to control. We would find it difficult to accept expenditure on structural measures if these were not balanced by properly enforced compulsory distillation. Politically, failures by other member states to observe Community rules could cause major difficulties in the UK. Sir Michael Franklin added that, on prices, we interpreted the Dublin declaration as requiring a price freeze for as long as compulsory distillation was necessary. This was an important signal to producers. Signor Pandolfi took the point, but observed that compulsory distillation could last a very considerable time, and in the long term a price freeze would create difficulties.

#### Milk Quotas

Signor Pandolfi said that two types of change to the present regulations were currently being considered: the five amendments proposed by the Commission to deal with anomalies in the first year of the system and permanent modifications to the regime. Among the latter was the demand by Ireland for an increase of 58,000 tonnes in their basic reference quantity; Mr Deasy had made it clear that this was a major priority for him, and it was possible that he would block any package, perhaps by invoking the Luxembourg compromise, unless this demand was met. In addition, M. Rocard would be pressing for two permanent changes; annual payments of levy and a permanent system to transfer spare quota between regions. He added that the Commission was strongly opposed to the latter request.



The Minister replied that the Irish demands were intolerable; the amount Ireland had already obtained had caused us severe political problems, and there was no way we could accept even more. Sir Michael Franklin added that the changes being sought fell into separate categories. We should seek to deal with the temporary amendments for the current year as soon as possible, then turn subsequently to permanent changes. It would be wrong to include some of the permanent changes in any short term package. Signor Pandolfi agreed; he would be aiming for agreement on the immediate changes required at the next Council, and on a package of longer term changes in the price fixing. So far as the latter were concerned, there seemed to be two basic choices. Either the Community could insist on individual quotas, which, for statistical reasons, meant that milk production would be likely to be below reference quantities, or it could acknowledge that the present system entailed major administrative difficulties for some countries and move towards a system allowing free transfer of spare quota, which would enable production to be maintained at reference quantity levels. France, Italy, Denmark, Greece and Ireland were in favour of the second option.

The Minister said that the second option meant the introduction of national quotas; this had been rejected by the Council in the earlier negotiations. We would need to consider the implications of this idea. Mr Trojan said that it was most unlikely that the Commission would be prepared to make proposals for a system of national quotas, and if the Council went down this route the Commission would probably withdraw its existing proposals.

The Minister of State (Commons) pointed out that if longer term changes to the regime were being considered in the price-fixing, we would want the question of transferability of quota to be included. The Minister commented that there would be advantages in not complicating the price fixing negotiations with discussions on changes in the quota system.

#### Price Proposals

The Minister said that we were generally pleased with the Commission's proposals, which we felt were prudent and maintained the progress made last year. In some respects, indeed, we felt that they were not restrictive enough. In particular, we believed that cereals prices should be reduced by the full 5% required by the guarantee threshold system and that there should be a price freeze for milk. We could accept the freeze proposed in the meat sector; our principle complaint there was the absence of any proposal to continue the Beef Variable Premium. On sheep, we would oppose anything which led to discrimination between UK producers and those in other member states and were seeking changes in the seasonal scale. We supported the Commission's approach on Mediterranean products; in view of the marked increase in expenditure on these over recent years, further increases were not justified.

Returning to milk, the Minister said that any increase in producers' returns should come from a reduction in the co-responsibility levy rather than an increase in prices. Mr Andrews added that we believed it important to maintain the key decisions reached on the

quota system last year; this meant reducing both the total reference quantity and the co-responsibility levy by 1% and maintaining the Community reserve unchanged; on the latter, it was clear that if this question was re-opened, most member states, including the UK, would put in claims. Mr Trojan observed that small producers in less favoured regions would not benefit from a reduction in the co-responsibility levy, whereas they would gain from an increase in price.

Signor Pandolfi said that it was clear that Germany would cause major difficulties in the coming negotiations; they wished to avoid any reductions in price and to put off the 1% reduction in quota agreed last year. On cereals, M. Rocard had told him that he could only accept a reduction in price of 3.6% if 1% of this was by means of a co-responsibility levy; the proceeds of this would be used to fund research into and promotion of the use of cereals for the production of starch and ethanol. France was thus seeking a price reduction of 2.6% and the introduction of a 1% co-responsibility levy. The Minister replied that we would have the strongest objections to any co-responsibility levy in this sector. So far as the use of cereals for the production of ethanol was concerned, we had looked into this and our preliminary conclusion was that it was not economic.

Signor Pandolfi asked whether the UK would be seeking a devaluation in the green pound. The Minister replied that the situation on the currency market was volatile; we wished to await further developments before reaching any decisions on this point.

Finally, the Minister said that the UK attached great importance to the financial guideline. Were the Commission intending to produce the appropriate figures? Any indication that the guideline was not being observed would make it more difficult to secure Parliamentary approval for the increase in Own Resources.

Mr Trojan replied that the Commission had produced estimates of the cost of their proposals. They did not yet have an agreed budget for 1985, nor had the increase in Own Resources been ratified, so that they were not formally in a position to carry out the financial guideline calculation. However, even on the most pessimistic assumptions the increase in expenditure would be well below the limit set by the guideline. He added that if the Commission did produce the figure in the form the UK was seeking, these would show how much room for manoeuvre there was below the guideline and make clear to other member states the scope for additional expenditure.

CH

C I LLEWELYN  
15 February 1985

Private Offices  
Deputy Secretaries  
Commodity Under-Secretaries  
Mr Peart  
Mr Wilson  
Mrs Attridge  
Commodity Assistant-Secretaries  
Mr Madden  
Mr Packer  
PS/Foreign Secretary  
PS/Chancellor of the Exchequer  
PS/S of S for Wales  
PS/S of S for Scotland  
PS/S of S for Northern Ireland  
Mr Powell (No.10)  
Mr Williamson (Cabinet Office)  
Sir Michael Butler (UKREP)  
Mr Anderson (UKREP)  
Mr Evans (Embassy, Rome)

ANNEX II

draft

(not seen by Mr. Andriessen and legal Service)

Article

Member States are authorised to introduce special systems of national aids in environmentally sensitive areas in order to maintain or improve the environment of such areas.

In the meaning of this Article environmentally sensitive areas are areas classified in national or international lists and mainly important for reasons of wildlife, existence of rare plants and plant compositions or landscape.

The <sup>special system</sup> ~~environmentally sensitive areas~~ shall be limited to <sup>areas not exceeding</sup> 2 % of the territory of any Member State.

The payments may be made to farmers committing themselves for at least 3 years on the basis of a management contract to manage the environmentally important areas in order to maintain or improve their environment. The management contract shall include as conditions at least that there is no further intensification of agricultural production and that the stocking rate and the use of agro-chemicals are compatible with the environmental needs of the particular site concerned.

The payments are to be restricted to the real net loss of income or of development potential.

Member States shall submit the draft of all such schemes to the Commission together with the list of areas to benefit under the system as well as at the request of the Commission all information necessary for their justification.

The Commission shall decide on the approval of the whole system of aid planned including the application areas within 3 months following its notification according to the procedure provided under Article 25. The provisions of Article 29 apply to the special systems of this Article.

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TO IMMEDIATE FCO  
TELEGRAM NUMBER 116 OF 11 FEBRUARY  
INFO IMMEDIATE UKREP BRUSSELS, ROME

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GERMAN POLICY ON EUROPE: NEW OWN RESOURCES AND AGRICULTURAL PRICES

1. AT A MEETING OF COMMUNITY HEADS OF MISSION TODAY, RUHFUS ASKED THOSE PRESENT TO REPORT THAT THE PARTIES IN THE BUNDESTAG (SPD AS WELL AS COALITION) INTERPRETED FONTAINEBLEAU AS MEANING THAT NEW OWN RESOURCES COULD COME INTO EFFECT ONLY ON 1 JANUARY 1986. THIS REMAINED THE POSITION OF THE FEDERAL GOVERNMENT. THIS YEAR'S FINANCIAL SHORTFALL COULD BE DEALT WITH BY A SECOND INTERGOVERNMENTAL AGREEMENT. COMPENSATION FOR BRITAIN COULD BE PAID BY GOVERNMENTS TO THE COMMISSION FOR PASSING ON TO UK. THIS WAS SUPPLEMENTED IN A SEPARATE CONVERSATION BY THIELE (FEDERAL CHANCELLERY). HE SAID THAT FEDERAL MINISTERS HAD DEVOTED CONSIDERABLE TIME AT THEIR MEETING ON EUROPEAN POLICY ON 7 FEB TO THE LINK BETWEEN NEW OWN RESOURCES AND ENLARGEMENT AND THE PROBLEMS OF THE 1985 BUDGET AND OF BRITAIN'S ABATEMENT. THEY HAD DECIDED TO MAINTAIN THE LINK BETWEEN NEW OWN RESOURCES AND ENLARGEMENT. AS FOR THE 1985 BUDGET AND THE BRITISH ABATEMENT, THEY HAD CONCLUDED THAT THE LATEST BRITISH PROPOSAL (YOUR TELEGRAMS NOS 51 AND 52) SUFFERED FROM A NUMBER OF UNCERTAINTIES AND WAS BOUND TO RUN INTO DIFFICULTIES WITH THE EUROPEAN PARLIAMENT. THEY REGARDED A SECOND INTERGOVERNMENTAL AGREEMENT AS THE ONLY PROMPT AND PRACTICABLE WAY OF DEALING WITH THE PROBLEMS OF THE 1985 BUDGET AND OUR ABATEMENT. THE GERMANS STOOD BY FONTAINEBLEAU AND WERE READY TO SEE THE PROBLEM OF OUR ABATEMENT SETTLED TOMORROW.

PRICE FIXING

2. RUHFUS SAID THAT THE FEDERAL GOVERNMENT WAS HAVING TO FACE UP TO THE TENSION BETWEEN ITS INTEREST IN FINANCIAL DISCIPLINE IN THE COMMUNITY ON THE ONE HAND AND THE PLIGHT OF GERMAN FARMERS ON THE OTHER. GERMAN FARMERS HAD DONE BADLY IN RECENT YEARS AND IT WOULD BE EXTREMELY DIFFICULT TO ASK THEM TO ACCEPT ANY CUTS IN INCOME. RUHFUS WAS NONCOMMITTAL ABOUT A 'ZERO SOLUTION' IN THE PRICE FIXING. SEPARATELY, THIELE TOLD US THAT FEDERAL MINISTERS HAD HAD A FULL DISCUSSION ON THIS ISSUE ON 7 FEB BUT HAD COME TO NO

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/CONCLUSIONS

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CONCLUSIONS: FURTHER DISCUSSION WOULD BE NEEDED IN THE LIGHT OF DEVELOPMENTS IN BRUSSELS. MEANWHILE, THE GERMANS WERE VERY CONSCIOUS OF THE IMPLICATIONS FOR THE COMMUNITY OF MEETING THE DEMANDS OF THE GERMAN FARMERS.

FCO PLEASE ADVANCE TO: NO 10

CABINET OFFICE: WILLIAMS, STAPLETON, LAMBERT

HM TREASURY: FITCHEW

FCO: PS, BRAITHWAITE, RENWICK, FAIRWEATHER,  
WALL, SHEPHERD

MALLABY

(ADVANCED AS REQUESTED)

FRAME GENERAL

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



From the Minister

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury  
Parliament Street  
London SW1P 3AG

NBM  
AT 20 rel  
CM 2/1/2

11 February 1985

1985 CAP PRICE FIXING

I refer to your letter of 6 February.

Officials are due to consider our line at this year's price fixing on 13 February on the basis of a paper from my Department. We can consider any outstanding points thereafter at the meeting of OD(E) which has already been arranged for 19 February, ie well before the meeting of the Agricultural Council on 25/26 February.

I agree with many of the points you make, but I have no wish to anticipate the debate in OD(E), since I am sure it is best to consider matters properly on the basis of a presentation of all the facts rather than to adopt a piecemeal approach. I would merely comment at this stage that the national interest in the price fixing has many facets, including not only financial aspects, important though they are, but also, for example, the interests of consumers and producers and other less tangible but real considerations such as the effect of our line on our overall position in the Community. We will need to agree a policy which balances all relevant factors.

I am copying this letter, as you did yours, to the Prime Ministers, to other members of the Cabinet and to Sir Robert Armstrong.

MICHAEL JOPLING



Guano Pol: CAP: Pt 13

11 FEB 1965

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

6 February 1985

The Rt. Hon. Michael Jopling MP  
Minister of Agriculture, Fisheries and Food

*John Michael*

*ms*

**CAP**

I have been giving some thought to our objectives for forthcoming negotiations on the CAP following the progress made last year on the Fontainebleau rebate system and the agreement on EC budget discipline. I have been particularly disturbed by the signs that Community Agriculture Ministers, not least the German, will be seeking price increases that make no economic or budgetary sense. It is clearly going to be a major struggle to contain costs over the coming year.

Our principal objective in all future negotiations must continue to be to minimise the very considerable resource costs of the CAP to the UK. Provided we can put the arrangements satisfactorily in place, the Fontainebleau agreement will moderate our net budgetary contribution to CAP expenditure in other Member States and the budget discipline agreement should (if strictly implemented) gradually - but only gradually - reduce the share of Community spending devoted to agriculture. But budget discipline will not work unless the Commission and the Agriculture Council take stringent decisions on price levels and to limit the open-ended nature of many CAP support regimes which they have not so far shown many signs of being willing to do.

Ideally, the chronic and increasing surpluses, in most of the major agricultural commodities which the Community now produces, should be tackled by radical reforms. Options might include:

- (i) drastic cuts in real prices levels to eliminate surpluses. (In 1981 it was calculated that real cuts of the order of 25-33 per cent might be required to achieve this);
- (ii) a move to generalised deficiency payments instead of reliance of intervention (but target prices would have to be substantially lower than current levels to make this cheaper than the present system);
- (iii) nationally financial<sup>ed</sup> income aids to support smaller producers for social policy reasons.

I hope that such radical changes could be considered in any long term review of the CAP which may be set up after this year's price fixing. You will wish to consider this in relation to the proposal in your letter of 7 January, which we shall need to consider collectively before anything is set in train. But I fear that none of these options is remotely negotiable in the short term.

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*Prime Minister*

*CDP 7/1*



Against that background, I am sure that we should concentrate our effort on the more limited objectives which we set ourselves before Christmas for the 1985-86 price fixing, building on the progress made last year: viz.

- (i) strict adherence to the financial guideline;
- (ii) continued price restraint (including a zero norm increase for all products in surplus);
- (iii) strict application of existing guarantee thresholds (including the retention of the milk quota regime and the full 5 per cent cut in cereals prices) and, where appropriate, the introduction of new ones;
- (iv) parity of treatment between northern and Mediterranean products.

I recognise that the proposals which the Commission have just adopted are relatively stringent compared with previous exercises but they still contain some serious weaknesses from our point of view. I am particularly concerned by the suggestion that agricultural expenditure in 1985 will now substantially exceed the 19.3 billion ecus implicitly accepted as unavoidable in last year's budget negotiations. Unless we can correct this, our task of obtaining Parliamentary approval for supplementary finance in 1985 will be even more difficult than is already likely to be the case. The proposals on milk and cereals are not as stringent as we would have wished and show no signs of dealing with the fundamental problem of the substantial surpluses in both sectors. Finally, although the Commission insist that the proposals will keep expenditure within the guideline, they have not demonstrated this in accordance with the terms of the budgetary discipline agreement and we shall need to probe this further.

No doubt you will soon be circulating a fuller analysis of the Commission's proposals. I hope that we can agree that we need to have an early Ministerial discussion of how best to advance our agreed objectives before the next meeting of the Agriculture Council on 24 February. In my letter of 7 December I have already suggested that officials should prepare papers on the beef premium scheme and on the practicalities of further quantitative restrictions (in case, as seems likely, we are unable to persuade other member states to agree to a sufficiently stringent prices policy). I trust that work on these aspects can now be expedited so that we can have an informed discussion of the main issues very soon. In my view, our overriding objective must remain the need to demonstrate that the budget discipline agreement we strove so hard to secure can be made to work in the agricultural sector. Our position on individual issues which may arise in the negotiations must at all times be seen to be consistent with this objective. This means that it cannot be right this year to pursue specific UK farming interests such as the retention of the beef premium scheme and reductions in our negative MCA, if this would undermine any chance of a satisfactory overall settlement.

I am sending copies of this letter to the Prime Minister and other Cabinet colleagues and to Sir Robert Armstrong.

NIGEL LAWSON

7 FEB 1965

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From the Minister

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

The Rt Hon Nigel Lawson MP  
Chancellor of the Exchequer  
Treasury Chambers  
Parliament Street  
London SW1P 3AG

1) AT  
2) NBPM  
CDP/92.

6 February 1985

Dear Chancellor

REVIEW OF THE CAP

Thank you for your letter of 16 January on this subject.

In the price proposals which they have now published, the Commission have said that they intend "to provoke a debate before the middle of 1985 in the context of the Community bodies and with the professional organisations concerned in order to define the future prospects for European Agriculture." They see this as the means of arriving at a clearer definition of the framework and instruments for the future. I have to say that this is not the sort of independent review which I have had in mind. I fear that it may be too much influenced by established Commission thinking. But we may have missed our chance of securing a Council initiative for an independent review. We need now to consider how to react to the Commission's proposal. I understand that Mr Andriessen may well launch this at the Agriculture Council in February.

I agree that there is a need for inter-departmental discussion before then. My officials will be putting a paper round setting out our thinking.

I am sending copies of this letter to the Prime Minister, the Foreign and Commonwealth Secretary, the Secretaries of State for Scotland, Wales and Northern Ireland, the Lord President, the Lord Privy Seal, the Chief Whip and Sir Robert Armstrong.

Yours Sincerely  
C. Henderson

for MICHAEL JOPLING  
(approved by the Minister  
and signed in his absence)

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TELEGRAM NUMBER 90 OF 1 FEBRUARY

INFO ROUTINE UKREP BRUSSELS

1985 CAP PRICE FIXING: GERMAN REACTION TO COMMISSION PROPOSALS

SUMMARY

1. THE GOVERNMENT AND MAIN OPPOSITION PARTIES AS WELL AS FARMERS' LEADERS HAVE REACTED STRONGLY AGAINST THE COMMISSION PROPOSALS. THE CONSUMERS' AND WHOLESALERS' ORGANISATIONS TAKE THE OPPOSITE VIEW. A NUMBER OF NEWSPAPER ARTICLES DRAW ATTENTION TO THE CONTRADICTION BETWEEN GERMAN POSITIONS ON THE EC BUDGET AND AGRICULTURAL PRICES.

DETAIL

2. KIECHLE HAS DISMISSED THE COMMISSION'S PROPOSALS FOR 1985/86 AGRICULTURAL PRICES AS UNACCEPTABLE AND AS ASKING TOO MUCH OF THE FARMERS. HIS SHARPEST CRITICISM HAS BEEN LEVELLED AT THE PROPOSED REDUCTION IN CEREALS PRICES AND AT THE FURTHER MOVE TO ABOLISH MCAS. BACKING FOR HIS STANCE HAS COME FROM THE AGRICULTURE SPOKESMAN OF THE CDU/CSU PARLIAMENTARY PARTY, EGON SUSSET, WHO SAID THAT THE PROPOSALS EXCEEDED HIS WORST FEARS AND WERE UNJUSTIFIABLE EVEN TAKING ACCOUNT OF THE BUDGETARY POSITION AND THE NEED TO DEAL WITH SURPLUSES. SPD AGRICULTURE SPOKESMAN MARTIN SCHMIDT TALKED OF A COLD SHOWER FOR GERMAN AGRICULTURE. THE FARMERS' UNION, WHICH HAD PREVIOUSLY CALLED FOR ALL-ROUND PRICE INCREASES OF 5 PER CENT, CHARACTERISED THE PROPOSALS AS A MIXTURE OF PROVOCATION AND CHICANERY.

3. BOTH THE CONSUMERS' ASSOCIATION AND THE WHOLESALERS' AND EXPORTERS' ASSOCIATION WELCOMED THE PROPOSALS AS A MODEST ALTHOUGH INADEQUATE STEP IN THE RIGHT DIRECTION, A HESITANT ATTEMPT TO TAKE GREATER ACCOUNT OF MARKET REALITIES.

4. UNDER THE HEADING QUOTE FORKED TONGUE UNQUOTE THE STUTTGARTER ZEITUNG ARGUES THAT ON THE ONE HAND IT IS THE GERMANS WHO ARE THE MOST VOCAL IN DEMANDING BUDGETARY DISCIPLINE WHILE ON THE OTHER THE GERMAN AGRICULTURE MINISTER LEADS THE FIGHT AGAINST THE MEASURES NECESSARY TO BRING SPENDING UNDER CONTROL. AS A RESULT THE GERMAN POSITION IN THE COMMUNITY LACKS ALL CREDIBILITY. THE SAME POINT IS MADE IN AN ARTICLE IN DIE WELT WHICH SEES THE REAL BATTLE AT THIS YEAR'S PRICE FIXING AS BETWEEN AGRICULTURE AND FINANCE MINISTERS. THE BONN GOVERNMENT IT SAYS MUST CHOOSE: IT CANNOT EXPECT BOTH TO REDUCE AGRICULTURAL SPENDING AND TO LEAVE ITS FARMERS UNSCATHED.

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CAP.





A Message from  
DAVID WILLIAMSON

0/10  
MR POWELL

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EUROPEAN COMMUNITY: COMMISSION'S  
AGRICULTURAL PRICE PROPOSALS

We have now received the actual proposals which differ in one or two minor respects from the information reported by UKREP Brussels. For good order my earlier minute should be replaced by the attached.

1 February 1985

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D. Williamson  
1/2/85

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MR POWELL

EUROPEAN COMMUNITY: THE COMMISSION'S AGRICULTURAL PRICE PROPOSALS FOR 1985/86

The Commission has now decided on its agricultural price proposals for 1985/86. In general, they follow the rigorous line recommended by the new Agriculture Commissioner, Mr Andriessen. The main proposals, after taking account of guarantee thresholds, are:-

(i) cereals

intervention price for wheat and barley -3.6%

intervention price and production aid for durum wheat 0

for bread-making wheat no intervention for minimum quality and very limited intervention for average quality (a reduction in support)  
guarantee threshold set at 126 million tonnes (including the durum wheat)

(ii) milk and milk products

intervention price for butter	-4%	) This is a revision of the support price ratio between butter and skim milk powder intended to make butter more saleable in the market. The estimated effect on the target price for milk is +1.5%
intervention price for skim milk powder	+6.8%)	

guarantee threshold set at new lower level of 98.152 million tonnes, as agreed earlier

ending of the butter consumer subsidy

/(iii)

(iii) meat

intervention price for beef	0
basic price for pigmeat	0
basic price for sheepmeat	0 in 1985
(UK biggest producer of sheepmeat in Community)	+2% in 1986
abolition of calf subsidy (Italy most affected)	
no extension of the beef variable premium scheme in the United Kingdom	

(iv) fruit and vegetables

support price changes varying from	+1 to -6%
4.7 million tonne limit on tomatoes for processing and aid reduced (guarantee threshold)	
(v) sugar beet target price	0
(vi) olive oil intervention price	0
(vii) wine guide price	0
(viii) tobacco support changes	0 to -5%

The Commission estimates that the extra cost in 1985 will be 138 million ecu and in 1986 costs will fall by 34 million ecu. These figures are on a conventional basis and do not mean much. It is clear that this would be a rigorous price package and there would be a reasonable chance of getting costs down. The effect on consumer prices is estimated at about nil.

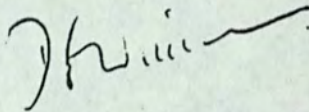
There are some areas where we shall be trying to make this package tougher (eg a price freeze for milk) but the main task now should be to make sure that the Council does not relax the package in any significant respect. If the

/Commission

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Commission sticks to its guns, changes can only be made in the Council by unanimity.

I am sending a copy to Sir Robert Armstrong.



D F WILLIAMSON

31 January 1985

Introductory paper to be delivered by Mr. Maurice Foley, Deputy  
Director General of the Directorate General for Development,  
Commission of the European Communities

at the International Forum on Agricultural policy organised in  
the framework of the "Grüne Woche" - Berlin, 31 January 1985.

\*\*\*\*\*

CHAIRMAN,

HONORABLE MINISTER(S)

LADIES AND GENTLEMEN,

I AM VERY HONOURED TO BE ABLE TO TAKE THE FLOOR ON BEHALF OF THE EUROPEAN COMMUNITY BEFORE THIS AUGUST ASSEMBLY DURING THIS VERY IMPORTANT EVENT THAT CONSTITUTES THE "GRÜNE WOCHE".

I KNOW THAT COMMISSIONER PISANI ATTACHED GREAT IMPORTANCE TO THE OPPORTUNITY YOU OFFERED HIM BY INVITING HIM TO PRESENT A GENERAL INTRODUCTION TO THE THEME "EUROPEAN AGRICULTURE -PARTNER OR COMPETITOR ON THE WORLD MARKET". HAVING BEEN MINISTER OF AGRICULTURE IN HIS OWN COUNTRY AS WELL AS COMMISSIONER FOR DEVELOPMENT IN THE EUROPEAN COMMUNITY, HE WOULD HAVE BEEN THE IDEAL PERSON TO SHARE SOME THOUGHTS WITH YOU ON THIS TOPIC AND PRESENT YOU WITH SOME STIMULATING IDEAS AND INSIGHT. AS YOU ALL KNOW, M. PISANI IS AT THE MOMENT OTHERWISE ENGAGED, DEALING WITH WHAT IS CERTAINLY ONE OF THE MOST CHALLENGING TESTS OF HIS CAREER.

ON TAKING LEAVE OF BRUSSELS, HE ASKED THAT THE PERSON WHO WOULD REPLACE HIM ON THIS FORUM EXPRESS HIS SINCERE REGRETS FOR NOT BEING ABLE TO BE WITH YOU IN BERLIN TODAY. HE ALSO INSISTED THAT - IN ORDER TO BE TRUE TO THE INTENTIONS OF THE ORGANISERS - SOMEBODY WITH A BACKGROUND IN DEVELOPMENT AND NORTH-SOUTH RELATIONS RATHER THAN AN AGRICULTURAL SPECIALIST TAKE HIS PLACE.

CHAIRMAN,.....

CHAIRMAN, I BELIEVE I CAN BEST MAKE A CONTRIBUTION TO YOUR CONFERENCE THIS MORNING - AND DO JUSTICE TO THE VITAL IMPORTANCE OF YOUR SUBJECT FOR THE THIRD WORLD - BY SETTING AGRICULTURE, AND THE LESSONS WE HAVE LEARNT IN EUROPE, WITHIN THE WIDER CONTEXT OF THE BROAD EFFORT BEING MADE BY THE EUROPEAN COMMUNITY TO HELP ACHIEVE FOOD SECURITY IN THE DEVELOPING WORLD.

THE COLLAPSE OF AGRICULTURE IN PARTS OF AFRICA IS A SALUTORY REMINDER TO US WHEN WE CONSIDER THE POSITION OF AGRICULTURE IN EUROPE, FOR IT IS MERELY THE REVERSE SIDE OF THE SAME COIN. EUROPEAN AGRICULTURE MAY BE SUFFERING FROM OVER-SECURITY; THE CRISIS OF FOOD PRODUCTION IN THE THIRD WORLD IS THE RESULT OF CHRONIC INSECURITY. IN A SPEECH TO THE FAO CONFERENCE IN NOVEMBER 1983, EDGARD PISANI REMINDED US THAT IT IS BECAUSE OF THE SECURITY OFFERED TO EUROPEAN PRODUCERS BY THE COMMON AGRICULTURAL POLICY THAT EUROPE HAS TURNED FROM FOOD DEFICIT TO FOOD SURPLUS. IT IS BECAUSE OF SECURITY IN MULTIFARIOUS FORMS - INTENSIVE RESEARCH, COMMERCIAL CONTRACTS, AID PROGRAMMES - THAT AMERICAN AGRICULTURE HAS BECOME WHAT IT IS. AND IT IS BECAUSE OF THE SECURITY OFFERED BY THE EUROPEAN MARKET THAT THAILAND HAS DEVELOPED ITS CASSAVA PRODUCTION TO THE EXTENT IT HAS. THE OTHER SIDE OF THE COIN - THE COLLAPSE OF FOOD PRODUCTION RESULTING FROM INSECURITY, WHETHER MAN-MADE OR CLIMATIC, OR AS IN ETHIOPIA FROM A COMBINATION OF THE TWO, IS VERY MUCH IN THE CENTRE OF THE ATTENTION OF PUBLIC OPINION IN OUR COUNTRIES. THE MEDIA SEND OUT A CONTINUOUS FLOW OF INFORMATION ON FOOD PROBLEMS,

OF AFRICA,

OF AFRICA IN PARTICULAR, TOWARDS THE EUROPEAN PUBLIC. IN OUR OWN LIVING ROOM WE ARE ALL OF US CONFRONTED EACH DAY WITH THE DRAMATIC RAVAGES OF HUNGER AND MALNUTRITION: WITH IMAGES OF STARVING CHILDREN IN THE SAHELIAN REGION AND IN ETHIOPIA. THE MIND IS DAZED BY THE SHEER SIZE OF THE PROBLEM AND WE ARE APPALLED BY THE DEPTH OF THE HUMAN TRAGEDY TAKING PLACE BEFORE OUR VERY EYES. EVERYONE OF US WHOSE HUMAN EMOTIONS ARE NOT COMPLETELY STUNTED FEELS A SENSE OF REVOLT AGAINST OUR INCAPACITY TO FIND QUICK AND ADEQUATE SOLUTIONS TO THE PROBLEM. THIS SENSE OF REVOLT AND INDIGNATION IS ALL THE MORE ACUTE AS THE PRESENT AFRICAN FOOD CRISIS IS TAKING PLACE AGAINST THE BACKGROUND OF EUROPE'S RECORD HARVEST AND WHEN AGAIN EUROPE'S MAIN PREOCCUPATION SEEMS TO BE TO FIND APPROPRIATE SOLUTIONS FOR OUR VARIOUS SURPLUSES, THE FAMOUS FOOD MOUNTAINS.

THIS COINCIDENCE OF DRAMATIC DEFICITS IN THE SOUTH AND HUGE SURPLUSES IN THE NORTH LEADS PEOPLE TO LINK UP THE TWO PHENOMENA EITHER AT THE LEVEL OF ANALYSIS - BY BLAMING THE POLICIES THAT LED TO SURPLUSES IN THE NORTH FOR THE DEFICIT IN THE SOUTH - OR AT THE LEVEL OF THE SOLUTIONS - BY SUGGESTING THAT IT IS THE DUTY IF NOT THE VOCATION OF THE MORE SUCCESSFUL AGRICULTURES OF THE NORTH TO FEED THE HUNGRY NATIONS OF THE SOUTH.

I DO NOT ACCEPT THESE VIEWS WHICH ARE THE REFLECTION OF AN UNDERSTANDABLE BUT DANGEROUS OVER-SIMPLIFICATION. THE STRUGGLE FOR FOOD SECURITY IS ONE WHICH THE DEVELOPING COUNTRIES MUST THEMSELVES ENGAGE IN AND WIN, JUST AS EUROPE HAS DONE. THE TASK IS FAR FROM HOPELESS. INDIA'S RECENT GIFT OF 100,000 TONNES OF FOOD AID TO ETHIOPIA IS A SALUTORY REMINDER TO US OF THE PROGRESS MADE BY THE INDIAN SUB-CONTINENT, ONCE WRITTEN OFF AS HOPELESSLY

UNABLE TO



UNABLE TO FEED ITSELF. ALL TOO OFTEN THE OBJECTIVE OF FOOD SECURITY HAS BEEN TACKLED IN TOO GLOBAL A FASHION. INTERNATIONAL CONFERENCES COME AND GO, SPELLING OUT THE VARIOUS MEASURES TO BE TAKEN AT INTERNATIONAL AND NATIONAL LEVEL WHICH, THE PUNDITS ASSURE US, WILL IMPROVE WORLD FOOD SECURITY IN GENERAL AND FOOD SECURITY OF LDCS IN PARTICULAR. IN DOING SO, THE BASIC BUILDING BLOCK OF FOOD SECURITY - THE CONDITIONS OF PRODUCTION OF THE SMALL FARMER, IS BEING LOST SIGHT OF. WORLD FOOD SECURITY IS NO MORE THAN THE SUM OF NATIONAL OR REGIONAL FOOD SECURITIES WHICH ARE IN THEIR TURN THE SUM OF FOOD SECURITIES OF INDIVIDUAL PRODUCERS. COUNTRIES IN THE SOUTH WILL ONLY REACH A SUFFICIENT LEVEL OF SELF-SUFFICIENCY IF THEY OFFER THEIR PRODUCERS - IN PARTICULAR THEIR SMALL PRODUCERS - THE NECESSARY SECURITY: SECURITY TO SELL THEIR CROPS AT DECENT PRICES, SECURITY TO BE ABLE TO OBTAIN THE INPUTS NEEDED FOR THEIR PRODUCTION EFFORT AT REASONABLE COST, THE SECURITY OF NOT SEEING THE FRUITS OF THEIR LABOUR BEING SKIMMED OFF AND DISAPPEARING INTO THE HANDS OF SOME STATE OR PARASTATAL ORGANISATION, THE SECURITY OF BEING ABLE TO SPEND THE PROCEEDS ON THE GOODS HE OR SHE WISHES TO BUY. REMOVE THESE SECURITIES; THE PEASANT PRODUCER REVERTS, FOR WANT OF BETTER, TO SUBSISTENCE FARMING AND ETHIOPIA SHOWS US HOW FINE IS THE DIVIDING LINE BETWEEN SUBSISTENCE AND STARVATION. IT IS THESE SECURITIES, MAGNIFIED ON A EUROPEAN SCALE, THAT HAVE BEEN THE BASIS OF SUCCESS OF OUR AGRICULTURE HERE AND INDEED ELSEWHERE IN THE NORTH. IT REQUIRES STRENGTH AND COURAGE TO INTRODUCE THE POLICIES UPON WHICH FOOD SECURITY DEPENDS, PARTICULARLY IN DEVELOPING COUNTRIES NOT FAR FROM ECONOMIC COLLAPSE. WITH AN EYE ON OUR OWN SITUATION IN EUROPE, I AM INCLINED TO ADD

THAT SUCH

THAT SUCH POLICIES, CARRIED OUT WITH THE NECESSARY POLITICAL WILL, BECOME THE VICTIMS OF THEIR OWN SUCCESS SOON AFTER THE OBJECTIVE OF FOOD SELF-SUFFICIENCY IS REACHED. THERE IS THE DANGER THAT GOVERNMENTS WILL FIND THEMSELVES INCAPABLE OF IMPLEMENTING THE NECESSARY POLICY CHARGES TO TAKE ACCOUNT OF THE NEW SITUATION BORN OF OVER-SECURITY. THE EUROPEAN COMMUNITY HAS MOVED FROM FOOD DEFICIT VIA FOOD SELF-SUFFICIENCY TO THE PRESENT STATE OF AGRICULTURAL SURPLUS. HAS THIS PROCESS IN FACT AFFECTED THE AGRICULTURAL DEVELOPMENT OF THE THIRD WORLD AND WHAT EFFECT DO THE FAMOUS SURPLUSES HAVE ON THE INTERNATIONAL MARKET? THE CRUCIAL ELEMENT IN THIS WHOLE DISCUSSION WILL BE THE VIEW TAKEN OF INTERNATIONAL TRADE. TRADE IN FOOD CLEARLY HAS A ROLE TO PLAY AS A MECHANISM FOR ADJUSTMENT OF SUPPLY AND DEMAND, BUT IT CAN NEVER BE THE SOLE OR EVEN THE PRINCIPAL ORGANISING FORCE OF THE WORLD FOOD ECONOMY. COMPLETE LIBERALISATION OF FOOD TRADE, AND ACROSS THE BOARD APPLICATION OF THE PRINCIPLES OF COMPARATIVE ADVANTAGE WOULD SEEM TO BE NOT ONLY UNDESIRABLE BUT ALSO DANGEROUS. THE EXPORT TRADE IN FOOD CAN OF COURSE BE A SIGNIFICANT FACTOR STIMULATING LOCAL PRODUCTION - AGAIN THAI CASSAVA COMES TO MIND. BUT GENERALLY EXTERNAL MARKETING OPPORTUNITIES ARE A MINOR FACTOR IN THE DEVELOPMENT OF BASIC FOODSTUFFS. THE MOST OBVIOUS CASE IN POINT HERE IS RICE. PRODUCTION HAS INCREASED FAIRLY QUICKLY DESPITE THE FACT THAT EXPORTS ACCOUNT FOR ONLY A TINY PROPORTION OF THE TOTAL.

MY COMMENT WOULD BE THAT, IN ANY DISCUSSION ON THESE PROBLEMS, A PRECISE ASSESSMENT SHOULD BE MADE PRODUCT BY PRODUCT, CASE BY CASE. THIS WOULD

PROVIDE SOUNDER

PROVIDE SOUNDER ARGUMENTS FOR THOSE CASES WHERE THE TRADING SYSTEM CAUSES REAL PROBLEMS. THERE IS NO POINT IN TRYING TO ADVOCATE A FREE MARKET IN AGRICULTURAL PRODUCE IN THE SAME WAY AS ONE MIGHT ADVOCATE FREE TRADE IN INDUSTRIAL GOODS. EVEN IF IT WERE ONLY FOR THE INSTABILITY OF AGRICULTURAL MARKETS, CAUSED BY CLIMATIC AND SEASONAL VARIATIONS AND UNCONTROLLED CURRENCY FLUCTUATIONS, AGRICULTURE WOULD BE BOUND TO BE SUBJECT TO SPECIAL RULES. I DOUBT IF ANY COUNTRY HOWEVER RICH AND HOWEVER LIBERAL IT MIGHT BE, WOULD AGREE TO ALLOW MARKET FORCES TO OPERATE FREELY IN RESPECT OF ITS OWN AGRICULTURAL PRODUCTION, EVEN THOUGH MUCH LIP-SERVICE BE PAID TO THE PRINCIPLE.

MOREOVER, I DO NOT SEE HOW ONE COULD BUILD UP DOMESTIC OR REGIONAL RURAL DEVELOPMENT STRATEGIES THAT WOULD PROVIDE A REMUNERATIVE INCOME FOR PRODUCERS WITHOUT A PRICE AND INCOME SUPPORT POLICY, WITHOUT ESTABLISHING A MECHANISM TO PROTECT THE AGRICULTURAL MARKET DIRECTLY OR INDIRECTLY FROM WORLD MARKET INSTABILITY. THIS MEANS THAT THE DEVELOPING COUNTRIES MUST ASK THEMSELVES WHETHER OR NOT THEIR MARKETS NEED A DEGREE OF PROTECTION AGAINST IMPORTS, ESPECIALLY SINCE THEY ARE MOST EXPOSED TO WORLD MARKET INSTABILITY.

LET US LOOK MORE CLOSELY AT THE DEVELOPING COUNTRIES' EXPORT TRADE IN AGRICULTURAL PRODUCE. THE SCENE IS ONE OF CHRONIC INSECURITY, THE MAINSPRING OF WHICH APPEARS TO BE TWO-FOLD. FIRST, WORLD PRICES FOR THE COMMODITIES PRODUCED BY DEVELOPING COUNTRIES, PARTICULARLY AGRICULTURAL COMMODITIES, FLUCTUATE WIDELY IN THE SHORT TERM. THE PLANNING PROBLEMS THAT THIS CREATES FOR EXPORTING DEVELOPING COUNTRIES ARE OFTEN BEYOND THEIR POWER TO OVERCOME. SECOND, THERE APPEARS TO BE A LONG-TERM DECLINE IN THE WORLD PRICE OF SOME AGRICULTURAL COMMODITIES PRODUCED BY DEVELOPING COUNTRIES IN RELATION TO THE PRICE OF THE GOODS THAT DEVELOPING COUNTRIES HAVE TO IMPORT. THE EUROPEAN COMMUNITY HAS

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TAKEN A LEADING ROLE IN DEVISING AND NEGOTIATING SOLUTIONS TO THE PROBLEMS BASED ON THE TWO APPROACHES GENERALLY ADMITTED: COMPENSATORY FINANCE AND COMMODITY AGREEMENTS. IN THE FIELD OF COMPENSATORY FINANCE, THE EUROPEAN COMMUNITY BLAZED THE TRAIL IN SETTING UP THE STABEX SCHEME IN FAVOUR OF THE AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES SIGNATORY TO THE LOME CONVENTIONS. THE SCHEME HAS BEEN WIDENED AND REFINED IN THE NEGOTIATIONS FOR THE LOME III CONVENTION, CONCLUDED SUCCESSFULLY LAST MONTH. SIMILARLY, THE COMMUNITY PLAYS, AND WILL CONTINUE TO PLAY, A POSITIVE PART IN THE NEGOTIATION OF INTERNATIONAL COMMODITY AGREEMENTS (COFFEE, COCOA, JUTE, TEA, TROPICAL TIMBER). WE REALLY DO WISH TO SEE A SUCCESSFUL CONCLUSION TO THE CURRENT NEGOTIATIONS FOR NEW AGREEMENTS ON COCOA AND SUGAR - VERY IMPORTANT PRODUCTS FOR THE EXPORT EARNINGS OF CERTAIN DEVELOPING COUNTRIES. FOR THE SAME REASONS, THE EEC HAS ALWAYS BEEN IN FAVOUR OF OPENING NEGOTIATIONS FOR A NEW INTERNATIONAL GRAINS ARRANGEMENT TO REPLACE THE 1971 WHEAT AGREEMENT. SUCH AN AGREEMENT WOULD HELP THE WORLD MARKET TO OPERATE EFFICIENTLY AND ACCOUNT WOULD BE TAKEN OF THE INTERESTS OF THE DEVELOPING COUNTRIES. NO-ONE DISPUTES THE FACT THAT SUCH INITIATIVES HELP TO STEP UP WORLD FOOD SECURITY. IN SAYING THIS, IT IS WORTH RECALLING THAT THE EEC IS THE WORLD'S NUMBER ONE IMPORTER OF AGRICULTURAL PRODUCE. IN FACT, ACCORDING TO A RECENT OECD STUDY ON AGRICULTURAL TRADE WITH THE DEVELOPING COUNTRIES, IF WE LOOK AT THE INDUSTRIALISED COUNTRIES AS A WHOLE, IT IS THE EEC THAT IMPORTS THE MOST AGRICULTURAL PRODUCE, PER CAPITA, FROM THE DEVELOPING COUNTRIES.

THIS IS NOT MERE CHANCE BUT RATHER THE RESULT OF A DELIBERATE POLICY OF PROVIDING BETTER ACCESS TO THE COMMUNITY MARKET FOR AGRICULTURAL PRODUCE,

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FROM THE DEVELOPING COUNTRIES. THE COMMUNITY APPLIES VARIOUS ARRANGEMENTS AND AGREEMENTS WHICH PROVIDE FOR PREFERENTIAL TREATMENT OF IMPORTS FROM THE DEVELOPING COUNTRIES. UNDER THESE VARIOUS AGREEMENTS - PARTICULARLY THE GSP AND THE LOME CONVENTION - THE BULK OF IMPORTS FROM THE LEAST-DEVELOPED OF THESE COUNTRIES ENTER THE COMMUNITY FREE OF DUTY. THE RESULT, ONE MUST CONFESS, HAS NOT ALWAYS BEEN AN UNMITIGATED BLESSING FOR EUROPE'S TRADITIONAL TRADING PARTNERS IN THE THIRD WORLD. AFRICA'S TRADE PROBLEM ARISES IN PART FROM THE FACT THAT IT HAS MAINTAINED ITS TRADITIONAL LINKS WITH EUROPE RATHER THAN DIVERSIFY TO OTHER MARKETS. EUROPE'S GROWTH HAS BEEN MUCH LESS RAPID THAN OTHER REGIONS, AS WE KNOW TO OUR COST. AFRICA'S TRADE HAS SUFFERED ACCORDINGLY BY COMPARISON WITH OTHER THIRD WORLD EXPORTERS. WITHOUT DENYING THE IMPORTANCE OF TRADE IN FOOD, LET US NOT FORGET THAT FOR MOST OF THE LDCS SUFFERING FROM HUNGER AND MALNUTRITION THE SOLUTION THEY SEEK IS NOT SO MUCH ONE OF ACCESS TO EXTERNAL MARKETS AS ONE OF FEEDING THE POPULATION, STEPPING UP THE ABILITY OF THOSE COUNTRIES TO PRODUCE THEIR OWN FOOD.

THE REAL PROBLEM OF FOOD IN THE WORLD IS NOT THAT OF THE OVERALL VOLUME OF FOOD AVAILABLE BUT THAT OF THE BALANCED DISTRIBUTION OF PRODUCTION THROUGHOUT THE WORLD. EVEN IF THE DEVELOPING COUNTRIES WERE ABLE TO MEET ALL THEIR FOOD NEEDS FROM OUTSIDE SUCH A SITUATION WOULD BE WHOLLY UNSATISFACTORY BOTH STRATEGICALLY AND ECONOMICALLY, SINCE DEVELOPMENT WOULD RISK BEING CRIPPLED BY THE PRICE OF IMPORTED FOODSTUFFS, BY THE DIFFICULTY OF STARTING UP THE ECONOMIC DEVELOPMENT PROCESS WITHOUT INDIGENOUS AGRICULTURAL DEVELOPMENT AND SO ON. FOOD SECURITY CAN ONLY BE ASSURED IF IT IS BASED ON ADEQUATE DOMESTIC PRODUCTION LEVELS.

I WOULD

I WOULD NOW LIKE TO TURN TO THE PROBLEMS THAT THE DEVELOPING COUNTRIES HAVE TO FACE IN THIS RESPECT, AND ON THE WAYS IN WHICH THE EEC IS HELPING TO OVERCOME THESE PROBLEMS. WE ALL KNOW THE TERRIBLE PLIGHT OF AFRICA AT THIS MOMENT. THE 1984 CROPS HAVE BEEN PARTICULARLY BAD IN SAHELIAN COUNTRIES, IN ETHIOPIA, IN SOME COUNTRIES OF EAST AND SOUTHERN AFRICA. IN SOME OF THESE COUNTRIES 1984 WAS THE THIRD CONSECUTIVE YEAR OF DROUGHT. THE OVERALL FOOD DEFICIT INCREASED BY 40% IN COMPARISON WITH THE PREVIOUS YEAR AND MILLIONS OF HUMAN LIVES ARE AT STAKE. I WILL NOT GIVE IN TO THE EASY TEMPTATION OF SPELLING OUT FOR YOU THE SUFFERING OF AFRICAN CHILDREN, WOMEN AND MEN: THE REPORTS YOU READ IN THE PRESS AND THE PICTURES YOU SEE ON THE TELEVISION SCREENS ARE ELOQUENT ENOUGH. WHAT IS NEEDED HERE IS A CLEAR ANALYSIS OF THE CAUSES THAT LED TO THE PRESENT CATASTROPHE. THE GRAVITY OF THE SITUATION CAN TO A LARGE EXTENT BE EXPLAINED BY NATURAL CAUSES SUCH AS DROUGHT. HOWEVER THIS CYCLICAL PHENOMENON ONLY AGGRAVATES A DEEP SEATED LONG TERM TREND: THE WORSENING OF AGRICULTURAL CONDITIONS IN AFRICA. THE AGRICULTURAL RECORD OF THAT CONTINENT HAS BEEN FAR FROM BRILLIANT. SUB-SAHARAN AFRICA ACHIEVED A 1.3% ANNUAL GROWTH IN AGRICULTURAL PRODUCTION IN THE SEVENTIES, BUT ACHIEVED - IF THAT IS THE WORD - A RATE OF POPULATION GROWTH OF 2.7% PER ANNUM. AS A RESULT, OVER THE LAST 10 YEARS FOOD IMPORTS HAVE INCREASED ON AVERAGE BY 10% PER YEAR. FROM BEING A NET EXPORTER OF AGRICULTURAL PRODUCTS AFRICA HAS TURNED INTO A NET IMPORTER. FOR A CONTINENT WITH A NARROW INDUSTRIAL BASE, HEAVILY DEPENDENT ON ITS EXPORTS OF RAW MATERIALS TO EARN THE FOREIGN EXCHANGE IT NEEDS TO FEED ITS DEVELOPMENT, THIS IS A DRAMATIC SITUATION, REFLECTED IN AFRICA'S INCREASING INDEBTEDNESS. NO LESS THAN 23 OUT OF 31 RE-SCHEDULINGS AT THE PARIS CLUB OVER THE LAST FOUR YEARS HAVE INVOLVED SUB-SAHARA AFRICAN STATES. THE AMOUNTS INVOLVED ARE FRANKLY

SMALL BY

SMALL BY LATIN AMERICAN STANDARDS. SUB-SAHARAN AFRICAN INDEBTEDNESS IS ABOUT EQUAL TO THAT OF BRAZIL ALONE. BUT THE SUMS ARE LARGE IN RELATION TO EXPORT REVENUE. INDEED, IN 1984, AFRICA FACED A HIGHER RATIO OF EXTERNAL DEBT TO EXPORTS AND TO GDP THAN ANY OTHER THIRD WORLD REGION. AS AFRICA'S FOREIGN DEBT SOARS, THE INABILITY TO FUND ESSENTIAL IMPORTS THAT ARE VITAL TO MAINTAIN THESE COUNTRIES' LIMITED PRODUCTIVE CAPACITY MEANS THAT A SIGNIFICANT PORTION IS SIMPLY FROZEN INTO IMMOBILITY. A TRACTOR STANDS STILL FOR LACK OF A SPARKING PLUG; FOR WANT OF A HORSESHOE, THE KINGDOM IS LOST.

THE IMMEDIATE PROBLEMS, HOWEVER CRUSHING, OF INDEBTEDNESS, OR DROUGHT, MUST NOT BE ALLOWED TO BLIND US TO THE NEED TO LOOK AT THE MEDIUM AND LONG-TERM, NOR SHOULD WE FALL INTO THE TRAP OF BELIEVING THAT THE PICTURE IS UNIFORMLY BLACK.

PESSIMISM ABOUT AFRICA'S ECONOMIC PROSPECTS HAS CERTAINLY BEEN COLOURED BY WHAT HAS HAPPENED TO A SMALL NUMBER OF PRODUCTS IN A SMALL NUMBER OF COUNTRIES - COCOA IN GHANA, SISAL IN TANZANIA, COTTON IN SUDAN, PALM OIL IN ZAIRE. SOME OTHER COUNTRIES HAVE RECORDED SUCCESSES; KENYA INCREASED ITS COFFEE EXPORTS BY 50%, ITS TEA EXPORTS BY 75% BETWEEN THE EARLY 70'S AND THE EARLY 80'S. IN THIS SAME PERIOD IVORY COAST RAISED ITS PALM OIL EXPORTS BY WELL OVER 100%, ITS COCOA EXPORTS BY 128%. YET IN 1982 IVORY COAST COULD BUY FEWER IMPORTS WITH ITS OWN COCOA REVENUE THAN IT COULD IN 1970. THE SAME STORY FOR MALAWI: IN 1980-82, EXPORT REVENUE FROM TEA BROUGHT ONLY TWO-THIRDS OF THE IMPORTS FINANCED BY THE 1970-72 REVENUE, DESPITE AN 80% INCREASE IN VOLUME.

AT THE CORE OF THIS EVOLUTION LIES NOT ONLY A DETERIORATION IN THE TERMS OF THE DEVELOPING COUNTRIES ' TRADE, BUT ALSO A LACK OF INTENSIFICATION OF

AGRICULTURAL

AGRICULTURAL PRODUCTION: ALMOST ALL THE PRODUCTION INCREASE THAT HAS BEEN REALISED IN AFRICA CAN BE EXPLAINED BY EXTENSION OF LAND BROUGHT UNDER CULTIVATION, HARDLY ANYTHING IS TO BE EXPLAINED BY INCREASED YIELDS. ONE CANNOT ESCAPE THE FACT THAT TO A LARGE EXTENT THIS EVOLUTION IS THE RESULT OF DEFICIENT POLICY MAKING, I.E. TO THE LACK OF PRIORITY THAT GOVERNMENT ATTACHED TO RURAL DEVELOPMENT, TO THE LACK OF COHERENCE OF MEASURES TAKEN, TO THE PERSISTENT INSECURITY OF THE ECONOMIC ENVIRONMENT IN WHICH SMALL PRODUCERS ARE PRODUCING AND INVESTING.

APART FROM THE SHORT TERM CROP SHORTFALLS AND THE MEDIUM TERM RELATIVE REGRESSION OF PRODUCTION LET ME ADD SOME WORDS ON THE LONG TERM WORSENING OF THE NATURAL CONDITIONS OF PRODUCTION, FOR THIS HAS BECOME A CENTRAL THEME OF THE EUROPEAN COMMUNITY'S DEVELOPMENT POLICY. ADVANCING DESERT ENCROACHMENT, QUICKLY EXPANDING DEFORESTATION, EROSION OF VARIOUS KINDS, ARE PHENOMENA THAT HAVE BECOME ALL TOO FAMILIAR. PARTLY THIS DEGRADATION IS THE RESULT OF AUTONOMOUS EVOLUTION OF NATURAL CONDITIONS, PARTLY IT IS DUE TO HUMAN INTERVENTION BY MAN - CHOPPING DOWN TREES FOR FIREWOOD, OVERGRAZING, SHORTENING OR ELIMINATING FALLOW-PERIODS ETC. ITS MAN-MADE CHARACTER IMPLIES THAT THERE IS EVERY REASON NOT TO SUCCUMB TO DESPAIR OR EVEN ADOPT A PESSIMISTIC LONG TERM VIEW: ACTION CAN AND MUST BE TAKEN TO STOP THE DEGRADATION OF THE NATURAL ENVIRONMENT.

HAVING SUMMARISED OUR ASSESSMENT OF THE PROBLEM FACING AFRICA AT THIS MOMENT, I WILL NOW TURN TO THE INITIATIVES THAT THE EEC IS DEPLOYING TO HELP AFRICAN GOVERNMENTS TO TACKLE THE VARIOUS ASPECTS OF THESE DIFFICULTIES.

FOOD AID



FOOD AID

THE ONLY INSTRUMENT THAT HAS SOME DIRECT IMPACT ON FOOD SHORTAGES IN THE SHORT RUN IS FOOD AID. AFRICA'S SHARE OF EEC'S FOOD AID HAS INCREASED OVER THE YEARS, REFLECTING ITS INCREASING AND PRESSING NEEDS. IN 1984 CEREALS FOOD AID CHANNELLED DIRECTLY AND INDIRECTLY (VIA NGO OR UN AGENCIES) FROM THE EEC TO AFRICAN COUNTRIES WAS APPROXIMATELY 600,000 TONNES, MORE THAN HALF OF THE TOTAL FOOD AID CEREALS AVAILABLE. IN DECEMBER LAST THE EUROPEAN COUNCIL MEETING IN DUBLIN DECIDED TO SUPPLY AN ADDITIONAL QUANTITY OF 700.000 TONNES TO THE MOST AFFECTED COUNTRIES OF AFRICA. THIS ENORMOUS INPUT OF FOOD AID, ALLIED WITH THAT OF OTHER DONORS WHO HAVE ALSO MADE SUBSTANTIAL ADDITIONAL EFFORTS, WILL UNDOUBTEDLY CONTRIBUTE TOWARDS THE ALLEVIATION OF THE SUFFERING INFLICTED UPON MILLIONS OF HUMAN BEINGS - PROVIDED, ALWAYS PROVIDED THAT WE, AND THE RECIPIENT GOVERNMENT WHICH BEARS PRIME RESPONSIBILITY, CAN GET THE AID TO THOSE IN NEED.

THE EUROPEAN COMMUNITY HAS MADE EVERY EFFORT TO INCREASE THE QUANTITIES OF AID PROVIDED TO THE GOVERNMENTS OF STRICKEN COUNTRIES IN AFRICA AND WILL CONTINUE TO WORK TO ENSURE THAT FOOD AID ARRIVES WHERE IT IS NEEDED, WHEN IT IS NEEDED. HOWEVER WE SHOULD TODAY BE LOOKING AT HOW WE IN EUROPE CAN RENDER SUCH AID SUPERFLUOUS AND ASSIST GOVERNMENTS IN BECOMING BETTER ABLE TO CONTROL HUNGER AND MALNUTRITION BY STEPPING UP DOMESTIC PRODUCTION.

WE ARE FIRMLY CONVINCED THAT FOOD AID MUST BE BETTER INTEGRATED INTO DOMESTIC AGRICULTURAL AND FOOD POLICIES. GONE ARE THE DAYS WHEN FOOD AID COULD BE VIEWED PRIMARILY AS A MEANS OF OFF-LOADING SURPLUSES. THIS MEANS FIRST OF ALL MAKING SURE THAT THE AID SUPPLIED DOES NOT INTERFERE, PARTICULARLY AS FAR

AS PRICES

AS PRICES ARE CONCERNED, WITH LOCALLY PRODUCED FOODSTUFFS. SECONDLY, FOOD - AID PRODUCTS - OR THE FUNDS GENERATED BY SELLING THEM - MUST BE USED MORE SYSTEMATICALLY IN SUPPORT OF OPERATIONS TO DEVELOP FOOD PRODUCTION, AS WE HAVE DONE WITH GREAT SUCCESS IN THE OPERATION FLOOD PROJECT IN INDIA. THE GIFT OF MILK POWDER - PART OF THAT MUCH MALIGNED MILK LAKE WHICH OUR - YOUR - CRITICS WOULD HAVE US BELIEVE IS NO EARTHLY USE TO MAN OR BEAST - HAS MAINTAINED IN OPERATION THE NEW DAIRY INSTALLATIONS WHILE VILLAGE HERDS WERE BEING BUILT UP. EUROPEAN MILK POWDER PLAYED AN ESSENTIAL PART IN CREATING THE MARKET WHICH THE INDIAN PRODUCERS ARE NOW ABLE TO SATISFY THEMSELVES.

HOWEVER, IT IS NOT ENOUGH TO ENCOURAGE RECIPIENT GOVERNMENTS TO SET OUT ALONG THIS PATH. CHANGES MUST ALSO BE MADE TO THE ARRANGEMENTS FOR USING FOOD AID SO THAT IT BECOMES MORE SUITABLE FOR INTEGRATION INTO A DEVELOPMENT OPERATION. FOR THIS, MULTIANNUAL COMMITMENTS MUST BE POSSIBLE; TRIANGULAR OPERATIONS MUST BE MADE MORE WIDESPREAD AND FOOD AID MUST BE MADE MORE FLEXIBLE AS AN INSTRUMENT, BETTER SUITED TO THE NEEDS OF THIRD WORLD COUNTRIES. THE EEC HAS BEEN WORKING ALONG THESE LINES FOR SOME TIME NOW. IN MALI THE PLURIANNUAL PROGRAMME OF COMMUNITY FOOD AID IS HELPING TO REFORM THE LOCAL MARKET IN GRAIN. IN SRI LANKA, THE SALE OF COMMUNITY FOOD AID PROVIDES THE SALARIES OF GERMAN VOLUNTARY TEACHERS. NEVERTHELESS, EVEN IN A FORM MORE SUITED TO DEVELOPMENT NEEDS, FOOD AID REMAINS A TRANSITORY AID INSTRUMENT, A LAST RESORT. IT MUST BECOME MUCH MORE A SIGN OF DETERMINATION OF THE GOVERNMENTS OF THIRD COUNTRIES AND OF THE INTERNATIONAL COMMUNITY TO MAKE THE DESIRED RAPID PROGRESS IN THE FIGHT AGAINST WORLD HUNGER AND MALNUTRITION. IN THIS CONTEXT THE EUROPEAN

COMMUNITY

HAS LAUNCHED

HAS LAUNCHED NEW INITIATIVES TO INCREASE THE EFFICIENCY OF FOOD AID AIMING AT MEDIUM TERM OBJECTIVES, FOR EXAMPLE BY INTEGRATING FOOD IN PROGRAMMES AIMED AT IMPROVING AGRICULTURAL PRODUCTION AND RURAL DEVELOPMENT POLICIES. THERE IS CERTAINLY MORE THAT WE CAN DO IN THIS FIELD: FOR INSTANCE, HOW CAN COMMUNITY FOOD AID BE USED TO BUILD UP STRATEGIC FOOD RESERVES IN AFRICA TO HELP PREVENT A REPETITION OF THE PRESENT CATASTROPHE?

LOME III AND RURAL DEVELOPMENT

SINCE THE EUROPEAN COMMUNITY AID PROGRAMMES COMMENCED IN THE LATE 50S, RURAL DEVELOPMENT HAS BEEN ONE OF THE PRIORITY AREAS FOR TECHNICAL AND FINANCIAL ASSISTANCE. IN THE SECOND LOME CONVENTION - THE AID AND TRADE AGREEMENT UNITING THE EUROPEAN COMMUNITY AND COUNTRIES IN AFRICA, THE CARIBBEAN AND THE PACIFIC DURING THE PERIOD 1979-84, THE SHARE OF AID DEVOTED TO RURAL DEVELOPMENT WAS AS HIGH AS 40% OF ALL PROGRAMMED FUNDS. THIS CONSTITUTED AN IMPROVEMENT ON THE EARLIER CONVENTIONS WHERE THE CORRESPONDING PERCENTAGE WAS ABOUT 30%. WE ARE CONFIDENT THAT THIS PERCENTAGE WILL RISE AGAIN IN THE COURSE OF IMPLEMENTING THE NEW LOME III CONVENTION. ABOUT HALF OF THE FUNDS DEVOTED TO RURAL DEVELOPMENT ARE CHANNELLED TOWARDS THE IMPROVEMENT OF FOOD PRODUCTION. THE AGRICULTURAL DEVELOPMENT CHAPTER OF THE NEW LOME III CONVENTION NOW BEING RATIFIED BY THE EUROPEAN COMMUNITY MEMBER STATES AND 65 AFRICAN, CARIBBEAN AND PACIFIC STATES, ATTACHES INCREASED IMPORTANCE TO THE VARIOUS FORMS OF INTERVENTIONS ASSOCIATED WITH AGRICULTURAL PRODUCTION AS SUCH. THIS MAKES IT POSSIBLE IN FUTURE TO IMPROVE THE COHERENCE OF OUR ACTIVITIES BY EXTENDING THEM TO THE WHOLE "FOOD-CHAIN". THUS WE CAN COVER MORE ADEQUATELY THE FIELD OF RESEARCH - AND IN PARENTHESIS I WOULD

ADD THAT

ADD THAT THERE IS A NEED FOR RESEARCH INTO FOODSTUFFS PROVIDING LOW-COST CALORIES SUCH AS MILLET, SORGHUM AND CASSAVA. THE EXAMPLE OF EUROPEAN AGRICULTURE TEACHES US, I BELIEVE, THAT THE DEMAND FOR RESEARCH STEMS FROM ORGANISED AND LARGER PRODUCERS AND INDIRECTLY FROM BETTER-OFF PROCESSORS AND CONSUMERS. WE CAN DO MORE IN THE FIELD OF EXTENSION AND DELIVERY SYSTEMS OF PRODUCTION, MARKETING, PROCESSING, DISTRIBUTION - ALL RELATED TO FOOD PRODUCTION.

#### FOOD STRATEGIES

THIS TIES IN WITH THE EFFORTS UNDERTAKEN BY THE EUROPEAN COMMUNITY TO HELP AFRICAN COUNTRIES IMPROVE THEIR POLICIES IN THIS AREA: THE FOOD SECTOR STRATEGY APPROACH. THE NOTION OF FOOD STRATEGIES NOW FORMS PART OF OUR COMMON HERITAGE, LARGELY DUE TO THE WORK OF THE WORLD FOOD COUNCIL. THE COMMUNITY'S SPECIFIC CONTRIBUTION OVER THE LAST THREE YEARS HAS BEEN TO SET THEM IN MOTION. IT HAS PROPOSED A METHOD OF ACTION TO ITS PARTNERS AND HAS EMBARKED WITH THEM, IN PRACTICAL TERMS, ON THE COMPLEX AND DIFFICULT ROAD OPENED UP BY THIS NEW INITIATIVE.

WHAT IS THE METHOD PROPOSED?

IT IS TO SEEK ACTIVE COMPLEMENTARITY BETWEEN DOMESTIC DEVELOPMENT POLICY AND ACTION BY THE COMMUNITY AND ITS MEMBER STATES. THE STARTING-POINT CONSISTS OF AN ESSENTIAL POLITICAL ACT WHICH CAN ONLY BE INSTIGATED BY THOSE AT THE HIGHEST LEVEL OF RESPONSIBILITY IN A STATE: THAT OF DETERMINING DOMESTIC OBJECTIVES AND PRIORITIES, DECIDING ON THE USE OF THE COUNTRY'S OWN RESOURCES AND ESTABLISHING THE FRAMEWORK FOR THE EMPLOYMENT OF EXTERNAL AID. THE FINAL STAGE SHOULD BE - FOLLOWING A DIALOGUE WHICH WILL BE ALL THE MORE FRUITFUL THE GREATER ITS PRACTICAL CONTENT - TO DETERMINE THE ACTION TO BE TAKEN ON BOTH SIDES IN ACCORDANCE WITH A SCENARIO ESTABLISHED BY MUTUAL AGREEMENT FOR THE FUTURE

THIS NOTION

THIS NOTION OF A SCENARIO, OF A DYNAMIC SITUATION, IS IMPORTANT BECAUSE IT IMPLIES THE NEED FOR ONGOING ADAPTATION OF THE INITIAL MECHANISM TO THE INEVITABLE REALITIES AND DIFFICULTIES. THE GOVERNMENT MUST IDENTIFY THE OBSTACLES THAT IT IS LIKELY TO ENCOUNTER AND PREPARE ITSELF TO FACE THEM. THE COMMUNITY, FOR ITS PART, UNDERTAKES TO PROVIDE ITS ASSISTANCE SO THAT THE SELECTED POLICY CAN BE PURSUED SUCCESSFULLY AND TO ENDOW ITS INSTRUMENTS WITH THE FLEXIBILITY AND RAPIDITY THAT ARE REQUIRED BY AN EVOLVING POLICY.

THE COMMUNITY HAS ADOPTED THIS NEW INITIATIVE AS PART OF ITS DEVELOPMENT AID POLICY. IT PROVIDES THE COUNTRIES WHICH HAVE AGREED TO EMBARK ON FOOD STRATEGIES WITH THE ASSURANCE THAT IT WILL HELP THEM TO FACE AND OVERCOME THE DIFFICULTIES AS AND WHEN THEY ARISE. IT IS TOO EARLY TO DRAW MORE THAN VERY GENERAL CONCLUSIONS FROM THE COMMUNITY'S INITIAL EXPERIENCE WITH THE FOUR AFRICAN COUNTRIES. NEVERTHELSS, WHAT HAS BEEN LEARNT IN WORK, UNDERTAKEN JOINTLY WITH THESE COUNTRIES CAN BE EXPRESSED IN A FEW SIMPLE PHRASES:

- ONCE THE STRATEGY HAS BEEN DETERMINED BY THE GOVERNMENT, WE TOGETHER HAVE TO SET UP A STRUCTURE OR AT LEAST A PROCEDURE FOR JOINT DISCUSSION TO ENSURE A RECIPROCAL EXCHANGE OF INFORMATION AND THE PREPARATION OF IMPLEMENTING DECISIONS;
- IN ORDER TO ENABLE THIS STRUCTURE TO FUNCTION EFFICIENTLY, A TWO-FOLD ORGANISATIONAL TASK MUST BE PUT IN HAND: THE COUNTRY APPLYING A FOOD STRATEGY MUST SET UP ACTIVE INTER-DEPARTMENTAL COORDINATION MACHINERY ENDOWED WITH THE NECESSARY POWERS OF ARBITRATION, WHILE THE DONORS MUST ALSO ESTABLISH A COORDINATION PROCESS MAKING IT POSSIBLE TO AVOID DIFFERENCES OF APPROACH, WHICH ARE LIKELY TO CONFUSE THE AUTHORITIES OF THE RECIPIENT STATE AND MUST SEEK TO MAKE SUPPORT ACTIVITIES COMPLEMENTARY WITH DOMESTIC STRATEGIES;

ATTEMPTS

- ATTEMPTS MUST BE MADE TO EXTEND THE RANGE OF POSSIBLE ACTION FAR BEYOND TRADITIONAL AID FOR CAPITAL PROJECTS IN ORDER TO COVER EXPENDITURE DIRECTLY LINKED WITH THE ESTABLISHMENT AND OPERATION OF MARKET ORGANISATIONS INTENDED TO PROVIDE PRODUCERS WITH THE MINIMUM NECESSARY SECURITY;
- THE RANGE OF INTERLOCUTORS MUST BE EXTENDED TO THE PROFESSIONS AND TRADES CONCERNED, ORGANISED IF POSSIBLE IN ASSOCIATION, IN ORDER TO INVOLVE THEM IN DETERMINING AND IMPLEMENTING ACTION TO BE UNDERTAKEN;
- THERE MUST BE ONGOING EVALUATION OF PROJECTS CARRIED OUT.

THESE FOOD STRATEGIES OCCUPY AN INCREASINGLY IMPORTANT PLACE IN THE EEC'S COOPERATION POLICIES, NOTABLY IN THE CONTEXT OF OUR RELATIONS WITH THE AFRICAN, CARIBBEAN AND PACIFIC COUNTRIES, WHICH ARE SIGNATORIES TO THE LOME CONVENTION.

#### CONCLUSIONS

THE COUNTRIES OF AFRICA ARE CAUGHT IN A VICIOUS CIRCLE OF DEPRIVATION WHICH MANIFESTS ITSELF IN DEEPENING SOCIAL AND POLITICAL INSTABILITY; BY INCREASING INSECURITY IN TOWN AND COUNTRYSIDE; BY CIVIL UNREST; BY COUPS D'ETAT, ATTEMPTED OR SUCCESSFUL. IT REQUIRES A HIGH DEGREE OF LEADERSHIP TO BREAK OUT OF THAT VICIOUS CIRCLE.

PERHAPS IT WAS EASIER FOR US IN EUROPE, WITH THE HORRORS OF WAR STILL FRESH IN OUR MEMORY, TO TAKE THE DECISIONS, AND GET THEM ACCEPTED WHEN WE SET UP THE COAL AND STEEL COMMUNITY, BY WHICH WAR BETWEEN THE WEST EUROPEAN STATES BECAME NOT ONLY UNTHINKABLE BUT IMPOSSIBLE.

WE BROKE OUT OF THE VICIOUS CIRCLE OF INSECURITY IN WESTERN EUROPE BY SETTING UP THE EUROPEAN COMMUNITY. IN SOUTHERN AFRICA THEY ARE LAUNCHING AN EXPERIMENT ON SIMILAR LINES: THE SOUTHERN AFRICAN DEVELOPMENT COORDINATION CONFERENCE (SADCC), BY WHICH THE COUNTRIES OF SOUTHERN AFRICA COME TOGETHER IN AN ATTEMPT TO

BREAK THEIR

BREAK THEIR ECONOMIC DEPENDENCE ON SOUTH AFRICA AND ACHIEVE INDEPENDENCE THROUGH INTERDEPENDENCE, JUST AS WE IN EUROPE HAVE DONE. FOR ALL THE IMMEDIATE PROBLEMS AFFLICTING AFRICA, THERE IS A DEGREE OF VISION AND DETERMINATION WHICH WE IN EUROPE MUST SUPPORT.

WE MAY TALK TO GOVERNMENTS, BUT WE SHOULD NEVER LOSE SIGHT OF THE FACT THAT WE ARE SEEKING TO MOBILISE INDIVIDUALS. THE PROBLEMS OF DEPRIVATION CAN ONLY BE SOLVED IF WE MAKE THE INDIVIDUAL THE TARGET OF ATTENTION AND SEEK TO RAISE HIS ABILITIES, HIS CONSCIOUSNESS. THIS IS WHAT WE ARE TRYING TO DO THROUGH THE NEW LOME CONVENTION. HOWEVER THE PROFIT WE CAN DRAW FROM THE CATASTROPHE IN ETHIOPIA - IF I CAN SPEAK IN SUCH CYNICAL TERMS - IS THAT MILLIONS OF INDIVIDUALS IN EUROPE, EUROPEAN PUBLIC OPINION, ARE NOW AWARE OF THE SITUATION AND INDIGNANT THAT IT SHOULD HAPPEN. 'AFRICA' DAY ON GERMAN AND DUTCH TELEVISION HAS PROVED THAT HUNDREDS OF THOUSANDS OF ORDINARY PEOPLE ARE WILLING TO CONTRIBUTE MONEY. CAN WE ALSO BE A LITTLE MORE GENEROUS AND INVENTIVE IN THE SOLUTIONS WE OFFER? PERHAPS BY THE EUROPEAN AGRI. INDUSTRIES UNDERTAKING RESEARCH INTO AREAS OF TROPICAL FOOD PRODUCTION WHICH AT PRESENT ARE NEGLECTED BECAUSE THEY ARE APPARENTLY UNPROFITABLE? PERHAPS FUNDING YOUNG AGRICULTURALISTS TO GO OUT INTO THE FIELD TO SPREAD THE KNOWLEDGE THEY HAVE GAINED? AT THE VERY LEAST LET US BE A LITTLE MORE UNSELFISH OR UNDERSTANDING IN THE POSITIONS WE ADOPT IN THOSE RARE AREAS WHERE EUROPEAN PRODUCTION IS, IF NOT THREATENED, AT LEAST SUBJECT TO COMPETITION FROM THIRD WORLD PRODUCTION.

MINISTER'S MEETING WITH THE SPANISH AMBASSADOR:  
30 JANUARY 1985

*NBDM*  
*CDP*  
*3/1*

You and Mr Hollis were present when the Minister met the Spanish Ambassador to discuss British Sherry. The Ambassador was accompanied by his commercial counsellor, Senor Tejedor and by a delegation representing Spanish sherry interests. The Minister said that he had been horrified by reports that British companies with interests in Spain had been informed by Spanish exporters that unless they dropped all support for the continued use of the designation British sherry and actively supported the Spanish case against this, they would face loss of privileges, a possible ban on bulk exports of sherry and agitation by Communist Trade Unionists against the Company's local interests. Apparently, the British companies involved had been told that unless they complied with these threats, they would be denounced at a press conference to be held next Monday by Senor Caballero, the President of the Spanish Sherry Shippers Associations. He regarded this as blackmail. The Spanish Government should be aware that the present Government was not prepared to conduct negotiations under such a threat, as it had frequently demonstrated. In these circumstances, he did not think that it would be possible to have a proper discussion on the question of British sherry; until the position had been clarified.

The Spanish Ambassador said that he had no knowledge of these developments, and he could not accept the use of the word blackmail. The Minister retorted that he was unable to think of a better term for what had been going on.

Mr Pallengat, the Managing Director of Domecqs, then said that he had been present at a recent meeting in Jerez, at which Senor Caballero had been asked what the consequences might be if the two British companies principally involved in the production and shipping of Spanish sherry stood out against the Spanish case for the exclusive right to use the term sherry. He had replied that this was an issue which aroused considerable feeling in the area and that local politics and trade unions were dominated by left wing parties. In these circumstances, he could not predict what local unions might do. This had not been intended as a threat, but simply as a statement of the facts as Senor Caballero saw them. Equally, there had been pressure for some time to introduce bottling at source for sherry, but there had been no recent threats to ban bulk exports. He had not heard of any plans for a press conference next Monday, and did not believe that this, or the other parts of the story the Minister had been told, were true. However, it was clear that the British companies involved in Jerez would find it difficult to oppose the arguments being put forward by Spanish sherry interests and the two companies principally involved, Allied-Lyons and Grand Metropolitan, had agreed that their subsidiaries operating in Spain, Harveys and Crofts, should be free to argue the Spanish case, while their subsidiaries involved in British sherry would argue for the continued use of the term.

One of the other members of the Spanish delegation, a member of the Spanish Sherry Shippers Association, added that he could confirm that no press conference was planned for Monday.



The Association was determined not to expose any disagreement between their members, which included Crofts and Harveys. They would, therefore, only speak out when they had a general consensus.

The Minister said that he had been reassured by some of the things that he had heard, but he thought that it would be difficult to continue with the present discussion until the position was clearer. The meeting was essentially one between Governments and, given that what he had said had been new to the Ambassador, the/ would be in a better position to express the views of his Government once he had clarified the situation. The Ambassador replied that he was convinced that pressure of the kind described by the Minister had not been put on British companies, and he could assure him, on behalf of the Spanish Government, that Spain would do what it could to avoid incidents of this sort. He hoped that he could now put to the Minister the Spanish case on sherry, which was a very just one.

/latter

The Minister replied that he felt it better not to continue discussion in the difficult atmosphere that had been created. He would be happy to see the Ambassador again, once the situation had been clarified. He reminded the Ambassador that there were many other areas in the negotiations, within the agriculture and fisheries sectors, where Spain might wish to receive our support. The Ambassador accepted that, in the circumstances, it would be better not to continue the meeting.

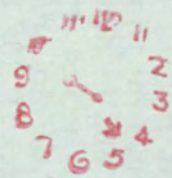
CHK

C I LLEWELYN  
31 January 1985

Mr Myers + 1

cc  
Private Offices  
Mr Andrews  
Mr Mason  
Mrs Attridge  
Mr Melville  
Mr Hollis  
PS/Foreign Secretary  
PS/S of S for Trade and Industry  
Mr Powell/No.10  
Mr Williamson  
ECD (E), FCO

31 JAN 1965





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Qz.04183

MR POWELL

Prime Minister  
Mr. Jopling is likely  
to raise this in  
Cabinet.  
He may in particular refer  
to proposed abolition of  
beef variable premium  
for UK.

EUROPEAN COMMUNITY: THE COMMISSION'S AGRICULTURAL PRICE PROPOSALS FOR 1985/86

The Commission has now decided on its agricultural price proposals for 1985/86. In general, they follow the rigorous line recommended by the new Agriculture Commissioner, Mr Andriessen. The main proposals, after taking account of guarantee thresholds, are:-

(i) cereals

intervention price for wheat and barley -3.6%

intervention price and production aid for durum wheat 0

abolition of the reference price for bread-making wheat (this also represents a reduction in support) <sup>whole.</sup> Generally

guarantee threshold set at 126 million tonnes (including the durum wheat) <sup>it looks</sup>

(ii) milk and milk products

intervention price for butter -4%

intervention price for skim milk powder +6.8%

This is a revision of the support price ratio between butter and skim milk powder intended to make butter more saleable in the market. The estimated effect on producers' return for milk is +1.5% <sup>Satisfactory COP</sup>

guarantee threshold set at new lower level of 98.125 million tonnes, as agreed earlier

ending of the butter consumer subsidy

/(iii)

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- (iii) meat
- |  |             |
|--|-------------|
| intervention price for beef  | 0           |
| basic price for pigmeat  | 0           |
| basic price for sheepmeat  | 0 in 1985   |
| (UK biggest producer of sheepmeat in Community)                        | +2% in 1986 |
| abolition of calf subsidy (Italy most affected)                        |             |
| no extension of the beef variable premium scheme in the United Kingdom |             |
- (iv) fruit and vegetables
- |  |           |
|--|-----------|
| support price changes varying from   | +1 to -6% |
| 4.7 million tonne limit on reduced aid for tomato processing (guarantee threshold) |           |
- (v) sugar beet target price 0
- (vi) olive oil intervention price 0
- (vii) wine guide price 0
- (viii) tobacco support changes 0 to -5%

The Commission estimates that the extra cost in 1985 will be 138 million ecu and in 1986 costs will fall by 34 million ecu. These figures are on a conventional basis and do not mean much. It is clear that this would be a rigorous price package and there would be a reasonable chance of getting costs down. The effect on consumer prices is estimated at about nil.

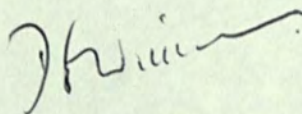
There are some areas where we shall be trying to make this package tougher (eg a price freeze for milk) but the main task now should be to make sure that the Council does not relax the package in any significant respect. If the

/Commission

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Commission sticks to its guns, changes can only be made in the Council by unanimity.

I am sending a copy to Sir Robert Armstrong.



D F WILLIAMSON

31 January 1985

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AT  
GDP 24/1  
92/10  
MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND  
FOOD AND THE BELGIAN MINISTER OF AGRICULTURE: BRUSSELS,  
21 JANUARY 1985

Present

The Minister  
Minister of State (Commons)  
Mr Andrews  
Mr Llewelyn  
Mr Coltman (Embassy)

Mr de Keersmaecker  
Mr Dobbelaire  
Mr Carmeliet  
Mr Biron  
Mr Keymeulen

After welcoming the Minister to Brussels, Mr de Keersmaecker said that the Community's price policy must be considered in the framework of its financial problems. Ministers had to do their best to keep within current financial limits, but, at the same time, they should not endanger the principles of the CAP; this would lead to a renationalisation of agricultural policy. He commented that there had been moves in that direction recently, which he considered to be extremely dangerous. Ministers had to approach the price fixing with political realities in mind, in a way that gave farmers some hope for the future. So although they must continue to exercise restraint, budget discipline could not be applied mechanically. In Belgium farm incomes had fallen by 7% in 1984. They had accepted difficult decisions last year but it would be almost impossible to say to farmers now that the measures taken last year to limit production, via guarantee thresholds, should be followed by a price freeze this year.

The Minister said that he shared Mr de Keersmaecker's concern about the dangers of renationalising agricultural policy; member states must work within the CAP. Recent developments in Germany were particularly worrying, as the Germans seemed to have unlimited funds to use to bypass Council decisions. Turning to the general points made by Mr de Keersmaecker, he was glad that Belgium seemed to accept the need for budgetary discipline. This had to be the starting point for the price negotiations. It was essential that the Community respected the financial guideline and that the new procedure was observed in the current negotiations. On prices, it would be wrong to throw away what had been achieved last year by reverting to an over-generous price policy. In the past, the Council had always taken action too late; this year, it was essential to send a clear signal to farmers that the Council did intend to control the level of production. There was, therefore, a continued need for price restraint across the board. This applied particularly to milk, where it would be foolish to use quotas as an excuse for price increases. He added that he had never been enthusiastic about quotas and hoped that the Community would be able to revert to a simple price policy for milk after five years; this would not be possible if prices increased substantially over this period. He believed that it was also essential for the Council to observe the rules it had agreed on guarantee thresholds. These had to be made to work, especially in the cereals sector, where he believed

they would have an effect on the level of production if they were implemented in full. This would avoid the need to employ artificial constraints on production such as quotas, which would be disastrous in this sector. Finally, he believed that the price settlement would have to take account of the balance of expenditure between member states and between various parts of the Community; Mediterranean products had benefited from large increases in expenditure over recent years and further price increases were not justified.

Mr de Keersmaecker agreed that decisions taken last year should not be weakened. However, if the Community's approach on agricultural policy was to succeed, it needed to be reinforced by progress in other sectors which could contribute to the prosperity of Community agriculture. More progress was needed on harmonisation, both in the monetary and internal market sectors. In particular, measures protecting national markets needed to be removed (he observed that no one was free from criticism here). Another area where more needed to be done concerned Community preference; for example, a consumption tax on oils and fats should be introduced. Turning to the others points made by the Minister, he was sceptical about the possibility of controlling production via price policy. This had not proved effective in the past. He was doubtful, therefore, whether it would prove possible to abandon the quota system for milk and revert to a straightforward price policy. Similarly, he doubted whether price reductions would in fact reduce production of cereals. He had noted what the Minister had said about quotas in this sector and confessed that he did not know the answer here. Nevertheless, he did not believe that the present system would prove effective, adding that politically it would be very difficult to rely on prices alone if this meant such severe price reductions that small producers could no longer survive. Finally, he agreed with the point the Minister had made about Mediterranean products; we had to bear in mind the implications of enlargement here.

Discussion then turned to individual commodities. On cereals, Mr de Keersmaecker said he had already put his view in general terms. He accepted that the guarantee threshold should be implemented in full, but it would be difficult not to have at least a small offsetting price increase. There should be no further increase in quality standards.

The Minister replied that with the current large surplus of cereals, and the possibility of another substantial harvest this year, now was the wrong time for any price increase. The guarantee threshold arrangements should be applied in full. He had already made clear his opposition to quotas but he was equally strongly opposed to any co-responsibility levy. He agreed with the Belgian line on quality standards. For wheat, he would like to see the gap narrowed between bread-making and feed wheat prices. He would continue to seek the abolition of carry-over payments. On the external side, the introduction of the new Farm Bill in the USA had created new problems and the Community had to be careful not to provoke a price war.

Mr Andrews added that despite cuts in price levels, real returns to cereal producers had continued to rise because of continuing increases in productivity. In view of this, and of the profitability of the cereals sector recently, in our view prices could be significantly reduced without drastically affecting incomes and we believed that the continuing application of guarantee thresholds would control production. On quality standards, we were particularly opposed to quality standards on exports. Mr de Keersmaecker said that he fully agreed with this last point. He was equally opposed to tightening other quality standards as this would discriminate against countries such as Belgium and the UK which had relatively unfavourable climates. On the external side, he agreed that developments in US agricultural policy were likely to prove of key significance. He was opposed to ending carry-over payments.

The Minister of State (Commons) commented that in the UK there was a continuing imbalance between the cereals and livestock sectors; the recent fall in cereal prices had helped to remedy this, although more needed to be done. A co-responsibility levy would not contribute to improving the balance, since it would hit cereal producers' margins without helping the livestock sector. Mr de Keersmaecker said that they had not yet reached conclusions on the merits of a co-responsibility levy and of other methods of limiting production, although they would probably end up sharing our point of view. He noted that there was interest in some parts of Belgium and in France in a quantum system, whereby only certain quantities would be eligible for intervention.

Mr de Keersmaecker said that the Commission's latest proposals on starch were completely unacceptable, since they would discriminate between different types of starch. The Minister agreed that the proposal raised a number of difficulties; it should be kept out of the price fixing negotiations. Mr Andrews added that the proposal would discriminate both between materials used and between end uses. Furthermore, it would be difficult to implement the new arrangements without any transitional period. It was right to try to remove the present distortions in the starch regime, but an even handed approach was needed and an adequate transitional period. In our view this proposal was related to the one on sugar for the chemical industry, where we believed that quota sugar should be eligible. Mr de Keersmaecker promised to look into this point.

Turning to milk, Mr de Keersmaecker said that the Community must implement what had been agreed last March; in particular, Ireland's bid for extra quota must be resisted. Moreover, this implementation must be on a uniform basis in all member states. For this reason he regretted that it had been agreed that quotas could be based on either Formula A or Formula B; he felt that this needed to be reviewed, as should the Community reserve, where it was necessary to look at the real purpose of the reserve. He also had doubts about levy collection



every three months; a longer period was needed. On price, he had accepted the quota system in order to be able to continue to apply a realistic price policy. He was aware of current budgetary restraints, but it would be politically extremely difficult to apply a price freeze; this would have a severe effect on farm incomes. He added that he did not wish to use the argument that 1985 was an election year in Belgium, but this point should be borne in mind. The co-responsibility levy should be reduced by the 1% agreed last year, but to do more would create financial problems. The corresponding 1% reduction in quota should go ahead.

The Minister agreed that it was essential that the existing rules were fully implemented. He noted Mr de Keersmaecker's comments on the Formula A and B systems, commenting that if changes were made to the current arrangements we needed to ensure that we did not move to a system of national quotas. He did not accept the Belgian arguments on prices. As he had explained earlier, we were seeking a price freeze. If it was necessary to increase producers returns, we would much prefer to see this done by reducing the co-responsibility levy further. He would, however, like to see another adjustment in the fat/non-fat ratio to reduce the price of butter and so boost consumption. So far as the Community reserve was concerned, he did not think that the existing level or allocation should be changed. It would be easy for all Ministers to find areas that might benefit from the reserve if it was re-opened. Finally, he agreed that the Irish claim to extra quota was outrageous.

Mr de Keersmaecker accepted the Minister's arguments on the Community reserve. If this issue was re-opened, producers in the Belgium province of Luxembourg (who felt aggrieved because of the favourable treatment granted to the Grand-Dutchy) would undoubtedly press to be included. He also agreed that the Community should not move to a system of national quotas. However, the different ways in which the two existing formulas were being applied was leading to discrimination between producers in different member states, and he believed that it would be better to have a single system. He agreed, too, that a better fat/non-fat ratio was needed, to place butter in a more competitive position with regard to other fats. He added that this was one of the purposes of the proposed oils and fats tax.

Mr Andrews replied that an oils and fats tax would be likely to lead to problems in GATT and, at the level proposed by the Commission, would have little effect on the balance between vegetable fats and butter. It would also be difficult and expensive to administer. Mr de Keersmaecker denied that such a tax would be contrary to GATT if it was a broad-based consumption tax; this would be the equivalent of the milk co-responsibility levy. He accepted that at the level proposed it would do little to help butter consumption, but claimed that psychologically and politically it would be helpful

and that it would improve the Community's financial position. Given its political, commercial and financial advantages, it should certainly be kept on the table.

The Minister of State (Commons) noted what Mr de Keersmaecker had said about collection of levy, and said that we were considering this point. Collection every six months might be sensible. Mr de Keersmaecker replied that annual collection would be better.

Mr de Keersmaecker said that a prudent price policy was needed for beef. The introduction of milk quotas had created difficulties in this sector and an unjustified increase would lead to additional problems. He would like to see all premiums other than the Suckler Cow Premium abolished.

The Minister agreed that <sup>a</sup>prudent price policy was required for beef. However, the Community should take the next step in the implementation of the Beef Carcase Classification Grid. So far as the Beef Variable Premium Scheme was concerned, this had advantages over intervention in that helped maintain levels of consumption; it also was less costly to the Community. With the introduction of clawback, distortion of competition was no longer a possible problem. Mr de Keersmaecker said that he would consider the Minister's arguments. If the premium system was preferable to intervention, it should apply throughout the Community. He was in favour of a uniform, rather than an à la Carte, regime.

The Minister explained the UK's position on sheepmeat. We were in favour of a prudent price policy and not seeking major changes to the regime, although we did want something done to facilitate exports. Mr de Keersmaecker took note.

There was no time to discuss other commodities, although it was agreed that price restraint was needed for fruit and vegetables, olive oil, wine and sugar. On sugar, the Minister commented that we were looking for a small increase in processors' margins.

CHK

C I LLEWELYN  
23 January 1985

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PS/ S of S for Scotland  
PS/ S of S for Northern Ireland  
Mr Powell/ No.10  
Mr Williamson/ Cabinet Office  
Mr Coltman (Embassy, Brussels)  
Mr Blackley (Embassy, The Hague)



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

From the Minister

The Rt Hon Nicholas Ridley MP  
Secretary of State  
Department of Transport  
2 Marsham Street  
LONDON SW1P 3EB

*Handwritten initials and date:*  
18/1

18 January 1985

*Handwritten signature:*  
Nicholas Ridley

Thank you for your letter of 9th January. I was very interested in your remarks about a new system of aid which would encourage farmers not to grow grain.

The distinction which you draw between allowing land to revert to nature as against reversion to more traditional forms of farming is not however one that is easy to translate into practice. There is in fact very little purely "natural" habitat left in the UK and good conservation usually calls for positive management of land which is actually being farmed in one way or another. Arrangements for management agreements between the statutory conservation agencies and individual owners and occupiers are, therefore, an important feature of the Government's policy under the 1981 Wildlife and Countryside Act. They provide for long-term agreements designed to secure the sympathetic management of land of high conservation interest, perhaps the best examples being those between the Nature Conservancy Council and farmers in Sites of Special Scientific Interest. No doubt Patrick Jenkin can tell you more about this type of arrangement if you wish.

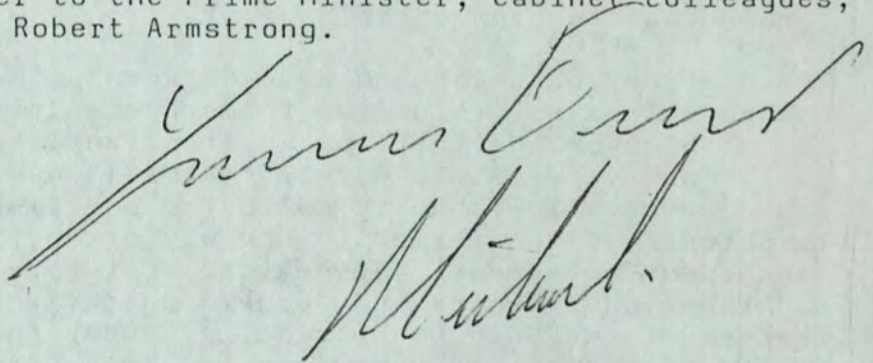
As to the encouragement of the more traditional types of farming, we have already recognised that an approach along these lines would be valuable. Accordingly we have proposed that the draft EC Structures Regulation, currently under discussion in Brussels, should contain specific provisions allowing Member States to pay aids to encourage farming methods sympathetic to the environment in suitably designated conservationally-sensitive areas. Our proposal has not so far had the support in Brussels that it deserves, but I am still hopeful that it will be accepted. In practice, the implementation of such measures in the lowlands would typically mean assistance to traditional grazing livestock systems in areas where more intensive forms of agriculture, notably cereal-growing, are threatening either the wildlife or the landscape. Farmers would

/have to ....

SUBMITTED

have to meet certain conservation conditions to be eligible for these grants, and we would be aiming for a lasting effect in the areas concerned. This approach is of course in line with your own ideas.

I am copying this letter to the Prime Minister, Cabinet colleagues, the Chief Whip and Sir Robert Armstrong.

A handwritten signature in cursive script, appearing to read "James Erskine".

MICHAEL JOPLING



File  
CEPC  
For the European with the  
Economic Secretariat?

1 CP  
2 Prime Minister (2)  
To note.

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

AT 17/1

16 January 1985

The Rt. Hon. Michael Jopling MP  
Minister of Agriculture, Fisheries and Food

Dear Minister,

no

**REVIEW OF THE CAP**

Thank you for your letter of 7 January. I have since seen reports of your recent meetings with Pandolfi and Andriessen.

attached:  
Now that Pandolfi has said that he intends to propose a review of the CAP we will clearly have to consider collectively whether to oppose this move or whether to do our best to turn his ideas into something which we could ourselves support. As I mentioned in my earlier letter, the membership and terms of reference of any review team would clearly be crucial. I suggest that the best way forward might be for officials from the various Departments concerned to consider these issues under Cabinet Office chairmanship with a view to recommending an agreed line for us to take in any future discussions of the review idea.

I am sending copies of this letter to the Prime Minister, the Foreign and Commonwealth Secretary, the Secretaries of Scotland, Wales and Northern Ireland, the Lord President of the Council, the Lord Privy Seal, the Chief Whip and Sir Robert Armstrong.

Yours sincerely,

Philip Wynor Owen

NIGEL LAWSON

ff (Approved by the Chancellor  
and signed in his absence)

Env PD: CAP Pt B.

001 2114

Handwritten notes, possibly including "X" and "12/12/85"

17 JAN 1985  
Circular postmark with numbers 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12

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MEETING

BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND  
THE DANISH MINISTER OF AGRICULTURE: 16 JANUARY 1985

PRESENT

The Minister  
The Minister of State (Commons)  
Sir Michael Franklin  
Mr Andrews  
Mrs Attridge  
Mr Boswell  
Mr Llewelyn

Mr Kofoed  
Mr Ottosen  
Mr Barerentsen  
Mr Jenson (Embassy)  
Mr Nielson "

NKPN  
add 1/7.

After welcoming Mr Kofoed, the Minister said that both the Presidency and the Commission were seeking a swift price settlement based on straightforward proposals. This would keep the period of uncertainty for farmers to a minimum, and seemed a sensible approach. He also hoped that the decisions on prices would build on what had been achieved last year; for milk, this meant implementing the agreed 1% further reduction in quotas, together with the related cut in the co-responsibility levy, and not increasing the price.

Mr Kofoed said that he agreed with this approach. He also agreed that the milk price should not be increased, or at most only increased marginally. He was concerned, however, at the size of the milk surplus that remained in the Community and at the likely pace at which it would be reduced under the quota system. There were attractions in the idea of having a more substantial price increase linked to a larger cut in quota, since at the current pace of quota reduction it would take some 10 years to eliminate the 10 million tonnes or so needed to bring the market into balance. The Minister commented that he did not believe that it was politically possible to go further this year than the 1% quota cut already agreed. On the question of price, in his view it would be better to make a larger reduction in the co-responsibility levy than to concede a price increase. Mr Kofoed said that he accepted that it was not politically feasible to reduce quotas by more than 1% this year. He tended to agree with the Minister's position on the co-responsibility levy, although it would not be possible, for budgetary reasons, to make too great a reduction in the levy.

The Minister then asked for Denmark's views on the future of the quota system. Mr Kofoed thought that we should aim to end the quota system after the initial five years. The Minister agreed, but pointed out that this could only be achieved if the market was in or near balance and prices were at a level which would not provide an incentive to increase production. Mr Kofoed retorted that it was also essential to safeguard producers' incomes. It would be very difficult to cut production



and freeze prices at the same time.

The Minister said that one solution to these problems, favoured by Germany, would be to introduce a Community financed scheme to buy quota out permanently and so reduce production levels. It was claimed that this would be cheaper than buying the surpluses that would otherwise have been produced into intervention. Sir Michael Franklin observed that the key question was whether it was in fact politically possible to cut quotas next year without compensation. Mr Boswell added that there was no way of both satisfying producers and reducing milk production, without buying out quota. Mr Kofoed noted these arguments; he commented that the root of the problem was a structural one, that there were too many farmers, and that it was a weakness in the current negotiations on structural policy that this issue was not addressed.

Discussion then turned to what other changes were needed in the quota system next year. The Minister said that it was essential to secure more flexibility for the transfer of quota. Mr Kofoed agreed. There had to be freedom to buy and sell quotas, if the system was to last. The Minister commented that Germany would be opposed to any such change. However, there was no reason why different systems for transferability should not apply in different member states. The Minister of State (Commons) said that a related issue was whether unused quota should be confiscated; we had given an undertaking that this should not happen this year. Mr Ottosen replied that the Danish rules provided for a producer to lose his quota if he stopped production for 4 weeks, unless he could provide a valid reason for this.

Sir Michael Franklin said that it was likely that the Commission would propose a further change to the butter/skimmed milk powder ratio. We did not yet have firm views on this idea and would wish to see detailed figures. Mr Ottosen replied that they had yet to consider this possibility, but his first reaction was that a considerable change in the ratio had been made last year and that this should not be altered again.

Turning to cereals, the Minister said that we favoured the full implementation of the guarantee threshold and no increase in basic prices, giving a net price reduction of 5%. Mr Kofoed agreed that the guarantee threshold should be implemented in full and that an increase in the basic price should be avoided if possible; he reckoned, however, that at the end of the day there would be a 2% price increase, offset by the 5% guarantee threshold reduction. He wondered, however, what the implications would be of a fall in cereal prices; this would be likely to lead to increases in intensive livestock production and, perhaps, to a move to beef in marginal cereals areas. Beef intervention was more costly than cereals intervention. Mr Ottosen added that even a 5% reduction in cereal prices would be unlikely to reduce cereal production, as production levels were determined more by price relativities

and by opportunities to grow alternative products. Sir Michael Franklin replied that if it could be made clear to producers that a guarantee threshold system would continue to operate in the future and that basic prices would remain frozen as long as production exceeded the guarantee threshold, in his view there would be an effect on production levels.

The Minister said that he was firmly opposed to the French idea of a cereals co-responsibility levy and to cereals quotas. Mr Kofoed agreed on both these points.

Mr Ottosen said that the Commission were likely to repeat their proposals for fibre content standards for barley and for export quality standards. Denmark remained firmly opposed to these. Sir Michael Franklin agreed that these proposals were not justified. We would, however, look at sensible ideas for reducing the level of intervention such as a lower moisture content for intervention wheat.

Mr Kofoed agreed with the Minister that the reference / for bread making wheat should be ended. price

Mr Kofoed said that he was in favour of applying the full guarantee threshold for rapeseed. Sir Michael Franklin agreed. There were, however, implications for the relationship between sunflower seed and rapeseed; we did not wish to see the price for rapeseed reduced and the price for sunflower seed maintained at its current level. He added that we continued to see no justification for a price differential in favour of 00 rapeseed. Mr Ottosen replied that the processing capacity for 00 rape was still inadequate and the processors needed an incentive to convert to this variety. They would, therefore, continue to seek a differential here. Once processing capacity for 00 rape was adequate, however, support for 0 varieties should cease.

Turning to beef, the Minister said that the introduction of clawback had removed the possibility that the Beef Variable Premium Scheme might lead to distortions of competition, and he trusted that Denmark would not now oppose its renewal. More widely, he wondered whether Mr Kofoed had considered the merits of a scheme of this sort on a Community wide basis, since it had the merit of increasing uptake by consumers, thus keeping beef out of intervention. Mr Kofoed said that he did not believe that deficiency payments could work in a sector where the market was over supplied. He doubted whether the introduction of a premium scheme in Denmark would lead to increased consumption, as price elasticity for beef in that country was low. If the reverse was true in the United Kingdom, he feared that the increased consumption of beef was at the expense of other types of meat. Mr Ottosen observed that at least there was an agreement that it was better to dispose of consumption in this sector before it went into intervention; in Denmark they had introduced a quota system on intervention purchases, which had kept down intervention levels.

Mr Andrews said that we believed that the Community should observe the decision it had taken last year on the introduction of the Beef Carcase Classification Grid and take the second step this year. This should be linked to the minimum price increase possible. Mr Kofoed agreed, noting that we should be very cautious about any price increase.

The Minister said that there had been major changes to the sheepmeat regime last year; we wished to avoid further substantial changes this year. Any significant revision of the regime would be highly contentious, and would be likely to delay the price fixing. Mr Kofoed took note.

On sugar, the Minister said that we did not believe that a price increase for sugar beet was justified, although we were prepared to see a small rise in the price for sugar, to help improve manufacturers' margins. We were concerned at the proposal to make C quota sugar available to the chemical industry; we believed that the scheme should apply to quota sugar as well. Mr Ottosen agreed that the Commission's current proposals could well distort the market, and wondered whether C sugar should be eligible for the scheme at all; he tended to think that it should only apply to quota sugar. He saw parallels with the Commission's proposals on starch; he had not looked into these fully, but he felt that they could well be harmful and potentially very expensive.

The Minister said that additional price increases for Mediterranean products should be resisted, as these had done very well in recent years. Mr Kofoed agreed. Mr Ottosen added that on tobacco we have been close to agreement last year that premiums should only be paid on tobacco produced under contract. We should continue to seek this change. Mr Andrews agreed; we should also continue to press for flat rate premiums and a guarantee threshold (although the last was more difficult).

The Minister said that we attach great importance to a price settlement that fell within the financial guideline. To ensure that this was achieved, we needed Commission proposals that were well within the guideline, so that the Council was left with some room for manoeuvre. Mr Kofoed replied that his judgement was that the average price increase this year would be +1 or 2%, which would be within the guideline. Mrs Attridge pointed out that the procedure agreed by the European Council required the Commission to bring forward estimates of the effects of their proposals and state whether they fell within the financial guideline; we attached importance to the Commission carrying out this procedure in full.

At the end of the meeting, Mr Kofoed said that he was very concerned at Germany's current attitude to the CAP. They were showing themselves increasingly prepared to finance additional aid to the agricultural industry on a national basis. They could afford to do this, but other member states could not, and if they persisted with this approach the result would be the renationalisation of the CAP.

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C I LLEWELYN  
18 January 1985

CIRCULATION

Private Offices  
Deputy Secretaries  
Commodity Under Secretaries  
Mrs Attridge  
Mr Wilson  
Commodity Assistant Secretaries  
Mr Packer  
Mr Melville  
PS/Foreign Secretary  
PS/Chancellor of the Exchequer  
PS/ S of S for Wales  
PS/ S of S for Scotland  
PS/ S of S for Northern Ireland  
Mr Powell/ No.10  
Mr Williamson/ Cabinet Office  
Mr Sadowski (Embassy, Copenhagen)

118 JAN 1985

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MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND  
FOOD AND THE FRENCH MINISTER OF AGRICULTURE, BRUSSELS:  
14 JANUARY 1985

Present

Minister	Monsieur Rocard
Minister of State (Commons)	Monsieur Lachaux
Sir Michael Franklin	Monsieur Perreau
Mr Llewelyn	Monsieur Blanchemaison
Mr Anderson (UKREP)	Monsieur Trunel
	Monsieur Hesson

PRICE-FIXING

The Minister said that in view of the mood of uncertainty among farmers, it would be very useful to have early price decisions. It would be helpful if the proposals were straight-forward. In our view it was also essential that they did not go back on the decisions taken last year.

M. Rocard agreed. In his view the key decisions to be reaffirmed were the further 1% cut in milk quotas and the revised rules on wine agreed in Dublin. He wondered, however, whether the Italian Presidency was really interested in an early settlement; the marketing years for most of the commodities of interest to them started later in the year and, given the problems they faced on wines, a delay might suit them well. The Minister commented that Signor Pandolfi's professed desire/an early settlement had seemed to him to be genuine.

Turning to financial discipline, M. Rocard said that he was not sure that it would be possible to implement the system fully this year. At the moment it was impossible to envisage how the guidelines would effect individual regimes. Wine was the crucial sector here; a future policy had been agreed at Dublin, but this would entail considerable costs, at least in the short term. Given the political importance of wine domestically and its significance for enlargement, he could not agree to anything that would restrict the finance necessary for this sector. In his view the financial guidelines could only be fully implemented when the changes needed to the individual commodity regimes had been completed; we were not yet at that stage. A further complication related to stock levels; for the purpose of the financial guideline calculation, should one take the cost of disposing of normal stock levels, or of current, exceptionally high, stocks?

The Minister replied that we believed it to be essential to meet the terms of the financial guideline in the price-fixing. Sir Michael Franklin added that the French point about stocks begged the question of what "normal" stock levels were; stock levels fluctuated and in our view the disposal costs of actual stocks were part of the normal costs of the CAP.

## Milk

The Minister agreed that the 1% cut in quotas must be implemented, as should the related cut in the co-responsibility levy. We were opposed to any increase in price in this sector, given the substantial surplus that still existed and the danger of becoming locked into a permanent quota system if the existence of quotas was used as an excuse for higher prices. M. Rocard replied that the UK's implied objective, to reduce the level of milk production to below that of the Community's overall quota, would be politically intolerable. He did not believe the Agriculture Council would accept a price freeze for milk. This year we should concentrate on cereals, wine and beef and we could not do this and take a very hard line on milk. Ministers could not afford to be unpopular everywhere all the time. He was, therefore, thinking in terms of at least an average price increase for milk, with, if possible, the average plus 1%. So far as ending the quota system was concerned he doubted whether this was possible; if it was the key would be to increase production of cheese and fresh products for which there was a market at the expense of butter and SMP.

## Cereals

The Minister said that we believed that guarantee thresholds must be made to work in all sectors. For cereals, this meant a price reduction of 5%; we did not think that there should be a compensatory price increase. M. Rocard agreed that the guarantee threshold for cereals should be implemented, adding that a quota system in this sector was not acceptable. However, he doubted whether a price cut of 5% was negotiable, particularly with Germany, and he was inclined to favour implementing the guarantee threshold through a price cut of, say, 3% linked to a 2% co-responsibility levy. The proceeds of the levy would be used to increase disposal opportunities for cereals. In his view this would be preferable to reducing the price by the full 5% but offsetting this with a 2% price increase, since he was anxious to avoid an increase in the basic price for cereals which would serve to push up the overall average price increase and so lead to unnecessary increases in other sectors, such as wine (where a price rise would greatly increase the cost of exceptional distillation). Moreover, it would be easier for producers to accept a price reduction if some of it was seen to go, via a co-responsibility levy, towards a special fund to improve uptake of cereals.

M. Rocard then went on to explain the philosophy underlying his approach. For products for which the market was essentially restricted to Europe, such as milk and meat, the Community had no option but to reduce production. For cereals and sugar, however, there was a global market and it was, therefore, possible to increase the rate of disposal rather than reduce production. There were strong social reasons for trying to maintain production levels where possible, in order to maintain the viability of rural Communities. Given this

background, he believed that a key part of any strategy for cereals must be an attempt to increase uptake and, in particular, the amounts of cereals exported and used in industry and animal feed; the proposed fund would undertake research and investment in these areas.

The Minister said that the UK would be strongly opposed to a co-responsibility levy on cereals. This would increase costs to livestock farmers and consumers and would be unlikely to prove more acceptable to cereal producers than a simple price cut. Furthermore, a co-responsibility levy on the scale M. Rocard was suggesting would raise very substantial amounts of money, far more than was needed for research, and would be likely to become a revenue raising device. Sir Michael Franklin added that the administrative problems of introducing a co-responsibility levy should not be underestimated. However, there were areas of agreement between the UK and France in this sector; both countries wanted to implement the guarantee threshold, maintain price pressure and increase uptake of cereals. It would be helpful if officials could explore these points further. M. Rocard agreed; at a later stage farmers representatives and research interests might usefully be involved in any discussions. It was left that officials would arrange to meet next week.

#### Oilseeds

M. Rocard said that it would be difficult to apply the full guarantee threshold to rapeseed, since if a price reduction was applied to that product but not to sunflower seed (for which no price cuts were required), the balance between the two commodities would be adversely affected. The Minister said that we would find it very difficult to agree not to apply the guarantee threshold in full to rapeseed. An alternative approach might be to find some way of effectively reducing the price for sunflower seed. M. Rocard then indicated that this issue was unlikely to be a sticking point for him.

#### Sugar

The Minister said that both countries had a number of difficulties in the sugar sector, in particular on sugar for industrial use and isoglucose. He suggested that the officials meeting to discuss cereals should consider this sector as well. M. Rocard agreed.

#### Fruit and Vegetables

M. Rocard said that the budgetary significance of the fresh fruit and vegetable sector was very slight. He would be seeking a price increase here for political reasons. The Minister replied that expenditure on Mediterranean products has risen markedly over recent years and he did not feel that further price increases were justified. M. Rocard denied that fresh fruit and vegetables had received favourable treatment. However, this was undoubtedly true



of processed fruit and vegetables; here he agreed that guarantee thresholds (including that for dried vine fruits) should be implemented and, to be effective, should be applied on a national basis.

### Beef

The Minister said that we remained convinced that the Beef Variable Premium Scheme was the most effective method of supporting the beef market. The introduction of clawback last year had removed the possibility of any distortion of competition. He reminded M. Rocard that when he had last discussed this with him, he had promised to consider the merits of a variable premium scheme. M. Lachaux replied that the existence of the BVPS depressed average beef prices throughout the UK, which in turn drove down the price of cow beef, which was not subject to clawback. This gave it a competitive advantage on the French market. The Minister argued in return that the cow and clean beef markets were largely separate and rejected the idea of clawback on cow beef.

M. Rocard said that he could see the advantages of a deficiency type scheme over intervention in this sector. If the Commission could be persuaded to propose a variable premium scheme on a Community wide basis, he would be happy to accept it, although the potential cost would have to be carefully considered. So far as the BVPS was concerned, there was clearly disagreement about its effects on competition; perhaps experts should meet to explore this further. M. Lachaux said that experts had studied all aspects of the BVPS exhaustively last year. Nine member states had agreed that it did distort competition and was undesirable, the UK had not. There seemed little point repeating the exercise.

The Minister asked what was happening about the French beef aid package. M. Lachaux replied that the Commission were now examining these proposals; no money had yet been paid out. He claimed that the difficulties of the French beef sector, which made the proposals necessary, were partly due to the BVPS and to the lack of a ceiling on HLCAs in the UK. M. Rocard added that it was essential to do something to improve incomes in the beef sector in France. If these aids were forbidden, he would have to take a tougher line on the meat generally in the price fixing. The Minister emphasised that he remained firmly opposed to the payment of illegal aids to French producers in this sector.

### Sheepmeat

The Minister said that there had been major changes to the regime last year, some of which had caused us difficulties. He hoped that France would agree that further substantial alterations should be avoided. M. Lachaux replied that France had put forward a memorandum to the Commission setting out certain changes that they would like made. M. Rocard said

that he had not yet focused on this particular sector yet; he would, however, be considering it carefully. M. Lachaux then suggested that it would be helpful if he could discuss sheepmeat further with Sir Michael Franklin; this was agreed.

#### Wine

M. Rocard confirmed the importance he attached to securing the fully implementation of the agreement reached at Dublin. This was a major point for him. The latest Commission text was inadequate in two or three respects; this would have to be remedied.

#### General

At the end of the meeting M. Rocard said that his main pre-occupation over the last few weeks had been international trade and, in particular, developments in the USA. As a result he had not yet focused on the price fixing and his views were still provisional. It would be some two weeks before he would be in a position to confirm the views he had put forward during the discussion.

#### OTHER MATTERS

In the course of the meeting, M. Rocard said that he had become increasingly concerned at the potential effects of enlargement on the Community's policy towards Mediterranean third countries, in particular Tunisia, Morocco and Israel. It was not possible for Spain to receive less favourable treatment than third countries, so Spanish entry, given the competitiveness of Spanish agriculture, would inevitably devalue the Community's Mediterranean trade concessions. Tunisia's exports of olive oil and Morocco's exports of citrus would be especially hard hit. The only compensation the Community would be able to offer would be financial, and he feared that this, combined with IMPs, would mean that enlargement would be accompanied by heavy additional budgetary costs. He did not believe that the Community had yet woken up to this. He was also concerned at the Commission's failure to take adequate account of the GATT implications of enlargement. He intended to raise all these matters in the Agriculture Council.

Over lunch, discussion covered, among other things, the payment of milk supplementary levy and agricultural structures. On the first point, M. Rocard said that France was determined to implement the quota system. However, it was essential that a way be devised to enable milk to be transferred from dairies that had not fulfilled their quota to those which had over produced. Once this was done and it was possible to resolve the worst anomalies of the quota system, he would be ready to collect levy. M. Lachaux pointed out that what France was seeking was what, in effect the MMB were able

to do in England and Wales. The Minister was highly critical of the French position. All member states were aware of the potential difficulties when they adopted the quota system last year; no one should now say that they would only implement it if changes were made retrospectively. We did not reject the idea of changes to the system; indeed, we were seeking some changes ourselves. But we could not agree that the system should not be implemented until these changes had been made. On structures, M. Rocard showed interest in the UK conservation initiative, agreeing that conservation was likely to assume increasing importance throughout the Community. M. Lachaux was more sceptical; he feared that it would open the way to the introduction of state aids with only tenuous claims to be related to conservation (indeed, he pointed out that it will possible to justify parts of the French beef aid package in this way).

CLL

C I LLEWELYN  
16 January 1985

Circulation

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Commodity Under Secretaries  
Mr Wilson  
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PS/ Chancellor of the Exchequer  
PS/ S of S for Scotland  
PS/ S of S for Northern Ireland  
PS/ S of S for Wales  
Mr Powell/ No. 10  
Mr Williamson/ Cabinet Office  
Mr Anderson, UKREP  
Miss Timms (Embassy, Paris)

15 JAN 1985

AT to see  
CAP  
17/1

MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD AND MR ANDRIESEN. BRUSSELS: 11 JANUARY 1985

Present

Minister	Mr Andriessen
Minister of State (Commons)	Mr Villain
Sir Michael Franklin	Mr Pooley
Mr Llewelyn	Mr Trojan
Mr Anderson (UKREP)	Mr Avery

Price Fixing

The Minister, after congratulating Mr Andriessen on his new responsibilities, said that he hoped that the Commission would continue to work towards a more sensible application of the CAP. He hoped that they would not propose substantial, or in some sectors any, price increases; that they would fully implement guarantee thresholds; and that their proposals would be simple ones. The latter point was important if the negotiations were to be concluded rapidly.

Mr Andriessen replied that in his view the Commission should maintain the policies and principles introduced last year. He agreed that it was important to try to meet the end of March deadline, and so would try to produce simple proposals. There would be some related measures in some sectors, but these would not be extensive. His objective would be to adjust prices in conformity with market conditions; these did not justify large price increases. In general, he agreed with the need for a very restrictive prices policy, but not a price freeze. On milk, his objective was to ensure the uniform application of the quota system. He would be proposing some minor technical adjustments to the Agriculture Council, but these would not imply the introduction of national quotas or jeopardise the objectives of the system.

The Minister said he would welcome proposals for technical changes to the quota system. He agreed that the Community should not move towards national quotas; he did not utterly reject the concept, but last year the Council had decided against this route. He did not believe that a price increase for milk made sense; here, a price freeze should be the maximum considered. It was important that the additional 1% co-responsibility levy was removed (Mr Andriessen indicated that this was the Commission's intention) and if it was felt that producers should receive additional assistance, this should come via a further cut in the co-responsibility levy. On cereals, the full 5% price cut deriving from the guarantee threshold system should be enforced (Mr Andriessen again indicated that this was the Commission's intention). On Mediterranean products, he noted that expenditure on these had risen dramatically in recent years; he did not believe that additional increases for these products were now justified.

Mr Andriessen said that he had told Signor Pandolfi that Mediterranean products would have to be discussed in a "profound way". He had not yet decided what to propose; this whole area was very sensitive politically. On cereals, he had yet to decide whether to propose an increase in the basic price, but he was considering removing the 5% limit on the reduction that could result from the application of the guarantee threshold. Mr Villain added that he saw problems with the UK's approach on milk. Any additional cuts in the co-responsibility levy would have adverse consequences for the budget. Moreover, in his view a price freeze for milk would imply a price freeze for all sectors. It would be preferable to have a small increase for milk and price cuts for cereals and Mediterranean products. He did not believe that price cuts would be politically feasible if there was no price increase for milk. So far as Mediterranean products are concerned, he thought that price cuts were particularly justified for tobacco and fruit and vegetables. Mr Andriessen continued that he thought that the proposals on prices should take account of circumstances in individual sectors. For milk, the principal priority must be to maintain the integrity of the quota system; to achieve this, a price increase might well be politically necessary. For Mediterranean products, on the other hand, cuts were justified in some sectors, and he thus favoured a modulated approach to prices. Moreover, he would like scope to dismantle further positive MCAs in the Netherlands and Germany, which was likely to require price increases; there was no legal obligation to remove additional positive MCAs this year, but he wished to maintain the momentum of the progressive dismantlement agreed last year.

Turning to beef, the Minister said that we continued to attach importance to the continuation of the Beef Variable Premium Scheme. He handed Mr Andriessen a paper on the Scheme. He trusted that our views would be considered very carefully. Mr Villain commented that to achieve a uniform regime, one could either extend the BVPS to all member states or abolish it. The problem with the first option was that it would cost 1 billion ecu.

The Minister said that the sheep meat regime had suffered major changes last year. We were not seeking further major alterations this year, although there were a number of technical changes that we would like made, in particular in relation to the seasonal scale. If, however, the Commission was thinking of making substantial amendments to the regime, we would wish to see a more free market regime introduced. Mr Andriessen said that the Commission were not intending to reopen the regime; they were aware that it had resulted from a balance of interests and were cautious about amending it.

#### Financial Discipline

The Minister said that in our view it was most important that the price proposals fell well within the financial guideline and left the Council with some room for manoeuvre. Mr Andriessen said that, formally speaking, the financial guideline did

not apply to the 1985 price fixing. Moreover, no one knew what the outcome would be of the current conflict between the Council and the European Parliament as regards the 1985 budget and the issue of the financial discipline, nor whether the new Commission would adopt the same position as that of the old one. In these circumstances, he did not think that the Commission would be prepared to declare publicly that it was making proposals within the framework of the financial discipline guidelines, although it did accept the philosophy behind the guidelines and the proposals would, in fact, be within them. In addition, it was difficult to see how the new system could be applied, as the absence of a 1985 budget meant that there was no reference figure for the current year. If the Commission were to try to operate the system, in his view the only reference figure they could use would be their own original budget proposals. The Minister reiterated the importance which be attached to the Commission adhering to the guidelines agreed Milk Supplementary Levy by the European Council.

The Minister said that the UK had acted as it had in order to maintain the pressure for the uniform application of the quota system. It was not realistic to expect farmers in one country to pay the levy if others were not. We had been surprised at the way the Commission had reacted, and, in particular that they had not withheld advances from Italy or Germany, although they clearly believed that these two countries were not implementing the system properly. What did the Commission intend to do now; was it possible to isolate, and put further pressure on, the worst offenders?

Mr Andriessen said that there were three elements in the current situation. In the first place, a number of countries had not collected the levy. In these cases, the Commission had withheld advances, not as a penalty but in order to safeguard their budgetary position. This was why Italy was not affected; they were under no obligation to pay levy until the end of the year. Secondly, a number of member states were incorrectly applying the rules; in these cases the Commission had started legal proceedings and would continue with these. Thirdly, there were technical difficulties in a number of member states; he was prepared to make technical adjustments to existing rules in order to overcome these. Mr Trojan added that the Commission would reassess the position on non-payment of levy at the end of the current milk year; if at that stage the amount withheld exceeded a member states' liability for levy, the difference would be refunded.

The Minister said that in the longer term there were more general problems of transferability of quota. It was impossible to maintain the current rigid rules and it was necessary to begin examining the possibility of greater flexibility of quota. Mr Andriessen replied that introducing greater flexibility would endanger the quota system if it was done too rapidly. He agreed that some minor changes to the current system were needed, but he was reluctant to undertake substantial changes too quickly. In his view the first priority was to apply the existing rules properly; once this was done, the system should be evaluated and, if necessary, changed. The Minister

said that he accepted this analysis.

#### Pigmeat MCAs

The Minister said that he was most concerned at the distortion of the rules in favour of France. He hoped that the Commission would look into this whole matter; at the least, the UK mca for pigmeat should be treated in the same way. Mr Andriessen was not aware of this issue, but he promised to look into it.

#### Structures

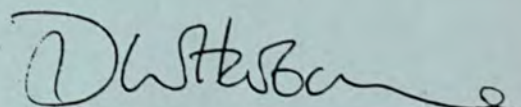
Mr Andriessen said that he had discussed with Signor Pandolfi the financial aspects of this issue. They had concluded that it might be useful for there to be a joint meeting of agriculture and finance Ministers to discuss this point in February. It would be unfortunate if the precedent developed that decisions on the financial aspects of agricultural structures policy was the sole responsibility of ECOFIN; they were suggesting, therefore, the introduction of an AGRIFIN Council.

The Minister said that the Commission was, no doubt, familiar with the details of the UK position on the draft regulation. However, he reminded Mr Andriessen that any ceiling on HLCAs would not be acceptable and that we attached great importance to our conservation initiative. On the latter we had discussed with Signor Pandolfi the possibility of including in the new regulation a provision permitting conservation measures that were nationally funded, pending the introduction of more general, Community funded, provisions. Mr Andriessen promised to look into this idea; short term measures of the sort the UK was seeking seemed possible, but he would need to look carefully into the question of a longer term, Community financed measure.

#### Medium Term Agricultural Strategy

Mr Andriessen said that Signor Pandolfi had raised this question with him at their meeting the previous day. In his view it was essential to provide the agricultural sector with a perspective for the future and he was, therefore, very positive towards the proposal for a review of agricultural strategy in the medium term. The next step would be to consider how best this might be done;\* The Minister commented that, were such a review to take place, in his view it should be conducted by a small group of independent experts.

\*he would be raising this after the price fixing.



AP C I LLEWELYN  
14 January 1985

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Mr Williamson/ Cabinet Office  
Mr Anderson/ UKREP



15 JAN 1985





NBRM

AT 2/1

CCMS

2 MARSHAM STREET  
LONDON SW1P 3EB  
01-212 3434

My ref: J/PSO/18760/84

Your ref:

9 January 1985

Dear Michael,

Thank you for your letter of 5 December covering a note on a set-aside policy for arable land in the EC.

While I naturally welcome proposals which could promote conservation, I will need some time to consider the conservation arguments raised by the particular scheme you suggest. They are less clear cut than your paper suggests. Although set-aside land could provide valuable new habitats for wildlife outside of SSSIs, the visual impact on the landscape would depend very much on the details of the policy adopted.

I am therefore asking my officials to consider the matter further with the NCC and the Countryside Commission before any inter-departmental discussions are arranged.

/ Copies of this letter go to the Prime Minister, other members of the Cabinet, the Chief Whip and Sir Robert Armstrong.

Your ever  
faithful

PATRICK JENKIN

EUR. POL: CAP: Pt 12.

59 JAN 1985



DEPARTMENT OF TRANSPORT  
2 MARSHAM STREET LONDON SW1P 3EB

01-212 3434

The Rt Hon Michael Jopling MP  
Minister of Agriculture, Fisheries  
and Food  
Whitehall Place  
LONDON SW1A 2HH

*WJopling  
DWB*

9 January 1985

*Dear Michael*

*will revert  
if required*

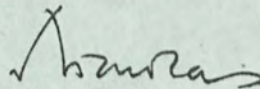
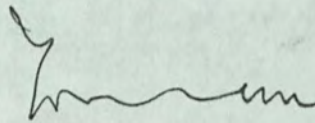
Thank you for sending me your paper concerning possible means of reducing the area of arable land. I thought it well argued and I accept that "set-aside" schemes on the US model would not work here.

Clearly, as the paper suggests, what is needed first is lower support prices. But the main disadvantage of relying on this alone is that it does not necessarily provide the stability needed to allow natural habitats to re-establish themselves. There is no guarantee that those areas which revert to "nature" or more traditional forms of farming will do so for any length of time. There are many factors, both financial and meteorological, which may make it economic for farmers to bring fallow land into production again even with low support prices. I wonder, therefore, whether there is not more we can do to ensure that habitats are preserved over the long term.

Rather than a grand "set-aside" scheme, would it be sensible to consider a European system of grants to farmers not to grow grain in specified areas where it was considered best to let the land revert to (a) nature, or (b) more traditional forms of farming. There could be a bigger payment for (a) ~~and~~ (b). These grants would be for long term agreements not to farm to allow habitats to re-establish. As they would only apply in specified areas,

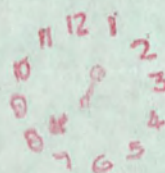
they could be cheaper than the US "set-aside" model;  
they would also offer a firmer assurance for the future  
of our natural habitats and the wildlife they support.

I am copying this letter to the Prime Minister,  
Cabinet colleagues, the Chief Whip and Sir Robert  
Armstrong.



NICHOLAS RIDLEY

10 JAN 1985



RESTRICTED

MEETING BETWEEN THE MINISTER OF AGRICULTURE, FISHERIES AND  
FOOD AND THE ITALIAN MINISTER OF AGRICULTURE: ROME  
8 JANUARY 1985

Present

Minister  
Sir Michael Franklin  
H M Ambassador  
Mr Llewelyn  
Mr Evans

Signor Pandolfi  
Signor Moroni  
Signor Fontana-Giusti  
Signor Calabro

Price Fixing

Signor Pandolfi said that, as President of the Council, he aimed to conclude the price fixing negotiations by the end of March. If he was not successful, he feared that agricultural problems would be drawn into discussions in other areas, such as enlargement, which would greatly complicate matters. On the other hand, if the Agriculture Council could show political will and reach decisions this month, as it did last year, open the door to major political decisions. He hoped that the Minister was ready to help reach a settlement rapidly and would be prepared to attend additional meetings of the Council in March.

The Minister agreed that we should certainly aim to conclude the price fixing as rapidly as possible; after the shocks of last year, the less uncertainty the industry faced over the price fixing, the better. Sir Michael Franklin commented that much would depend on the complexity of the Commission's price proposals. If these were expressed principally in terms of price changes, a rapid settlement would be possible. If, on the other hand, they included a large number of additional proposals, such as cereal quotas, quick decisions would be difficult to achieve. Signor Pandolfi agreed; after the complexities of last year's package, the Commission would be wise to make simple proposals this year. The CAP should not face major upheavals every year.

On procedure, Signor Pandolfi said that he wished to avoid repetitious tours de table. After preliminary expositions of national positions, therefore, he intended to move straight to bilaterals. He intended to make a tour of all Community capitals once the Commission's proposals were available. So far as the February Council was concerned, he would be concentrating on structures and wine, in the hope of deciding both before the price-fixing.

Turning to financial discipline, the Minister said that it was essential, now that a system had been agreed, that Agriculture Ministers kept to its rules and made it work. Sir Michael Franklin added that in this respect it was important that the

Commission made proposals that fell well within the guideline, leaving the Council some room for manoeuvre. Signor Pandolfi replied that, legally, the financial guideline did not apply until 1986. However, he acknowledged that decisions taken this would influence the workings of the guideline. He then asked for the UK's view on the best way of dealing with the European Parliament over the 1985 budget. He felt that it was essential that this dispute was resolved rapidly, as it would be difficult to reach a price settlement if other Councils were still discussing this issue. He added that the UK refunds also depended on the 1985 budget being settled. Personally, he was in favour of the rapid implementation of the refund agreement and he had been making a certain effort on the Italian side to resolve the dispute. He also made the point that the growing involvement of ECOFIN in agricultural issues made it essential to maintain close links between the two Councils; the Presidency would do its best to ensure that such co-ordination took place. The Minister said that he did not feel that there was much that the Agriculture Council could do to deal with the question of the 1985 budget, but he agreed that the present uncertainties should be resolved as rapidly as possible.

On prices, the Minister said that last year we had gone a long way to accustom farmers to a restrictive price policy; it would be foolish now to give the impression that all the CAP's problems had been solved and that production could be expanded once more. We needed to maintain a very strict price policy, with no increase for milk and minus 5% for cereals (ie full implementation of the guarantee threshold). For other commodities we would need to see what the Commission proposed, but, as he had said at his meeting with Signor Pandolfi in October, we did not believe that there was any case for increasing prices for Mediterranean products by more than for northern ones.

Signor Pandolfi said that the Italian position on milk was close to that of the UK. They had accepted a price reduction for wine, and would have been prepared to do so for milk. A substantial increase now would be quite wrong. For other commodities, he did not feel that there should be a single, across-the-board price increase; instead, prices should be modulated to take account of the circumstances affecting individual commodities. So far as Mediterranean products were concerned, it should be borne in mind that support for these had been weakened. The price for compulsory distillation for wine had been reduced, the regime for olive oil had been altered and a guarantee threshold had been introduced for processed tomatoes. Before, there had been a danger that increased prices would lead to increased costs. Now that support arrangements had been weakened, there was some scope for movement. Indeed, given these reductions in support it would be difficult to have no price increase.

The Minister said that it was essential that the guarantee threshold system should be implemented fully. In particular, the effects of the thresholds should not be diluted by making compensatory price increases. Signor Pandolfi replied that



he accepted that the decisions taken last year must be confirmed. However, he did not feel that a small price increase would be inconsistent with a much larger price cut derived from a guarantee threshold.

Signor Pandolfi went on to say that the Community needed to consider other ways of reducing the cost of the CAP. One would be to reduce the scope for fraud. On this point, he hoped that the olive oil control agency would reduce the cost of that regime by 10%. The planned vineyards register should have similar effects. Another possibility was to adopt new policies for the disposal of surpluses. For milk powder for example, the study on enrichment had nearly been completed and it should in future be possible to send much greater quantities to third countries. Even more promising was the use of grain for the production of ethanol. Studies had shown that 1 ton of wheat could produce 288 kg of ethanol and 350 kg of gluten feed, and the current Community wheat surplus of 24 million tonnes would thus produce enough ethanol to add it, at a rate of 10%, to all petrol sold in the Community. This would reduce the cost of the surplus from 2.5 billion ecu to 1.5 billion ecu.

In further discussion on this idea, Signor Pandolfi explained that the purpose of adding ethanol to petrol would be replace lead. The Community had already decided to move towards lead-free petrol, and research in the USA and France had shown that ethanol (or, indeed, methanol) could be substituted for lead in petrol. Use of ethanol required no modifications to be made to car engines, and in Italy car manufacturers, (including Fiat) and the oil industry were in favour. Moreover, wheat was not the only product that could be used in this process; any sort of cereal was suitable (he particularly mentioned sorghum) and reeds. At the end of this discussion, the Minister said that we would be interested to study this idea, and to see any material that Italy could provide. However, we would have to look carefully at the costs involved; we would not wish to see a process of this sort used to maintain surplus levels of production artificially.

#### Agricultural Structures

Signor Pandolfi said that in his view it would be technically difficult now to modify the draft regulation in order to introduce provisions on conservation. However, a possible solution to this problem might be for the Council, when it finally adopted the new regulation, to mandate the Commission to put forward a specific new regulation providing for assistance to farmers for environmental reasons; this would include a financial commitment by the Council to fund such a measure. He added that in Italy there was growing interest in the link between agriculture and the environment.

The Minister that he was most interested in this idea, but he needed something in the draft regulation that would enable him to adopt measures for conservation reasons immediately.

A possible way forward might be for the Council to acknowledge that money was not available now for conservation measures but nevertheless to include in the regulation a provision enabling member states to introduce schemes on conservation grounds, provided that these were approved by the Commission. This would be pending a more comprehensive long term measure, of the kind suggested by Signor Pandolfi. He handed Signor Pandolfi the latest text of our proposed new Title in the regulation. Signor Pandolfi commented that this would be an excellent solution.

The Minister reminded Signor Pandolfi that it would not be possible for the Council to adopt the proposal on structures until ECOFIN had reached a decision on the question of finance. Signor Pandolfi said that he it was his intention to reach final decisions on the structures package at the Council meeting on 25/26 February; this would give ECOFIN two opportunities to discuss the matter. At next week's Council he anticipated only a brief discussion on structures. He would explain his ideas for handling this dossier and invite comments but he would try to avoid an extensive debate.

On other aspects of the draft regulation, the Minister made it clear that he could not accept any ceiling on HLCAs; this was a crucial point. He also ran briefly over our other points of difficulty.

#### Review of Medium Term Agricultural Strategy

Signor Pandolfi said that he believed that such a review was essential, after the turning point in agricultural policy reached last year. It was now generally accepted that the Community could not continue to provide unlimited guarantees for agricultural production but Ministers had to show that this did not mean the death of European agriculture. What was needed was a positive, as well as a negative, approach to future agricultural policy. Most of his Community colleagues shared this view. On procedure, he thought that the Council should give a mandate to the Commission or possibly to the Commission and other independent experts, to prepare guidelines for future policy. The European Council itself should be involved in this initiative, given the importance of the CAP to the Community. He intended to put a short Presidency paper to the Agriculture Council in due course, setting out these ideas.

The Minister noted what Signor Pandolfi had said. He commented that in his view the Commission was not the body to undertake such a review, as their views would be tempered by their past mistakes. A small group of outsiders would be better, although the Commission would, of course, have to be involved. Signor Pandolfi said that the Commission could not be excluded. However, this would be a Council initiative. He added that he had already discussed his ideas with a number of his colleagues and he would be raising it again during his tour of Community capitals.

## Wine

Signor Pandolfi said that no problems of substance remained on this issue. The task of implementing the guidelines agreed in Dublin was essentially a technical one. It was essential to reach agreement on regulation before the price-fixing marathon, he would be seeking to do this in February. This would enable the Community to settle the agricultural chapter in the enlargement negotiations in March.

## IMPs

Signor Pandolfi said that the Agriculture Council had only a limited role so far as IMPs were concerned. The main decisions on this issue would be political and financial and would have to be reached by Foreign Ministers. The Minister replied that the UK stood by the commitment reached by the European Council, but the potential costs of these measures did present a problem. ECOFIN would need to consider the financial aspects, as for agriculture the necessary resources would have to be included within the structures budget.

Signor Pandolfi replied that the European Council at Stuttgart had agreed that IMPs should be funded from a separate chapter. Signor Fontana-Giusti added that the proposal for IMPs had raised high political expectations in Italy. He had recently discussed this issue with Signor Andreotti, who was convinced that it was politically essential for Italy to preserve its proposed share of total expenditure (44.5%). However, Italy might be able to concede payment of the total over a longer period or modulation of the rates of payment to enhance the initial impact of the programmes in Greece, provided that, Italy's total share over the period of the whole scheme was preserved. Signor Pandolfi concluded that the Agriculture Council would not be directly involved in these discussions. It would be responsible for implementing the agricultural elements of the IMPs, but not for deciding total expenditure or the proportion to be devoted to agriculture.

## Milk Supplementary Levy

Signor Pandolfi said that Italy would have no problem in implementing the quota system fully for the next four years. He was still considering the details, but he would probably choose Formula A, with provision for quotas to be allocated to associations of producers, at least in some parts of the country; such a system was provided for by the regulations. He hoped to be in a position to make an announcement within a month. However, it was absolutely necessary to reach a solution that would legitimise the arrangements that Italy, and France, had made in the current year. He was confident that milk production in Italy would remain within the national quota, but he was not able to allocate individual quotas. One possible solution, which would help other member states as well as Italy, would be to have a derogation throughout the Community, cancelling all liability to supplementary levy in the first year.

The Minister replied that such a solution would be very difficult for the UK to accept. We have already cut back milk production by more than was necessary to fulfil our quota, and would benefit only to a very limited extent from a cancellation of liability to levy. It would be inequitable if those who had not cut back their milk production now escaped without any penalty. Signor Pandolfi suggested that some way would have to be found to compensate producers in the UK and others in similar circumstances. Nevertheless, it was clear that an equitable solution would have to be found to deal with the problems that had arisen throughout the Community in the current year.

ELL

C I LLEWELYN  
9 January 1985

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PS/S of S for Northern Ireland  
Mr Powell (No.10)  
Mr Williamson (Cabinet Office)  
Mr Anderson (UKREP)  
H M Ambassador (Rome)  
Mr Evans (Rome)

CENO

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



From the Minister

The Rt Hon Nigel Lawson MP  
Treasury Chambers  
Parliament Street  
London  
SW1P 3AG

AT to see  
NB of the range  
90 7/1

7 January 1985

Dear Chancellor

REVIEW OF THE COMMON AGRICULTURAL POLICY

1. Thank you for your letter of 11<sup>th</sup> December. You will also have seen Geoffrey Howe's minute of 10<sup>th</sup> December and the comments of the Prime Minister.
2. I very much take your point that any initiative to set up an independent review must not serve as an alibi for those who want to dodge the difficult decisions still facing us, and particularly at the forthcoming price fixing. But I believe this danger to be more apparent than real, precisely because of the existence of the financial guideline. That will provide the effective limit for the negotiations as well as obliging the Commission to make realistic proposals and stick to them. The fact that an independent review has been commissioned will not prevent decisions having to be taken at the 1985 price fixing. Our aim would of course be that when the conclusions of the Review eventually become available it would help with the decisions which will have to be taken in future years.
3. It has been suggested that we already know what is wrong with the CAP and that an independent study is therefore unnecessary. It is true that the more glaring defects of the CAP are obvious. It is also true that we have identified and advocated - often without much support or success - some of the more obvious remedies. But the fact of the matter is that agriculture within the existing Community is a complex industry and will become more so with the accession of Spain and Portugal; the EC's support arrangements are extremely diverse; and the economic, social and political factors which go into the make-up of policy are varied and conflicting. Future prospects of technology, consumer demand and trading conditions justify careful analysis. And there are some very real questions about the balance of policies affecting agriculture and conservation and the effects of agricultural policies on particular regions (Douglas Hurd has

/commented on ....

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commented on this). Finally, our viewpoint on the CAP is not the same as that of our Community partners: they by no means see its faults in the same way as we do. We should therefore be unwise to underestimate the problems which we face in moulding the CAP more in the direction which we would favour.

4. But even if it were true that everyone knew more or less what to do, it would by no means follow that an independent study would be worthless. A principal advantage would be in forcing my agricultural colleagues to take account of the longer term. At present they are all too prone to take the easy short-term option. Simply bringing together present facts and some sensible predictions about the future course of supply and demand could help to concentrate the minds of the Agriculture Council and influence the political climate within which decisions are taken. It seems to me virtually inevitable that an independent and qualified group looking at European agriculture would be bound to conclude that further restraint on support and more vigorous efforts to improve market balance were necessary over a prolonged period. This should strengthen our hand in getting the CAP changed in directions that we would like to see. It could help to avoid abrupt policy decisions such as the imposition of milk quotas at the 1984 price fixing. It could help to make such decisions, if not more palatable, at least more explicable to the farming communities.

5. I did not of course pursue the idea at the December Council in view of the doubts expressed. But we know that the Italian Presidency have been thinking along similar lines. I shall be seeing Signor Pandolfi in Rome tomorrow and will have the opportunity to learn more about his thinking. I will then report further to colleagues so that we can reach a common position.

6. A copy of this goes to the Prime Minister, the Foreign and Commonwealth Secretary, the Secretaries of State for Scotland, Wales and Northern Ireland, the Lord President of the Council, the Lord Privy Seal, the Chief Whip and Sir Robert Armstrong.

Yours Sincerely  
C. J. Joplins

Jd

MICHAEL JOPLING  
(Approved by the Minister and  
signed in his absence)

PART 12 ends:-

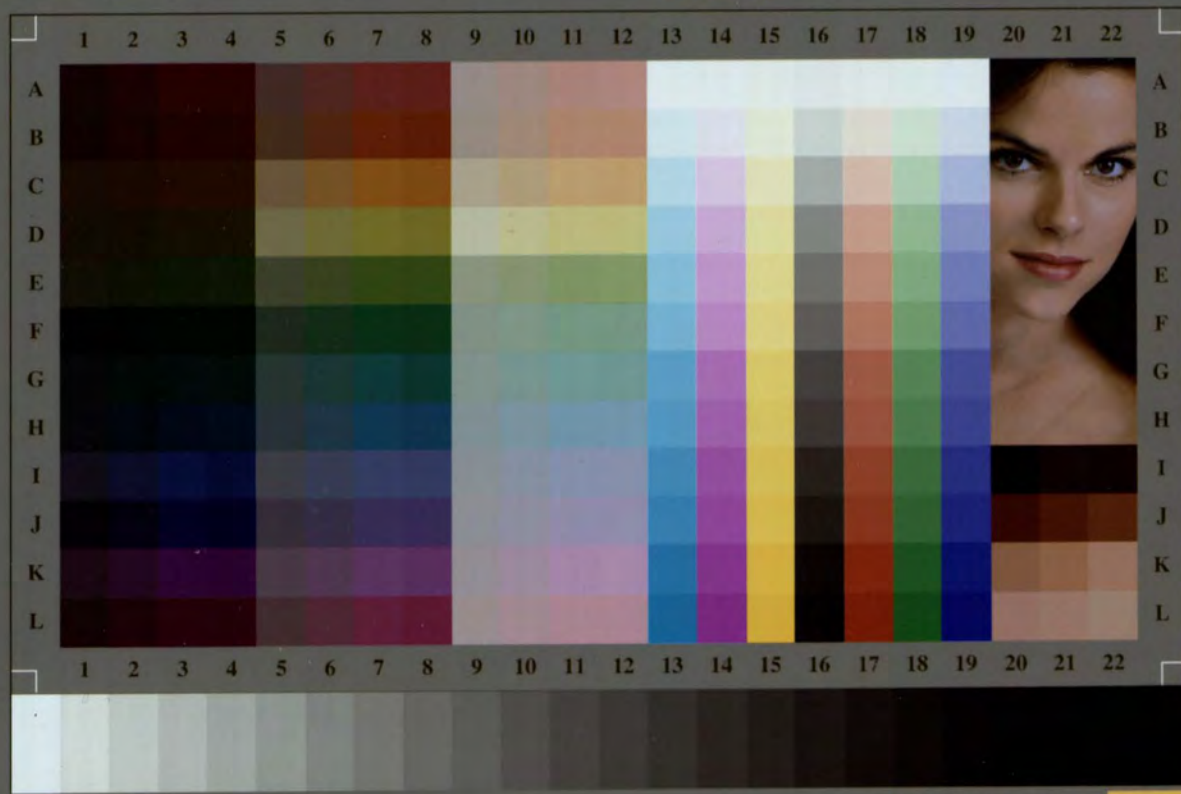
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