4

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

From the Minister

The Rt Hon The Lord Carrington KCMG MC
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
Downing Street
London SW1

20 May 1980

SHEEPMEAT REGIME

1. You will have seen my note to the Prime Minister of 9 May in which I reported on the developments in the regulations on sheepmeat. I am writing to you as Chairman of OD(E) in the light of further official discussions in Brussels for authority to go firmly for a FEOGA financed variable premium in the UK in exchange for any concession on intervention.

2. The Commission has now tabled a revised formal proposal for a common organisation for sheepmeat, replacing the 1978 formal proposal (with its emphasis on a light, market-related regime) which has been the basis of discussion so far. The revised proposal incorporates the "compromise" put forward by the Commission in Luxembourg and therefore provides for intervention on the Continent at a price level (293 ECU/100 kg) which is above the Community weighted average market price and, if maintained in real terms, will, in our view, lead in the longer term to very substantial quantities of meat going into intervention. For the UK and Ireland the Commission propose an intervention price 25 ECU lower than on the Continent; this differential is roughly five times the additional cost of exporting to the Continent and it would effectively remove the likelihood of intervention here but would result in larger quantities of our meat being drawn into the higher-priced French market and in greater intervention in France.

3. The fact that the proposal formally covers intervention only in the period July - December does not imply much restriction on intervention, since this is the main marketing period and there is also provision for intervention to be decided on at other times of the year if market conditions are difficult. Nor is there much hope from the proposal, adopted at working level in Brussels last week, to leave it open to Member States to request intervention when their price was below the requisite level, since, if France carried out intervention at the high level proposed, meat would be drawn in from other non-intervening Member States. If intervention were adopted, the price level would be vital in determining the extent of its use. It is therefore essential to have a lower intervention price. The Germans, Danes and Dutch are also worried about the price level, but they are under strong pressure to hold to the package agreed in Luxembourg and it will be very difficult to get a majority for a lower price.

4. Where premiums are concerned the Commission have repeated their earlier informal proposals, thus giving us a reference price which is unlikely to produce any significant premium receipts in the first year and which provides no mechanism or timescale for aligning reference prices to a common level.

5. The only encouraging feature of the proposal is that it includes no provision for export refunds and Mr Gundelach has said he does not intend to include them. However, when Commission officials were pressed about the possibility of export refunds being brought into use at a later stage their replies were ambiguous.

6. We are therefore faced with a package which offers nothing to any of our interests and would mean that, with no effective support mechanism for the United Kingdom, prices would be forced up by intervention on the Continent and consumption would go down; perfectly good lamb would be frozen, creating a disposal problem when there would be a strong but frustrated demand for fresh meat at reasonable prices. Our producers would lose their existing seasonalised guaranteed price. Even if export refunds are excluded, the New Zealanders are desperately worried about the trade implications of large-scale intervention. So there would be opposition by Parliament and public, producers and consumers. In my opinion a package on these lines is unacceptable in any circumstances.

7. It is clear that, as I have said, we cannot accept the price level for intervention. We must also make it clear that the proposed differential between our price and the Continental price is wholly unjustifiable; on this point (if no other) we shall have the support of the Irish. We shall continue to argue for a premium system that gives us a reasonable share of receipts from the start and moves rapidly to a common reference price and a common premium. We have to recognise, however, that at the next Council of Agriculture Ministers there is going to be an eight-to-one majority in favour of an intervention system and a premium system on the lines proposed by the Commission and a majority in favour of the intervention price they propose. We have, therefore, to consider how this unacceptable package could be made acceptable if it is essential to settle sheepmeat at or before the next European Council.

8. If we accept that we cannot avoid intervention taking place in France, the only possible means of offsetting the effects in the UK of a higher intervention price there while getting a reasonable level of support for our producers would be to operate a FEOGA financed variable premium in the UK based on a seasonalised target price at a level comparable with the seasonalised intervention price in France (after allowing for the geniune extra costs of exportation). Thus if the French intervention price were set at 293 ECU/100kg our target price would have to be 288 ECU/100kg. Under the alternative, in any week when the UK average market price was below the seasonalised target price a premium equal to the gap between the two prices would be paid. The return to the producer would be maintained without any adverse effect on consumption and, if the premium were recovered on export this would remove the risk of heavy exports building up French intervention stocks.

9. I therefore propose to negotiate for a variable premium on these lines. Provision for such an alternative was included in working proposals circulated by the Commission last year but operating at a much lower price level which would have virtually excluded premiums. It is essential for our purposes that a target price for variable premiums has the relationship to the Continental intervention price I have described above. It will be difficult to get agreement to this alternative, but several other Member States want to avoid heavy intervention (even the French profess a desire to keep it to a minimum) and they are all committed to 100% FEOGA funding of whatever measures are agreed. If we secure it, it is quite likely that Ireland will want a similar arrangement, but we cannot count on their support in negotiations.

10. Our latest estimate of the cost of the Commission's proposals is set out at Annex I and our estimate of the cost if the variable premium alternative were applied in the UK and Ireland is at Annex II. The long-term costs assume that the production and consumption response to changes in prices and support levels have fully worked through. This would take several years; we cannot say precisely how long. The cost of intervention and of variable premiums in the second year of a regime under the system I propose would probably not be significantly different from the first year. Costs would rise therafter as the production response became evident. The cost under the Commission's proposal would rise more steeply in the second year because the consumption response to the price effect of intervention would be relatively rapid.

11. A regime with variable premiums on the lines I have described should exert a greater discipline on the annual price fixing because the pressures for a higher intervention price would be balanced by a desire to keep down premium expenditure in the UK and Ireland. We have not allowed for this in the costing at Annex II. We should, of course, have to insist that the differential between intervention and premium support prices should not be widened.

12. In addition to the public expenditure considerations the variable premiums would produce savings on the balance of trade and on consumer expenditure. The lower consumer price is the UK would reduce the cost of New Zealand imports and the consequent saving in the balance of trade would outweigh the loss of exports to France compared with those under the Commission proposal.

13. If we were to get a regime with variable premiums on these lines it would neither be negotiable nor sensible to pay both compensatory premiums and variable premiums in this country. On the basis proposed by the Commission, the compensatory premium offers us little. Tactically I would propose to continue to press for the improvements we are seeking in compensatory premiums while recognising that these would become irrelevant if we got a variable premium.

14. The timing of an initiative on these lines requires careful consideration. We cannot rely on the Commission to present a satisfactory proposal on these lines, even though they might be prepared to consider a variable premium option of some kind if it would settle the package. In preparing for the next Agriculture Council we have to make it clear that the present proposals are not acceptable and that a different combination of premiums and intervention will be needed. I would like authority to put forward a specific variable premium proposal at the price level I have indicated (that is, 5 ECU below the Continental intervention price) at the Council if it becomes clear (as I think it will) that we cannot get an acceptable package on any other basis.

15. I am copying this to the Prime Minister and to members of OD(E).

Yours sincerely
Peter Walker

PETER WALKER

(Approved by the Minister
and signed in his absence)

ANNEX I

COMMISSION PROPOSALS[1]

Year One (current prices)

	MECU	£M
Compensatory Premia	108	70
Intervention costs(2)	45	29
Total EC Expenditure	153	99
UK Gross Contribution	28	18
UK Receipts	-	-
UK Net Contribution (Cost)	28	18

Long-term (at 1979 real prices)

	MECU	£M
Intervention Costs/EC Expenditure (3)	171	110
UK Gross Contribution	30	19
UK Receipts	-	-
UK Net Contribution (Cost)	30	19

NOTES:

(1) A support level of 293 ECU/100kg on the Continent and 268 ECU/100kg in the UK and Ireland. The support mechanism to be intervention only; no measures to alleviate trade distortions arising from different intervention levels.

(2) Includes initial national outlay on purchase costs.

(3) Excludes costs of disposal.

UK VARIABLE PREMIUM PROPOSAL[1]

Year One (current prices)

	MECU	£M
Compensatory Premia	94	61
Intervention Costs (2)	7	4
Variable Premia (3)	40	26
Total EC Expenditure	141	91
UK Gross Contribution	25	16
UK Receipts (3)	33	21
UK Net Contribution (Benefit)	8	5

Long-term (at real prices)

	MECU	£M
Intervention Costs (4)	74	48
Variable Premia (3)	172	111
Total EC Expenditure	246	159
UK Gross Contribution	43	28
UK Receipts (3)	145	94
UK Net Contribution (Benefit)	102	66

NOTES:

(1) A support level of 293 ECU/100kg using intervention on the continent and a support level of 288 ECU/100kg in the UK and Ireland using variable premia.

(2) Includes initial national outlay on purchase costs.

(3) Variable premia receipts less clawback on exports.

(4) Excludes costs of disposal.